



**18<sup>th</sup>**  
**KIMEP INTERNATIONAL**  
**RESEARCH CONFERENCE**

**9-10 APRIL, 2021**

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**“BUSINESS, ECONOMY AND SOCIETY:  
CHALLENGES IN A POST-PANDEMIC ERA”**

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CONFERENCE PROCEEDINGS  
ALMATY 2021

УДК: 330

ББК 65  
1394

«ҚР ҰЛТТЫҚ МЕМЛЕКЕТТІК КІТАП ПАЛАТАСЫ»  
ХАЛЫҚАРАЛЫҚ СТАНДАРТТЫҚ КІТАП НӨМІРІ (ISBN).  
ӘМБЕБАП ОНДЫҚ ЖІКТЕУ, КІТАПХАНАЛЫҚ – БИБЛИОГРАФИЯЛЫҚ ЖІКТЕУ,  
ШТРИХ – КОД БЕРІЛДІ  
«НАЦИОНАЛЬНАЯ ГОСУДАРСТВЕННАЯ КНИЖНАЯ ПАЛАТА РК»  
ПРИСВОЕНЫ (ЗАРЕГИСТРИРОВАНЫ) МЕЖДУНАРОДНЫЙ  
СТАНДАРТНЫЙ КНИЖНЫЙ НОМЕР (ISBN).  
УНИФИЦИРОВАННЫЙ ДЕСЯТИЧНЫЙ КЛАССИФИКАТОР  
БИБЛИОТЕЧНО – БИБЛИОГРАФИЧЕСКИЙ КЛАССИФИКАТОР ШТРИХ – КОД

– “Business, Economy and Society: Challenges in a Post-Pandemic era”.

1394 18<sup>th</sup> KIMEP International Research Conference proceedings (Almaty, April 9-10, 2021)  
/ Edited by Dr. Jungmin Jang, Assistant Professor and Research Director, VCB,  
KIMEP University, 2021. – 328 p.

Осы кітапта КИМЭП Университеті (Алматы, Қазақстан) 2021 ж. 9-10 сәуірде өткізген ғылыми-практикалық конференциясының материалдары баяндалған. Конференцияда «Бизнес, экономика және қоғам: пост-пандемиялық кезеңіндегі сын-қатерлер» тақырыбындағы ғылыми баяндамалар, презентациялар және сарапшылардың ой-пікірлері ұсынылды.

Данная книга содержит материалы 18-ой научно-практической конференции, проведенной Университетом КИМЭП (Алматы, Казахстан) 9-10 апреля 2021 г. На конференции были представлены научные доклады, презентации и мнения экспертов на тему: «Бизнес, экономика и общество: вызовы в пост-пандемический период».

This book represents the Official Proceedings of the 18<sup>th</sup> KIMEP International Research Conference held on 9-10<sup>th</sup> of April, 2021 at KIMEP University in Almaty, Kazakhstan. This conference featured scientific papers, professional presentations and panel discussions on topics related to the theme of “Business, Economy and Society: Challenges in a Post-Pandemic era”.

УДК 330  
ББК 65

ISBN 978-601-80798-9-4

 KIMEP University, 2021

# 18<sup>th</sup> KIRC 2021 Program Outline

<b>18th KIMEP International Research Conference</b>		
<b>Friday 9th April, 2021</b>		
<b>9:30 - 10:50</b>	<b>Opening Ceremony</b>	
	<b>Welcome Speech &amp; Keynote Speech</b>	
<b>11:00 - 12:20</b>	<b>Session A1</b>	<b>Business 1. General Marketing</b>
		<b>Business 2. Human Resources</b>
		<b>Education</b>
<b>12:30 - 13:50</b>	<b>Session A2</b>	<b>Business 3. Finance &amp; Accounting</b>
		<b>Business 4. Leadership</b>
		<b>Literature and Linguistics</b>
<b>14:00 - 15:20</b>	<b>Session A3</b>	<b>Business 5. General Management</b>
		<b>Social Science 1. Economic Development: Kazakhstan</b>
		<b>Social Science 2. Ecology, Media and Language studies</b>
<b>15:30 - 16:50</b>	<b>Session A4</b>	<b>Business 6. Brand and Innovation</b>
		<b>Special Session of Social Science "China and Central Asia"</b>
<b>Saturday 10th April, 2021</b>		
<b>11:00 - 12:20</b>	<b>Session B1</b>	<b>Business 1. Accounting</b>
		<b>Business 2. Management</b>
		<b>Law (1)</b>
<b>12:30 - 13:50</b>	<b>Session B2</b>	<b>Business 3. Finance (1)</b>
		<b>Business 4. Marketing</b>
		<b>Law (2)</b>
<b>14:00 - 15:20</b>	<b>Session B3</b>	<b>Business 5. Finance (2)</b>
		<b>Social Science 1. Economics and Public Policy</b>
<b>15:30 - 16:50</b>	<b>Session B4</b>	<b>Social Science 2. International Relations</b>

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*Note) \* denotes the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*

# Corporate Social Irresponsibility in the context of Kazakhstan

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Corporate social irresponsibility (CSIR) refers to a corporation's lack of concern for the environmental consequences of its behavior (Lange & Washburn, 2012). CSIR is a type of brand catastrophe that has the potential to generate negative results for firms (e.g., Cai et al., 2012) such as decreased advertising effectiveness, negative effects on other brands in the product family (Gao et al., 2015; Riera & Iborra, 2017), and increased financial risk (Kölbel, Busch & Jancos, 2017). More importantly, mass media show a very strong negativity bias (Soroka, 2008), which means that the mass media consider negative information to be far more interesting than positive information based on their audience's demands (Rozin & Royzman, 2001). Thus, CSIR incidents can have consequences for the wealth of companies. In the current study, we focus on boycotting as one of the negative consequences of CSIR in the context of Kazakhstan since there is limited research set in this country. When consumers become aware of CSIR violations, they tend to react. In particular, consumers react negatively on social media to a CSIR event (Kübler et al., 2019). In addition, when consumers receive negative news related to CSIR, they are likely to engage in boycott behavior (Kübler et al., 2019). Nevertheless, although the extant CSIR research has identified its negative impact on companies' reputation, there is a lack of understanding about how consumers react to a CSIR incident through the lens of boycott behavior.

Consumers tend to share affective states such as anger, pleasure, and sadness through WOM (Nyer, 1997). Boycott behavior is likely to affect negative WOM, as consumers may share their boycott intention with others. In this study, we focus on WOM as a consequence of boycott behavior. To elaborate, the purpose of this study is to identify (a) how boycotting behavior is influenced by CSIR and (b) the impact of boycotting behavior on WOM. Thus, this study focuses on a CSIR incident to explain the motivation of WOM through boycotting behavior as consumers' negative response to a company's products. The research question that guides this study is *“how does boycotting behavior occur once consumers become aware of CSIR through social media in Kazakhstan?”*

We proposed a research model with product attitude as the independent variable, boycott-product as the mediator variable, and boycott-family and boycott-media as dependent variables. Here, boycott-product is defined as a consumer's boycott action such as not buying a product. Boycott-family refers to the consumer's recommending family and peers not to buy the product, and boycott-media is when the consumer posts negative things about the product in the media. To test the proposed model, we use a partial least square (PLS) approach. PLS is a latent structural equation modeling technique and component-based approach for estimation.

We presented participants with an article related to a company's CSIR (i.e., poor working conditions as unethical behavior) posted on a social media platform (i.e., Facebook). We then collected data about their intentions to engage in boycotting behavior via a field survey to empirically identify our proposed research model. The survey questionnaire was distributed by an online survey tool (i.e., Qualtrics) to participants. A total of 304 responses were collected.



The results suggest that product attitude has a positive impact on boycotting behavior and a positive impact on negative product attitude. Therefore, consumers' boycott behavior has a significant effect on WOM (i.e., boycott-family and boycott-media).

The findings of this study extend our understanding of boycott behavior in relation to CSIR and WOM.

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# Impact of Message Characteristics on COVID-19 Protective Behavior

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## Abstract

The COVID-19 outbreak has become a global pandemic and is the largest public health crisis in recent human history. Effective communication strategies are crucial to promote preventive measures, particularly during times of emergency such as the global COVID-19 pandemic. The purpose of this study is to evaluate communication strategies for promoting mask-wearing during the pandemic. Specifically, the objective of the present research is to measure the influence of three message characteristics (intensity, framing, and recipient of consequences) on attitude to wearing mask during pandemic period. Quantitative survey method was applied in the present research. 2x2x2 pre-experimental alternative treatment post-test only design was used for this study. The results demonstrate that there is significant difference in attitude to wearing mask (AWM) by message Intensity. The impacts of other factors (Valence and Recipient of consequences) were not found significant on Attitude to Wearing Mask. The findings of the present study indicating that High Intensity communication messages work better than Low Intensity messages have practical implication for development of effective theory based communication strategies to encourage protective behavior.

*Key words: COVID-19, communication message, wearing face mask*

## Introduction

The World Health Organization live world statistics report that as of 16 March 2021 there were 119 960 700 of COVID-19 cases including 2 656 822 deaths globally (WHO, 2021). The COVID-19 outbreak has become a global pandemic and is the largest public health crisis in recent human history (Lin & Chen, 2021). Escalation of the coronavirus pandemic has motivated studies on disease prevention behaviors related to COVID-19. With numerous studies in medical and behavioral science literature, this is limited research on the effectiveness of communication messages to encourage adoption of protective behaviors. While effective risk communication strategies are crucial to promote preventive measures, particularly during times of emergency such as the global COVID-19 pandemic (Hauer & Sood, 2020), the present research aims to evaluate communication strategies for promoting mask-wearing during the pandemic.

The perception of mask-wearing and physiological and psychological impacts of face mask usage during the COVID-19 pandemic has become an intense talking point (Scheid, Lupien, Ford, & West, 2020). Several studies addressed communication message characteristics. Prior research has shown a persuasive advantage of messages emphasizing a behavior's benefits for others' health compared to benefits for the recipients (Luttrell & Petty, 2020). Experts from the University of North Carolina suggest that positive messaging could play a key role in increasing COVID-19 mask compliance. Their study indicated that positive messages about unity and togetherness are more effective at getting people to mask up and protect against COVID-19 than messages based on fear (Shelus et al., 2020). Based on the review of other literature on social advertising messages used for public health, the Mitchell and Olson theory (1981) was used in this study to evaluate the impact of message characteristics on coronavirus protective behaviors. Specifically, the objective of this study is to measure the

influence of three message characteristics (intensity, framing, and recipient of consequences) on attitude to wearing mask during pandemic period.

### Methodology

Qualitative survey method was applied in the present research. Pre-experimental alternative treatment post-test only design was used for this study. 2x2x2 model was applied with eight face mask-wearing messages developed on the basis of two levels for valence, intensity, and recipient of consequences (see Table 1).

**Table 1.**

*Characteristics of advertising messages for 2x2x2 experimental design*

Ad	Message	Intensity	Valence	Recipient
1	Wear face mask - Live healthier	Low	Positive	Self
2	Wear face mask – Live longer	High	Positive	Self
3	Wear face mask – Protect others	Low	Positive	Others
4	Wear face mask – Save others’ lives	High	Positive	Others
5	Don’t wear face mask – Get sick	Low	Negative	Self
6	Don’t wear face mask - Die	High	Negative	Self
7	Don’t wear face mask – Make others sick	Low	Negative	Others
8	Don’t wear face mask – Kill others	High	Negative	Others

A standard visual portraying a female model wearing mask was adopted from government sponsored billboards. The final set of stimuli for this study consisted of eight ads with the same visual but different verbal messages. The construct measures for this study were adapted from the previous research. Attitudinal scales Attitude to Wearing Mask (AWM) were adapted from Mitchell and Olson (1981). Attitudes were measured on 7 point semantic differential scales with opposite adjectives, for example “Good vs. Bad”, “Foolish vs. Wise”, “Like vs. Dislike”. Snowball sampling techniques was applied to collect data online due to difficulties of collecting data during pandemic period.

### Results

The results of ANOVA analysis of 586 completed questionnaires are presented in the Table 2. There is significant difference in attitude to wearing mask (AWM) by message Intensity (sig = 0.000). Individuals who were exposed to high intensity message have significantly high attitudes to wearing mask (mean of AWM = 6.03) in comparison with individuals who were exposed to low intensity messages (mean AWM = 5.27). The impacts of other factors (Valence and Recipient of consequences) were not found significant on Attitude to Wearing Mask.

**Table 2. ANOVA Results**

Dependent Variable: AWM

Source	Type III Sum of Squares	df	Mean Square	F	Sig.
Corrected Model	119,824 <sup>a</sup>	7	17,118	5,424	,000
Intercept	18441,697	1	18441,697	5843,868	,000
Intensity	94,468	1	94,468	29,935	,000*
Valence	3,318	1	3,318	1,051	,306
Recipient	,206	1	,206	,065	,798
Intensity * Valence	7,388	1	7,388	2,341	,127
Intensity * Recipient	,862	1	,862	,273	,601
Valence * Recipient	16,136	1	16,136	5,113	,024
Intensity * Valence * Recipient	7,797	1	7,797	2,471	,117
Error	1827,171	579	3,156		

Total	20734,204	587			
Corrected Total	1946,994	586			

\* Significant at  $p < 0.05$

## Conclusion

Though, the role of face masks in the prevention of COVID-19 remains an issue of debate, the use of face masks has been shown to reduce transmission of SARS-CoV-2, the virus that causes COVID-19. Wearing a mask is one of three key measures that people can take to decrease their own risk of contracting COVID-19 and decrease the chance that they may infect someone else. The findings of the present study indicating that High Intensity communication messages work better than Low Intensity messages have practical implication for development of effective theory based communication strategies to encourage coronavirus protective behavior. The study has some limitations. A snowball sampling techniques was employed. Besides only attitudes to wearing mask were examined. A future research can include additional variables, such as attitude to advertising and intention to perform protective behavior.

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# **Marketing through Instagram Influencers: How opinion leaders' recommendations influence on consumer purchasing decisions**

**Zhamilya Zakarina, Vladimir Garkavenko and Liza Rybina**  
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## **Abstract**

The purpose of the research was to look at the persuasive message variables (argument quality, source credibility, source attractiveness and source perception) and how they are being analyzed in relation to consumer's attitude towards online recommendations provided on Instagram by opinion leaders and influencers. Data analysis was carried out via survey and quantitative data analysis.

One of the main finding was the fact that online influencers have an ability to influence on the follower's perception and make them accept the information using the persuasive message structure.

As a result, the research showed that it is possible to find out a positive relationship between the message of an opinion leader, its structure and individual's perception of it as well as the intention of purchasing a recommended product.

*Keywords:* Instagram, Social network marketing, influencers, opinion leaders; intention to buy, persuasive message.

## **Introduction**

With the drastic development of Internet, brands are seeking opportunities online so they could create a digital presence. Marketing is a sphere in business that always changes and adapts its strategy to promote a company's products and services (Huey & Yazdanifard, 2014). Online recommendations help customers simplify the decision-making process and help to filter the number of available products online that help them to find out those products that could exactly match their needs (Nunes, Ferreira, de Freitas, Ramos, 2018). Therefore, online customers are interested in seeking a reliable and a timely information from potential sources; those sources might include opinion leaders and influencers, brands, and news portals. The purpose of the research was to understand how influencer's recommendation on Instagram influence on the purchasing intention of customers.

## **Literature Review**

As the world has changed, majority of people nowadays use social media platforms for various purposes. Instagram is one of the most popular social media platforms in the 21<sup>st</sup> century and has over 500 million active users who use this app on daily basis (Instagram for Business, 2020). Previously, this app mainly focused on sharing memories with your followers, who were meant to be out of your close circle, such as family and friends. With the growing number of users, Instagram added a feature where it is now possible to switch from personal account to a business account (Instagram for Business, 2020). This shift was done due to the ongoing change in customers' demands and their buying intentions on making purchases in a convenient way. One of the new features of social media are influencers and opinion leaders. Content that they post on regular are personalized to their audience since every single opinion leader has a few authentic and unique character traits. Therefore, it is easy for them to generate a specific content that would be effective due to specifics of their marketing program, therefore making an influencer marketing one of the most efficient marketing tools (Lin, Jan, & Chuang, 2019).

Nowadays influencers are considered to be opinion leaders in niche marketing, where they show their expertise in a particular sphere and “are regarded as trusted tastemakers in one or several niches”, which allows them to promote their products and apply native advertisings as their own recommendations (De Veirman, Cauberghe, & Hudders, 2017). With the help of social media influencers and electronic word-of-mouth (eWOM), brands have an ability to increase their brand awareness, acquire new customers and establish brand recognition among existing and new followers. Constant improvements and updates allow Instagram users to make purchases directly in the app and follow the branded or affiliated link without having to do any extra movements. Therefore, influencer’s recommendations and their branded content could be easily checked out by their followers and find out more about the promoted brand. Moreover, other customers are willing to know other experiences and reviews to know what to expect from the product.

Opinion leaders are one of the main sources of the electronic word-of-mouth; they can influence on people’s thoughts and encourage them to act based on what influencers post online (Nunes, Sabino de Freitas, & Ramos, 2018). The recommendations that opinion leaders and influencers post online reduce the risk that customers might potentially face during their decision-making process (Cho, Hwang, & Lee, 2012).

Kirschner and Kapinski (2010) defined social media as a tool to connect with friends, relatives, and other acquaintances through searching them on social media websites. With the rise of social media handles in the past few decades, the society is getting more and more addicted to having a solid online presence. Technology is booming rapidly, and people are getting more and more involved. Websites are growing and becoming powerful day by day. One of the most popular social media handles are Facebook, Instagram, Twitter, Pinterest, YouTube, and Snapchat. On the individual’s side, social media helps people to connect with friends and family, to keep up with the news and ongoing changes in the world and share their thoughts online. On the business side, it is a great opportunity for many businesses and business owners to expand their knowledge in a particular field of study. It is also a tool to network and to connect with the audience, have a two-way communication and to increase the brand awareness (Akram & Kumar, 2017).

One of the main effects of social media is represented in business operations and social media knowledge is important in the further brand growth. Eventually, social media became a powerful tool for businesses to connect with their audience and to create buzz about the product (Akram & Kumar, 2017). Moreover, social media accounts help brands better understand customers, maintain existing and acquiring new ones. However, social media requires consistency, clear strategy, and originality (Safko & Brake, 2009). This states that now brands need to come up with their own digital strategies that would clearly represent company’s values and communicate with the customer in the way that would be easy for them to understand.

Instagram is a social media platform that is based on posting photo and video content. Previously, Instagram was only used by individuals to post pictures and their moments from their life in a photo format. In 2018, Instagram has changed its algorithm which was based on implementing big data and created challenges for businesses (Agung, & Darma, 2019). Regarding influencer marketing, Instagram is one of the best channels and, according to RythmOne reports as of 2016, it delivers a social action rate of 3.21 percent. Annalect has conducted a research in 2017 about influencer marketing in Finland and found out that 73 percent of Finnish users follow Instagram influencers for a specific content that they find attractive. The research also shows that Instagram is a popular platform among younger age group and that they are more likely to purchase recommended products online.

The effect of advertising is common and the main purpose of it to lead customer into buying goods and services. Consumers make their purchasing intention based on their level

of involvement with the advertising and their emotional investment into the advertising as well (Zulkfily & Firdaus, 2014). Zulkfily and Firdaus (2014) also state that it is important for the advertising to attract potential customers. Additionally, the research that was conducted by Zulkfily and Firdaus in 2014 showed that less than 40 percent of respondents found online advertisings in forms of recommendations attractive and participants did not have any desire to buy the product. Therefore, this has a negative impact on the brand's marketing objectives and could result in the loss in sales and the brand value might decrease from the customer's perspective. Based on the quality of the persuasive message, followers will make their purchasing decision and the recommendation will influence on the follower's final intention to buy the product. Teng et. al (2014) provided the framework that defined the structure of persuasive message.

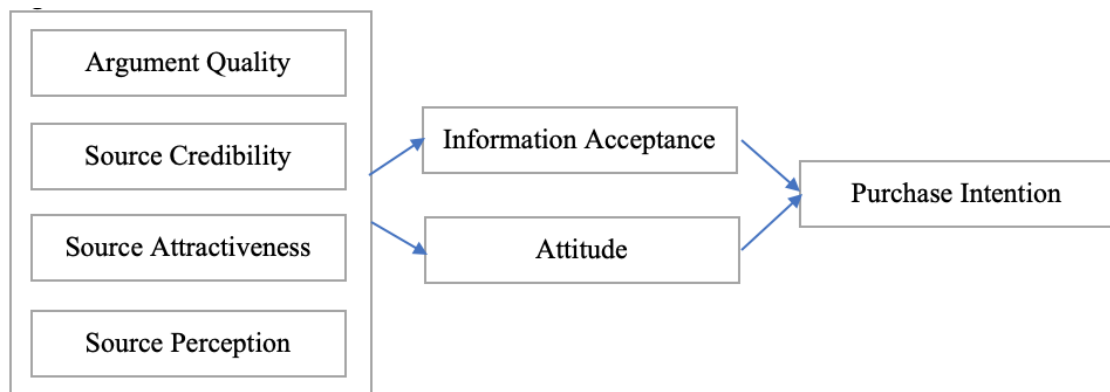


Figure 1. Persuasive Message Structure  
Source: Teng et. al. (2014)

## Methodology

The sample size for the data collection method was 142 people of a different sex, age, background, and level of education to provide a more profound and reliable results. In addition, participants were given the case, where they were provided with a type of recommendation from a blogger. Also, the experience of using the product, an influencer's personal opinion, and price. The important part of the data collection is survey questions in order to have a field research information about the overall attitude towards influencers and their online reviews and recommendations.

Previously, the similar study was conducted by Nunes, Ferreira, Sabino de Freitas, and Ramos in 2018, where they have used model provided by Teng et al. (2014). Another study was conducted in 2020 by Casalo, Flavian, and Ibanez-Sanchez where they provided a model regarding opinion leaders' opinion leadership, uniqueness, originality, and characteristics of their account. Based on those two researches, the model for this paper was taken from Nunes, Ferreira, Sabino de Freitas and Ramos (2018) since it matches hypotheses and looks as following:

- **Quality of argument:** scale from Teng et al. (2014) composed of 13 items
- **Source credibility:** scale from Teng et al. (2014) composed of 4 items
- **Source attractiveness:** scale from Teng et al. (2014) composed of 3 items
- **Source perception:** scale from Teng et al. (2014) composed of 3 items
- **Purchase intention:** scale from Dodds et al. (1991) composed of 5 items.

Since the research was conducted in Kazakhstan, almost all people are bilingual and they speak Russian and Kazakh, two official languages. Therefore, English is not one of the main languages for communication purposes, yet majority have an ability to read or speak English to some extent. Due to this problem, I have asked two independent individuals to

translate questions from English to Russian. This double translation strategy allowed me to translate the questions to keep a close meaning to the original model and to have an ability to conduct my research in Kazakhstan.

The questions of the survey were aimed to find out which factor influences on the customer purchasing decision based on the recommendation provided by the influencer.

Since individuals pay a lot of attention on various factors while making the purchase intention based on recommendations, therefore, the hypothesis that were developed for this research are going to be stated below. The main research question for is “What factors are important for individuals while reading an influencer’s recommendations?”.

Research hypothesis for this research are as following:

Null Hypothesis: Influencer’s recommendations positively impact on the individual’s purchasing intentions.

H1: Quality of argument will impact on the individual’s purchasing intentions.

H2: Source credibility will impact on the individual’s purchasing intentions.

H3: Source attractiveness will impact on the individual’s purchasing intentions.

H4: Source perception will impact on the individual’s purchasing intentions.

### Findings and Discussion

According to the reliability analysis, all constructs have value of Cronbach’s Alpha bigger than 0.7 which presents reliable outputs

The rotated components matrix analysis (Table 1) helps to determine what the components represent. In accordance with it, we have identified eight main factors that influence on the success of the influencer recommendation.

*Table 1. Rotated Component Matrix Analysis SPSS Output*

<b>Rotated Component Matrix</b>								
	<b>Component</b>							
	<b>1</b>	<b>2</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>6</b>	<b>7</b>	<b>8</b>
QA4	.695							
QA5	.685							
QA3	.646							
QA2	.638							
QA1	.637							
QA13	.565							
PI3		.837						
PI4		.799						
PI2		.771						
PI1		.746						
SC4			.796					
SC3			.788					
SC2			.763					
SC1			.599					
SC5			.599					
QA7				.823				
QA6				.815				
QA8				.812				
QA9				.566				



QA11					.733			
SP1					.621			
QA12					.549			
SP2					.522			
QA10					.509			
SP3						.778		
SP4						.596		
SA2							.755	
SA1							.639	
Extraction Method: Principal Component Analysis								
Rotation Method: Varimax with Kaiser Normalization								
a. Rotation converged in 71 iterations								

According to the exploratory factor analysis, which explores the underlying layers of the phenomena, the new factors have been uncovered and, therefore, hypothesis were re-specified (Table 2). The new factors were named based on the similarity of questions that were combined based on the localized (group) context.

*Table 2. Re-specified hypotheses*

<b>Factor Name</b>	<b>Hypothesis</b>
Argument Structure	H1: Argument structure will impact on the individual's purchasing intention
Source Credibility	H2: Source credibility will impact on the individual's purchasing intention
Relevance	H3: Relevance of the recommendation will impact on the individual's purchasing intention
Applicability	H4: Applicability of the recommendation will impact on the individual's purchasing intention
Similar Demographic Group	H5: Similar demographic group with the influencer will impact on the individual's purchasing intention
Similarity of Opinions	H6: Similarity of opinions with the influencer will impact on the individual's purchasing intention

According to the regression analysis (Table 3), the three regression coefficients appear to differ significantly from zero ( $p$ -value  $< .05$ ). Those are argument structure ( $.001 < p$ -value  $< .05$ ), similar demographic groups ( $.033 < p$ -value  $< .05$ ) and similarity in opinions ( $.015 < p$ -value  $< .05$ ). This implies that those factors are significantly related to the purchasing intention. In contrast, source credibility, applicability and relevance are not related to the purchasing intention of customers (Sig.  $> .05$ ).

*Table 3. Regression Analysis*

<b>Model</b>	<b>Unstandardized coefficients</b>		<b>Standardized Coefficients</b>	<b>T-value</b>	<b>Sig.</b>
	<b>B</b>	<b>Std. Error</b>			
(Constant)	.488	.456		1.070	.286
ArgStrAV	.373	.107	.351	3.497	.001

SC_AV	-.050	.096	-.047	-.523	.602
Appl_AV	.082	.117	.068	.700	.485
Rel_AV	-.084	.085	-.084	-.987	.326
SimDem_AV	.268	.088	.241	3.035	.033
SimOp_AV	.228	.093	.194	2.455	.015
a. Dependent Variable: PI_AV					

After conducting the regression analysis, three of the hypotheses were confirmed (Table 4). Argument structure, similar demographic group with the influencer and the similarity of opinions with the influencer will positively impact on the individual's purchasing intention after an opinion leader has provided a recommendation for his followers.

*Table 4. Hypotheses confirmation*

Hypothesis	Confirmation / Rejection
H1: Argument structure will impact on the individual's purchasing intention	Confirmed
H2: Source credibility will impact on the individual's purchasing intention	Rejected
H3: Relevance of the recommendation will impact on the individual's purchasing intention	Rejected
H4: Applicability of the recommendation will impact on the individual's purchasing intention	Rejected
H5: Similar demographic group with the influencer will impact on the individual's purchasing intention	Confirmed
H6: Similarity of opinions with the influencer will impact on the individual's purchasing intention	Confirmed

## Conclusion

The main purpose of the research was to identify factors that influence on the consumer purchasing intention after reviewing the online reviews of Instagram influencers. After analyzing different SPSS tests, it was possible to identify factors that individuals pay attention for after reading recommendations. Nowadays, people pay attention to various factors while reading online reviews and analyze them more critically.

The following recommendations could be made for influencers while writing an online review for their followers. First, it is clear that the argument structure heavily impacts on the way individuals perceive the overall message. This means that all the messages that an influencer shares online must be read through carefully in order to make sure that the influencer chooses the correct wording and phrases that would positively impact on the customer's perception of the review. The decoding process for followers must be conducted in a quick and easy manner without having second thoughts about the wording and guessing the meaning of the unknown words. Therefore, recommendations must be simple and easy to understand.

Second, it is necessary to check the influencer's reputation and credibility among his follower base. This would positively contribute to the review if an influencer has a decent reputation, which means that the company will have an opportunity to meet its marketing objectives and followers will benefit the product; the implementation of this strategy will benefit both parties. If an influencer had cases of lying or deceiving his audience, being involved in scandals, then there is high probability that those digital opinion leaders will not be taken seriously by their audience. With the raise of cancel culture, it takes a lot of time for

influencers to get back their reputation. Moreover, some brands refuse to work with these kinds of influencers, hence, their reputation is one of the vital aspects that must be considered.

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# **Type of Mask, Message Framing and Psychological Distance in Ad Campaign: A Construal Level Theory Perspective**

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COVID-19 has dramatically changed consumers' behavior. In particular, wearing a mask has become a commonly accepted precautionary measure that is less disruptive than social distancing, staying at home, and even quarantine strategy. Thus, it is not surprising that wearing a mask is one of the most important behaviors all over the world. At the same time, various public campaigns on different platforms urge people to wear a mask. These campaigns have generated consumers' attention and impacted their behavior toward wearing masks.

There are diverse expressions and visual aids across the campaigns even though they pursue similar communication goals. Two key factors emerge. First, in terms of the message framing, some messages emphasize that "I need to do it," while others emphasize that "you need to do it." Second, in terms of visual images, there are various types of masks such as a normal or a transparent mask. Despite the widespread use of these communication activities, we have little understanding of how these factors influence the effectiveness of ad campaign designed to increase mask use.

To fill this gap, the current research proposes and examines the effectiveness of message framings depending on the type of mask.

To address the proposed research questions, we presume that message framing and mask type are related to different construal levels (Agrawal & Maheswaran, 2005; Hamilton & Biehal, 2005; Kareklas, Carlson, & Muehling, 2012; Trope & Liberman 2003). According to Construal-Level Theory (CLT; Trope & Liberman 2003), psychological distance is a cognitive separation between the self and other objects such as physical space, time, persons, or events. Concretely, when people comprehend and perceive that events or objects will happen in the far future or be far away from them, they tend to have an abstract, high-level construal. On the other hand, when people consider that events or objects will occur in the near future or be close to them, they tend to have a concrete, low-level construal. The different construal levels can make people understand identical information differently. In this study, we suggest the psychological properties of a transparent (vs. normal) mask as it relates to one's high- (vs. low-) level construal in terms of the physical space dimension (Agrawal & Maheswaran, 2005; Trope & Liberman 2003). We also suggest that the psychological distance of an "I" ("You") message represents near (distant) distance in terms of the social dimension (Jones & Nisbett, 1972; for a review, see Gilbert, 1998).

Compatible information engenders fit and induces favorable responses (Lee & Labroo, 2004; Reber, Schwarz, & Winkielman, 2004; Whittlesea, 1993). Combining the concepts of CLT and the matching effect, it is plausible that the interplay of message framing and mask type based on the aligned construal levels could induce fit and enhance the persuasiveness of an ad campaign. Thus, drawing on CLT, we argue that there is a match effect between message framing and mask type in "wear a mask" ad campaigns. Formally,

- H1. The type of mask (normal mask vs. transparent mask) will moderate the effect of message framing ("I" vs. "You" message) on consumers' behavioral intention.
- H1a. In the transparent mask condition, participants exhibit higher behavioral intention when they see the "I" message than the "You" message.

H1b. In the normal mask condition, participants exhibit higher behavioral intention when they see the “You” message than the “I” message.

Our hypotheses were tested in a 2 (Mask: Transparent vs. Normal) X 2 (Message Framing: I vs. YOU) between-subjects design. Eighty-three undergraduates (63.9% female,  $M_{Age} = 20.48$  years) participated in an online survey by using Qualtrics. They were randomly assigned to one of four conditions. After reviewing the ad campaign, participants were asked for their behavioral intention toward the wearing a mask with two items (“I probably will agree to wear the mask,” “I just think wearing the mask is for me”) ranked on a 7-point scale (1 = Strongly disagree, 7 = Strongly agree). After providing the behavioral intention, they answered items about Awareness (aware / knowledgeable) and Mood (pleasant / happy) as control variables. Finally, participants completed demographic questions such as gender and age.

A 2 (Mask type) X 2 (Message framing) ANOVA was performed on behavioral intention toward “wearing the mask.” Consistent with our hypothesis, the results showed a marginally significant interaction effect of mask type and message framing ( $F(1,77) = 3.604, p = .061$ ), which means there is a fit effect between mask type and message framing. Specifically, in the transparent mask condition, participants who saw the I message showed greater behavioral intention than participants who saw the You message ( $M_{I\ message} = 5.00 > M_{You\ message} = 4.42$ ). In contrast, in the normal mask condition, the pattern of results was opposite ( $M_{I\ message} = 4.95 < M_{You\ message} = 5.34$ ).

Prior research on CLT has demonstrated diverse types of strategy to facilitate the persuasiveness of communications based on the fit effect. Extending this growing body of research, we propose a new fit effect between mask type and message framing in the ad campaign context. Our findings also contribute to designing effective marketing communication.

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# **Impact of Proactive Decision Making and Career Calling on Academic Motivation: Evidence from Central Asia**

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## **Literature review and research objectives:**

Wrzesniewski et al. (1997) identified three types of work orientation: job (when individuals are motivated by monetary or material compensation), career (when individuals are motivated by advancement and achievement opportunities), and calling (when individuals are motivated by personal fulfillment through their work at which they try to make the world better). Deci and Ryan (1985, 1991) identified three types of motivation: intrinsic motivation (when individuals are motivated from within by a task itself and pleasure they can derive from doing it), extrinsic motivation (when individuals are motivated from outside by rewards for completion of a task), and amotivation (when individuals are basically not motivated to perform a task). Vallerand et al. (1989) extended the theory of motivation to academic context. Since current motivation state serves as a predictor for future motivation (Tabachnik et al., 2008), it is worthwhile to investigate how academic motivation and career calling of emerging adults relate to each other. It is important to study this relation because when young people settle on a career that is meaningful to them and involves personally significant activities, they develop a career calling, but unfortunately many university graduates are still unclear about their career direction even when they enter job market and that leads to dissatisfaction in future working life (Colozzi & Colozzi, 2000). Furthermore, taking into consideration that career calling reflects goal-setting in the career domain (Praskova et al., 2015b), it is also worthwhile to investigate how proactive decision-making relates to both academic motivation and career calling. Thus, the objective of this paper is to study the relations between proactive decision-making, career calling, and academic motivation of emerging adults. The study is conducted in Kazakhstan – a Central Asian country with transition economy.

## **Methodology:**

Undergraduate students were invited to participate in the survey on voluntary basis. They were also offered to invite their friends from the same or other Kazakhstani universities to take part in the survey. As a result, more than 300 questionnaires from emerging adults were collected.

PDM was assessed by multidimensional PDM scale of Siebert and Kunz (2016). PDM is a multidimensional concept consisting of two personality traits: taking initiative (INI) and striving for improvement (IMP); and four cognitive skills: systematic identification of objectives (OBJ), systematic identification of alternatives (ALT), systematic search for information (INF), and using 'decision radar' (RAD). Individual high on INI takes initiative to change their situation, high on IMP has an inherent desire to improve their situation, high on OBJ systematically and actively identifies relevant for decision situation objectives, high on ALT systematically and deliberately uses objectives to identify alternatives, high on INF systematically and actively searches for information necessary for a decision-making, high on RAD is future-oriented and deliberately plans the decisions.

CC was assessed by multidimensional CC scale for emerging adults of Praskova *et al.* (2015a). The concept consists of three dimensions: other-oriented meaning (OOM), personal meaning (PM), and active engagement (AE). Individual high on OOM is engaged in socially significant goals and derives satisfaction from helping others, high on PM appreciates career

choice that is important to the self and is intrinsically rewarding, while high on AE is action-oriented in pursuit of their CC.

AM was assessed by multidimensional AM scale of Vallerand *et al.* (1992). It consists of three intrinsic motivation dimensions: intrinsic motivation to know (IMTK), intrinsic motivation to experience stimulation (IMES), intrinsic motivation to accomplish (IMTA); three extrinsic motivation factors: extrinsic motivation – external regulation (EMER), extrinsic motivation identified regulation (EMID), extrinsic motivation – introjected regulation (EMIN); and amotivation (AMOT) dimension. Individual high on IMTK studies for pleasure and satisfaction from learning or trying something new, high on IMES studies to experience excitement and aesthetic stimulation, high on IMTA studies for pleasure and satisfaction from attempting to accomplish or create something new, high on EMER studies for rewards (for instance: good grades) or to avoid punishment (for instance, from parents for bad grades), high on EMID is involved in identified self-regulation and thus chooses by themselves to do some extra work on a subject if believes it is important for success in this subject, high on EMIN becomes voluntary involved into a studying activity because of their believe it is what good students do, and high on AMOT does not experience neither intrinsic nor extrinsic motivation from studying.

### **Summary of key results:**

#### *Correlation analysis*

All PDM dimensions (except INI) significantly positively correlate with CC dimensions of OOM and AE, all intrinsic AM dimensions, and all extrinsic AM dimensions. Also, all PDM dimensions (including INI) significantly positively correlate with PM dimension of PDM and significantly negatively with AMOT. All CC dimensions significantly positively correlate with all dimensions of intrinsic and extrinsic AM, and significantly negatively with AMOT.

#### *Multiple regression analysis*

To test relations of PDM and CC to AM, seven dimensions of AM (three dimensions constituting intrinsic AM, three dimensions constituting extrinsic AM, and one dimension constituting AMOT) were regressed in the following way: First of all, each AM dimension was regressed on demographic variables and PDM dimensions (Models ‘a’). Secondly, each AM dimension was regressed on demographic variables and CC dimensions (Models ‘b’). Finally, each AM dimension was regressed on demographic variables, PDM and CC dimensions together (Models ‘c’). F-statistic values for all models ‘a’, ‘b’, and ‘c’ indicate that the models are statistically significant and should be further considered for analysis. Adjusted R<sup>2</sup> values for models ‘c’ are higher than for models ‘a’ and ‘b’. This implies that variations in AM dimensions are better explained when they are regressed on both PDM and CC dimensions, rather than either PDM dimensions or CC dimensions.

### **Conclusions:**

This research revealed positive relationships between proactive decision making, career calling, and academic motivation of students. This result has practical application in academic world. There is a course Decision Making in management curriculum of many institutes of higher education. If instructors teaching this course offer exercises and other activities aimed at development of proactive decision making, they may boost students’ motivation to study and make them more focused on their future career. As a result, employers would benefit from better trained new hires who make knowledgeable decisions about their future careers. This should also lead to enhanced job satisfaction and subsequent increase in productivity.

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# KEY FACTORS INFLUENCING DEMAND FOR REMOTE WORK AMONG EMPLOYEES: EMPIRICAL EVIDENCE FROM AUSTRIA DURING THE COVID-19 PANDEMIC

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## ABSTRACT

Digital technologies have substantially changed the way our society organizes labor. The most recent developments following the SARS-CoV-19 crisis, led to – amongst other things – a substantial increase in the share of novel work environments including home office, distance work and online labor. This contribution thus aims at shedding light on the motivational factors for home office, on the observed benefits and challenges of distant work as well as on the human resource implications of these developments. The article draws upon a recent empirical study (n=1074) conducted Austria in the summer of 2020. Various factors and their effect on the desire to work from home were analyzed. Among these are factors such as respondents' age (not sign.), gender (female respondents are found to have less desire for home office,  $\beta=-0.07^{**}$ ), the presence of flexible working hours ( $\beta=0.07^{**}$ ), time spent working with PC ( $\beta=0.21^{***}$ ) as well as various other work related and socio-demographic aspects. Summarizing the empirical evidence suggests that the distance to the physical workplace is among the strongest influential factors for respondent's desired share of home office ( $\beta=0.11^{***}$ ). Thus, every additional kilometer of distance is associated with 0.12 per cent increase in the desire to work from home. In case of a doubling of the average distance to work (27.3 km), on average, respondents assume an increase in their desire to work from home increases to 45.6% from 42.4%.

Summarizing, the evidence suggest that the common understanding of distance work only partially resembles the empirical evidence, in which particularly personal factors are found to affect the desire for home office. Furthermore, additional research is needed to ensure appropriate corporate strategies in order to address the developments for increased shares of home office.

Keywords: telework, distance work, telecommuting, Austria, digitalization, information and communication technologies

## 1 INTRODUCTION

Advances in the development of new technologies attributable to digitalization offer new opportunities for companies and employees to perform work assignments away from the traditional office setting. A growing number of tasks are possible performed by information and communication technologies (ICTs) via internet connections and can be done anywhere at any time. The number of jobs tied to a fixed location is becoming smaller and smaller. (Golden, Veiga and Dino 2008) With the increasing professional use of smart devices and mobile internet access in almost all places, almost everywhere, the normalisation of working outside the office can be observed. (Holtgrewe 2014) Studies have shown that labor outside the workplace is a win-win-situation for all stakeholders, such as employees, employers and societies to gain positive effects. (Bailey and Kurland 2002).

Before the SARS-CoV-19 crisis teleworking was not a widespread element. (Kossek and Lautsch 2018) Due to this most workers and companies were not prepared for supporting this way to work. Remote work has been an offer used by higher-income earners and white-collar workers. (Elldér 2019) During of the SARS-CoV-19 crisis, normal work routines were abruptly upended and social distancing as a major tactic to defeat the crisis has required people to work from home. Millions of people became teleworkers and remote working has become a new normal for many employees. (Kniffin et al 2020)

Existing studies on remote working have mostly been generated from a context in which remote working was only infrequently practiced or only occasionally. This article and the conducted empirical study focus on the employees point of view and the perceptions and experiences during the demanding pandemic. This contribution thus aims at shedding light on the motivational factors for telework, on the observed benefits and challenges of distant work as well as on the human resource implications of these developments.

## **2 REVIEW OF LITERATURE**

In the literature different terms are used to describe working outside the workplace. These include telework, telecommuting, mobile or distance work, remote work, home-working, e-work, flexspace, and electronic cottage. (Bailey and Kurland 2002) With the introduction of the term telecommuting in the 1970s researchers have explored different aspects of working outside the centrally-located office or worksite. The motivation for research and the discussion of telework was primarily due to the reduction of commuting, and thus aspects of commuting and its associated consequences. (Allen, Golden and Shockley 2015)

Regardless of which term is used, there are three elements that characterize telework: the temporal and spatial dimensions and the supportive use and role of technologies (ICTs). (Kerrin and Hone 2001) Employees are not tied to a specific location to perform their work and this is achieved by the use of new networking technologies and methods of communications. The time spent working remotely can vary between unregularly or occasionally to always. (Hynes 2016)

In the literature teleworking is discussed from different angles. In this paper the focus is primarily on the employees' experiences with working remote irrespective of the fact that there are also benefits and considerations on the part of other stakeholders such as employers and society and general environmental benefits.

### **2.1 Motivational factors for telework**

At the beginning investigations into the motivation for telework have centered on transportation-related factors, such as the time to commute, the distance, and commute-induced stress. Transportation studies of telework indicate that travel reduction is not a major motivational factor for telework. (Salomon and Salomon 1984) In the modern world of work teleworking by using ICTs is seen as way to offer flexibility and consider the well-being of staff, including an improvement of their work-life balance. (Lewis and Cooper 2005) Employees benefit from enhanced autonomy and the possibility to balance work and non-work commitments through flexible working. (Gschwind 2019) The ability to work flexibly and from different locations without temporal restrictions of office-based hours can reduce also stress levels and increase personal well-being. (Grant, Wallace and Spurgeon 2013).

It seems that individual characteristics and personal circumstances are of great importance to characterize who desires teleworking. A major motivation for telework is the ability to balance work and family duties. (Bailey and Kurland 2002). Teleworking allows some flexibility in arranging work hours around children's routines and providing greater physical accessibility to children compared with employees working in a traditional working scheme. Hilbrecht et al (2013) stressed the change in the opportunities how families organize their tasks and which entails both parents contributing to daily child care.

Teleworkers may be able to concentrate more efficiently on their work and become more productive because they have no distractions and are not involved in organizational politics. (Fonner and Roloff 2010) The increase in autonomy when working from home could help employees to meet job-related goals and respond to job demands (Gajendran et al 2015). Because the current study investigates telework necessities regardless of individual preferences of life-related circumstances, we hope to gain additional insights in respect to employees motivational state.

## **2.2 Challenges and boundaries of telework**

Remote technology provides ease of access to work, the effects of this on managing the boundaries between work and personal lives need to be considered. (Grant, Wallace and Spurgeon 2013). While telecommuting can help reduce stress, it can also over-work people. Hartig et al (2007) found that teleworker may experience overlap between work and home. This leads to a reduction of restorative effects at home. The challenge of working at home means that the overlap can cause mental health-related problems including over-work because thinking at work may remain after the computer has been switched off.

Flexible remote working allows more control over the timing of activities, but it also become a source of stress when choices have to be made between numerous of tasks and responsibilities that coexist at home (Tietze and Musson 2005). Maruyama, Hopkinson and James (2009) surveyed the effects of teleworking on work-life balance and the findings showed that gender and having dependents were not significant effects. They found that the teleworkers ability to manage work hours was the most important factor to gain a positive work-life-balance.

Remote working can lead to physical, social and professional isolation. An extensive use of telework may imply less face-to-face interactions with colleagues can increase the feeling out of touch with others in the workplace. Professional isolation among teleworkers may negatively affect job performance (Golden, Veiga and Dino 2008). Social isolation refers to an individual's feelings of lack of inclusion or connectedness to colleagues. (Bentley et al 2016) Additionally if the social need is not fulfilled, perception of isolation will emerge, which can induce a negative influence on engagement among teleworkers. (Davis and Cates 2013)

## **2.3 Research questions**

For this study, a work definition of telework is needed because the target group studied meets the defined characteristics of telework and considers teleworking as completely from home and not from other locations. The term home office is used to highlight this characteristic because the respondents work at home and not from other distant places.

This study will extend the literature on telework by exploring the influence of the SARS-CoV-19 crisis on aspects of motivation and perceived benefits. Various factors and their effect on the desire to work from home will be analyzed. Because the literature related to telework caused by crises is equivocal we will not use hypotheses but will attempt to answer the following research questions based on the findings in the survey:

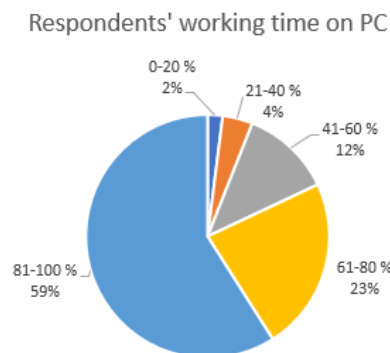
- (1) How do employees perceive the benefits and the disadvantages of home office (especially after the first Covid-19 lockdown)?
- (2) Which factors influence employees' desire for telework?
- (3) What are the implications for companies in Austria in order to increase the share of telework?

### 3 DATA AND METHODS

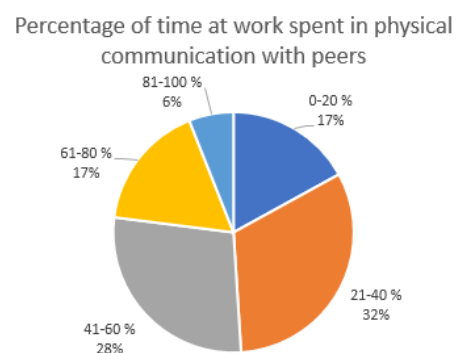
The survey was conducted as an empirical study in cooperation with the department HCM (Human Capital Management) of Business Upper Austria. Limesurvey was used to create and administrate the survey on the internet. The questionnaire was designed to be quick and easy to fill out. HR-Managers from different sectors were approached by e-mail and asked to forward the questionnaire to their employees. Participants were voluntary and their self-assessment and declaration of experience were relied upon for the study. To participate it was not necessary to have experience with telecommuting. The survey started in mid-August 2020 and ended at the end of September 2020. Electronic reminders were sent two times to encourage participation. Summarizing the empirics, a total of 1257 people filled out the questionnaire, of which only those who answered all the questions were included in the evaluation (n=1074). Plausibility check and corrections applied to the sample resulted in a precautionary reduction of implausible answers (e.g. age >100a).

### 4 RESULTS

In terms of the most relevant variables – experience with distance work modes, time spent in physical collaboration with peers and time share of total working time spent home, we find that the great majority of respondents spend considerable time working on their personal computer. In particular, respondents working more than 60% of their time on PCs represent 82% of the sample, making it possible to largely divert the place of work to outside office locations This picture changes when considering the share of respondents' time spent in communication with peers in a physical way.

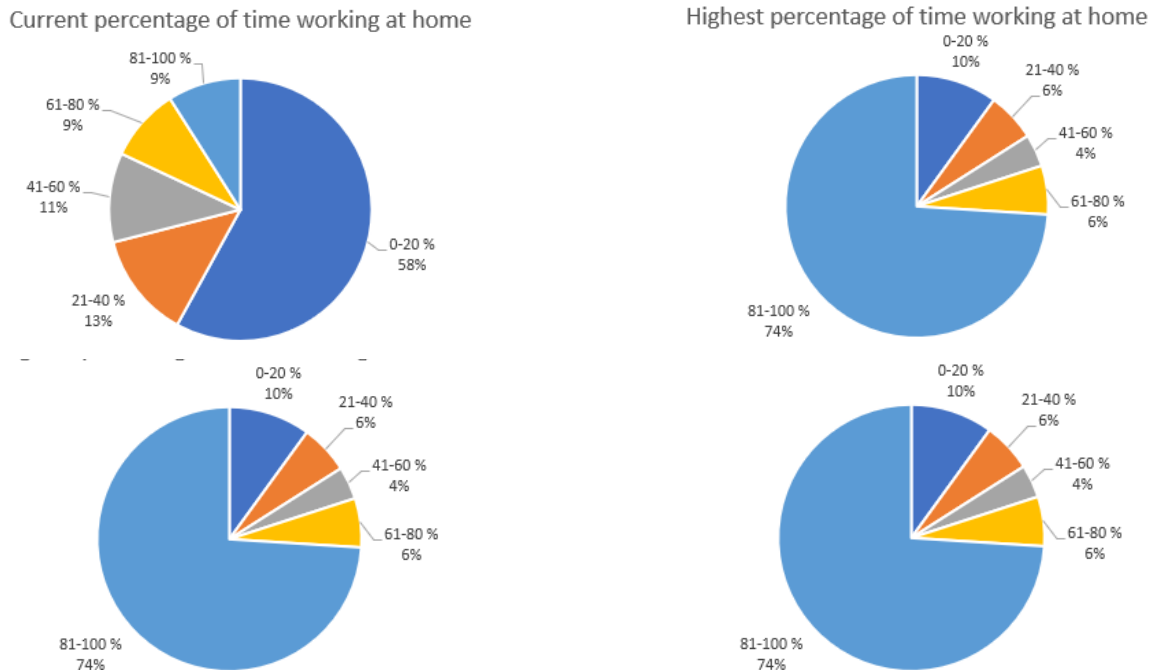


**Figure 1.** Percentage Working time on PC



**Figure 2:** Percentage communication

The analysis of current working situations is provided in 3. For 29 % of respondents the share of working time currently spent at home exceeds the work at their regular work location. A comparison of figure 3 and figure 4 states significant reduction of telework after the CoV-19 lockdown. While 74% of respondents worked from home more than 80% of the time during the lockdown, this percentage dropped to 9% after the lockdown.



**Figure 3.** Time working at home after CoV-19 lockdown **Figure 4:** Highest percentage during CoV-19 lockdown

In terms of the total working time, this is unparalleled in Austria. Nevertheless, a substantial share of respondents indicates, that the need to communicate physically with peers remains to be paramount in an efficient conduct of work. This is to be considered especially when discussing interaction technologies as well as emotional factors of motivation and work dedication.

#### 4.1 Benefits and disadvantages of working at home

The results of the analysis of driving forces with regards to home office work, are presented subsequently as well as in table 1 respectively.

**Table 1.** Perceived benefits of home office

	N	Agree	Disagree	No answer
Can work concentrated	1074	67,04%	31,66%	1,30%
Being able to organize work independently	1074	25,42%	73,28%	1,30%
Flexible working hours	1074	41,06%	57,64%	1,30%
No travel to the workplace	1074	83,43%	15,27%	1,30%
Get to know new technologies	1074	5,40%	93,30%	1,30%

Good compability of professional and private matters	1074	46,65%	52,05%	1,30%
Financial savings	1074	16,39%	82,31%	1,30%
Stress reduction	1074	19,09%	79,61%	1,30%
Informal working environment	1074	27,00%	71,69%	1,30%
Low administrative effort	1074	6,15%	92,55%	1,30%

The respondents evaluate the greatest benefit of working at home in the elimination of travel time (83,43%). It is noteworthy, that the ability to work in a concentrated manner are perceived as an additional main benefit of working from home. Though strategic answering behavior cannot be ruled out, this is above the original expectation of this home office research. Another major advantage cited by the respondents is the ability to reconcile professional and private matters (46,65%).

In terms of the drawbacks associated with distance work, the lack of social contacts is not only the highest priority of respondents' categorization, but also the most difficult to find remedies for. This result is consistent with studies that define interaction with colleagues as a main motivating driver for working in the office. (Kerrin and Hone 2001) The respondents also perceive the increased coordination effort with colleagues as a disadvantage. Lack of space and lack of IT infrastructure have little influence on the poorer assessment of the attractiveness of distance work. Unclear goals, a lack of support from superiors, and difficulty concentrating are not perceived as disadvantages when working in the home office.

#### 4.2 Factors influencing employees' desire for home office

The final descriptive statistics provide an overview of the deterring distance work factors, i.e. the reasons why home office is not pursued by employees. It is found that inverse motivational reasons (e.g. don't like working at home) are not among the main reasons for not using distance work frameworks. The main reason given by those who have not yet worked in a home office is that their employer did not want them to do so. Almost one third of this group of people is convinced that it is not possible in their current job. Only in third place come reasons that can be found in the person itself, such as prefer to separate work and private life. In terms of main factors, it is found that employers' perception are still the main factors of non-use of distance work modes. This is much in contrast to the current public view of home office and to be interpreted by policy makers in the future.

In completing the statistical analysis of the data, various factors and their effect on the desire to work from home were analyzed inferentially. The distance to the physical workplace is among the strongest influential factors for respondent's desired share of home office ( $\beta=0.11^{***}$ ). Thus, every additional kilometer of distance is associated with 0.12 per cent increase in the desire to work from home. In case of a doubling of the average distance to work (27.3 km), on average, respondents assume an increase in their desire to work from home increases to 45.6% from 42.4%.

Additional factors such as respondents' age (no statistical significance, thus not further analyzed), gender (female respondents are found to have less desire for home office,  $\beta=-0.07^{**}$ ), the presence of flexible working hours ( $\beta=0.07^{**}$ ), time spent working with PC ( $\beta=0.21^{***}$ ) as well as various other work-related and socio-demographic aspects were analyzed. It can thus be seen that the preexisting working environment such as whether the work consists of mainly digital tasks is highly influential on the desire for home office.

As digitalization is progressing in traditional work arrangements, this desire to work remotely is expected to increase even further. Mitigating the negative perceptions of employers while ensuring that basic human needs – i.e. communication with peers – are met, is thus the cornerstone of future human resource work.

## **5 DISCUSSION**

One of the primary objectives of this study was to analyze various factors and their effect on the desire to work from home. The importance of distance work for organizations is demonstrated by different studies that show that people who use distance work have less of a desire to leave the organization or even to change jobs within a company. (Kossek, Lautsch and Eaton 2006) Regarding the factors that influence the employees' desire for work from home, the study conducted shows a significant role for the distance between the place of residence and the place of work. The desire to use home office increases with distance from the workplace. Distance work provides organizations the benefit of recruiting highly qualified employees almost regardless of whether employees want to commute or not. Kelliher and Anderson (2010) examined the relation between the opportunity of flexible working, which also includes distance work, and employee commitment. In their work flexible working arrangements are perceived as increased autonomy and positively related to greater commitment to the employer.

Remarkable in the results of the study conducted is the ambivalent result on the subject of work-life balance. While the compatibility of private and professional interests is cited as a motive for using the home office, the reasons for refusing it include the desire to separate professional and private matters. Maruyama, Hopkinson and James (2009) highlight in their research the teleworkers' ability to manage work hours as the most important factor to gain a positive work-life-balance.

Regarding the reasons why remote work is not used, it becomes clear that from the employees' perspective, the causes are mainly to be seen in the area of the employer. Caused by the SARS-CoV-19 crisis, companies were forced to introduce home office as a new form of work in order to protect health. However, if this is to remain a permanent policy in the organization, several factors must be taken into consideration to gain the described positive effects.

### **5.1 Implications for organizations**

In Austria, there has been a lack of regulations dealing with the legal framework such as insurance coverage, tax and labor law aspects of home office. Driven by the crisis, this gap is in the process of being closed, providing both companies and employees with general conditions that gives security on both sides. Working from home is more than just a form of flexible working intensified by the SARS-CoV-19 crisis. The desire for home office is forced by the distance to the workplace and the reported positive effects of working concentrated and undisturbed. These aspects seem to outweigh the negative ones in this study as well, yet the lack of social contacts shows a significant disadvantage to be overcome.

Companies that want to retain employees by enabling home offices need concepts on how to satisfy the need for social contact. Grant, Wallace and Spurgeon (2013) emphasize that managers should enhance communication with their distance workers. The psychological contract should be clearly defined to increase the benefits and reduce the negative effects of



distance work. They also recommend the use of new technologies to increase social contact but recommend some face-to-face contact especially for new or less experienced employees. If the social need is not fulfilled, perception of isolation will emerge and induce a negative influence on engagement of employees. (Davis and Cates 2013) In order to establish home office in organizations and ensure appropriate corporate strategies it is not only necessary to create the structures, but also to develop programs and train employees and managers.

Tayloring home office opportunities for employees with regard to their personal life cycle situation (such as necessity to take care of children, taking care of older generation family members) may increase attractiveness of employers and would be an interesting topic for further research and investigation.

## 5.2 Limitations

As regards limitations, the nature of the sample with an above average proportion of academically educated respondents needs to be taken in account. Though, several measures are taken to ensure representativity, future research ought to focus on the issue of education and its potential ramification with regards to distance work in particular. Also, the access to mobile devices – and therefore – the ability to fill in the questionnaire is worthwhile considering separately. Though sampling aimed at the inclusion of all population subgroups, a certain selection at all and therefore people excluded from access cannot be ruled out. Finally, certain economic sectors are found to be particularly innovative in providing distance work opportunities to their employees. To the knowledge of the authors of this paper, this could potentially pose a limitation to the external validity of the approach. Findings, therefore, have to be considered in conjunction with the industry of investigation.

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## Development of the successful HR brand

Alibi Zhabykpay

**Aim of the research.** The aim of this work is to study the issues of the development of a successful brand of an employer. The importance of the employer's brand is recognized in the professional circles around the world. A reputation of an honest, employee-oriented and beneficial employer can be a guarantee of long-term labor relations and increases an attractiveness of the company. Nowadays a majority of law, finance and accounting graduates consider "Big 4" companies as potentially advantageous work places even not knowing detailed information about *Deloitte*, *KPMG*, *PWC* and *EY*. This is an example of how a reputation and HR brand may help the company to pay less, hire employees faster than others in the market and expect full commitment from them. When a company runs in a competitive market with a large number of similar organisations, the importance of its brand as an employer becomes cardinal.

According to Mosley (2015), the term "HR brand" emerged in the 1990s and is a quite new trend in Human Resources Management. Barrow and Mosley (2011) defines the employer branding as an organisation's reputation and value proposed by them. In accordance with the Ambler and Barrow (1996, p.187) it is "the functional, economic and psychological benefits that are provided by employment and identified with the employing company"

**Objectives of the research.** Author pursues the objective to study the key elements of building an attractive and credible brand of a company as an employer and place to work by researching the successful cases or HR branding and addressing the articles and writings of the specialists in management, branding and other suitable professional fields. Another important objective is to identify winning strategies in HR branding for the organisation.

**Stakeholders.** This work should be a guideline for the company in how to develop their brand and reputation as an employer in the market. The research will be based on actual theoretical studies and fieldwork analysis consisting of interviews and practical advice. Owners of business and managers may benefit from the recommendations that are discussed in the next chapters.

**The research question** is: *how to develop a successful HR brand for the organisation?*

**Literature review.** The question of HR branding is an issue for the majority of the world market. As Mosley (2015) states, employer branding becomes a strategically important goal of the companies, but not just extra point activity. Except for monopoly companies in particular countries, any company working in a competitive environment faces the problem of its trademark as a place for working. In a recent study Burgess (2016) stated that a bad reputation costs companies more than 10% per wages to fulfil the vacant positions. Poor reputation, as he notes, forces companies to compensate it by salaries than their competitors with a developed employer brand. His position makes a contribution to the actuality of current research questions. Burgess (2016) proposes the course of action in order to increase the value as an attractive employer.

Nowadays, the labor market becomes more candidate-driven, as Gallo (2015) argues. She defends the position that in recent years the market is driven by candidates, especially by talented graduates and experienced professionals. In this research, I would like to demonstrate the fundamental shift in employment relations mentioned by Gallo (2015).

A crucial part of current work is different analytical researches in the human resources field. The Randstad Employer Brand Research 2020 for Kazakhstan (hereinafter - EBR 2020) is an applicable study of the employees preferences in choosing a workplace. According to

the EBR (2020) findings, employees in Kazakhstan have three main criterias in looking for the job: 1) attractive salary & benefits (73%); 2) financial healthy employer (52%); 3) career progression (48%). EBR (2020) indicates that the two most-attractive sectors are: 1) oil and gas; 2) metals and mining, whereas these fields are not as well-known as banking and retail companies. We can conclude from it that the awareness of the employees about the brand of the company as such does not imply the good perception as an employer. We can find from EBR (2020) that the most attractive benefits for kazakhstani are: 1) health care (85%); 2) additional vacation benefits (annual leave, sabbatical leave) 84%; 3) internal training and subsidized further education (courses, certificates, etc.).

According to Mosley (2015), in recent times, with the growth of social media, people want to trust the employer more than in the past. The leading factors in job seeking become the values proposed by companies. He also contends that global talent shortages enhance the importance of human resources branding. The talent shortage is a recognized issue around the world market. Consequently, companies must compete for certain positions in which there is a lack of talented candidates. In this competition, the vital importance is the level of employer brand development.

When discussing what the company needs to develop its human resources brand, we can refer to certain researchers. Clayton (2018) suggests that companies need to have clear corporate purposes and values. She provides as an example a retailing company Patagonia, which clearly states their values and has an attractive corporate culture. Second step is to fulfil the gaps between declared benefits and actual profits which the company provides. It can be achieved by making surveys in order to assess what promised elements are not executed. Third action is to discuss the problems and promote the company's brand not only for the future employee, but also to the current staff. In my opinion, the third step may give the company more advantages, because internal marketing will play a crucial role when someone leaves the company. The opinion and feedback of former employees is a big part of the development of the human resources brand. The importance of the former employee's feedback about company are demonstrated by EBR (2020) findings: more than half (57%) of the surveyed kazakhstani employees are tend to seek new job via personal connections and referrals.

Burgess (2016) proposes several steps to improve a problematic employer brand. Firstly, he advises to find the precise position of a company brand in public opinion, whether it is at the centre of scandal or has communication problems etc. Second step is to figure out the proposed values. A company should define their values and declare it. He asserts that employees are mostly attracted by values which are correlated to their personality. This statement will be a subject of closer examination in current research. The term value is frequently mentioned by all authors below and we suppose that it is not a coincidence. The importance of values in human personality is proposed by the most authoritative writers in the topic of management - Maslow's (1943) hierarchy of need theory which declares that the need to be esteemed and self-actualize are at the top of his pyramid.

Bhantnagar and Jaiswal (2016) analyzed Amazon's work conditions and criticized it for the following reasons. They contend that Amazon's corporate culture is very rough and demanding in which employees often leave the company due to the lack of time for family and personal activities. In consequence, there was a high rate of turnover. It was a culture of hidden criticism between coworkers to their bosses. Former Amazon HR manager shared his opinion about the work in this company. He believes that after working for Amazon it is difficult to change the manner of work and avoid criticism of colleagues who did not perform goals.

**Research design.** This research will be qualitative using both primary and secondary data. Research methods are: literature review and interviews with Human Resources specialists.

The theoretical framework for this master's thesis will be the articles, researches and textbooks concerning human resources management and brand development.

## **Chapter 1. The Value of Brand Positioning for Successful Business**

Nowadays there is a widely accepted point of view that marketing is the fundamental for the business to create a permanent and loyal customer base. In the last decade the role of winning marketing became crucial because of the rising dominance of the internet.

Branding is a process of creating your own and unique label of a company, which will distinguish a particular business from other market players. According to Kotler and Keller (2016) all marketing strategy consists from: 1) segmentation; 2) targeting; 3) positioning.

Brand positioning may be defined as locating the company within its targeted market. When a particular business is intended to position its brand they should discover their organisational features, values which they can propose to customers and goals they can help assist consumers to achieve. Well-positioned brand can hardly be replaced by another due to the unique characteristics and values a particular company possesses. For example, *Apple Inc.* made an innovative and high-technology line of products different from other smartphones and electronic devices. *Airpods* is a best-selling headphone model in Amazon (2021). Every next version of *iPhone* is always hotly debated news. It is a result of consistent and creative brand building work by Apple Inc. Equally important reasons for Apple's strong brand are its human resources - software engineers, IT developers etc. Steve Jobs, founder of Apple, made a significant contribution to his personal brand - a proactive, open-minded and passionate leader of start-up business.

Developed brand positioning attracts thousands of talents around the world. A company with a developed commercial brand is more competitive than others without that. Food engineers are likely to choose *Coca Cola* as a place to work rather than local and little-known drink producers and it happens because of the impact of the Coca Cola brand.

This work is intended to provide a careful analysis and instruction for the development of a successful brand. Not the brand in general meaning, but the employer, HR brand of a company. An intended audience of the HR brand is the professionals, graduates and students, not consumers of goods.

Companies with developed brand positioning may hold a winning place in the market. Overall brand positioning can be defined as a milestone of the successful marketing policy. Any stakeholder, whether consumer or professional seeking for job opportunities needs to see the clear and unique reasons why he or she should buy a particular product or to join this company when there are many other options. The importance of brand positioning has its roots in general psychology, especially in *decision theory*.

## **Chapter 2. The role of the HR branding**

In contrast to branding in general sense, Human Resources branding provides many opportunities for the organisation. In the fields with a huge amount of supply as legal services or consulting, the importance of clear HR brand positioning becomes more important. When talented university graduates chooses the preferable place of work, many of them are likely to select famous and eminent companies even though the essence of work and salary may be equal. If there are particular local and international auditing companies in some location,

students would choose the seconds. The World's Most Attractive Employers 2020 demonstrates that Big 4 companies - Ernst & Young, Deloitte, KPMG, PricewaterhouseCoopers remains in the top 10 of attractive employers for business students. This is mainly because of the developed corporate culture, flexibility to changes and sustainable work of the people departments.

The first competitive advantage which arises from the HR brand is the saving of the time and finance for the recruitment. The most identifiable and recognizable countries in the terms of attractiveness saves a big amount of time and money without holding a long and deep headhunting. They need less arguments to convince a candidate to join them. According to Burgess (2016) in the majority of cases companies without strong employer branding spend money for the salary 10% higher than their more famous competitors. LinkedIn's Employer Brand Statistics (2015) demonstrates the effect of the great employer brand as follows: it reduces the organisation's turnover by 28% by boosting retention, two-time reduction of cost-per-hire, they hire by 50% more qualified candidates and 1-2 times faster.

Recruitment of the most qualified and skilled professionals is a vital concern of the majority of organisations. It impacts the quality of work and then impacts directly to the profitability of the company. In areas of work in which there is a shortage of qualified specialists it is crucial for employers to be the best choice for desired candidates. Companies which conduct specific business can not survive without an employer brand. Poor employer brand is forgivable only in the cases if the organisation uses the unskilled labour and issues general tasks for the personnel.

Good overall brand of the company cannot exist constantly without dissenting poor employer brand. If the consumers will be aware that certain company is terrible place to work or work conditions there are similar to the slavery.

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# **Analyzing the Labor Market Conditions in Kazakhstan Through the Lens of the COVID-19 Pandemic**

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*This document should be considered as a work-in-progress and was edited according to guidelines of the KIMEP International Research Conference 2021.*

## **Abstract**

The purpose of this study is to provide a detailed analytical review of the labor market in Kazakhstan and understand the factors that are going to considerably impact the long-term behavior of employment. In order to understand the labor market conditions in Kazakhstan this work dives into the statistical data from the government-led online resources and reviews the relevant scholarly articles. Other aspect that assists in creating new jobs is in the implementation of the government programs aimed at creating new jobs. It was found that the state-supported programs assisted in creating hundreds of thousands of jobs in the last few years, which positively influenced the annual average of the employed population, albeit there is a lack of open-access data to understand whether the share of the regular jobs prevails over the temporary job positions provided via the state-organized employment programs.

As the way to provide an up-to-date analysis, the impact of the global economic crisis caused by the coronavirus pandemic was also studied. Based on the evidence, it is believed that the employment growth in Kazakhstan should not be impeded significantly by the pandemic in the long-term due to the government measures of support and the growing availability of the vaccines. On the other hand, it is clear that the global pandemic is going to alter the labor market structure by increasing the share of the jobs and services provided online, such as science, education, technology, finance and others. At the same time, the restrictions due to COVID-19 will reduce the profitability and therefore employment potential of tourism, restaurant industry, transportation and services that require real life interaction. Therefore, ability of businesses to adapt to the new norms will become a requirement for success in the post-pandemic society.

In this research, the range of factors that are believed to strongly influence the employment opportunities in Kazakhstan were identified. Those include foreign investments, foreign labor, net migration, government policies and incentives and the unpredictable global economic shocks, including the COVID-19. Due to this study, it was realized that the detailed and up-to-date analysis of labor market is important as it allows to identify the drawbacks that in turn could be addressed by implementing corresponding economic policies and programs. As the result, such policies can create job opportunities in the sectors with the highest potential. As the further area of this research, it is planned to use data on the key parameters that influence the employment significantly in order to forecast the growth of the working population via the method of regression analysis.

## **Introduction**

### **Labor Market as a Major Parameter of a Country's Economy**

According to the enterprise survey conducted by the World Bank (2019, p. 3), an accommodating business environment provides incentives that allow for the firms to innovate and increase their productivity, which in turn leads to sustainable development. In this way, a prospering private sector can provide new job opportunities and generate tax payments that



are vital for public investment in education, healthcare, infrastructure and other areas of country's economy. Globally, the three-quarters of the unemployed people are living in developing countries. Some of the major reasons for the scarcity of jobs include lack of infrastructure, limited access to finance and inefficient policy making (IFC, 2012).

One of the prominent developing countries in Central Asia is Kazakhstan, which is considered an upper-middle-income economy. With its strategic location between Europe, Russia and China, the country has a unique potential to balance its economic growth. However, in order to become a well-developed economy, Kazakhstan needs to leverage foreign and domestic private sector resources, instead of relying on exploiting natural resources. As the joint study by World Bank and IFC identified, the most promising sectors of Kazakhstani economy include agriculture, husbandry and transportation (IFC, 2017, p. 6). In fact, the three sectors are interlinked, because the competitive cultivation of crops can provide a feed for the livestock, making it more productive. As the result, the prolific private companies operating in these areas will be able to boost exports, pushing the government to develop transportation and logistics.

However, in order to realize the ambition to develop these sectors, the effective state incentives, especially those aimed at supporting small and medium-size agricultural companies are required. Additionally, industries of agriculture and husbandry are in the need for cooperation with international companies that will be willing to provide technologies and investments. Clearly, the agriculture, husbandry and transportation could facilitate creation of thousands of the new jobs across the country. However, to assess the feasibility of development of agricultural and other sectors it is required to investigate the current state policies aimed at supporting the small and medium scale enterprises.

### **The Complex Effects of the Global Health Crisis on the Labor Market**

While the economic growth of any country is associated with growth of employment opportunities, it is not uncommon that the global recessions interfere in country's economic stability. Starting from 2020, the global community has been experiencing the strongest healthcare crisis, and the lockdowns caused by the COVID-19 pandemic resulted in a prolonged lockdowns and social distancing in many countries (Kissler et al., 2020). According to the economic analysis conducted by the United Nations, the global outbreak harmed millions of employed people around the world. Since almost 40% of the global workforce are employed in trade, tourism, manufacturing, transportation and other service sectors, the slump of demand in these areas already caused a major fall in revenue, resulting in a dramatic increase in global unemployment (UN, 2020, p. 6).

Primarily, the lockdowns affected those people that work in proximity with clients or require real life interaction with them. Around the world, more than 600 million of workers in restaurant, accommodation and retail trade have been exposed to income losses (UN, 2020). This condition is also true to Kazakhstan, where the employees with low qualifications or insecure job positions were subjected to large-scale layoffs. As an example, such jobs as waiters, kitchen workers, loaders, cleaning workers, store assistants, salesmen and many others experienced a sharp drop in demand during the first few months of the pandemic (WDF, 2020, p. 10).

During the course of the pandemic, it became clear that both in developed and developing countries, the lockdowns affected significantly the low-skilled and low-wage jobs that are largely performed by minorities, immigrants and other disadvantaged groups. On the other hand, the high-skilled jobs in such areas as education, finance, management, science and technology remained less affected by the lockdown regimes (UN 2020, p. 6). While the long-term effects of the pandemic are yet to be investigated, it is most likely that the global

health crisis will exacerbate income inequality and will change labor market structures significantly. Thus, the ability for companies to adapt their business strategies to the new norms as well as the possibility for people to work online has become crucial for continuing business operations. Considering that, it is possible that the global pandemic might alter the long-term conditions on the labor market in Kazakhstan, although the extent of the effect is an area of the further consideration.

### **Importance of the Labor Market Analysis**

Understanding the strengths and weaknesses of labor market as well as factors that explain the nature of demand and supply of labor serves many purposes. For example, clear understanding of the labor market tendencies facilitate public policies that foster training of the qualified specialists according to the specific needs of the country's economic strategy (Aimurzina & Sadvakasova, 2015, p. 452). Furthermore, it can allow the government to upgrade the educational programs at colleges and universities according to the needs of different industries. Otherwise, understanding the specifics of the labor market of a country can help to balance its economic development.

The purpose of this research is to understand the current situation of the labor market of Kazakhstan and determine factors that are most likely to shape the creation of job opportunities in the long-term. Firstly, this paper is going to gain insight on the statistics of employment and understand, how the jobs in the key sectors of the Kazakhstani economy are distributed. Secondly, this research will analyze the impact of the foreign labor and foreign investments on the labor market. Following that, the impact of the economic shock caused by the coronavirus pandemic will be evaluated with regards to the job opportunities in Kazakhstan. Afterwards, this work will analyze the state program and policies that facilitate creation of new jobs or assist in reducing unemployment. Consequently, by determining the factors that are likely to have the strongest impact on the labor market, the practical applications of the findings will be discussed.

### **Literature Review**

#### ***Analyzing the Labor Market in Kazakhstan***

##### **The Statistics of Employment in Kazakhstan in 2020**

In Kazakhstan, the latest official statistics and data on the employment, labor, migration and social security benefits is available online at the official website of the WDF or Workforce Development Center under the Ministry of Labor and Social Protection. This institution is responsible for evaluating the effectiveness of the labor market policies and mitigating possible social risks; supporting the social well-being of citizens; developing and supporting the online employment services (WDF, 2020c). According to WDF, by the end of the 2020, the occupied population of Kazakhstan amounted to 8.7 million people. This number is a component of the larger value, which is the economically active population or labor force that composed 9.16 million of people.

Thus, the unemployed population totaled at 455 thousands, which equates to the unemployment of roughly 5 percent (WDF, 2020d). Such a figure on unemployment has been typical for Kazakhstan in the last five years. Perhaps, this result might seem surprising considering the devastating effects of the global pandemic on the global economy. However, in the next sections we will see how Kazakhstan managed to rebound its economic activity during the year and restored the employment levels back to the normal values.

On the Fig. 1, the employment statistics in Kazakhstan can be observed for the range of eight years, from 2013 to the third quarter of 2020. From the chart, the share between

unemployed workers, wage-earners and self-employed workers is consistent through the range. In any year, the percentage of unemployed workers was around 5 percent. Furthermore, the average of the wage-earning employees in the span from 2013 to 2020 (as of 3<sup>rd</sup> quarter) composed 70 percent, while the average for self-employed category amounted to 25 percent. Although the data on employment for the complete year of 2020 is not yet available, it can be seen that the values for the 3<sup>rd</sup> quarter of 2020 closely resemble those in the previous years.

It worth noting that Kazakhstan has relatively high share of self-employed citizens. For comparison, in the highly developed countries, like the US, France, Germany, Australia and the Great Britain, the share of self-employed population ranges between 7.1 – 13.6 percent (Dolgy & Ivanova, 2016, p. 26). While such a situation in Kazakhstan is not unique for the post-Soviet economies, there have been positive changes. From the data on the Figure 1, it can be seen that the number of self-employed citizens reduced from 29 percent in 2013 down to 22.7 percent by the end of 2019. This could be explained by the gradually improving labor market conditions and investments in the real sector of economy. In this regard, Khamzin et al. (2016) believe that in order to achieve the competitive numbers on the share of self-employed population, the government needs to diversify the economy and invest in manufacturing of high value products that in turn would create more jobs.

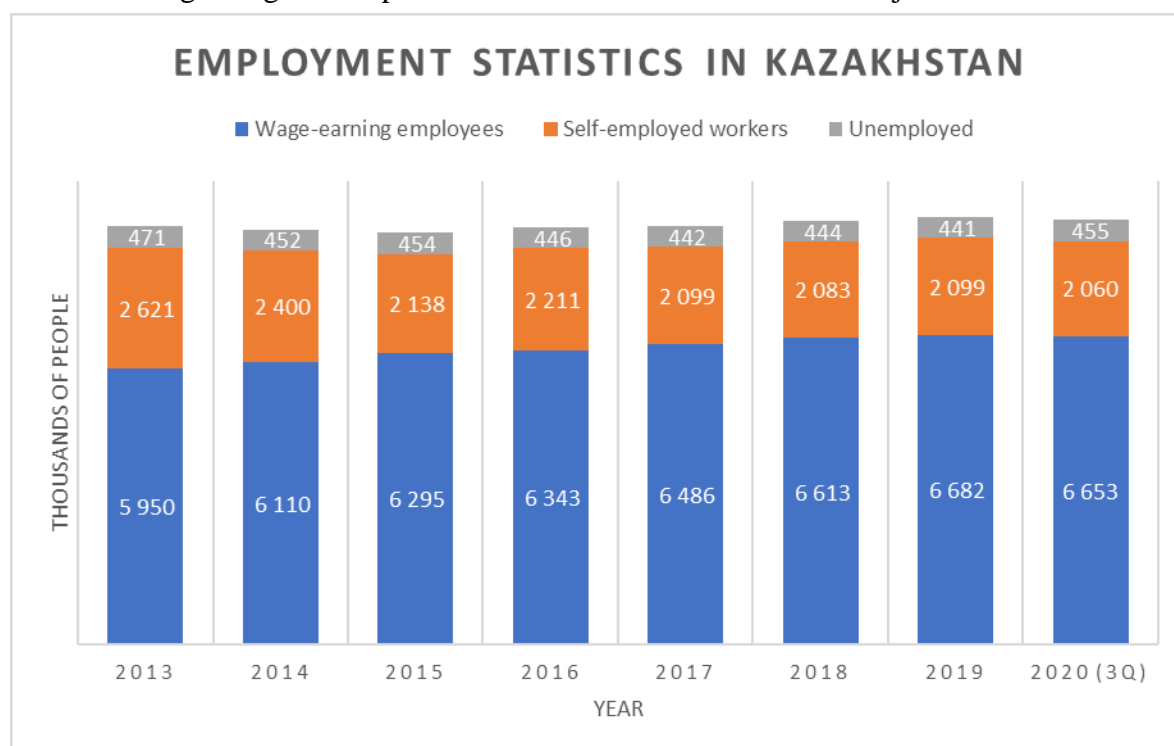


Figure 1: Employment Statistics in Kazakhstan for the period from 2013 to 3Q 2020 (annual average values). *Source of the data: <https://iac.enbek.kz/>*

According to the quarterly report from the Workforce Development Center, the highest share of self-employed citizens is attributed to the South Kazakhstan (WDF, 2020d). In fact, more than 1 million of the self-employed population reside in the southern region of the country. On contrary, some of the modest numbers on the self-employed population are found in the Western region of the country, where the number of self-employed workers is up to 110 thousand people by the end of third quarter of 2020. This is explained by the fact that the Western region have a developed oil and gas extraction industries, providing more job opportunities for people with technical education.

In 2013 alone, the oil and gas industries of West Kazakhstan produced about 70 percent of the country’s export products, and received about 60 percent of the foreign direct

investments (Farra et al., 2015, p. 9). To share the more recent details, while the trade surplus of Kazakhstan composed \$19.4 billion by the end of 2019, the oil and gas trade still accounted for 63 percent of the total export volume (AFK, 2020). Naturally, these numbers indicate of the country’s overreliance on the export of natural resources. While the oil and gas industries help to reduce the self-employed population by adding more jobs to the market, the prevailing share of natural resources in the export structure creates a commodity risk.

The Figure 2 displays the share of self-employed workers by region observed in the third quarter of 2020 in Kazakhstan. The average number of self-employed citizens composed 2.06 million of people, which is close to the values observed in the previous years. From the pie chart below, it can be seen that more industrialized West, East and Central parts of Kazakhstan have significantly smaller amounts of self-employed citizens compared to South and North parts of the country. From the Fig. 2, it can be noticed that the South Kazakhstan accounts for the whopping 44 percent of the self-employed workers. It also worth noting that the three largest cities of Nur-Sultan, Almaty and Shymkent contribute to the 13.3 percent of the remaining self-employed population.

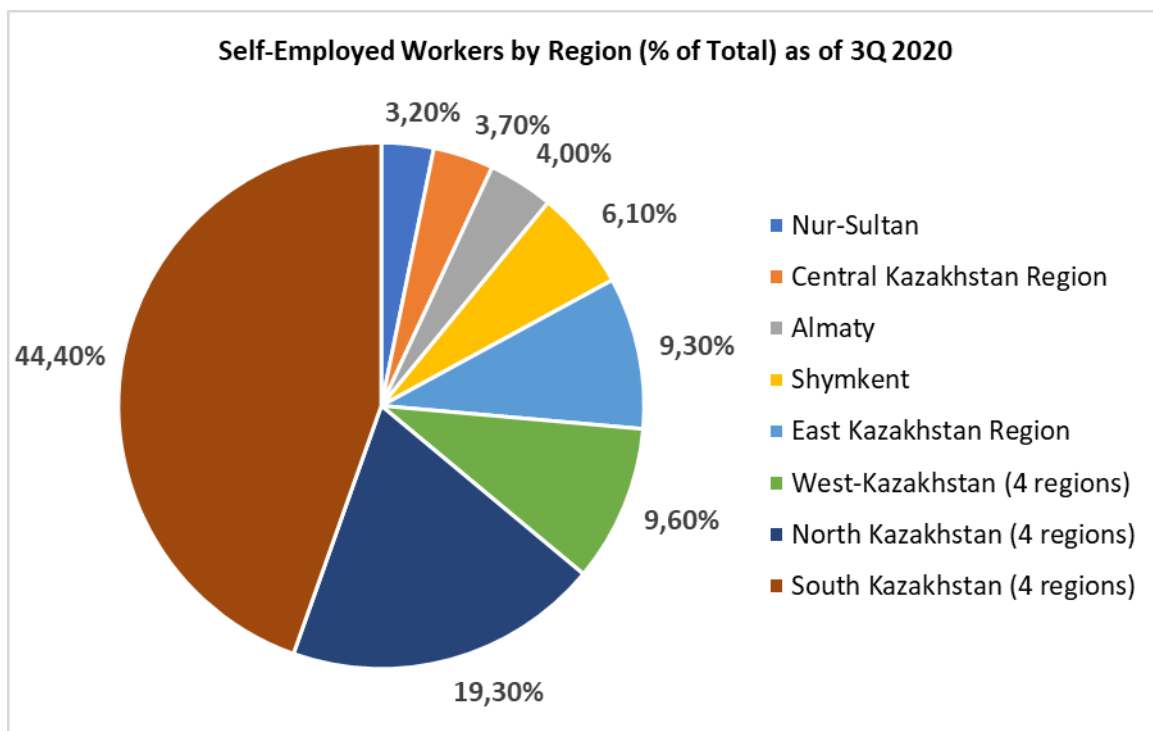


Figure 2: The Share of Self-Employed Population by Region as of 3<sup>rd</sup> quarter of 2020. Source: <https://iac.enbek.kz/ru/node/997>

According to Mussurov & Arabsheibani (2015), self-employment in Kazakhstan is necessity-driven, and the significant portion of the self-employed workers operate informally, i.e. choose not to register with local tax authorities. In this regard, it is argued that self-employment may be a popular choice because it allows for the flexible working schedule, requires less skill to generate income and might be favorable for workers of informal sectors, especially when the cost of social protection exceeds the potential benefits. Mussurov & Arabsheibani (2015, p. 16) also suggest that in order to decrease the level of informal self-employment, the government should implement educational initiatives and support programs that would enhance productivity and earnings of workers.

The Figure 4 visualizes the largest industries by the share of employed population. From the figure below, the areas that have the most amount of the labor force in Kazakhstan are education, agriculture, manufacture, construction, trade, transportation and warehousing,

public health care, and public management. It can also be seen that the largest employment sectors include trade, agriculture, education and construction.

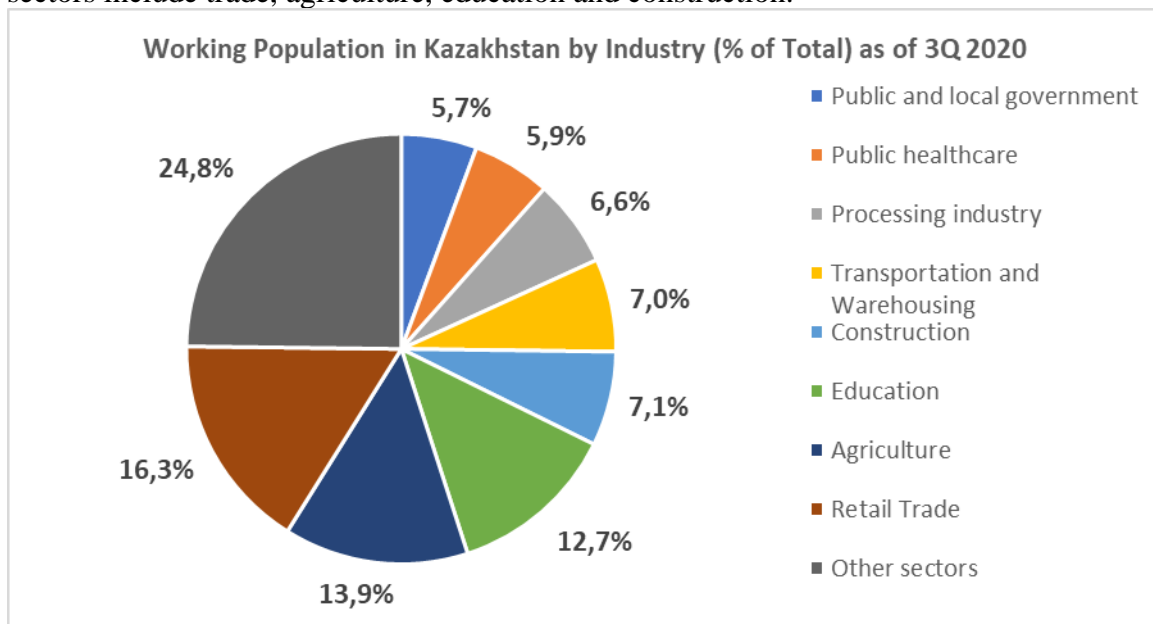


Figure 4: The Share of Working Population by Industry as of 3<sup>rd</sup> quarter of 2020. Total is 8.7 million people. Source: <https://iac.enbek.kz/ru/node/997>

For the sake of comparison, in the United States, some of the largest employment sectors are manufacturing, financial activities, leisure and hospitality, professional and business services (US Bureau of Labor Statistics, 2020). Although, in the US, the combined amount of jobs created by health care and public management compose almost 25 percent of the country’s total, the situation is more modest in Kazakhstan, where the two sectors provide up to 12 percent of the employed population. While the number of jobs in health care and public management are peculiar to economic conditions of a specific country, it is nevertheless clear that Kazakhstan needs to put more efforts to bring more jobs in such sectors as manufacturing, leisure and hospitality, tourism, professional and business services as well as healthcare services.

### Impact of the Global Pandemic and the Government Measures to Boost Employment

According to the official statement by the Office of Prime Minister of Kazakhstan, there are numerous government-led initiatives oriented to create new job opportunities across the country. To name a few, those are “Nurly Zher” program, the Digital Kazakhstan, the Development Program for Agriculture and Manufacturing Industries and others (OISPMRK, 2020a). Combined, these state initiatives implemented 28 projects valued at \$47 million and created 4.3 thousand jobs in 2020, despite the economic slowdown caused by the Covid-19 outbreak. Other successful example includes the major state-supported program “Enbek”, which assisted 99 thousand people in finding regular jobs amidst the global pandemic.

According to the Development Program for Agriculture and Manufacturing, it is expected to implement 76 new production facilities in agriculture and food production during 2020 – 2021 (OISPMRK, 2020). As for the Roadmap of Employment, the program initiated the construction of more than 6 thousand projects for social services, community services and transport infrastructure. When implemented, these projects are expected to create more than 100 thousand new regular jobs (OISPMRK, 2020b). While such ambitious goals sound promising, the real benefits in terms of the new jobs created by these programs can only be traced in the future by looking at the real figures of employment.

One of the strategic goals of the Kazakhstani government is to increase the number of small and medium-scale enterprises (SME), as it is the strong and diverse SME that help to alleviate economic well-being and facilitate growth of labor resources. As a way to offset the negative effects of the Covid-19 outbreak, the government allocated \$1.6 billion to support 23 thousand SME across the country. In addition, more than 6 thousand people received loans with low-to-zero interest rates from the government as the measure to support their business operations during the pandemic. In the same year, the government introduced the professional training programs that allowed up to 100 thousand people to obtain skills that would make them more competitive on the labor market (OISPMRK, 2020a). According to the official estimates, it is expected that the number of working population will increase from 8.7 million in 2018 to 9.3 million by 2025, which equates in the gain of 600 thousand new job opportunities in the next five years (OISPMRK, 2019). However, such an estimation did not take the effects of the global pandemic into account, as the Covid-19 have the potential to restructure labor market.

Even with the most effective government policies, the forecasts and estimations with regards to population growth or labor force gains may not necessarily come into reality due to the impact of the exogenous factors. Usually, such factors are difficult to predict, control or mitigate beforehand. Due to the unexpected arrival of the COVID-19 pandemic, the number of people who temporarily quit their jobs in Kazakhstan skyrocketed to 4 million people in March and April of 2020. During the lockdown caused by the COVID-19 outbreak in Kazakhstan, the industries that suffered the highest economic losses included restaurants, hotels, entertainment, tourism and other non-essential sectors (WDF, 2020d). In order to prevent a massive shutdown of businesses in the private sector, the government initiated the economic incentives, including tax breaks and debt restructuring aimed to save from bankruptcy many of the small and medium-scale businesses across the country (OISPMRK, 2020a). Additionally, the government made a commitment to assist more than 1.2 million of people who lost their jobs or were still unemployed in finding the new jobs via the state-supported programs.

Thanks to the government stabilization measures and the relaxation of the quarantine regime, the amount of the unemployed labor force decreased from 4.2 million down to 700 thousand people by June 2020 (WDF, 2020). As for the 3<sup>rd</sup> quarter of 2020, the unemployment level in Kazakhstan returned back to the normal 4.9 percent, which is considered a typical value (WDF, 2020d). It is true that the impact of the global pandemic on the employment in the country was associated with significant economic losses in the first half of 2020. However, as the employment and unemployment levels stabilized by the 3<sup>rd</sup> quarter of the year, it is safe to assume that the effect of the COVID-19 has the temporary impact on the labor market, and most likely will not persist in the years to come. One of the notable reasons the global economic crisis is going to gradually diminish its harmful impact is that the effective vaccines have already been developed and are set to spread globally in the beginning of 2021 (KazTAG, 2020).

## **Conclusion**

The purpose of this study was to provide a detailed analytical review of the labor market in Kazakhstan amidst the global outbreak of the coronavirus pandemic and understand the factors that are most likely to influence shaping of labor resources in the near future. This study described the structure of employed population in Kazakhstan and identified the leading sectors by employment as well determined the challenges associated with the existing structure of labor market. In Kazakhstan, the share of self-employed population is significantly higher compared to corresponding values in the developed countries. One of the

major reasons for that is lack of economic diversification, and shortage of effective policies that would push the manufacturing of high-value products and develop new supply chains. While the amount of self-employed population is moderate in West Kazakhstan due to the abundance of industrial facilities and foreign investments, the attention needs to be refocused onto the southern parts of the country that lead by the amount of both formal and informal self-employed population.

By investigating the employed population in different areas of economy, it was found that the low-qualified employees comprise the second largest cluster as they comprise 17.4 percent of the workforce in Kazakhstan. On the other side of spectrum are the agriculture and husbandry workers, as their share compose only 5.6 percent, which is much smaller compared to what is demanded for the sustainable growth of the industry. As the cultivation of crops and cattle breeding have a strong potential for development in Kazakhstan, it seems that the government should implement more incentives, training programs and attract more investment that would in turn provide new employment opportunities in the sector.

As the way to evaluate the impact of the global economic crisis caused by the coronavirus pandemic, the latest analytical reviews were studied. While the economic shock caused by the outbreak altered the labor market structure in the first half of the year and significantly increased the number of unemployed, the timely government measures allowed to restore the normal pattern of the labor market structure by the end of the third quarter. As the effective global measures to counteract the pandemic are set to be deployed in the first half of the 2021, it is considered that employment opportunities in Kazakhstan should not be affected by the global pandemic in the long-term, while the economic growth is expected to be rebound by the end of the next year. On the other hand, it is expected that the Covid-19 pandemic will result in structural changes on the labor market, where the survival of companies and well-being of entrepreneurs will depend on their ability to adapt to the new social paradigms. In this way, there will be more people that are willing to purchase goods and receive services online, and there will also be more employees willing to work remotely.

As this research identified the range of factors that influence the labor market of Kazakhstan, it is reasonable to consider these findings in order to make forecast on the growth of the employed population, as the further potential step in this study. As an example, this can be accomplished by conducting a regression analysis using the time-series data on the set of specified dependent variables. All in all, this detailed and up-to-date review of the labor market brings to attention the fact that the growth of employed population in Kazakhstan can only be achieved via a diversified growth of different areas of economy and regulations that address current and specific needs of the country on a timely basis. Since the shaping of labor resources can depend on many interlinked factors and is also influenced by the global economic conditions, it is important to investigate the changes and novelties on the labor market in Kazakhstan on the timely basis, as understanding the specifics of the employment helps to implement more effective economic policies.

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# **Bank specific and macroeconomic indicators of profitability: evidence from Kazakhstan**

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## **Short Abstract**

This paper will investigate the impacts on banks characteristics, financial structure and macroeconomic indicators on banks' net interest margin and profitability in the Kazakhstan banking industry for the 2009 – 2019 period.

Variation in bank interest margins and net profitability is expected to be explained by the individual bank characteristics, while substantial part is within-country impact. High net interest margin and profitability are hypothesized to be observed in the banks with high level of capital and high level of overheads. Size is expected to have negative association with the profitability; while macroeconomic variables are expected to demonstrate positive impact on Kazakhstan's banks profitability. Stock market development (KASE and AIFC) and its variables expect to have a positive impact on bank profitability.

The study will also review the ownership structure and its impact on the banks' performance; it is expected that private banks performance is higher than state owned banks.

***Keywords:** banking sector; Kazakhstan banks; determinants; net interest margin; banks' performance*

## **Authors' Bio**

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# **Earning management of oil and gas and metal and metallurgy companies in Russia**

**Madi Mashakov and Balzhan Zhussupova, PhD**

## **Extended Abstract**

The theoretical and empirical research suggests that the ownership structure plays an important role for the company performance (Liu and Lu, 2004; Ali Shah, Ali Butt and Hasan, 2009; Hassan, 2013) and Grinblatt and Keloharju (2000). The studies of Jensen & Meckling (1976), Burgstahler & Dichev (1997), Gedajlovic & Shapiro (1998) and Denis and McConnell (2003) underlined the importance of corporate governance due to principal agent problem in a form of informational mislead and manipulation. Other studies also find that corporate governance variables are related to the quality of financial reporting. For example, the research Abbadi, Hijazi and Al-Rahahleh (2016) demonstrated evidence of the adverse relation between corporate governance quality and degree of earning management practice in Jordan, which confirms that government is not efficient shareholder. Li (2008) evidenced the concrete relationship between readability of reports and financial performance due to principal-agency outcomes.

The purpose our study is to test the impact of the ownership variables on earning management practices of Russian companies of the extracting industries such as oil/gas and metal/metallurgy. Specifically, the variables such as the degree of government and foreign ownership and the size of entities are examined for their possible influence on earning management measurement.

Our study covers the data for 2010-2016 period in regard to two industries – oil and gas production and refinery and ferrous and non-ferrous metallurgy. The Moscow Stock Exchange (<http://moex.com/>) and the Center of Disclosure of Corporate Information (<http://www.e-disclosure.ru>), authorized to disclose information on the Russian securities market served as a primary source for financial statements of the Russian listed companies. Using the database of entities ([www.list-org.com](http://www.list-org.com)) we identified ownership structure for the sample companies. The panel data includes information on companies' total assets, liabilities, net income, revenue, trade receivables, capital expenditures, working capital and gross profit. The government ownership concentration is defined as: minor (0 – 10 %) and significant (>10 %). The ownership is defined as foreign if the shareholder is a foreign entity. The foreign ownership is also classified as minor (0 – 10 %) and significant (>10 %).

The study uses accounting accrual approach to measure earning management variable. The modified Jones model (1991) is one of the classical and frequently used as applied method to decompose earning management accruals. The model utilizes the difference between incremental change of revenue and corresponding receivables, adjusted to the plant, property and equipment that calculates depreciation charge and working capital adjustments. The model principle lays in calculation of difference between entities total accruals and estimation of non-discretionary accruals.

The study finds that government, foreign ownership and size of entities are positively associated with the reduction of earning management practice. The low level of ownership presumes a little ability of shareholders to influence the management and reduce the agency problem. The larger the company, the less it can be prone to earning management practices due to increased oversight from the market and regulators.

The research results have an important implication for understanding the choice type of shareholder in counteracting the occurrence of earning management. According to Ageyeva (2012), Vidyapin and Stepanov, Russia heavily relies on the export oriented industries like

oil/gas and metal/metallurgy. Therefore, understanding of the corporate governance determinants of financial reporting becomes an important issue.

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# **Was the acquisition of Xilinx Inc. by Advance Micro Devices Inc. successful?**

**Eradzh Nasriddinov**

## **Abstract**

This report provides an overview of the merger between Advanced Micro Devices and Xilinx. The report explores the motivations of the acquirer to enter the deal. The main aim of the report is to discover whether the acquisition of Xilinx was a good decision through an event study. Evidence from the literature shows that the acquirer is yet to prove that he actually earns from the deal, as he experiences negative returns in the post-deal time. The event study supports the view that the acquirer experiences negative returns while the opposite is true for the target.

*Key words:* M&A, motivation, bidder, target, event study

## **Introduction**

The mergers and acquisitions are one of the most researched area in corporate finance. The companies buy other companies and merger with them in order to achieve their goals. The companies make their due diligence in order to discover whether their deal will be successful. However, are the buyers always happy with their choice?

The complete due diligence does not ensure the success of the deal; however, it is one of its main components. There are various factors that may impact the success of deal starting from financials crises and ending with setting improper motivations. The M&A process is complicated in theory and even more complicated in practice.

The main purpose of this research is to examine a merger between Advanced Micro Devices Inc. and Xilinx Inc. that was announced on 27<sup>th</sup> of October 2020. The research aims to explore potential motivations for the parties to enter the deal and also aims to analyze the outcome of the deal while cross-examining it with the literature related to the topic. The following research questions will guide the process of exploration:

- Why did Advanced Micro Devices decided to acquire Xilinx?
- Why Xilinx Inc agreed with the deal?
- Why did Advanced Micro Devices Inc. pay with stock?
- How the merger affected the stock prices of the companies?
- Did the acquirer experience abnormal returns from the deal?
- Was this merger successful for both parties?

## **Literature review**

### *Background information*

The bidder- Advanced Micro Devices Inc. (AMD) is one of the biggest players in the semiconductor industry, which specializes in products used in computer processing. The company manufactures flash memory, graphics processors and other assorted chip-based products. AMD originally partnered with Intel, supplying some types of chips. Two decades later, their long-running rivalry began. In the early 21st century, AMD filed a lawsuit

claiming that Intel was abusing its power by forcing computer manufacturers to refuse to use AMD chips. AMD won the case, and Intel was forced to pay \$1.45 billion in compensation (Butler, 2020). It is also worth mentioning that AMD has acquired 5 companies prior 2020 (Crunchbase, 2020). As of October 26, 2020, AMD had a market capitalization of 89.14 billion (Macrotrends, n.d. a), and net income and earnings per share doubled from the previous year (AMD, 2020). The target- Xilinx Inc. is another company in the semiconductor industry that specializes in programmable logic devices and software development tools. Xilinx is best known for its introduction of field-programmable gate devices (Xilinx, n.d.). The company's main competitors are Lattice Semiconductors and Altera Corporation, which was acquired by Intel in 2015 (Eassa, 2018). Xilinx products are widely used in network communications, cloud storage, etc. As of October 26, 2020, Xilinx had a market capitalization of \$29.10 billion (Macrotrends, n.d. b).

### *Transaction Overview*

On 27<sup>th</sup> October 2020, AMD announced a bid to buy Xilinx Inc. The deal will be closed by the end of 2021 (Clark, 2020).

The main facts about this merger:

- The merger was friendly.
- The parties are not direct competitors but located in the same supply chain. This indicates that it is a vertical merger.
- The value of the deal is 35\$ billion. No cash involved (CNBC, 2020).
- Xilinx shareholders will receive 1,7234 common shares of AMD per each existing share(GlobeNewswire, 2020).
- The 74% of combined shares belong to AMD shareholders, and the rest belongs to Xilinx.
- AMD's CEO Lisa Su will lead the merged firm (CNBC, 2020).

### *Payment method*

The deal involved solely the use of stock. There are two potential reasons why the deal was financed via stock:

1. Maintain liquidity
2. AMD is overvalued

The cash spending and liquidity are inversely related. The more cash is being used the less liquid company becomes. Using big amounts of cash would negatively affect the ability to short-term debts and it would be difficult to finance other activities in the future which requirecash.

The second reason as stated above could be that AMD is overvalued. The company might expect that shortly the value of their stock will decrease eventually leading them to pay less to target shareholders. Therefore, AMD may use this opportunity to seal the deal and at the same time to save on it.

### *Motivations*

Every decision of the company has its reasons and purposes. The main aim of the

management is to improve the firm's performance and maximize shareholders' wealth. Hence, both the acquirer and target had their incentives to enter the deal.

As for target shareholders, their motivation is quite straightforward. The main goal for the target company is to receive a premium for their firm. According to CNBC (2020), the target company's stock was valued 24.8% higher than the closing price. Of course, no one knew the size of the premium that target stockholders would receive. However, the incentive was reasonable and justified.

On the other hand, the buyer's motives for participating in an M&A deal are varied and sometimes complex. In the media, AMD's CEO Lisa Su argued that this merger would greatly benefit all stakeholders (GlobeNewswire, 2020). Most of the reasons and motivations cited in the media are related to enhancing the firm's competitive potential. For example, Clark (2020) argued that this merger would expand AMD's reach and services. In addition, Morra (2020) argued that AMD has opportunities for synergy. Also, some sources noted that it would diversify the shareholder portfolio, increase the firm's profits, and market share in the industry. However, there is much more behind these obvious motives.

The incentives for AMD to make the deal had a lot more to do with its long-standing rivalry with Intel than meets the eye. As mentioned earlier, Xilinx and Altera were major competitors. By acquiring Altera, Intel entered a new market and expanded its services. Wedbush Securities analyst Matt Bryson (n.d.) stated that Intel did not do well with this acquisition (cited in Seitz, 2020). The merger with Xilinx will not only allow AMD to compete with Intel in another market, but also give them a chance to outperform their major competitors in strategy development. It is implied that AMD managers could argue that they could perform better than their competitors and that their acquisitions were better than theirs. This assertion touches on some of the concepts of the Roll's Hubris Hypothesis. The hypothesis states that a bidder's management is often overconfident in its ability to make a takeover successful. It argues that hubris is one of the factors that influences an acquisition decision (M&C Partners, 2020). The chance to outperform their long-time competitors in a race of strategy and reputation may be one of the key factors why AMD decided to acquire a particular company in a particular market where their competitors had failed.

To summarize, no one disagrees that AMD's main goal is to improve its performance. However, this deal provides an opportunity not only to become better because of yourself, but also to become better because some have failed.

### *Return*

Both bidder and the target expect to benefit from the deal. Most of the literature is of the view that the target gains from the deal. However, does the announcement of the deal add value to the bidder? The views differ in this regard. Some examples from the literature support this observation. For instance, Goergen and Renneboog (2004), Mitchell and Stafford (2000) are of the view that the acquirer observes negative return ranging between 1-5 percent (cited in Rani et al., 2015). In addition, Müller-Bosse and Bouzzine (2019) discovered that US firms were more likely to experience negative returns for the period 1998-2017. On the contrary, some literature also suggests that bidders may acquire abnormal returns. The same research by Müller-Bosse and Bouzzine (2019) also discovered that firms, but German, earned positive returns during that period. Also, (Alexandridis et al., 2017) also supported the view that acquirers earn abnormal returns. Hence, there is no consensus in the literature with regards to the acquisitions adding value to the acquirer.



## Methodology

As the case of the target is somewhat clear, the research aims to examine whether the acquirer earned from the deal. To discover whether the acquirer earned returns it is important to test what has happened to its stock prices during particular period. Therefore, there are only two outcomes: acquirer either earned or did not earn returns. Therefore, in this research deduction approach is used. The research tests existing hypotheses and affirms one of them. Thus, as there only two outcomes, there are two hypotheses:

*H0: Bidder gained abnormal returns*

*H1: Bidder did not gain abnormal returns*

To examine these hypotheses an event study approach was used. An event study is a tool that helps to examine the impact flow of information on stock returns (Sudarsanam, 2010).

Event study helps to identify how the stock prices were affected before and after the event took place. In our case, the event is an acquisition.

### Assumptions

An event study mainly has three assumptions (Boulanger, 2018):

1. The market is efficient
2. The event is not leaked
3. No other events affect the study

### Model

The market model is going to be used in the study. Brown and Warner (1985) have defined the market model using the following equation:

$$AAA_{iii} = AA_{iii} - \alpha_{ii} + \beta_{ii} * AA_{mm,ii}$$

Where:  $AAA_{iii}$  = is the unexpected component

$AA_{iii}$  = Return at time t for security i,

$\alpha_{ii}$  = intercept.

$\beta_{ii}$  = volatility

$AA_{mm,ii}$  = Return on market

### Horizon

The horizon of the event study identifies the time interval used for this event. It can be either short-term or long-term. To estimate this, it is important to identify the estimation and event windows. The estimation window is the time interval over which the returns will be regressed (Boulanger, 2018). As far as the literature is concerned, there is no consensus on exactly how many days should be used. However, according to Campbell, Lo, and MacKinlay (1997), the estimation window should be over 120 days before the event, and it should not overlap the event window. Therefore, 139 days before the event window will be used as an estimation window.

Furthermore, the event window is the period over which stock prices will be monitored (Boulanger, 2018). To avoid any other effects on stocks like an announcement of income, etc., the event window will be short. Since it is assumed that the market captures information quickly, the study will use an 11-day (-5,+5) event window.

### Inputs

The share prices of both the bidder and the target were found from Yahoo Finance (n.d.). As for the market benchmark, the S&P 500 Index was used. This index was received from MarketWatch (n.d.). Only the close day values were taken as inputs.

## Results and analysis

The bidder and the target had the following characteristics:

	Bidder	Target
<b>Intercept</b>	0,00173841	0,00038376
<b>Beta</b>	1,18765029	1,13481515
<b>Std Error</b>	0,03147288	0,02051758
<b>Rsq</b>	0,247637	0,41421175

Table 1. Inputs for abnormal return estimation. Source: Author's work

The table above shows that both the bidder and target stocks are riskier than the market. The level of the standard error is not great and the correlation between the market and the stocks is not big. Furthermore, the event study identified the following:

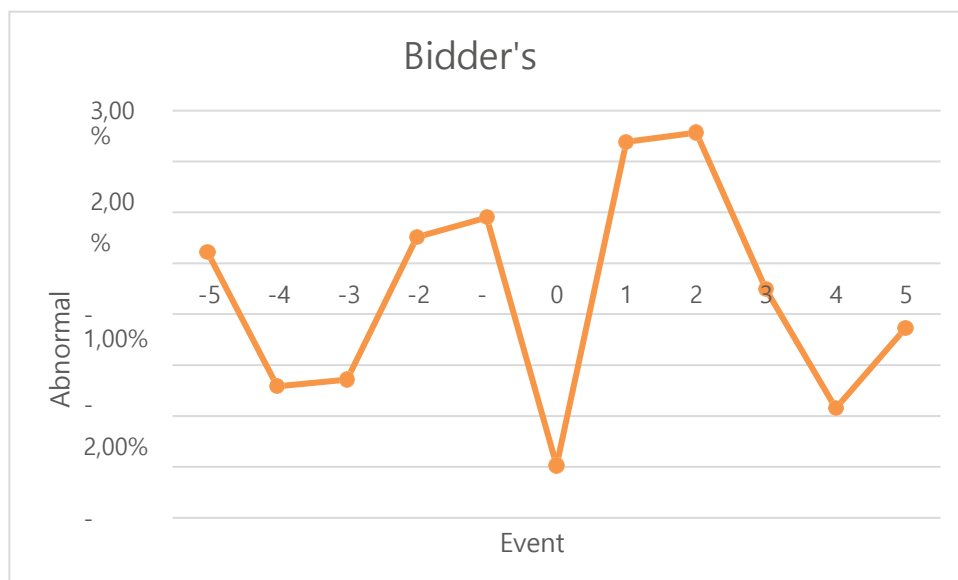


Figure 1. The abnormal return of the bidder. Source: Author's work



Figure 2. The abnormal return of the target. Source: Author's work

On the announcement day, the figures above show that the stock value of the bidder depreciated, and the target's appreciated. Even though the bidder's stock shows some notions of gaining abnormal return (AR), the cumulative abnormal return (CAR) is negative at the end of the event window:

AMD			Xilinx		
		t-stat			t-stat
AR (0)	-3,97%	-1,26242536	AR (0)	8,46%	4,12224219
CAR (-5;+5)	-6,73%	-0,56142076	CAR (-5;+5)	5,23%	0,5903547

Table 2. CAR and t-stat of parties. Source: Author's work

The t-stat shows the significance of the corresponding CAR and AR. Hence, this study shows that in the 11 days event window, the bidder observes a negative return while the target observes the opposite. Hence, this study shows that the acquirer does not gain abnormal returns, and therefore the null hypothesis is rejected. Advanced Micro Devices Inc. expects to gain through other ways like an increase in profits and synergies.

### Conclusion

To conclude, there is a potential for AMD to gain from this deal. The opportunities that Xilinx may provide to AMD can create synergies and thus outweigh the costs. However, to ensure that, AMD had to make precise due diligence, otherwise, it can lead to just another failed acquisition.

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## Appendices

### Appendix 1: Companies and market close prices:

Name	Bidder AMD	Target Xilinx	Market S&P 500 Price Index
10.11.2020	77,99	122,40	3545,53
09.11.2020	83,12	130,30	3550,50
06.11.2020	85,88	133,70	3509,44
05.11.2020	83,00	129,50	3510,45
04.11.2020	81,35	127,80	3443,44
03.11.2020	76,58	120,40	3369,16
02.11.2020	74,70	118,10	3310,24
30.10.2020	75,29	118,30	3269,96
29.10.2020	78,02	122,50	3310,11
28.10.2020	76,40	119,40	3271,03
27.10.2020	78,88	123,90	3390,68
26.10.2020	82,23	114,20	3400,97
23.10.2020	81,96	116,40	3465,39
22.10.2020	79,42	112,70	3453,49
21.10.2020	79,20	110,90	3435,56
20.10.2020	81,56	114,40	3443,12
19.10.2020	82,00	116,00	3426,92
16.10.2020	83,17	117,60	3483,81
15.10.2020	83,13	117,80	3483,34
14.10.2020	84,21	117,40	3488,67
13.10.2020	85,28	117,50	3511,93
12.10.2020	84,29	118,50	3534,22
09.10.2020	83,10	120,50	3477,13
08.10.2020	86,51	105,60	3446,83
07.10.2020	86,69	105,50	3419,45
06.10.2020	84,48	103,60	3360,95
05.10.2020	86,15	104,40	3408,63
02.10.2020	81,80	102,20	3348,44
01.10.2020	84,86	105,60	3380,80
30.09.2020	81,99	103,90	3363,00
29.09.2020	81,77	103,30	3335,47
28.09.2020	79,48	103,50	3351,60
25.09.2020	78,06	100,07	3298,46
24.09.2020	75,82	98,73	3246,59
23.09.2020	74,73	97,01	3236,92
22.09.2020	77,70	99,74	3315,57
21.09.2020	77,94	99,13	3281,06
18.09.2020	74,93	100,43	3319,47
17.09.2020	76,55	101,11	3357,01
16.09.2020	76,66	102,00	3385,49
15.09.2020	78,93	102,50	3401,20
14.09.2020	77,90	101,43	3383,54
11.09.2020	76,34	98,37	3340,97
10.09.2020	78,98	98,52	3339,19
09.09.2020	81,91	100,10	3398,96
08.09.2020	78,69	97,41	3331,84
04.09.2020	82,01	101,35	3426,96
03.09.2020	82,54	102,80	3455,06

Source: Yahoo Finance and MarketWatch

*Appendix 1: Companies and market close prices (continue):*

02.09.2020	90,22	108,50	3580,84
01.09.2020	92,18	105,00	3526,65
31.08.2020	90,82	103,80	3500,31
28.08.2020	85,55	104,60	3508,01
27.08.2020	83,80	103,40	3484,55
26.08.2020	86,02	104,60	3478,73
25.08.2020	86,35	103,00	3443,62
24.08.2020	83,08	102,10	3431,28
21.08.2020	83,81	101,70	3397,16
20.08.2020	82,77	101,00	3385,51
19.08.2020	81,09	102,00	3374,85
18.08.2020	81,66	102,90	3389,78
17.08.2020	82,42	104,30	3381,99
14.08.2020	81,30	105,00	3372,85
13.08.2020	81,84	105,20	3373,43
12.08.2020	82,61	105,70	3380,35
11.08.2020	76,88	103,90	3333,69
10.08.2020	82,24	105,70	3360,47
07.08.2020	84,85	106,70	3351,28
06.08.2020	86,71	107,90	3349,16
05.08.2020	85,31	106,80	3327,77
04.08.2020	85,04	107,00	3306,51
03.08.2020	77,67	105,70	3294,61
31.07.2020	77,43	106,60	3271,12
30.07.2020	78,20	111,10	3246,22
29.07.2020	76,09	107,10	3258,44
28.07.2020	67,61	104,10	3218,44
27.07.2020	68,97	106,10	3239,41
24.07.2020	69,40	101,90	3215,63
23.07.2020	59,57	102,40	3235,66
22.07.2020	61,79	102,30	3276,02
21.07.2020	57,00	101,40	3257,30
20.07.2020	57,46	102,30	3251,84
17.07.2020	55,04	99,84	3224,73
16.07.2020	54,92	98,53	3215,57
15.07.2020	55,34	98,67	3226,56
14.07.2020	54,72	97,99	3197,52
13.07.2020	53,59	97,28	3155,22
10.07.2020	55,88	98,50	3185,04
09.07.2020	57,26	99,58	3152,05
08.07.2020	53,43	98,64	3169,94
07.07.2020	52,93	98,53	3145,32
06.07.2020	53,40	101,44	3179,72
02.07.2020	52,34	94,67	3130,01
01.07.2020	52,58	92,67	3115,86
30.06.2020	52,61	97,75	3100,29
29.06.2020	50,28	91,37	3053,24
26.06.2020	50,10	90,43	3009,05
25.06.2020	51,93	92,69	3083,76

Source: Yahoo Finance and MarketWatch

*Appendix 1: Companies and market close prices (continue):*

22.06.2020	54,76	93,88	3117,86
19.06.2020	54,23	94,86	3097,74
18.06.2020	54,04	92,87	3115,34
17.06.2020	54,55	92,90	3113,49
16.06.2020	54,46	92,88	3124,74
15.06.2020	54,68	90,04	3066,59
12.06.2020	53,50	90,11	3041,31
11.06.2020	52,83	89,16	3002,10
10.06.2020	57,44	94,68	3190,14
09.06.2020	56,39	95,21	3207,18
08.06.2020	52,97	95,92	3232,39
05.06.2020	53,10	95,58	3193,93
04.06.2020	52,63	95,06	3112,35
03.06.2020	52,73	94,77	3122,87
02.06.2020	53,54	92,50	3080,82
01.06.2020	53,63	90,26	3055,73
29.05.2020	53,80	91,36	3044,31
28.05.2020	51,74	88,57	3029,73
27.05.2020	52,74	90,45	3036,13
26.05.2020	53,19	87,76	2991,77
22.05.2020	55,17	86,03	2955,45
21.05.2020	54,65	86,68	2948,51
20.05.2020	56,39	88,94	2971,61
19.05.2020	55,47	86,25	2922,94
18.05.2020	54,59	86,60	2953,91
15.05.2020	54,20	82,69	2863,70
14.05.2020	54,51	83,94	2852,50
13.05.2020	52,18	81,54	2820,00
12.05.2020	53,76	83,44	2870,12
11.05.2020	55,74	85,51	2930,32
08.05.2020	53,19	85,92	2929,80
07.05.2020	51,95	83,52	2881,19
06.05.2020	52,16	84,32	2848,42
05.05.2020	52,19	82,60	2868,44
04.05.2020	52,56	82,34	2842,74
01.05.2020	49,88	82,09	2830,71
30.04.2020	52,39	86,45	2912,43
29.04.2020	53,66	90,71	2939,51
28.04.2020	55,51	84,96	2863,39
27.04.2020	56,49	87,85	2878,48
24.04.2020	56,18	88,77	2836,74
23.04.2020	55,90	86,19	2797,80
22.04.2020	55,92	89,62	2799,31
21.04.2020	52,92	85,39	2736,56
20.04.2020	56,97	88,12	2823,16
17.04.2020	56,60	88,04	2874,56
16.04.2020	56,95	88,64	2799,55
15.04.2020	54,99	83,25	2783,36
14.04.2020	54,93	84,99	2846,06
13.04.2020	50,94	82,40	2761,63
09.04.2020	48,38	82,21	2789,82

Source: Yahoo Finance and MarketWatch



Appendix 1: Companies and market close prices (continue):

08.04.2020	48,79	83,59	2749,98
07.04.2020	47,56	83,04	2659,41
06.04.2020	47,52	83,73	2663,68
03.04.2020	42,59	78,22	2488,65
02.04.2020	44,49	78,29	2526,90
01.04.2020	43,66	75,86	2470,50

Source: Yahoo Finance and MarketWatch

Appendix 2: Acquirer and Target Return, AR, T-stat, and CAR at event window:

Bidder	Target	Market	Bidder			Target		
AMDRET	XILRET	MRKTRET	AR	T-stat AR	CAR (-5,+5)	AR	T-stat AR	CAR (-5,+5)
-0,0637	-0,0625	-0,001400783						
-0,0327	-0,0258	0,011631958						
0,03411	0,03192	-0,000287754						
0,02008	0,01321	0,019273263						
0,06042	0,05965	0,021807517						
0,02486	0,01929	0,017642761	0,22%	0,06876	-6,73%	-0,11%	-0,0545	5,23%
-0,0079	-0,0017	0,012242942	-2,41%	-0,7672	-6,95%	-1,60%	-0,7783	5,34%
-0,0356	-0,0349	-0,012203669	-2,29%	-0,7264	-4,53%	-2,14%	-1,0441	6,94%
0,02098	0,02563	0,011876501	0,51%	0,16328	-2,25%	1,18%	0,57368	9,08%
-0,0319	-0,037	-0,035925571	0,90%	0,28544	-2,76%	0,34%	0,1652	7,90%
<b>-0,0416</b>	<b>0,08152</b>	<b>-0,003030194</b>	<b>-3,97%</b>	<b>-1,2624</b>	<b>-3,66%</b>	<b>8,46%</b>	<b>4,12224</b>	<b>7,56%</b>
0,00329	-0,0191	-0,018764495	2,38%	0,75736	0,31%	0,18%	0,08915	-0,89%
0,03148	0,0323	0,003439866	2,57%	0,81522	-2,07%	2,80%	1,36545	-1,08%
0,00277	0,0161	0,005205374	-0,51%	-0,1635	-4,64%	0,98%	0,47811	-3,88%
-0,0294	-0,0311	-0,002198097	-2,85%	-0,9052	-4,12%	-2,90%	-1,4115	-4,86%
-0,0054	-0,0139	0,004716138	-1,27%	-0,4042	-1,27%	-1,96%	-0,9565	-1,96%

Source: Author's work

# **Analysis of the Relationship between Tax Planning and Income Smoothing in Firms Traded at Stock Exchanges of Kazakhstan and Russia**

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## **Introduction and objectives**

In this paper, we investigate how aggressive tax planning relates to the quality of accounting reporting. We explore the association between the indicators of tax aggressiveness with income smoothing of non-financial firms traded at the stock exchanges in Kazakhstan and Russia.

The theory of tax planning has a long history. Hoffman (1961) defines tax planning as “the taxpayer’s capacity to arrange his financial activities in such a manner as to suffer a minimum expenditure for tax (p.274). He also distinguishes effective tax planning from illegal tax evasion and specifies tax planning as a forward-looking activity aimed at decreasing the tax expenses using legal instruments, through exploiting the existing loopholes in tax legislation, but thoroughly analysing the risks of using such holes. Earnings smoothing is considered as an undesirable attribute of financial reporting since the artificial decrease of earnings volatility distorts the information provided to outsiders, thereby increasing the information costs, decreasing transparency, negatively affecting liquidity of the firms’ shares and trading volumes, increasing cost of financing.

Although both income smoothing and aggressive tax planning result in the distortion of the accounting information, the question on the relationship between these two activities is still under discussion. Balakrishnan, Blouin, and Guay (2019) suggest that aggressive tax planning requires firms to engage in various, often costly, activities that make the communication between firms and their stakeholders more difficult and obscure. Reporting lower tax expenses requires firms to artificially decrease the reported earnings, which implies plunging into earnings management. On the other hand, shareholders may perceive high tax expenses as unwelcomed diversion of the corporate resources away from the firms’ operation and consider lowering the income tax expenses as a fiduciary duty of managers to the shareholders. Yet, accounting literature views taxes as one of the important incentives for income smoothing.

The empirical evidence on the relationship between aggressive tax planning and earnings management provides mixed results. Frank, Lynch, and Rego (2009) report a positive association between book-tax difference, a commonly used measure of tax aggressiveness, and aggressive discretionary accruals, the indicator of earnings management. Similarly, Balakrishnan et al. (2019) report more aggressive tax policy associated with lower quality of accounting accruals. On the contrary, Erickson, Hanlon, and Maydew (2004) suggest that firms may exploit excessive tax expenses (i.e., pursue less aggressive tax planning policy) to divert the attention of outsiders away from the hidden through the discretionary accruals problems. Furthermore, the survey of Graham, Hanson, Shevlin, and Shroff (2014) shows that managers refrain from excessive aggressive tax policy because of fear of reputation loss. In the present study, we explore the relationship between tax aggressiveness and income smoothing in firms incorporated in Russia and Kazakhstan, two countries that play an important role in the economy of Central Asia.

In line with the above, we believe that our research has at least two major contributions to the accounting literature. First, we shed light on the question of the relationship between income smoothing and tax aggressiveness in emerging markets. Second, we fill the gap in the tax aggressiveness and earnings quality research in the context of

Russian and Kazakhstani firms. The present study will be of interest to the business community of Central Asia, regulators, practitioners, and international investors.

### Hypothesis development

We follow the logic of agency theory and principal-agent problem between owners and managers. We suggest that managers may refrain from aggressive tax planning, with the existence of information asymmetry between managers and shareholders, and of the incentive to devoid attention of outsiders from internal problems hidden in the financial reporting through accruals. Since income smoothing is viewed as one of manipulative tools of earnings management, we hypothesize that tax aggressiveness is negatively related to income smoothing:

H1. Higher degree of income smoothing is associated with lower degree of tax aggressiveness:

$$IS_{i,t} = \alpha_0 + \alpha_1 TA_{i,t} + \alpha_j control_{j,i,t} + \varepsilon_{i,t}, \quad (1)$$

where  $IS$  is one of the measures of income smoothing,  $TA$  is a tax aggressiveness measure, and  $control$  is represented by control variables.

We further explore the relationship between income smoothing and tax aggressiveness by investigating the possible causality between these two variables. To do that, we investigate the relationship between the lagged change variables of tax aggressiveness and change in income smoothing, and between the lagged income smoothing change on the contemporary change in tax aggressiveness. We test the following hypotheses:

H2a. Changes in income smoothing lead the changes in tax aggressiveness, controlling for the contemporaneous income smoothing and the previous period's tax aggressiveness.

H2b. Changes in tax aggressiveness lead the changes in income smoothing, controlling for the previous period's income smoothing and the contemporaneous tax aggressiveness.

$$d\_TA_{i,t} = \gamma_0 + \gamma_1 l.d\_TA_{i,t} + \beta_2 l.d\_IS_{i,t} + \beta_3 d\_IS_{i,t} + \beta_j control_{j,i,t} + \varepsilon_{i,t}, \quad (2)$$

$$d\_IS_{i,t} = \beta_0 + \beta_1 l.d\_IS_{i,t} + \beta_2 l.d\_TA_{i,t} + \beta_3 d\_TA_{i,t} + \beta_j control_{j,i,t} + \varepsilon_{i,t}, \quad (3)$$

Where  $d\_IS$  and  $d\_TA$  are the changes in income smoothing and changes in tax aggressiveness measures in compare with the previous year,  $l$  stands for one-period lagged variables.

### Research methodology and data collection

We obtain the data from the Thomson Reuters Eikon Refinitive database for the sample period 2010 through 2019. Corporate income tax rate in Russia decreased from 24% to 20% in 2009, and we restrain our sample starting from 2009 to diminish the impact of the tax rate change on our results. The initial sample includes 603 firms from nine non-financial industries, with 554 firms incorporated in the Russian Federation and 49 firms incorporated in Kazakhstan, totalling 5672 firm-year observations. Exclusion of observations with missing data on total assets, market capitalization, and sales, as well as the need for three consecutive periods of data for the calculation of income smoothing results in a contraction of the sample to 4657 firm-year observations. Exclusion of missing tax expense observations further shrinks the sample to 4501, and exclusion of missing observations of cash payments results in 3638 firm-year observations.

To ensure robustness of our findings, we use three groups of measures of tax planning aggressiveness following Balakrishnan, Blouin, and Guay (2019): a) two measures of income effective tax rates (ETR): (i) accrual-based and (ii) cash-based, defined as the ratio of tax expenses (or cash tax payments) to net income before taxes; b) two measures of tax aggressiveness represented by the difference between (iii) a firm's ETR and industry-year-median ETR ( $TaxAgI$ ), and (iv) between a firm's ETR and industry-year-size-quintile-

median ETR (*TaxAg2*); and c) book-tax difference equal to the difference between the implied before-tax earnings, evaluated by applying the 20% corporate income tax rate to the reported tax expenses, and the actually reported earnings before tax. To measure income smoothing, we follow the widely used measure of the standard deviation of NIBX to the standard deviation of operating cash flows, both scaled by the average total assets, multiplied by negative one. As for control variables, we include log-value of total assets to control for firms' size, book leverage defined as the ratio of total debt to total equity, sales growth ratio, assets utilization (efficiency) ratio measured as sales divided by average total assets, firm age, and the availability of market capitalization ratio to control for the firms' shares liquidity. To address the issue of non-normality of the variables' distribution, we use log-normal transformation for the income smoothing, and decile ranks for book leverage and efficiency. We apply log-value of total assets (*size*). Table 1 represents the descriptive statistics. The means of all variables are close the medians. Table 2 contains Pearson and Spearman correlation matrixes between the variables. The correlation matrix demonstrates that the correlations between the variables of statistically significant but low.

Table 1. Descriptive statistics of the variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
<i>lnIncomeSmoothing</i>	4782	.5412737	1.624799	-10.00	8.66
<i>ETR</i>	5307	5.37931	2.877622	1	10
<i>cash_ETR</i>	4249	5.031301	3.212457	1	10
<i>TaxAg1</i>	5307	5.380064	2.877457	1	10
<i>TaxAg2</i>	5307	5.379687	2.877573	1	10
<i>book-tax difference</i>	5016	5.380582	2.876469	1	10
<i>NoMkt</i>	5624	.2035917	.4027046	0	1
<i>sales_growth</i>	5434	5.38848	2.872239	1	10
<i>book_lev</i>	5624	5.382646	2.874596	1	10
<i>size</i>	5624	5.382646	2.874596	1	10
<i>lnEff</i>	5464	5.38049	2.878845	1	10
<i>age</i>	5624	16.57486	4.978711	0	106

## Results

Table 3 presents the results of the regression analysis, with industry and year fixed effects. The dependent variable in all models is the log-value of the measure of income smoothing. The models differ by the proxies used for tax aggressiveness listed in the top row. The findings confirm the hypothesis that income smoothing is negatively related to tax aggressiveness. Note that the low effective tax rates represent aggressive tax policy; therefore, the signs of the ETR-based coefficients are positive. *TaxAg1* and *TaxAg2* show by how much the ETR of comparable firms exceed the firm's ETR and book-tax difference is calculated as the assessed EBT less the actual EBT; the expected signs on these three variables are negative as expected.

Table 4 represents the results of the analysis of the change dependent and explanatory variables. The results support H2a stating that changes in tax policy aggressiveness lead the changes in income smoothing. When testing this hypothesis, we control for the lagged dependent and explanatory variables to separate the contemporaneous effects. The results for the models (7)-(12) demonstrate the absence of significant relationship when the tax aggressiveness measures are dependent variables and the lagged changes in income smoothing are used as explanatory variable for the measures of tax aggressiveness. On the contrary, in the models (1)-(6) income smoothing change is the dependent variable and has statistically significant association with the lagged changes in the tax aggressiveness

measures. Noteworthy, the results of the model (12) with cash tax paid being the dependent variable show statistically significant at one percent relationship with both the lagged and contemporaneous income smoothing. This interesting result may evidence the strategic behaviour of firms that engage in income smoothing with the insider knowledge of the future tax aggressiveness policy and that use income smoothing to signal about the future tax-related cash flows.

Table 2. Pearson (the lower-left part of the table) and Spearman (the upper-right part of the table) correlation matrix.

	InIncom eSmoot hing	ETR	cash_ET R	TaxAg1	TaxAg2	book- tax diff	NoMkt	sales_gr owth	book lev	size	InEff	age
Income Smoothing	1,000	0,208	0,242	-0,194	-0,138	-0,047	0,111	0,013	0,230	-0,147	0,154	0,007
	<i>,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,001</i>	<i>0,000</i>	<i>0,357</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,619</i>
ETR	0,217	1,000	0,270	-0,970	-0,885	0,297	0,036	0,038	0,141	-0,080	0,099	0,031
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,009</i>	<i>0,006</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,022</i>
cash_ETR	0,240	0,265	1,000	-0,247	-0,168	0,009	0,131	-0,044	0,025	-0,399	0,184	0,070
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,584</i>	<i>0,000</i>	<i>0,004</i>	<i>0,109</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
TaxAg1	-0,204	-0,970	-0,240	1,000	0,912	-0,276	-0,044	-0,015	-0,117	0,102	-0,074	-0,081
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,002</i>	<i>0,290</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
TaxAg2	-0,152	-0,885	-0,161	0,912	1,000	-0,204	-0,005	-0,025	-0,108	-0,018	-0,018	-0,053
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,733</i>	<i>0,071</i>	<i>0,000</i>	<i>0,186</i>	<i>0,203</i>	<i>0,000</i>
book-tax diff.	-0,044	0,296	0,007	-0,273	-0,202	1,000	0,013	-0,023	0,004	-0,085	0,081	-0,001
	<i>0,002</i>	<i>0,000</i>	<i>0,672</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,346</i>	<i>0,111</i>	<i>0,774</i>	<i>0,000</i>	<i>0,000</i>	<i>0,926</i>
NoMkt	0,092	0,036	0,129	-0,043	-0,005	0,013	1,000	-0,021	-0,003	-0,301	0,091	0,111
	<i>0,000</i>	<i>0,009</i>	<i>0,000</i>	<i>0,002</i>	<i>0,743</i>	<i>0,359</i>	<i>0,000</i>	<i>0,124</i>	<i>0,798</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
sales_growth	0,005	0,038	-0,038	-0,016	-0,026	-0,023	-0,021	1,000	0,079	0,121	0,179	-0,071
	<i>0,752</i>	<i>0,006</i>	<i>0,014</i>	<i>0,260</i>	<i>0,063</i>	<i>0,107</i>	<i>0,128</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
book lev	0,236	0,140	0,017	-0,116	-0,108	0,004	-0,004	0,079	1,000	0,144	0,187	-0,103
	<i>0,000</i>	<i>0,000</i>	<i>0,279</i>	<i>0,000</i>	<i>0,000</i>	<i>0,788</i>	<i>0,781</i>	<i>0,000</i>	<i>,</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
size	-0,126	-0,081	-0,393	0,102	-0,018	-0,085	-0,301	0,120	0,144	1,000	-0,316	-0,109
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,185</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>
InEff	0,157	0,099	0,187	-0,075	-0,019	0,081	0,091	0,178	0,187	-0,317	1,000	-0,016
	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,178</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,000</i>	<i>0,232</i>
age	0,010	0,007	0,048	-0,062	-0,052	-0,017	0,018	-0,040	-0,087	-0,053	0,030	1,000
	<i>0,482</i>	<i>0,617</i>	<i>0,002</i>	<i>0,000</i>	<i>0,000</i>	<i>0,228</i>	<i>0,191</i>	<i>0,003</i>	<i>0,000</i>	<i>0,000</i>	<i>0,026</i>	<i>0,000</i>

p-values are in *italics* below the correlation coefficients.

### Concluding remarks

The presented study explores the relationship between tax aggressiveness and income smoothing, two important characteristics of accounting information quality. We test our hypotheses with the sample of firms incorporated in Russia and Kazakhstan, whose shares are listed at the stock exchanges of their countries. Five measures of tax aggressiveness are considered for the analysis: effective tax rate (ETR, cash-based effective tax rate, book-tax difference, and the difference between ETR and industry-year/industry/ median ETR and with industry-year-size-quintile-median ETR

The results suggest the existence of a strong relationship between the measures of tax aggressiveness and income smoothing. A test for the existence of causality shows that the changes in tax aggressiveness lead the changes in income smoothing for all tax aggressiveness except cash tax payments. Both contemporary and lagged cash-based effective tax rate show the existence of significant relation with both contemporary and lagged income smoothing measures, suggesting strong multicollinearity between the two measures.

We must indicate the limitations of the current research. First, the results must be interpreted with caution since the sample is limited to only two countries. It is possible that the developed capital markets have different relationship between the variables under consideration. Further studies are needed to explore the potential biases derived from the sample. Second, since the sample contains only firms enlisted in the stock exchange, the motivations for the financial reporting might differ for privately owned firms that are beyond our analysis. Despite these limitations, we consider our results as worth interest for the accounting theory, as well as for practitioners, regulators and the business community.

Table 3. Regression analysis

Tax aggressiveness measures	ETR	cash_ETR	TaxAg1	TaxAg2	book-tax diff
Expected sign	+	+	-	-	-
Tax aggressiveness	0.088*** (7.11)	0.108*** (7.44)	0.086*** (-6.91)	0.072*** (-5.72)	0.037*** (-3.34)
sales_growth_pr	-0.010 (-1.06)	-0.014 (-1.41)	-0.009 (-0.97)	-0.008 (-0.90)	-0.007 (-0.79)
book_lev_pr	0.128*** (8.41)	0.147*** (8.51)	0.129*** (8.44)	0.133*** (8.63)	0.141*** (8.86)
size_pr	0.072*** (-3.79)	0.019 (0.75)	0.071*** (-3.73)	0.082*** (-4.27)	0.077*** (-3.96)
lnEff_pr	0.032* (1.81)	0.028 (1.47)	0.034* (1.92)	0.035* (1.95)	0.038** (2.22)
age	0.003 (0.58)	0.007 (0.23)	0.000 (0.08)	0.001 (0.30)	0.004 (0.96)
NoMkt	0.208* (1.84)	0.186 (1.56)	0.203* (1.80)	0.207* (1.81)	0.192 (1.61)
_cons	-0.540** (-1.97)	-1.188* (-1.92)	0.420 (1.54)	0.340 (1.24)	-0.084 (-0.38)
N	4501.000	3638.000	4501.000	4501.000	4657.000
Adjusted R-square	0.150	0.160	0.149	0.142	0.125

The table provides the results of the regression analysis with industry and year fixed effects. The dependent variable in all models is the log-value of the measure of income smoothing. The models differ by the proxies used for tax aggressiveness listed in the top row. t-statistics are in parentheses, p-values are denoted as \*\* p<.05, \* p<.05, or \*\*\* p<.01.

Table 4. Analysis of the causality between the changes in income smoothing and changes in tax aggressiveness

	(1)	(2)	(3)	(4)	(6)	(7)	(8)	(9)	(10)	(12)
Dependent variables	d_IS	d_IS	d_IS	d_IS	d_IS	book-tax diff	d_TaxAg1	d_TaxAg2	d_ETR	d_cash ETF
Explanatory variables	book-tax diff	d_TaxAg1	d_TaxAg2	d_ETR	d_cash ETF					
L.d_IS	-0.175*** (-10.78)	-0.179*** (-10.58)	-0.179*** (-10.54)	-0.179*** (-10.55)	-0.176*** (-9.43)	-0.026 (-0.57)	0.024 (0.52)	0.019 (0.40)	-0.030 (-0.64)	0.113*** (2.71)
d_IS						-0.117*** (-2.62)	-0.223*** (-4.86)	-0.197*** (-4.26)	0.216*** (4.75)	0.160*** (3.45)
l. tax aggressiveness	-0.011 (-1.48)	-0.021*** (-2.75)	-0.017** (-2.35)	0.021*** (2.73)	0.019* (1.81)	-0.416*** (-27.86)	-0.423*** (-27.93)	-0.415*** (-26.40)	-0.420*** (-27.31)	-0.379*** (-18.51)
tax aggressiveness	-0.020*** (-2.62)	-0.037*** (-4.76)	-0.034*** (-4.19)	0.036*** (4.67)	0.040*** (3.47)					
NoMkt	0.012 (0.30)	0.038 (0.92)	0.036 (0.87)	0.037 (0.90)	0.030 (0.69)	-0.010 (-0.12)	0.178* (1.93)	0.145 (1.58)	-0.160* (-1.73)	-0.054 (-0.65)
sales_growth	0.004 (0.56)	0.003 (0.46)	0.003 (0.41)	0.004 (0.47)	-0.005 (-0.59)	0.002 (0.09)	-0.044** (-2.19)	-0.057*** (-2.93)	0.043** (2.12)	-0.002 (-0.08)
book_lev	0.005 (0.73)	0.007 (1.10)	0.007 (1.12)	0.007 (1.11)	0.005 (0.71)	0.018 (1.35)	0.002 (0.15)	0.007 (0.44)	-0.004 (-0.25)	-0.020 (-1.47)
size	0.003 (0.49)	0.004 (0.53)	0.003 (0.47)	0.004 (0.53)	0.006 (0.65)	-0.000 (-0.00)	-0.002 (-0.15)	-0.015 (-1.12)	0.003 (0.22)	0.013 (0.82)
lnEff	0.012* (1.77)	0.013* (1.77)	0.013* (1.81)	0.013* (1.78)	0.015* (1.73)	-0.008 (-0.56)	0.015 (1.04)	0.024 (1.62)	-0.016 (-1.08)	0.014 (0.93)
age	0.002 (1.59)	0.002* (1.85)	0.002* (1.88)	0.002* (1.83)	0.009 (0.79)	-0.004 (-1.46)	0.002 (0.52)	0.004 (0.75)	-0.001 (-0.33)	-0.013 (-0.48)
_cons	-0.277*** (-2.64)	-0.122 (-0.61)	-0.117 (-0.58)	-0.124 (-0.61)	-0.200 (-0.64)	0.034 (0.14)	0.214 (0.46)	0.352 (0.74)	-0.174 (-0.38)	0.059 (0.08)
N	3493	3341	3341	3341	2720	3493	3341	3341	3341	2720
Adjusted R-square	0.038	0.045	0.044	0.045	0.039	0.179	0.191	0.186	0.188	0.157

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# WHAT ARE THE EFFECTIVE LEADERSHIP STYLES FOR MEN AND WOMEN LEADERS IN KAZAKHSTANI ORGANIZATIONS?

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## Introduction

Leadership can be considered as an art of human nature, but it cannot be explained with a single word or phrase as it has a variety of definitions and understanding in different country or context.

The leadership phenomenon can be interpreted in many ways as well as described under different approaches and theories that may appear conflicting as each definition is seeking to outpoint the others (Burnes,2017).

❖ The first perspective that is discovered–trait perspective, personal traits that have a leader among all other members of the organization (Northouse, 2013; Yulk, 2013).

❖ The second view, the style of leadership a person is applying while leading a particular organization and appropriate leadership behaviour that might be indicated (Blake and Mouton ,1981; Stogdill,1948).

❖ Another point of view is a situational perspective, which is characterized as leadership in a particular circumstance (Fiedler, 1964; House and Dessler,1974).

❖ Moreover, researches in leadership field added new theories as transformational leadership (Bass,1985) and instrumental leadership (Antonakis and House,2004; Antonakis, 2011).

Throughout the history of leadership research, researchers from different countries have examined the nature of leadership and presented a number of leadership styles. Following this argument, it could be noted that the leadership styles are existed, which could be considered "effective" and widely applied in leading people and managing organizations, while at the same time other leadership styles are less effective depending on different circumstances.

This research proposal presents a) the aim of the research i.e., stated research objectives; b) the significance of the study; c) Literature review; d) Methodology , e) Possible Limitations that might be during the investigation.

The expectation of this research is to explore the field of leadership and wide leadership styles, which were presented in previous researches that would be beneficial and effective for men and women in leading Kazakhstani companies during the turbulent time of COVID-19 and overcoming ramifications of the pandemic. It is important to note that the topic for research is chosen as the interest focuses on the investigation of leadership nature in Kazakhstan. Therefore, the main research question is stated: What are the effective leadership styles for men and women leaders in Kazakhstani organizations and is there any differences between men and women leadership style?

Consequently, in order to find out the answer to the established research question, research objectives have been determined and divided according to the phases of the research process.

### *The aim of research and objectives*

The aim of this research is to identify the combination of leadership styles or behaviours that can be considered as highly effective leadership for Men and Women leaders in Kazakhstani organizations. Following this, below are presented research objectives for the first stage:

- ❖ Objective 1: Rigorously review the literature on the leadership, leadership styles and behaviours by finding and selecting the most popular leadership models that might be applied in the primary research
- ❖ Objective 2: Discover the leadership specificity in the context of Culture
- ❖ Objective 3: Investigate the leadership phenomenon in the context of Gender and
- ❖ Objective 4: Create a Conceptual-Theoretical Framework to reach the purpose of Research

### ***Significance of the research***

According to Thomas et al.(2013 as cited in Canals, 2014) contemporary political, social and economic elements are affecting business leadership and making it more complicated . Escalating of global economic integrating processes, shaping economic and political influence from Western to Eastern countries, modified social behavior of new generation, as well as the diffusion of digital advances which are changing the mode of traditional industries among other forceful obstacles making global business distinct from the business over the last century (Canals, 2014), therefore considering this context effective leadership is indispensable as employees, stakeholders and shareholders are assuming that business leaders propose long-term orientation for organizational survival and prosperity (Canals, 2014). According to McCall and Hollenbeck (2002 as cited in Canals, 2014 ) global leaders are considered those leaders who manage work on global level , while global work can be interpreted in two complex dimensions that are business and cultural. Considering domestic leadership researches which have taken into account variety of contextual elements are initially focusing on cultural attributes and native leadership that were displayed in GLOBE Project stages (House, Hanges and et al., 2004; House, Dorfman and et al., 2014).

It goes without saying that the researcher is intending to fully investigate the phenomenon of leadership styles that might be recognized effective for Kazakhstan assuming the valuable influence of culture and gender. Expecting to make a significant contribution to the field of leadership investigation. Also, it should be mentioned about future researches that may be taken for replication in order to continue the exploration of leadership notion and further adding knowledge of leadership effectiveness in contemporary Kazakhstan. Moreover, it could be assumed that literature review and expected research outcomes could be paramount for future researchers who are willing to analyse the Kazakhstani's leadership phenomena and its effectiveness. These results of the study might be also essential to men and women managers-leaders who are inclining to lead employees and companies to an outstanding level. The researcher attempts to make a compelling academic achievement in exploring the leadership styles that might be applied in future within Kazakhstani companies.

### **Literature review**

The purpose of the critical literature review is to investigate and develop a thorough understanding of leadership and effective leadership by consulting previous researches, which have been undertaken and are related to the main research question with outlined objectives (Saunders, 2016). According to Saunders (2016), it turned out that there is no one correct structure for a critical review, although it is helpful for a study as starting at a more general level (for example at the global level) prior to narrowing down to specific (Kazakhstani company level) research question and objectives. In general, the literature sources can be divided into three categories, such as primary, secondary and tertiary.

The next section provides information about leadership and its role in the organization, the major streams of traditional leadership theories, contemporary researches in this field, and propose varying views on established effective leadership theory. Furthermore, the leadership will be discussed and analyzed considering the influencing factors such as national culture and gender.

### ***Leadership and Organization***

It has been apparent that leadership is considered as one of the most examined phenomena in the business and management field as well as it is a fundamental element for implementing and managing efficient organizational working processes. It is vital to mention, according to Bass & Avolio (2004) is advantageous for organizations selecting suitable leaders with styles for attaining successful results within heterogeneous organizations.

Although it was argued by Avolio (1999) that leadership in its nature does not have a direct impact on the performance, in regard to it influencing more in an indirect way (Avolio,1999), thus, to the best of available knowledge and researches the leadership can be observed on practice (Day and Antonakis, 2011). Northouse (2009) proposed that leadership is an influential process by an individual, who is affecting the group of people or individuals for attaining common or shared aspiration or goal.

Bryman (1992) thinks that "the leadership" is necessary to distinguish and differentiate it from power and management. It should be noted that leadership in its nature could be described as purpose-driven and transformational process or changing process within an organization or different levels of organization that is grounded on common values, ideals, shared vision and spreading emotional interaction (Bryman, 1992). Concerning the power according to the explanation of Antonakis (2009) it could be determined as an ability to influence others through available means and resources. On the other hand, speaking of management it is driven by completing of tasks and requirements.(Northouse, 2008).

On the other hand, as far as other views are concerned, Kotter (1999) proposed new perspectives on the difference of leadership and management by contending that leadership and management have to be perceived as two complementary actions which are having peculiar characteristics and distinctive functions. As far as management is concerned, it's about organizing complex actions, firstly, by initiating practices within an organization for instance, as planning and budgeting, establishing aims and allocating tasks among employees, meanwhile the leadership is about implementing changes as well as setting mission and vision, accomplishing the goal by aligning people and increasing their engagement (Kotter,1999).

Furthermore, it has been mentioned that leadership is influenced by the contextual factors which in turn affect the type of the leadership and level of efficiency (Liden and Antonakis,2009), moreover, it has been argued that leadership is indispensable for getting outstanding results (Bass, 1985; Bass and Riggio, 2006).

Having looked at different explanations, it is the evidence that organizations need well-established management as well as effective leadership (Bass,1985; Kotter 1999), therefore it could be also added the statement about management and leadership from Mintzberg (2004) that management without leadership can be futile, while the leadership without management is disengaged. Besides, it has been discussed that managers can be differentiated from leaders by analyzing emotional level, taking, for example, managers tend to be reactive and prefer the working conditions that require the low level of emotional dedication (Zaleznik, 1977; 1992),

however, in meantime leaders are characterized by involving high emotional attitude towards problem-solving and generating new ideas for future development (Northouse, 2010). Following discussions, the major leadership schools are presented by outlining leadership effectiveness.

### ***Trait Theory Leadership***

Trait theory on leadership can be considered as one of the first investigating attempts of researchers in regard to the nature of leadership as research on leadership had been initiated with discovery for inborn characteristics that might be identifiable leaders from non-leaders by explaining personal capabilities as leaders (Galton & Eysenck, 1869), which in turn presented the trait paradigm of leadership research.

The vast majority of researchers were trying to find out which are particular personality traits and characteristics had great leaders, Kirkpatrick and Locke (1991) listed the set of traits such as drive, motivation, integrity, confidence, cognitive ability and task knowledge, furthermore, it comes as no surprise according to Zaccaro (2004) the social intelligence is considered as a substantial element for maintaining effective leadership in the organization.

It had been noted by Judge et al. (2002) that four personal attributes such as extraversion, conscientiousness, emotional stability as well as openness to experience are measured as highly influential on leadership effectiveness in an organization (Judge and Long, 2011).

However the leader trait paradigm was criticized (Jenkins, 1947; Mann, 1959; Stogdill, 1948 as cited in D.S. Derue et al., 2011) and prompted researchers to look ahead of leaders' traits and take into consideration the impact of behaviour which can predict its effectiveness, consequently led to further investigations of initiation of structure and consideration which in turn presented the paradigm of leaders' behaviour (Hemphill and Coons, 1957; Stogdill, 1963 as cited in D.S. Derue et al., 2011). Furthermore, trait approach was reassessed in the works of leadership theory about charismatic leaders, as well as new leadership theories that were introduced in the works of such authors as Bass (1985; 1990), Bennis and Nanus (1985), Zaleznik (1977). Also, Stogdill (1948) added that trait theory is explaining only leaders' characteristics and underestimating situational factors. Moreover, it should be mentioned that there are no traits, which have been separated from contexts such as culture, which affecting the leading process (Burke and Cooper, 2006). Having discussed the trait approach, the style approach is going to be presented in the coming section.

### ***Leadership Styles***

Style approach to leadership is researchers' endeavour to expanding further understanding of the leadership by adding into examination leaders' behaviours in various situations (Day and Antonakis, 2011; Northouse, 2010). Initially, this approach was proposed by the researchers from Ohio and Michigan State (Jogulu & Wood, 2006) and at the same time, it was investigated in the works by Blake and Mouton (1981) with a concentration on the notions such as Concern for people and Concern for production, which was formed by analyzing work of Stogdill (1948) as well as by assuring that task and relationship behaviours are two indispensable parts that establishing leadership (Day and Antonakis, 2011; Northouse, 2010).

According to Ohio State University findings, these two types of behaviours are initiating structure and consideration, the former is related to the task fulfilment, by recognizing the context of work, allocating responsibilities and establishing an action plan, while the latter concentrates on the building relationships that are characterized by camaraderie, credence, reliance and sense of belonging between leader and follower (Northouse, 2010). Meantime, continuing discussions, effective leadership can be formed by the means of relationships within people, for instance, such as by raising the degree of endowment and commitment rather than by

rigorously directing and punishments (Tamkin, 2010). By applying this approach for the purpose of reaching efficiency leader has to keep maintaining both aspects as people and task, therefore, an effective leader would be keeping such characteristics as advanced communicating, condolence and sympathy by allowing them to be connected to surrounding people, as far as another aspect is concerned leaders who are desiring to be effective will be in possession of such characteristics as assertiveness and organizational skills for attaining established company's goals (Jogulu and Wood, 2006).

Despite aforementioned, the disadvantage of this approach should be outlined, as Drummond (2000) stated that circumstances can vary, for instance, organizational members are moving towards task achievement, however, organizational unity is not existed, therefore, in this case, the employee –centred style has to be applied, while production-centred style may bring counterproductive results (Barry and Hossain, 2010).

#### ***Path Goal Theory***

Another leadership theory on styles that were presented by House (1971) Path-Goal Leadership Theory focused on four major leadership styles, which are directive, supportive, participative and achievement-oriented (cited in the Nohria and Khurana 2009). This approach to leadership styles indicating in which direction the leader of organization tends to find the method for the purpose of raising employees' interest and dedication in regard to performed work at the same time in which way the leaders' behaviour increases the level of performance achieving settled organizational goals and objectives, however, the leaders have to be aware what employees are desiring to attain (Northouse,2013).

Moreover, House (1996) noted that the Path-Goal theory emphasizing the value of the impact of leaders' behaviour and the leadership styles on the desire of employees to work efficiently and completing tasks.

#### ***Contingency Theory***

Fiedler's (1964) Contingency Theory was based on continuing and developing researches about leadership in the approach of leadership styles, which in turn was stating that effectiveness of the leadership style depending on significant factors such as the situation and contingent variables that can be evaluated by the "LPC Scale" (Least Preferred Coworker) (Fiedler,1964 cited in the Nohria and Khurana, 2009, p. 124).

Directive and participative leadership styles of Path-Goal theory, which were outlined by House and Dessler (1974) were also taken for analyzing Contingency Leadership Theories.

The important point is that Fiedler (1984) argued that all leaders' styles-directive, task-oriented, non-directive, human relations-oriented can be fortunate depending on circumstances, declaring that various situations need distinctive leadership styles as a level of effectiveness is highly dependent on three interrelated can be said dimensions - the leader, the followers, and the situation. What matters here is that Lorsch (2009) stated that effective leadership determined by the how leaders' behaviour respond on contingent factors as relations of leaders' power and influence, individual and company's aims, what are the expecting followers, type of organization and level of confidence towards a task.

#### ***New Models of leadership: Transformational and Transactional leadership***

It goes without saying that Leadership field was developing continuously and the new approaches or models were presented, for instance, model by Bass (1985). The Full Range Leadership Model was designed and disclosed by Bass and Avolio (1994) that was built on the model by Burns (1978), explaining that Transformational leadership can be considered as a powerful instrument to increase participation level within an organization, recognizing not only

the needs of subordinates but also aiming to satisfy a higher level of needs according to Maslow's hierarchy of needs-from safety to self-actualization needs.

It has been stated that Transformational leaders desiring to succeed and reach outstanding results require -charisma, inspiration, good communication skills, and a capacity for intellectual stimulation (Bass,1985; Burns, 1978, as cited in the Nohria and Khurana, 2009). Also, it has been stated that Transformational Leaders can affect the level of changes within organizations, societies and groups (Bass, 1985), adding to culture is based on philosophical values by including concerns such as technical, financial as well as humanitarian, furthermore, establishing organizational boundaries, increasing employees' loyalty and commitment (Siehl and Martin,1982).

Also according to Bass understanding, the Great men as well as Great women leadership theory is related to transformational leadership as it influenced by two means, first one through their personalities and second, through their ideas for which they are standing (Bass, 1985). It also had been questioned whether transformational leadership is a peculiarity or it can be considered as an ordinary notion, moreover whether its efficiency is proved.

In the work by Bennis (1983) was concluded that major characteristics of transformational leadership are essential and important for outstanding managing operations and tasks, especially during a crisis, turbulent times, by listing such indispensable constituents as an ability to create, coordinating, compelling the astuteness that is leading to engagement and support (Bass, 1985).

### **Leadership and Culture**

Aforementioned studies that were undertaken by researchers from major leadership streams Bass (1990), Northouse (2004) and Yulk (2008) were keeping the focus on the analysis of behaviours and leadership qualities that are effective. However, another important aspect that had been stated by Adler (1999) sounds about leadership phenomenon is not "culture and value-free" (cited in Stead and Elliott, 2009, p.19).

It is clear that studies about Leadership phenomenon are becoming more comprehensive. Thus, there is also an argument that cultural aspects should be also taken into attention. According to Siehl and Martin (1982), organizational culture is based on basic philosophical values.

Avolio (2007), Ayman (2004), Chemers (2000) provided the solutions of how to incorporate culture into the analysis of the leadership field (cited in Antonakis, 2011), also Javidan et al., (2009) mentioned that leadership should be explored from the various perspectives analyzing many dimensions-variables that affect leadership. Moreover, some researchers had been arguing that there are leadership cultural phenomena (Bass, 1997; Dorfman & Howell, 1997; Peterson & Hunt, 1997) and distinctive cultural characteristics have been proved (House, Wright, and Aditya, 1997).

Furthermore, such researchers as House, Wright, and Aditya (1997) outlined that each culture presents its own unique model of leadership. It also has been discussed that leadership practices are differentiated between Western and Eastern countries (Bass, 1997; Hofstede, 2001). Throughout the years' major cross-cultural psychologists and anthropologists have been trying to elaborate analytical instruments for finding out and investigating cultural distinctive features, who are Kluchholn and Strodberg (1961); Hall (1990); Hofstede (1991, 2001); House and the GLOBE project (2004) all have made a tremendous contribution to investigating specific dimensional approaches for recognizing differences among national cultures and societies.

According to them, cultural dimensions are considered as psychological attributes, or meaning concepts, which can be applied for describing specific cultures. Therefore, in this research, the most recent cultural dimensional approaches that were proposed by Hofstede and the GLOBE are going to be taken into consideration and used.

### **Leadership and Gender**

The tendency of rapid growth in discussions about women leadership was noted (Eagly, 2010). Some researchers hold the view that important aspect of these discussions lays in the occupation of woman dominant position in the organization and the second one what is interestingly to note is that the diversity in leadership styles and effectiveness of such leadership depends on the gender (Rhode, 2003) while other scholars are outlining that the difference in behaviours has not existed. Furthermore, Valerio (2009) argued that men, as well as women leaders, possess the mix of characteristics such as intelligence, sociability, assertiveness, conscientiousness, integrity and ability to inspirational influence by presenting positive vision.

According to the research organized by Groshev (2002), men and women have different approaches to leading and indicating incomparable views on the understanding of power and authority by presenting that men are "power-hungry" and believed in domination, taking charge, self-affirmation, self-importance, and self-control, while women consider that power should be shared and used in supporting others. The vast majority of researches have outlined that gender in the scope of leadership is having a considerable impact on extending employees' characteristics and maintaining effectiveness (Sczesny, Bosak, Neff, 2004).

Following debates on gender and leadership efficient style, Rhode and Kellerman (2007) argued that majority of contemporary researchers measure that leaders' efficiency can be affected by a number of occasions, interrelated combinations of leaders' traits and needs, personal goals of their employees-followers.

What's more, as claimed by Western (2008) difference in the leadership styles can be explained by assuming that women are more affected by social constructions and perceptions, besides, women leaders can be assessed as effective leaders in modern decades as being under the influence of built stereotypes considering that women are developing themselves on a constant basis (Western, 2008).

The former president of Kazakhstan entrusted Government and National Commission for women affairs and family to develop Conception the Strategy of gender equality in Kazakhstan indicating clearly main directions of the activity including economic, social and political fields, to develop the system of measures on terms for ensuring equal possibilities to the women (Strategy 2030).

### **Theoretical Framework**

Following the aforementioned discussions about leadership and leadership styles, relationships of leadership and context of culture and gender, the researcher are going to present a conceptual framework. It should be noted that the conceptual framework is an essential component of highly qualitative studies as this framework will support the researcher in the Research Methodology part. It should be noted that conceptual framework will be based on the leadership styles approach presented by Bass (1985), taking into consideration the cultural frameworks that were developed by Hofstede and GLOBE researches-in which way culture affecting leadership style and assuming gender notion as well.

### **Research Methodology**

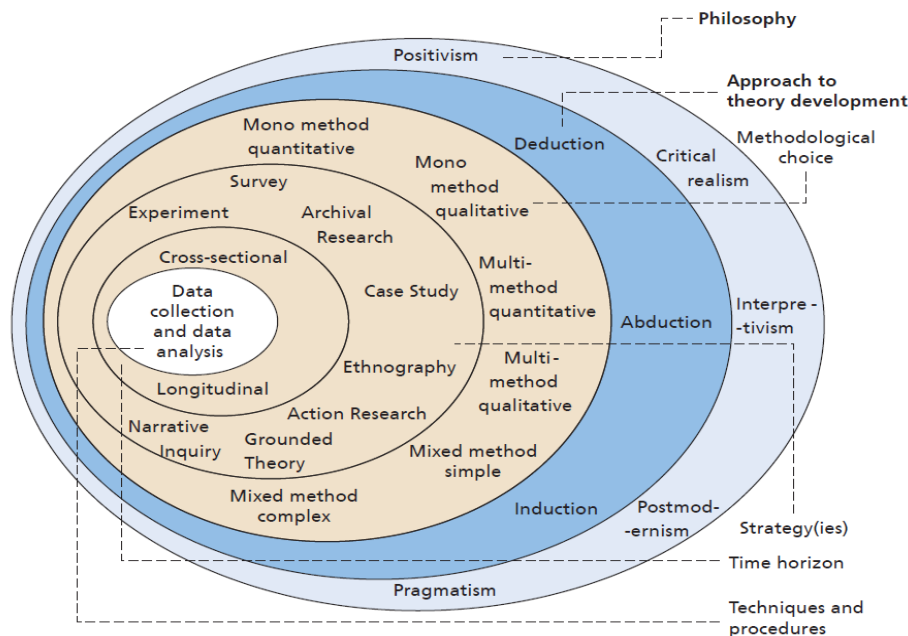


Turning to the second research stage, after reviewing the literature on the leadership in the context of culture and gender, the primary research is going to be initiated among Kazakhstani respondents from different industries and sectors.

The research Methodology chapter is going to present various research methods that can be applied to complete future research, particularly this section is going to explain research philosophy, research methods, and research strategy.

Moreover, time horizon, data collection techniques as well as the value of research ethics will be discussed in this chapter.

Below is presented Research Onion that describes Methodology Part according to Saunders (Saunders, 2016):



Source: Saunders, Lewis and Thornhill, 2016

- Objective 1: First of all, one of the major tasks is in collecting perceptions of the leaders and perceptions of the followers about leadership behaviours as could be considered effective for the leading company in Kazakhstan
- Objective 2: After that need to determine if there is a significant difference or gap between employees' and the leaders' views about leadership behaviour that might be considered efficient taking into account the Kazakhstani culture and Gender of the Leader.
- Objective 3: The expectation of this study is to explore the distinct leadership styles and valuable attributes that would be beneficial to female and male leaders in Kazakhstan

### ***Research Philosophy***

It should be stated that Research philosophy is an integral part of the research, according to Saunders (2016) research philosophy is considered as a starting point in building knowledge, moreover, the chosen research philosophy gives the possibility of establishing a strong base for selecting research strategy as well as research methods for attaining established research aim and objectives.

In general, it should be noted that are existed two major ways through which research philosophy can be determined, first one- is ontology, the second one is epistemology (Bryman

and Bell, 2011; Saunders et al. 2009), consequently, researchers should differentiate and understand the value of these two philosophies. Beginning with ontology and then turning to epistemology, the researcher concludes with selected research's paradigm. First of all, it has to be noted that initially ontological assumptions cannot be separated from the process of writing business research as they had been routed in the development of research queries (Bryman and Bell, 2011; Saunders et al., 2009). Then, ontology is determined as the essence of reality that is bringing up the questions of the world activities and the regarding special views (Saunders et al., 2009), consequently, objectivism and subjectivism are noted as two perspectives of ontology.

A selected paradigm in the present study is positivism. From the ontological stance, it can be assumed that behaviour in organizations can be measured by standard instruments. According to Yulk (2006), positivism is a philosophy through which leadership phenomena can be investigated.

Also, according to Bryman and Bell's (2007), positivism is the epistemological stance that aims to prove validity by following these principles:

- Principles of phenomenalism, deductivism and inductivism
- Principle, which maintains the meaning that research can be conducted in an unprejudiced way
- Precise differentiation is existed between exact scientific statements that imply norms as well as a strong belief in the statement

Bryman and Bell (2011) distinguished another traditional approach- phenomenology, which essence lies in the understanding and interpreting human beings. Lee (1994) stated that the investigation of human phenomenon cannot be objectively organized, as an individual cannot be compared with any social element of the world.

In regards to research philosophy, epistemological consideration provides the point of the knowledge in a field investigation (Bryman and Bell, 2011). Also, it was noted that epistemology combines realist and interpretive views (Saunders et al., 2016).

### ***Research method-design***

As it was mentioned earlier, according to Guba and Lincoln (1994 as cited in Sobh and Perry, 2005) the value of research methodologies is accounted to only one-third of its research, while paradigm is defined as the established worldview. Sobh and Perry (2005) noted that ontology is reality, which has to be objective, epistemology is the interrelation of that reality and the researcher, as well as a methodology, is the tool or combination of tools applied to discover that reality. In order to construct qualitative research five methods can be applied, which are experiments, surveys, archival analyses, histories and case studies.

### ***Type of research***

Having decided that research will be about leadership behaviours, in the context of national culture and gender, the researcher is planning to organize data collection- data would be collected quantitatively by the use of standardized instruments for Leadership research. Data would be interpreted in a quantitative as well as in a qualitative manner, by applying concepts that were discussed in the Literature part.

### ***Data triangulation and Instruments for research strategy***

Data can be generated and evaluated through qualitative research or quantitative research. Leadership is a complex phenomenon, real-world issues require the application of the greater interdisciplinary investigations, such mixed-methods for the research mentioned by Tashakkori and Teddlie (2003) or multi-methodology Mingers and Gill (1997). Triangulation of data in research is determined as the way to demonstrate the validity, credibility and dependability of the

study and may combine different methods or kinds of data (Bryman & Bell, 2011; Saunders, 2016).

### ***Time horizon***

According to time dimensions' research can be cross-sectional (within a short period of time) or longitudinal, initially, the aim of the research was to investigate the phenomenon in Kazakhstan –organize primary research-data collection within 4-6 months.

### ***Research Approach***

An important aspect of conducting research is the relationship between theory and research question and the way it can be interpreted- whether it is deductive or inductive. The first type, according to Bryman and Bell (2011), Saunders et.al.,(2016) deductive approach is characterized as a linear process that is organized in a precise and rational progression, which complements six stages from the theory to findings.

The essence of the deductive approach is in close connection of theory to research and originally is applied in sociology to be a course of empirical investigation (Merton, 1967 as cited in the Bryman and Bell, 2011). While, an inductive approach is a process of conducting the investigation, which leads to the theory from findings to the theory. Bryman and Bell (2011) stated that purely inductive or deductive approaches do not exist- either deductive approach is composed of inductive elements, or inductive approach includes an element of deductive. Authors (Bryman & Bell, 2011 Saunders et al., 2009; Saunders et al., 2016) recommend applying a mixed approach for data collection either research is inductive, or deductive.

Concepts of grounded theory and its application in inductive research were proposed by Glaser and Strauss (1967). Moreover, this strategic approach was mainly connected with qualitative investigations. Scientists in inductive strategy apply grounded theory approach to the part of dealing with generated information.

According to Saunders (2009) through inductively organized research in the leadership field, the flexible position may be taken in the analysis of findings as the nature of leadership is subjective.

This research cannot be described as an inductive approach, which is characterized as an investigative process, which one of the premises is that no relevant theory and no literature are existed to support research. Thus, the application of established theoretical frameworks is useful for this research. It is noted that for the researcher to start field research is impossible without being worked on existing literature about leadership behaviours and leadership in the context of culture. According to Bryman and Bell (2011) qualitative approach to research in leadership has been considered important in defining the role of leaders.

Yin (2008) stated that the aim of case study research strategy is to investigate the phenomenon in its real-life context while choosing experiment strategy - obtaining positive stance, quantitative research- researchers are attempting to detach phenomenon from its context.

Bernstein (1983) critiques, positivists-quantitative researchers who propose conclusion-generalizations about the investigated phenomenon that are treated as rules. While phenomenologists provide a qualitative conclusion that was raised from the deep understanding of context. Following this idea, it can be concluded that results or findings may be only generalized by reproducing study to carry out further examination in other situations for the purpose to confirm the proposed theory.

### ***Research Instruments***

For this research, the usefulness of different data collection methods had been considered. These are structured and semi-structured interviews, participant observation, survey methods;

however, the choice was given to multiple research methods as questionnaire and semi-structured interviews, it was considered as the main tool to collect required data. Advantage of using questionnaires is an opportunity for respondents to confidentially and anonymously respond to questions for a short time.

### ***Research ethics***

Ethics is the code of conduct that guides the researcher to organize its investigation (Ghauri and Gronhaug, 2010). As the choice is made to organize primary research with live-participants, the issue that the research ethics should be maintained throughout the whole process had been recognized initially.

The research process will be conducted according to the highest ethical standards. The research will be held in an ethical way and will comply with the Code of Ethics, in other words, proposed research does not involve any of the following: deception of participants, possible psychological stress or any financial inducements. Also, possible participants (of the survey-questionnaires will be informed that the participation in this research is on a voluntary basis is vital only for researcher and no information will be disclosed to anyone. This will be noted as well in the consent form. The aim of consent form according to Bryman & Bell (2007; 2011), Thorpe & Holt (2008) as well as Saunders (2016) to increase the level of participation, involvement in the research process as well as generate more trustworthy information.

### **Limitations of research**

This study will include several probable limitations, as organizing research on such compound as well as at the same time highly debatable topic as leadership.

To be certain that the data which will be gathered is meeting critical criteria, which are reliability credibility and results are fitting stated research question, all future interviewees will be responding on identical questions as semi-structured interviews are going to be organized. One of the stated research objectives in the second phase of research-primary research to get information about perceptions of the leaders and perceptions of the followers about leadership behaviours as could be considered effective for a leading company, moreover, ensuring that data will be analyzed-interpreted in a reliable way by reducing subjectivism.

### **Summary**

As it had been stated effective leadership is an important element in managing organizations in a successful way, therefore it's vital for the researcher to discover what are the effective leadership styles for men and women leaders, find out the phenomenon of effective leadership particularly for Kazakhstani organizations in respect to national culture and gender effect.

The author is highly interested and motivated to fulfil all research requirements in order to find an answer on the stated research question and established objectives, therefore the researcher is going to conduct and manage research with full dedication of heart, will and vigour.

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# Does ambidexterity improve organizational resilience in times of COVID-19?

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**Abstract.** The coronavirus pandemic and the global economic crisis that it triggered are pushing companies to rapidly change the way they operate and putting the sustainability of various systems to the test. Businesses have to face a whole host of new systemic priorities and challenges to drive organizational performance in an environment of high uncertainty. Leaders need to quickly address pressing systems resilience issues while laying the foundation for the future of their organizations. The literature review suggests that ambidexterity, the firm's' ability to simultaneously exploit and explore their internal and external resources, is the primary factor to the ability of a firm to survive and prosper. Thus, this study investigates the influence of organizational ambidexterity on organizational resilience in local and multinational firms in Kazakhstan during COVID-19 pandemic. Applying quantitative survey methods, data were collected from 250 employees of different organizations in Nur-Sultan and Almaty during September- November, 2020. The findings of the study provide some guidelines for the managers to operationalize practices of ambidexterity to increase the ability of the organizations to respond and positively adapt to the crisis, laying the foundation for sustainable performance in the post-crisis period.

**Key words:** organizational ambidexterity, exploration, exploitation, organizational resilience, COVID-19.

## Introduction

According to preliminary estimates of a number of economists, the current global crisis may become the deepest since the Second World War. The sharp contraction of sales markets and the rupture of supply chains, the cancellation of air travel and the restriction of the free movement of citizens, the massive transition to a self-isolation regime provoked a significant contraction of business in various industries. While governments are taking significant steps to tackle the coronavirus, companies are rapidly adapting to the changing needs of their employees, consumers and suppliers, while addressing their financial and operational challenges.

To adapt and thrive, organizations must live high up on the *resilience* scale (Suarez and Montez, 2020). Organizational resilience was defined by Cutter et al. (2008) as “the ability of a social system to respond and recover from disasters and includes those inherent conditions that allow the system to absorb impacts and cope with an event, as well as post-event, adaptive processes that facilitate the ability of the social system to re-organize, change, and learn in response to a threat” (p. 599). To do this, many companies need to rethink and rebuild complex and core services for business processes. Organizations must respond quickly to change to ensure business continuity and protect and mitigate operational risks to keep their businesses running now and in the future.

While fast change, such as in times of COVID-19 pandemic, is challenging, it still can be managed. Earlier research revealed one such solution - creating ambidextrous organizations. The

empirical evidence suggests that organizational ambidexterity is positively associated with firm survival (Farjoun, 2010) and performance (He and Wong, 2004, Lubatkin et al, 2006, O'Reilly and Tushman, 2013, Zhou and Yang, 2019, Caniels and Veld, 2019, Peng et al, 2019, Dranev, Izosimova and Meissner, 2020). Moreover, this relationship is enhanced under conditions of market and technological uncertainty (Jansen et al, 2005, Raisch and Birkinshaw, 2008, Uotila et al, 2009, O'Reilly and Tushman, 2013). However, there has been limited research on how organizational ambidexterity may promote organizational resilience (Stokes et al., 2019).

This study extends these arguments and investigates the relationship between organizational ambidexterity and resilience. It can be assumed, that putting organizational ambidexterity, which is generally “associated with increased firm innovation, better financial performance and higher survival rates” (O'Reilly and Tushman, 2013), in action in present turbulent business environment, can contribute to the transformation of organizations in order to respond in due course to market uncertainties and to stay competitive (Mathe, 2018).

## **Literature review and Hypothesis Development**

### *Organizational resilience*

A critical challenge that most of today's both private and public organizations face is how to perform effectively in a turbulent and dynamic than ever before environment. Scholars proposed that for enterprises to succeed in the *face* of a changing business environment, they must live high up on the *resilience* scale. Organizational resilience refers to “the ability of a social system to respond and recover from disasters and includes those inherent conditions that allow the system to absorb impacts and cope with an event, as well as post-event, adaptive processes that facilitate the ability of the social system to re-organize, change, and learn in response to a threat” (Cutter et al. (2008) p. 599).

Similarly to Cutter (2008), numerous scholars define resilience as more than survive and bounce back, “recover quickly and effectively following an incident”, but about turning challenges into opportunities and thereby creating a superior performance than before, thus bouncing forward (Weick, 1993; Lengnick-Hall and Beck, 2003; Manyena et al, 2011, Sawalha, 2015). Manyena et al. (2011) propelled the idea of 'bouncing forward'; as such, having made such a tremendous interest in recuperation tasks, any network influenced by debacle will need to guarantee it winds up in a stronger position than before the crisis. Albeit 'bouncing forward' changes the first significance of flexibility, it gives the guarantee of a system against which post-debacle measures ought to be attempted (Kafle 2017). For all intents and purposes, it may not be conceivable to come back to its ad hoc position physically or psychosocially if a network, society or framework or its sub-frameworks is harmed.

Moreover, Coutu (2002) stated that resilience refers not only to the post-event state, but also relevant to the capacity to foresee the occurrence of negative events. In line with this view, pre-event analysis and preparedness is central to the concept of resilience in disasters and crisis situations.

### *Organizational ambidexterity*

Term “ambidexterity” derives from psychophysiology meaning the ability to use equally well both the right and the left hand (Dhir & Dhir, 2018). Duncan (1976), believed to be the first to coin the term ‘ambidextrous organization’ (Simsek, 2009), used it to describe situations in which a firm (or its units) had to establish dual organizational structures to manage the tensions surrounding the initiation and implementation stages of innovation activity. Thus, operating in turbulent business environment and period of intense market and technological changes, it is

quite difficult for enterprises to maintain competitive advantage, which in turn force organizations to continuous changes. The previously undeniable advantages of prosperous enterprises, namely, a stable organizational structure and established processes, turned into a disadvantage, since too inertial organization does not allow timely reaction to changing market requirements. Thus, companies that are striving not only for survival, but prosperity as well must be able to adequately respond to an increasing number of changes in the market, be flexible and innovative. Competition presents organizations with a choice: change and adaptation of the organization or oblivion of the organization.

In this regard, March (1991) proposed a solution to this innovation-efficiency tension, offering two dimensions of organizational ambidexterity: the exploration of new possibilities and the exploitation of old certainties in organizational learning, that are both essential for long-term firm survival and competitiveness, however compete for scarce resources. In earlier works this trade-off manifests itself in the difference between improving existing technology and inventing a new (Levinthal & March, 1981).

O'Reilly and Tushman (1996) continued the idea of evolutionary and revolutionary changes, defining ambidextrous organizations as those that are able to simultaneously pursue both incremental and discontinuous innovation and change results from hosting multiple contradictory structures, processes, and cultures within the same firm. Authors revealed correlation between organizations being ambidextrous and their long term survival.

These seminal articles aroused the interest of researchers and led to an influx of studies on organizational ambidexterity. Particularly, delving into the idea of ambidexterity – firm survival linkage, subsequent researches have been devoted to analyzing the influence of ambidexterity to firm performance (Lubatkin et al, 2006; Fu et al, 2016; Hughes, 2018; Zhou and Yang, 2019).

Basically, the idea of ambidexterity takes root from adaptive systems theory that claims that periods of environmental and technological change call for firms to adapt and change their structural alignments accordingly (March, 1991; O'Reilly and Tushman, 1996, 2013). Numerous studies of the antecedents of organizational ambidexterity assert that positive outcomes from developing ambidextrous capabilities are more significant among firms operation in high environmental uncertainty, while “the level of dynamism and competitiveness in a business environment may be an important boundary condition for organizational ambidexterity” (Raisch and Birkinshaw, 2008).

Thus, the concept of organizational ambidexterity is especially relevant for uncertain times of COVID-19 pandemic and for efforts of organizations “to stabilise in the new environment and strategies for what’s next” (PWC, 2020), thus assisting companies in building resiliency.

Therefore, based on the previous literature review and assumptions, the study proposes the following hypothesis:

*Hypothesis:* There is a significant relationship between organizational ambidexterity and organizational resilience.

## **Methodology and Results**

### *Methodology*

A quantitative survey method was followed in this study. Total of 280 questionnaires were distributed among employees of local and multinational corporations operating in Nur-Sultan and Almaty, Kazakhstan from September- November, 2020. After having discarded the

respondents who have not replied to all of the questions, responses with missing data and outliers, our study continued on 250 respondents' feedback.

Organizational ambidexterity comprises two dimensions: exploration and exploitation (March, 1991). Predictable with Floyd and Lane's (2000) declaration that these two directions are "indivisible," analysts have consolidated the two measures to make a proportion of ambidexterity. For instance, Gibson and Birkinshaw (2004) estimated ambidexterity by duplicating one dimension from another, while He and Wong (2004) deducted exploitation from exploration and utilized a flat out distinction score. As Edwards and Parry (1993) called attention to, in any case, any time at least two measures are joined into a solitary record, enough data might be lost that the list can't be precisely deciphered. That is, we need to know whether every part of the last list contributes interestingly to foreseeing results or if just a single segment does as such. Following the systems suggested by Edwards (1994), we looked for the most interpretable methodology for consolidating our proportions of exploration and exploitation.

As measurement items were not available for the four organizational resilience dimensions advanced by Bruneau et al. (2003), a set of items for robustness, redundancy, resourcefulness, and rapidity was developed by the research team members. A total of four items were developed for robustness and rapidity, as the desired ends of resilience-enhancing measures; redundancy and resourcefulness, as some of the means to these ends. Items were generated based on the operational definition for each dimension provided by Bruneau et al. (2003).

All the items in the survey questionnaire were measured using a 6-point Likert scale ranging from strongly disagree (1) to strongly agree(6).

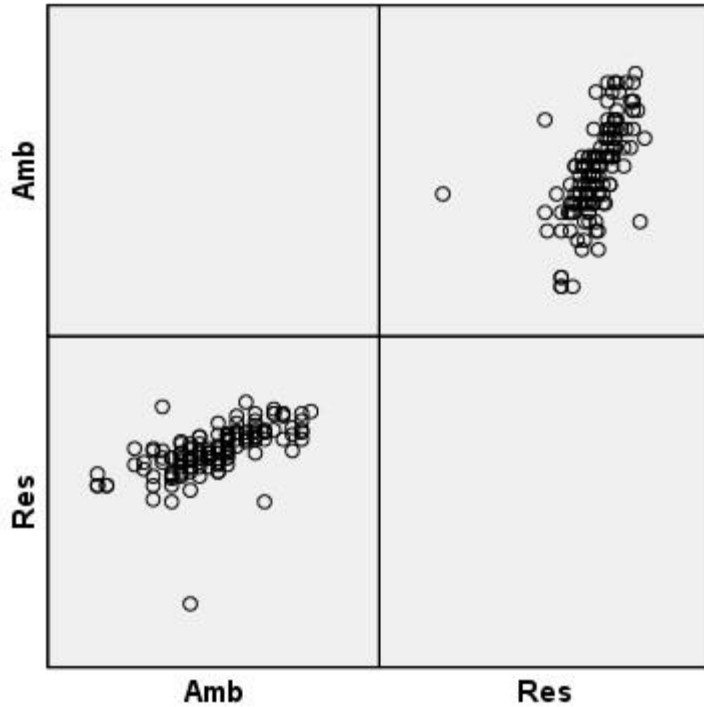
The gathered information was examined utilizing Spearman's rank connection coefficient to decide the relationship existing between the proposed variables. SPSS 19.0 was utilized to create clear measurements and to lead Spearman's rank correlation coefficient.

#### *Data*

Before data were analysed using Spearman's rank correlation coefficient, the assumptions for Spearman's rank-order correlation should be tested. First assumption is that two variables should be measured on an ordinal, interval or ratio scale. Examples of ordinal variables include Likert scales. Since data in this research were measured using a six-point Likert scale, data passed the first assumption.

Second assumption is that there should be a monotonic relationship between the two variables. A scatterplot using SPSS Statistics was created in order to check whether a monotonic relationship exists between your two variables: organizational ambidexterity and resilience (see Figure 1).

#### **Figure 1. Scatter plot of the relationship between ambidexterity and resilience**



The scatter plot confirms that there is a perfectly increasing monotonic relationship between variables. Thus, the data passed the second assumption.

**Table 1. Spearman’s rank order correlation coefficient: a test of association between the variables**

Correlations			Amb	Res
Spearman's rho	Amb	Correlation Coefficient	1,000	,735**
		Sig. (2-tailed)	.	,000
		N	150	150
	Res	Correlation Coefficient	,735**	1,000
		Sig. (2-tailed)	,000	.
		N	150	150

\*\* . Correlation is significant at the 0.01 level (2-tailed).

The *Spearman's rank order correlation coefficient table above (see Table 1)* measures the strengths of association between variables as follows. The significant Spearman correlation coefficient value of 0.735 confirms what was apparent from the graph; there appears to be a positive correlation between explorative and exploitative activities of the firms and their resilience stance. Thus, the more the organization is ambidextrous the more it is resilient.

This is in consistency with the earlier research on ambidexterity-resilience linkage in transition economies (Zhaxylyk, 2020). The correlation coefficient of current study, conducted in times of COVID-19, which led to the unprecedented level of uncertainty, revealed higher correlation coefficient than previous study (0,735 to 0,537). This finding supports the previous empirical research that suggests that organizational ambidextrous strategy is more effective in



dynamic markets where conditions are rapidly changing ( O'Reilly and Tushman, 2013, Yu et al, 2018, Mammassis et al, 2019, Kafetzopoulos, 2020)

### **Conclusion**

COVID-19 is a humanitarian and social crisis of unprecedented spread and scale. It carries with it both momentary and long-term consequences for the professional and social life of a person. Due to the perceived pressure from the COVID-19 pandemic, business processes in most industries are severely disrupted. Organizational resilience, business stabilization and transition from issues of survival to issues of continuing business in new realities, is a central challenge facing the modern firm. Earlier research proposed ambidextrous strategy as a means of overcoming this challenge. Accordingly, it was assumed that putting organizational ambidexterity in action in a present turbulent business environment, can contribute to the transformation of organizations in order to respond in due course to market uncertainties and to stay competitive, thus assisting companies to build resiliency.

This study revealed moderate, positive monotonic correlation between ambidexterity and resilience ( $r = .735$ ,  $n = 150$ ,  $p < .001$ ). Thus, organizations operating under uncertainty, in order to be resilient, should succeed and find the balance between both explorative and exploitative activities.

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## Effectiveness of Leadership

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### Abstract

**Purpose**– The longitudinal study seeks to examine the relationship between leaders’ emotional labor, leaders’ job satisfaction and leaders’ emotional exhaustion by concentrating on moderating role of psychological capital.

#### **Design/methodology/approach-**

Study is longitudinal, descriptive and conceptual in nature.

**Findings**– Findings demonstrated leaders’ deep acting and displaying natural emotions are positively associated with job satisfaction and negatively associated with leaders’ emotional exhaustion. Moreover, surface acting has positive and significant relationship with leaders’ emotional exhaustion and negative relationship with leaders’ job satisfaction. Meanwhile, psychological capital significantly moderates on the relationship of leaders’ emotional labor strategies, leaders’ job satisfaction and leaders’ emotional exhaustion. But association became stronger at time 2 which reflects positive change in behavior of respondents.

**Research limitations/implications**– This study ignored the demographic factor that may influence leaders while managing their emotions. It gives insight understating to organization that how they can manage leaders emotions at workplace.

**Value**– This study is first attempt to examine the moderating role of psychological capital in emotional labor context. Moreover, it also integrated leaders’ emotions with leadership effectiveness that was almost ignored in previous studies.

**Keywords-** Emotional labor, surface acting, deep acting, display of genuine emotions, job satisfaction, emotional exhaustion, psychological capital.

**Paper Type-** Conceptual Paper

### Introduction

Leaders’ emotions play crucial role in the followers’ effectiveness. Leaders’ behavior is contiguous; leaders’ enthusiasm is reflected in followers. The influential process requires regulating the emotions which is not an easy job. Therefore, leaders actively regulate emotions to influence followers during leader follower interaction to accomplish desired goals.

Numerous research (Ashforth & Humphrey, 1993; Hochschild, 1979; Diefendorff & Gregarus, 2009) provide an evidence that emotional labor entail psychological process needed to manage the sentiment in accordance with organizational display rule and serve as guidelines for rational attitude at work. Studies proposed three particular forms of emotional labor strategies, namely surface acting, deep acting, and display of genuine emotions (Humphrey et al., 2008; Gardner et al., 2009). Emotional labor requires to regulate the feelings occur as result of deep acting and surface acting, that is modifying emotion or suppress thought (Bond & Flaxman, 2006).

The expression of genuine emotion is distinct from other two forms of EL (Wang et al., in press). In addition (Judge et al., 2009) proposed that deep actors feel happy, authentic and enjoy satisfied work experience so, deep actors have positive relation with job satisfaction. Where, job satisfaction refers to that how strongly a person like or dislike his or her job. Common in first two forms of emotional labor that both require more psychological effort. However, leaders might select variety of emotions in different situations to act accordingly and thus switch to either negative or positive emotions (Humphrey et al., 2008).

Researchers analyzed the leaders' effectiveness with respect of role of emotional labor provide empirical evidence for further exploration. Wang (2011) analyzed the leaders' emotional labor in relation to attitude and performance of followers and effectiveness of leaders as well. In the dissertation, valence of leaders' expressed emotion was taken as moderator, but psychological capital may also moderate the association among under study variables. Another study Torland (2013) author suggested that the inclusion of display of genuine emotion as emotional labor strategy for future research to get more useful results. Thus, the current study fills the addressed gap in leadership literature with respect to emotional labor.

## **Literature Review**

### **Emotional Labor**

Morries (1996) defined emotional labor as to express organizationally desired emotion by making planned and controlled effort during interpersonal transaction. Research proposed three emotional labor strategies. First surface acting refers to an attempt to displaying professionally desired emotion without the change in inner emotion and sometimes defined as "faking in bad faith" (Grandey, 2003). Second, deep acting termed as "faking in good faith" deep acting requires modification of inner emotion to actually induce the feeling that they wish to display (Ashforth & Humphrey, 1993; Grandey 2003). Third display of genuine emotion refers to expressing naturally felt emotion that abides by the organizational expectation and goal (Humphrey et al, 2008).

### **Emotional Exhaustion**

The perceived concept is defined as an individual sentiment of being overwhelm and exhausted to express the negative job attitude and work-related behavior (Maslach & Jackson, 1981). Characteristics of both person and situation encompass in antecedent of emotional exhaustion (Halbesleben, 2006).

### **Job Satisfaction**

The concepts of job satisfaction develop with the area of organizational behavior and remain an extensive researched topic (Ghazzawi, 2008). Spector (1985) defines job satisfaction as an attitude that determine how strongly people like or dislike their job.

### **Psychological Capital**

Psychological capital refers to an individuals' constructive cognitive level in progression that lead toward positive organization behavior (Avey et al., 2011). Perceived construct is characterized by four personal qualities: hope, self-efficacy, optimism, and resilience.

### **Emotional Labor and Emotional Exhaustion**

Wang (2011) argued that surface actor leaders negatively correlated with emotional exhaustion. Moreover, they explored that neither deep acting nor natural emotions had a significant association with leaders' job satisfaction. The study ignored the psychological capital as moderator.

Customer service literature Wang et al. (in press) and some other studies explored positive relationship between surface acting and leader's emotional exhaustion while deep acting interposed negatively (Rathi et al., 2013; Hur et al., 2015). In addition, researcher disregarded display of genuine emotion as the dimension of emotional labor strategies.

### Emotional Labor and Job Satisfaction

The line of research purported both positive and negative relations between emotional labor strategies and job satisfaction. According to Adelman (1995) explored the positive relationship while the result of some other studies indicated negative association between emotional labor and job satisfaction (Morris & Feldman, 1997; Abraham, 1998).

According to Wang (2011) leaders' surface acting insignificantly related to job satisfaction. Specifically, they described that not any of three strategies of emotional labor significantly associated with leaders' job satisfaction. The researcher ignored cognitive resource that may show valuable findings of moderating effect on emotional related outcomes.

### Role of Psychological Capital

According to Cheung et al., (2011) psychological capital moderated the relationship among emotional labor and burnout as well as job satisfaction. The results are generally in the line of previous studies representing the different dimension of psychological capital conducted in both cultural settings Chinese employees (Siu et al., 2009) further on western employees (Luthans et al., 2007). Researchers used convenient sampling of school teachers. However, it's important to consider the nature of resources while testing the moderating effect.

### Theoretical Model:

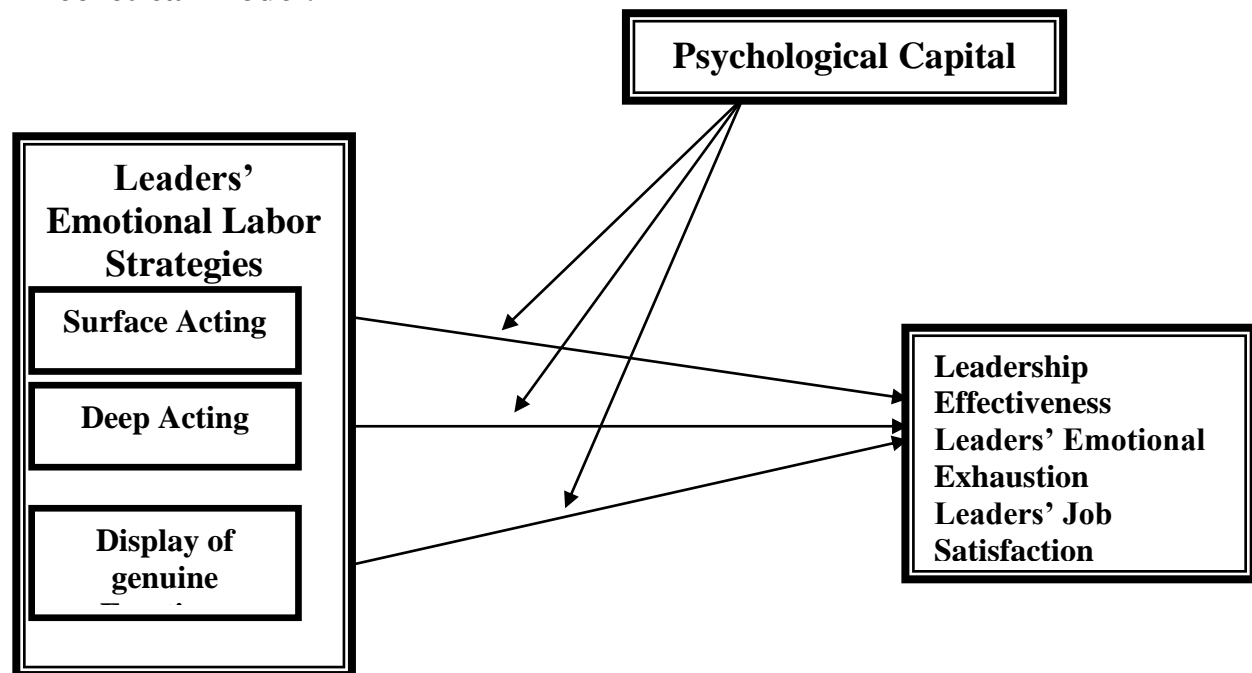


Figure 1: Theoretical Framework

## **Discussion**

The longitudinal study seeks to analyze the leaders' emotional labor strategies that leader use during the interactional process with the follower's impact on the leaders' job satisfaction and leaders' emotional exhaustion, while psychological capital play moderating role. The study result at time 1 and time 2 supports the hypothesis and objectives were developed. Findings at time 1 reported deep acting as well as displaying natural emotion has significant and positive correlation with job satisfaction while relatively strengthen relation found at times. Thus, these results provide a sense that the leaders enjoy positive work outcomes and feeling of personal accomplishment with the expression of naturally felt emotions.

The present findings were like the previous study (Sheldon, Ryan, Rawsthorne & Hardi, 1997; Brotheridge & Lee, 2002). Moreover, psychological capital facilitates hypothesized relationships and these results were in the line of earlier studies (Cheung et al., 2011). In addition, study enlightened surface acting leaders were associated with exhaustion and respondents reported this relationship stronger at time 2 as compare to time 1.

Thus, the current longitudinal exploration at time 2 reaffirm that surface acting holds negative attitude toward job satisfaction and lack of desired organizational outcomes induce the feeling of over used and exhausted. The present result was consistent with recent study finding (Hur et al., 2015).

The current longitudinal study has potentially made valuable contribution in the literature. The findings demonstrate understanding for top management which emotional labor strategies positively influence the desired organizational goals. Deep acting and display of genuine emotions provoke satisfied work environment.

Additionally, satisfied leaders' can more utilize their cognitive resource to motivate subordinates. The research yields implication for organization to facilitate leaders on activities to reduce frequent use of surface acting and can train & engage on brain games to kill stress.

## **Conclusion**

To sum up, the essential finding of the current longitudinal study yield enhanced psychological capital supports the association between leaders' emotional labor and job satisfaction. Additionally, expression of emotional state with surface acting induce the feeling of suppress and exhausted which leads individual behavior to negative feeling about job related outcomes.

The influential process requires regulating the emotions which is not an easy job. Therefore, leaders actively regulate emotions to influence followers during leader follower interaction to accomplish desired goals

It is imperative that the emotions should be regulated to improve influenceable process by the leaders. Moreover, leaders are required to actively regulate their emotions to successfully influence the employees or followers to attain there set objectives.

## **Limitations and Future Research**

It's implausible that present study is without limitation. The line of research might be design as cross-sectional study in future. Researchers can extend the dimension and other factors like

psychological flexibility to enhance the understanding of role of psychological capital as moderator in present model. In future, researchers can investigate the present relationship by considering leadership style as mediator.

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# THE APPLICATION OF MEASUREMENT MODELS FOR INNOVATION MANAGEMENT STUDIES IN KAZAKHSTAN

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## *Abstract*

There are various measurement scales available to study the innovation effort at the firm level. Some of those scales measures are based on subjective perceptions of employees involved in innovation activities, and the others are more objective measures that are based on factual numerical data, for instance, the R&D expenditure or the number of R&D staff. However, all of those scales have certain advantages and limitations.

The research on firm innovative performance proceeds with various measurement models that study firm's innovative performance as either antecedent of some outcome, for instance, company's economic performance (Salomo et al., 2008) or different aspects or characteristics of organization as determinants of firm innovativeness (Persaud, 2005).

In case of their application within the context of economy in transition, the research professionals shall consider various factors when choosing measurement models for innovation management studies. Those factors consist of availability of data, specific nature of technical change, internal capabilities of firms, and the level of innovation management competence among administrative and technical employees, etc. The contribution of this study is that it serves as a starting point to evaluate the measurement models application for innovation management studies taking into account the economy in transition context factors.

**Keywords:** *Innovation management, innovation activities measurement scales, innovation management research, economy in transition study*

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## Determinants of firms' innovations in Kazakhstan

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### *Abstract*

Although the factors making impact on innovation development in the economies in transition have been delineated in the literature, however, few studies explore determinants of the innovative performance at the firm level. For this reason, this study aims to investigate the determinants of the firms' innovative performance in Kazakhstan. This study is based on the quantitative data retrieved from the 2019 World Bank Enterprise Survey (ES). The ANOVA test has been employed to identify the impact of firm characteristics such as firm size, age, form of ownership (state or private, local or foreign), and gender of owner on innovative performance.

The research on determinants of innovative performance of firms has been popular within the past two decades in the field of management. Existing literature on the relations between firm's size, age, form of ownership (state or private, foreign or local) and gender of the owner, and the firm's innovative performance does not provide clear positive evidence. Although some studies on the determinants of innovative performance show significant positive correlations between size and innovative performance (Camison-Zornoza et al., 2004; Damanpour, 1992), several studies show either no relationships between the size and innovation output (Laforet and Tann, 2006; Baregheh et al., 2016) or negative relationships between the size and the innovative performance (Salavou et al., 2004; Shefer and Frenkel, 2005). These variations of the research results are explained by the different measures of innovative performance and firm's size employed by the research as well as impact of other factors such as industry, location and other organization's context and characteristics. The accumulated firm's experience over the time makes a positive impact on firm's ability to innovate (Winters and Stam, 2007). However, there is also the evidence that firm age negatively affects the innovation quality (Balasubramanian and Lee, 2008).

The existing literature suggests that firm's decision to innovate is highly dependent on ownership structure (Lee and O'Neill, 2003; Lee, 2005) due to the risky, uncertain and long-term investments involved with the decision to innovate. Relatively recent evidence of positive relations between growth of private firms and high-intensity R&D performers could be found in the innovation-related study in China (Jefferson et al., 2003). Although state unlike private firms have more resources to acquire R&D resources, subsequent utilization of those resources are less efficient than in private firms (Zhou et al., 2017). At the same time the government support especially important in the emerging economies for building firms' innovative capability (Wang et al., 2017). Foreign ownership have positive relations with innovation (Choi et al., 2012) due to the resources, technologies and other firm-specific assets and capabilities that MNEs possess (Dachs et al., 2008). In addition, 'the most important mechanism of technology transfer for developing capabilities in locally-owned firms was the knowledge acquired by local personnel

when they worked for foreign subsidiaries (Iammarino et al., 2008). It means that innovative capabilities building depends on foreign expertise that is transferred to the economy through MNEs and other forms of global firms' presence in the local economy.

The concept of gender is relatively new in innovation literature and therefore understudied (Brannback et al., 2012). The gender diversity impact on innovation capability of firms have been embraced by several studies indicated that innovations among female employees are rare due to the unfair organizational culture and practices (Cropley and Cropley, 2017). However, the study of Nählinder et al. (2015) reveal that previous studies on gender and innovations were not differentiating for traditionally male dominated industries, therefore contain bias towards female innovation activities. This study contributes by identifying that there is no relation between gender and innovative output.

Several studies have stated that compare to female-owned firms, more innovative activities are associate with male-owned companies (Marvel et al., 2015; Alves et al., 2017) also due to the fact that women are more averse to risk and competition than men (Croson and Gneezy, 2009).

The study reveals that there is statistically significant relations between firm's size, age, foreign origin and innovative performance.

**Keywords:** *innovation performance, innovation management, determinants of innovative output*

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<sup>1</sup> Liwen Wang, Jason Lu Jin, and David Banister, ‘Resources, State Ownership and Innovation Capability: Evidence from Chinese Automakers’, *Creativity and Innovation Management*, 28.2 (2019), 203–17 <<https://doi.org/10.1111/caim.12305>>.

# **The urban branding: key characteristics of Almaty urban branding strategy**

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## **Abstract**

Nowadays the process of place branding became a very significant aspect in the development of a nation. Particularly, the place branding reflects the economic growth of a certain country. In other words the scale of how attractive is the place for investors and visitors indicates the amount of foreign direct investments (hereafter FDI) being attracted to this particular area. This shows the economic success of a certain government. The contemporary era of digitalization pushes society adapt to new technologies and social media platforms. The process of applying new technologies as well as the digital economy into territorial as well as urban branding allows the national and urban image to be unique and reach the target market easily. So, it is crucial to find the niche and then concentrate on finding the appropriate target market then develop a most appropriate marketing strategy and action plan, which would reflect the identity of this particular area.

The territorial or, particularly, urban branding is a relatively new phenomenon for post-Soviet republics. In regards to Kazakhstan's case, it can be suggested that the urban branding is a new opportunity that can attract visitors and investors. The Republic of Kazakhstan is a young and modern country that has a lot of fascinating and unique places that can be presented to the potential target market. Thus, the main aim of this study is to highlight key characteristics of the strategy for urban development of Almaty city. This paper is focused on the main steps and aspects of urban branding that would be beneficial to concentrate for Almaty's branding strategy at this stage. Due to the nature of the study, that there is not much research being conducted in this field in this particular region (i.e., Kazakhstan, specifically Almaty), therefore, in regards to the methodology, this paper applies qualitative research method. The study includes the analysis of the secondary data concerning the background of the region, the current position and, consequently, what steps can be applied for the action plan.

The key findings and conclusions of this study are that at this stage the urban branding of Almaty need to focus on four main steps. These steps are: brand culture & value, brand identity & patterns, brand management, brand positioning. The main reason behind the fact that these four steps are important to be emphasised upon is that there has been applying a certain branding strategy for Almaty up to this moment, however, arguably, it did not allow the city to increase awareness and, consequently, limited the FDI flow into the area. The author of this paper would argue that the branding strategy of Almaty need to reflect its identity and character that can be done through following the above mentioned steps.

The practical implication of this study is that it can be adopted for a region similar to Almaty to support tourism sector and build an action plan for urban strategy development.

Key words: Territorial Branding, Investments, FDI, Digitalization, Tourism, Strategic Marketing, Digital Technologies.

## **1. Introduction**

### **The phenomenon of "Nation brand"**

The term “nation brand” was introduced to the wide use for public by Simon Anholt in 1990s [1]. The main idea behind the use of the term “nation brand” is to assess and measure the awareness and reputation of a certain place based upon the selected characteristics. Today the process of nation branding became more advanced and complex due to the fact that besides the offline communication channels today the successful territorial or urban branding need to incorporate the digital technologies as well. Simon Anholt continued his research in the field of nation branding, and thus, became the founder of an integrated concept and approach to the nation branding. In other words he developed a concept of competitive identity presented as a hexagon. The hexagon is based upon six main elements of a modern territorial branding: governance, investments & immigration, culture & heritage, people, exports and tourism (please refer to figure 1 below).

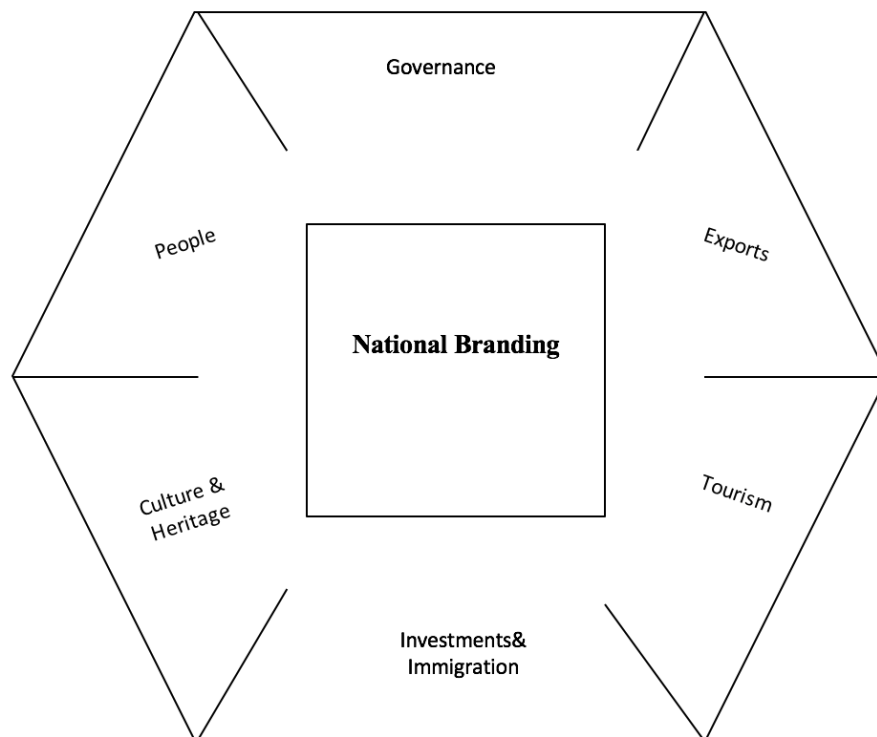


Figure 1 Simon Anholt Brand Hexagon compiled for this study [2].

Today the idea of nation branding became a common practice of all nations. Particularly, now territories the same as brands have their competitors represented by other nations and cities. In order to be successful the territories need to have an advantage over their competitors to attract customers. In the case of the territorial or urban branding the customers are the investors and travelers. Nowadays the territorial branding can be regarded as one of the main steps to develop the state and allow the nations and cities to have a competitive advantage and be attractive for FDI flow into the region. In particular, in order to have the competitive advantage the territory need to be attractive for their target market. Therefore, in order to fulfill this aim countries reflect their identity represented on a visual and verbal format to create the emotional experience and

connection with the customers. This indicates that the visual representation of the brand in a form of logo; the verbal representation of the certain brand in a form of message. The construction of the logo and messaging would be based upon the reflection of national and urban identity, which would then evoke emotional memories in the selected target market. This would positively affect the awareness of the territorial brand. More to the point the successful logo presentation would also influence the brand recall of a certain place and how familiar is the public with this place. Moreover, besides the verbal and visual identification of urban (or national) brand it need to have its aim, character, identity and the communication channels that would allow to promote this brand. This indicates that each urban (or national) brand need to have a so-called document- the brand book. The brand book includes the main aim of the brand, visual and verbal representation, communication channels and target audience. In addition, the availability of the historical and heritage places in this particular urban (or national) brand would be beneficial to increase awareness. Thus, it would positively affect the value of the brand book as well as the brand itself. To exemplify, London is known for the Big Ben, Paris is known for the Eiffel Tower, New York is famous for the Statue of Liberty. The development of strategically planned brand book would allow the certain place to have a competitive identity over the other cities or nations. In other words today urban or national branding as well as branding of a product allow it to have a competitive identity and advantage over other brands in the market to be successful among the target audience. Simon Anholt, in his book (2007) *Competitive Identity: The New Brand Management for Nations, Cities and Regions* highlighted the urgent need for creation of competitive identity for the nations and regions that would be beneficial for the image of the certain place.

Today we live in a globalized world where cities are growing, consequently, the movement of young generation into the big cities are also increasing. These all lead to the fact that cities need to be even more attractive not only for investments from both businesses and travelers but for new talents as well. This is a stimulus for cities such as Almaty to be more adapted into the changes and be more welcoming, accessible and attractive for business, visitors and new talents. Strategic urban branding of incorporating new technologies is a valuable niche for growing the young professionals, talented students and scientists, who are passionate about territorial branding or people who are involved in these processes. So, the development of a urban branding strategy would allow to create employment for young professionals. This could be regarded as a support step that is very significant need today when the whole World is facing the challenging times during a pandemic lead crisis.

### **Background of Almaty**

It is essential to reflect the background of a certain place in the urban (or national) branding strategy in order to illustrate the character of this particular place. Almaty was the first capital of independent Kazakhstan until 1997, this is when Astana (now Nur-Sultan) become the capital. The first name of Almaty was Vernyi until 1921. Today, Almaty is still one of the largest cities in Kazakhstan and it is the cultural and finance centre of the Republic of Kazakhstan. Almaty is very famous to its sightseeing, entertainment, leisure and attractions. Places such as Koktobe, Shymbulak, Medeu, Charyn Canyon, Big Almaty Lake are among the very attractive places to visit. Besides the attractions Almaty has a very nice and comfortable climate that allows citizens



and visitors to enjoy it. More to the point Almaty has a unique location that allows visitors to travel to mountains from the city within twenty to thirty minutes.

In regards to the urban image, the government representatives created a possibility for the citizens to be part in creating a logo for their city. There was a competition in 2016 among people who live in Almaty to create the brand logo for Almaty. The main idea behind this was to increase the awareness and to reflect the spirit, and character of the city from a perspective of its citizens. The figure 2 below represented the image of the brand logo that was created in the competition.



Figure 2. New Almaty's logo as of 2016 [3].

The current financial position of Almaty depicts that the investments flow into the region was increasing even during quarantine in 2020. Particularly, the data shows the rise of investments into Almaty's economy by 10% [4]. Furthermore, Almaty is an investment attractive place due to the fact that during lockdown the "volume of investments in fixed assets of Almaty for the nine months of 2020 amounted to 608.2 billion tenge against 534.6 billion tenge for the same period of 2019" [5].

From the above discussion, it is suggested that Almaty's urban branding need to be more focused on its character, identity and personal spirit. In other words the urban branding strategy need to be more personal and reflect the character of the city through elaborating following steps illustrated in the conceptual framework below: brand positioning, brand management, brand culture & values, brand identity & values. This paper will be based upon the discussion of four steps presented in the conceptual framework in figure 3 below. The study will broadly consider the conclusions made by the discussion on how these steps could be incorporated into the urban branding strategy of Almaty.

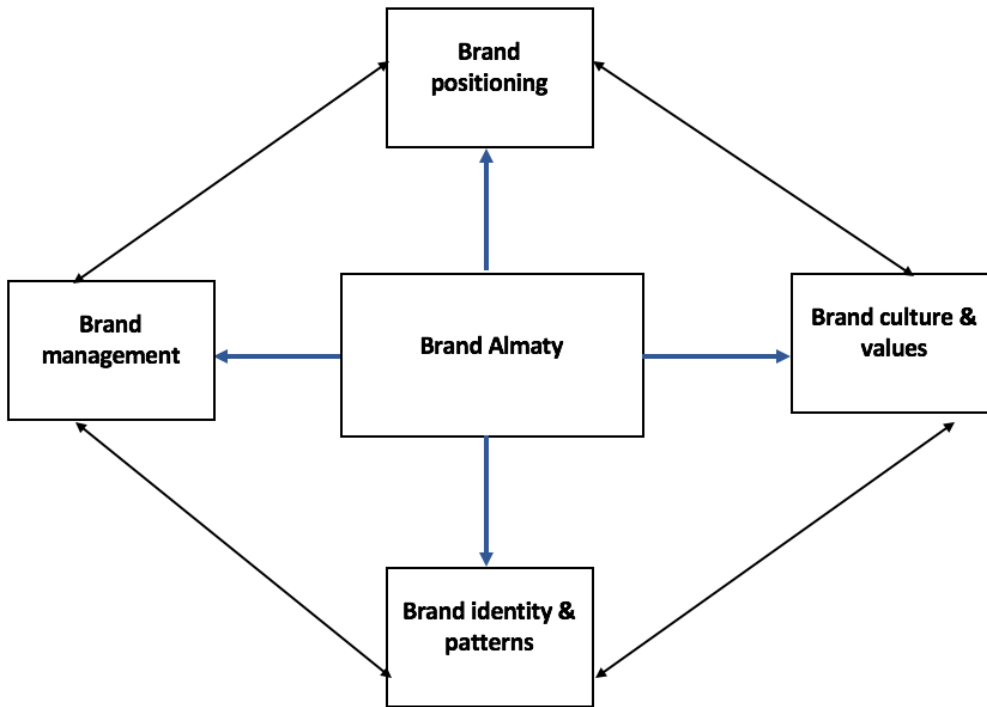


Figure 3 Proposed conceptual framework for this study.  
 Note- developed for this article by the author of this study.

## 2. Methodology

This is a conceptual paper and the writing is mainly based upon the qualitative research that includes in-depth literature reviews of secondary research publications (books, conference papers and peer reviewed journals). Considering the nature and scope of the research, as not many research publications were available in the literature in terms of the place branding of Almaty. Thus, the study is largely based upon the reports, ongoing news, electronic resources, databases, articles and reports were consulted in order to get reliable data.

## 3. Theoretical overview and Results

### 3.1 Brand culture & values

One of the main points in urban (or territorial) branding is the cultural aspect. To exemplify, Simon Anholt (2000) in his “Brand Hexagon” (figure 1 above, page 2) selected the “culture & heritage” as one of the important elements in territorial or city branding [2].

The main value of Kazakhstan (and possible gap) the idea is that it is not widely known, in particular, it is not well explored country for visitors and investors. This would be a perfect foundation for Kazakhstan, specifically, Almaty to present its fascinating natural beauty, welcoming steppes and favorable environment for businesses to the visitors. This is due to the fact that people get bored by attending the same places many times. The major role that increase the desire of visitors to attend a certain place besides its natural beauty and attractions, is that this certain place is stable and safe. This is, definitely, the case of Kazakhstan and Almaty, which is politically and economically stable and safe for visitors. Almaty has a foundation to be a tourist destination as it has various entertainments and attractions for visitors, to name a few, for example, Shymbulak, Medeu, Charyn Canyon etc. More to the point it is modern city, so travelers would, definitely, find an appropriate food choice for them. Also, there is an extensive sightseeing as well as the shopping alternatives for the ones who is not interested in natural beauties or cultural sightseeing. Keeping the above mentioned points in mind, the author would propose that Almaty may be positioned as the cultural brand of Kazakhstan. The main aim in creating the cultural brand is to depict the individuality as a centered feature, which is the advantage of Almaty. This suggests that Almaty has its own spirit, individuality presented in its citizens, nature and contemporary image of the city. Specifically, one of the main cultural attributes are people who live there. In other words the emphasis would be on the attribute of how welcoming the people are. This would attract more visitors and position the city as the cultural destination.

It can be argued that the cultural brand is also the authentic experience for visitors, this is a very important elements in tourism and urban branding. In other words, cultural and authentic experience that visitors get when attending a certain place has a strong emotional value for the travelers. More to the point this emotional value increase the desire to comeback to this certain place many times. Moreover, the emotional connections between the travelers and the place create a long-term relationship, which could affect visitors desire to spread the information regarding this place to others. This increases the awareness and creates a strong connection between the visitors and the place. Thus, in the destination (or urban) branding the positive emotional associations play a crucial role. This is an exact point which is essential to reach. The cultural aspect and creation of positive emotions and connections with the place are the features that make visitors want to return to this certain place in order to evoke these positive emotions again. More to the point this positive emotions create a memories, this affect the personal experience for visitors and investors. This shows the reason or the stimulation of the rise of the investments flow into this particular region. So, it can be suggested that the relationship between the city and its visitors is key and needs to be continuously monitored and maintained.

Based on the concept of the tourism development that was approved by the Government of the Republic of Kazakhstan as of June 2017 the Almaty is planned to be developed as one the clusters, that would be based on the cultural aspect. In other words the concept includes "Almaty [as] the free cultural zone of Kazakhstan", in which the following key places for tourists interest have been determined [6]:

- “ 1) *Archaeological petroglyphs of Tamgaly (UNESCO site);*
- 2) *Altyn-Emel State National Natural Park, included in the preliminary list of UNESCO;*
- 3) *Charyn Canyon in the territory of Charyn State National Natural Park;*
- 4) *Lake Balkhash (south-eastern part);*
- 5) *Alakol Lake (southern part);*

- 6) *Kapchagay reservoir;*
- 7) *International tourist center "Akbulak";*
- 8) *Ski areas near the city of Almaty with the Ile-Alatau State National Natural Park included in the preliminary list of UNESCO;*
- 9) *"Zhongar-Alatau" state national natural park;*
- 10) *State National Natural Park "Kulsay Kulderi";*
- 11) *Balneological resort area "Kara Dala";*
- 12) *Tengri Khan peak - the highest peak of Kazakhstan” [6].*

Furthermore, the concept includes the future possibility for expansion of this cluster. It can be suggested that the regional development of Kazakhstan and possibility of other regional cities that can be incorporated into this strategy.

### 3.2 Brand Identity & Patterns

The identity of the brand is key for the development of the urban branding strategy. It allows to reflect the personality of this certain place that would be the basis of the emotional connection between the brand and the visitors. Based on David Aaker Brand Identity Model (1996) below, deep analysis of the urban brand: its identity and the main differences from other urban brands based on 4 “dimensions” [7]:

1. **Brand as a product.** One of the main elements of the identity of the certain brand is product-related attributes. As was mentioned before the urban brand the same as a product brand need to have its characteristics, identity and attributes. Particularly, these attributes need to reflect the needs of visitors (or customers). In other words this attributes that reflect the needs of visitors or investors create a direct associations with emotional benefits and possible functionality of this particular brand. This would increase the awareness, consequently, it would positively affect the brand recall and recognition.
2. **Brand as a person.** Brand the same as every single person has its own personality, character that attract visitors and construct memories and personal experience. There are three reasons according to David Aaker why brand being as a person would benefit the development of this brand: 1) this would allow the customers (or visitors, investors) to connect with the brand and construct the association between the brand and themselves by expressing their personality. In other words the characteristics or personality of the certain urban brand may evoke a positive emotions or some kind of connections between the brand and visitors; 2) this would allow to create a so-called interpersonal relationship between the brand and visitors [7].
3. **Brand as an organization.** Each organization is aiming for the development and modernization in order to be successful in the market. The same works for cities and states, thus, the attributes that affect the innovation, which is centered around the quality, culture and values of this place would positively affect the development of the certain place. This is due to the fact that these characteristics and attributes are complicated to communicate and to replicate by others.
4. **Brand as a symbol.** The possibility to position the brand as a strong symbol can create a high recognition and recall of the brand. Based on David Aaker there are three types of symbols: visual imagery, metaphor, and brand tradition [8].

The visual and verbal representation of the urban brand can be regarded as a very important elements as well. This is due to the fact that it allows the brand to be positioned and be attractive for visitors, and investors. The visual aspect represented by the logo, verbal aspect represented by the messaging would need to be clear, simple and catchy for potential visitors and investors. All of the discussed and proposed aspects and attributes would need to be reflected in the visual and verbal representation of the brand. The visual and verbal representation of the brand are also significant element in evoking positive emotions and creating personal experience between the brand and the visitors, and investors. Thus, the main messaging needs to focus on the region's personality and identity. The properly developed messaging would strengthening constructed connection between the urban brand and potential target audience. The most common perception of Almaty that it is an apple city located in the south of Kazakhstan. Building on this, the main aim would be to promote the idea that Almaty is a contemporary megapolis that has its uniqueness of natural beauty and favorable environment for businesses to be presented to both general visitors and potential investors.

In regards to the main idea of the communication message and visual aspects, it needs to concentrate around creating the brand recall. For example, when someone talks about mountains in Kazakhstan or anywhere in the World the first brand recall needs to be Shymbulak, which is located in Almaty. This would be ultimate aim and the highest brand recall. The cultural associations need to be a part of the communication messaging as well. Thus, the cultural associations would need to be based on the natural uniqueness of Almaty (discussed above). The deep and meaningful cultural spirit and unique atmosphere in Almaty presented in such places, to name a few:

Kazakh State Academic Opera and Ballet Theater named after Abai;

Archaeological Museum of the Academy of Sciences of the Republic of Kazakhstan;

State Museum of Arts of the Republic of Kazakhstan named after A. Kasteev;

Kazakh State Philharmonic named after Zhambyl.

### **3.3 Brand management**

Brand management is essential for monitoring the existing strategy in order to ensure that it fulfills the aim of a certain brand. More to the point it includes the possibility of developing and extending it further. In the case of Almaty's branding action plan, the extension could be the extensive branding strategy for both the nation branding of Kazakhstan and the urban branding of Almaty. Potentially the regional development of Kazakhstan, which would be incorporated into one valuable strategy for the nation.

The communication strategy of the urban branding that includes marketing is a complex set of actions in order to reach SMART objectives (specific, measurable, achievable, realistic and time-bound) and focus in fulfilling the aims of the social- economic development of certain place. The communication plan is developed in order to spread the awareness of the particular city Worldwide, which would then increase its competitiveness of the certain region in a variety of arenas. This can be regarded as an effective tool to overcome various social-economic challenges such as the infrastructural issues and increasing the FDI flow into this particular region.

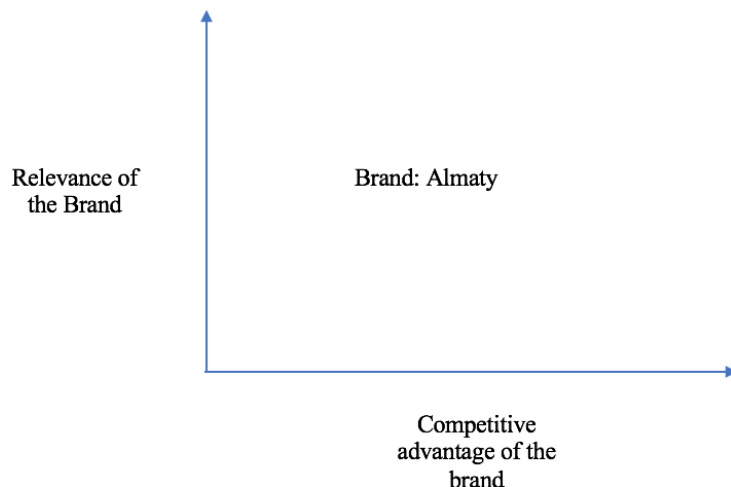
Thus, it can be suggested the main elements on the communication plan would include:

- **Key Messages of the urban brand.** The creation of key messages, which evokes the positive emotions and memories is the foundation of successful urban branding strategy. The main message tells the story of this city to the existing and potential visitors. The mixture of the both online and offline channels is key in order to promote the story of the urban brand.
- **Competitive advantage of the urban brand.** The key characteristics, identity and uniqueness of the urban brand needs to be focused and clearly displayed in the story of this brand. The projection of all characteristics of the brand as the advantages makes this brand more valuable and memorable for the target group. The extensive analysis of the brand and the competitors is vital for understanding the market and competition in the market, this would allow to build a strong strategy for an effective positioning of this urban brand.

### 3.4 Brand positioning

Almaty is a unique place in terms of the location, natural beauties and availability of leisure activities. The place can be very attractive to the potential target market. So, at this stage it aimed to develop a strategic plan to position Almaty as the brand in the Republic and, eventually, at the World arena. The formation of the city plan of Almaty can be divided into three distinct stages:

#### Stage 1. Understanding the territory.



After analyzing the background of the region, the brand culture & values, brand identity & patterns and brand management, it would be beneficial for this study to concentrate on the positioning of Almaty. In order to successfully position the city following aspects need to be considered: category of the brand, definition of the target audience, statement of key point of difference.

**Category of the brand:** Urban branding.

**Definition of target audience:** the "influential elites", business-decision makers, tourists and occasional visitors.

**Statement of the key point of difference:** availability of natural beauties as well as the perfect investment climate.

**Stage 2. Creating the urban brand image.** The desired urban image would be based on two components. The first component is that the opinion of target group on the formation of ideal territory from their personal perspective. In particular, key characteristics and other aspects important for the selected target group in terms of the urban branding. The second component is focused on the image of the territory that need to reflect the strategic aims of the socio-economic development of this territory.

In regards to the formation of the ideal brand for the potential target group, the key characteristics of Almaty can be summarized as follows:

- 1) various dynamics of development;
- 2) wide range of possibilities;
- 3) the energy of the city;
- 4) environmental friendliness and the green technology development;
- 5) creativity and aspiration;
- 6) brightness, welcoming and unique atmosphere of hospitality [6].

**Stage 3. Development of the urban branding.** At this stage, it is necessary to decide what new knowledge about the region can be found among the residents. The successful urban branding would need to be focused and be centered around its residents. This is an advantage that Almaty's urban branding strategy need to be emphasized on. This is mainly due to the fact that residents would have the insights, knowledge and unique points of their own territory. The most appropriate way of connecting with the residents is to incorporate the digital technologies into this stage and stay connected with people via websites, social networks, getting comments and information about the region posted online by active citizens.

The brand Almaty is already has its unique touch, however, it can be further promoted through elaborating on three existing perspectives of the brand: historical brand, cultural brand, tourism brand. This is due to the fact that it is easier to create or further promote existing image than to re-shape it all over again. To exemplify, the places have their own stereotypes that need to be shown as an advantage of this particular place. A favorable and aimed urban image and reputation can very much improve the actual idea and image of the brand. This would positively influence the attractiveness of the urban brand. However the reputation is more complex meaning as it is complicated to re-shape it as it is fixed according to the actions, image and characteristics of the certain urban brand. Nowadays due to the availability of digital technologies urban image can be easily creates and adjusted through social media platforms. This is due to the fact that people tend to adopt the views and perception of opinion leaders via online

platforms. In general, it can be suggested that urban (or territorial) branding is more mental or personal image that people tend to construct and promote further. This shows some kind of mass consciousness that help to influence the emotions and actions potential target group regarding a certain brand.

#### **4. Conclusion**

Today cities and nations competing with each other for resources such as tourists and investments. Territorial (or urban) branding is a key for the successful image of a certain place. It creates a unique memories, personal experience and emotions that is significant to the brand recognition and recall. The successful territorial (or urban) branding allows to have a competitive advantage for the resource. More to the point, territorial and urban branding is about creating traditions, which makes this place unique for their visitors. The ultimate aim of this paper was to highlight key points that need to be reflected and developed in regards to Almaty urban branding. This study depicted that there are four main stages that need to be reflected in the urban branding strategy: brand positioning, brand culture & values, brand management, brand identity & patters. Following these stages would allow to urban branding strategy to be focused on the key characteristics of the city itself, which would influence the emotional aspect in visitors and investors, which would create a personal experience between the urban brand and the target group. The most powerful aspects that influence visitors and investors are the personal experience and strong connection that the certain urban brand create. Thus, the above mentioned stages due to the extensive analysis of the brand itself and the target market is aimed at evoking positive emotions, memories and personal experience.

Practical implication of this papers is that it compiles the most appropriate theoretical based steps (which are up to date) for the cities such as Almaty to create an urban branding strategy.

The main limitation that one might notice is that it is not using the primary research, which the author finds inappropriate for this paper due to the fact that it is the review. The future research may benefit by elaborating on three perspectives of urban brand development: historical brand, cultural brand, tourism brand. More to the point, the future study may also concentrate on analyzing the regional development in the context of destination branding and incorporating it into this strategy.

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# USAGE INTENTION TOWARDS THE BRAND CONTRIBUTION INDEX FOR BRAND VALUATION OF SOCIAL MEDIA

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## Abstract

Brand valuation of social media is a relatively new and complex research area. From the marketing side, brand equity is assessed for the further financial calculation of brand value. There is a scant number of researches conducted in on the area of the brand equity of social media. Still, there is no widely recognized brand equity model yet. This study enhances prior investigations with the model of strong relationships between brand equity, customer value, and usage intention of social media. This research used Instagram, one of the most popular social media in Kazakhstan, for its data collection. Factor analysis and structural equation modeling (SEM) were applied to test the hypotheses. This study proposes social media brand equity as the prerequisite demand analysis to define usage intention, which can be applied as the brand contribution index to calculate the brand value. The findings are actual and critical due to the ongoing rise of social media in quantity and scale.

*Keywords:* brand value, brand equity, social media brand equity, usage intention, customer value, brand contribution index

*JEL Classification:* M31

## Introduction

Social media augment the process of brand value building for the most offline and online companies who use social media marketing for their brands' promotion (Kohli, Suri, & Kapoor, 2015; Turgul, 2014; Koch & Dikmen, 2015). Concurrently, social media are subject to their brand valuation due to the impressive scale of 3.6 billion global users in 2020 and continuing projected growth to 4.41 billion to 2025 (Tankovska, 2021). Since the 1980s brand valuation is a useful tool for commercial companies to distinguish the brand contribution to their overall financial performance, but still it is a disputable method in terms of various proposed and used calculations (Seddon, 2015; Stewart, 2019).

The brand valuation of online companies is complicated with the high speed of development so that traditional financial methods of brand valuation are rather inappropriate (Schosser & Ströbele, 2019; Klobucnik & Sievers, 2013). Moreover, social media need a specific marketing instrument for their brand valuation due to most free services, while consumer surplus is not calculated (Corrigan, Alhabash, Rousu, & Cash, 2018). Thereby, social media features require a special approach for brand valuation based on marketing-finance associated factors, where the direct impact of brand value on the firm value is vital (Kumar, Sujit, & Abdul, 2019).

## Literature Review

From the marketing perspective, customer-based brand equity (CBBE) is a widely recognized prerequisite of brand valuation and one of the most investigated areas for scholars today and expected to be actual in the nearest future (Christodoulides & Chernatony, 2010; Baalbaki & Guzman, 2016). However, this study revealed a scant number of researches on social media brand valuation and no systemized approach.

Practically, Interbrand has been assessing social media brand values since 2012 (Interbrand, 2021). From the consumers' perspective, Interbrand uses the role of a brand index (RBI) as a result of customer demand analysis represented by the sum of the weighted brand's internal factors, which impact the generation of consumer demand and motivate prospective and current users to purchase the brand (Rocha, 2014). RBI reflects a distinct contribution of the brand name only to a consumer's purchase decision, excluding other factors such as price, distribution, product features, etc. It indicates a degree of customer demand attributable to the brand only at the point of sales shown in revenue (Janoskova & Krizanova, 2017).

RBI calculation formula is copy right protected and used for global brands. It cannot be used by any brand owner or marketer (Rendon & Morales, 2013). An alternative index of brand valuation can be proposed through scholarly investigations to be widely available for academies and businesses (Madden, Fehle, & Fournier, 2006).

According to Interbrand, demand analysis helps to indicate a consumer purchase behavior (Rocha, 2014). It addresses one of three main requirements of the standard BSI ISO 10668, behavioral analysis along with legal and financial types of analyses (Duguleana L. & Duguleana C., 2014). Customer-based brand equity (CBBE) also measures the consumer buying behavior in terms of brand choice with brand awareness and associations, brand loyalty, and perceived quality (Aaker, 1991). The positive CBBE converts brand preference to sales that increase the brand revenue and economic value, while the negative CBBE deteriorates the brand sales and earnings (Keller, 1993). Therefore, CBBE may be used as a demand analysis to define an alternative index to RBI in assessing the brand contribution within the brand valuation, e.g., through the calculation of Net Present Value (NPV) (Stewart, 2019).

Brand equity contributes to consumer purchase intention in online and social media contexts (Coursaris, Osch, & Balogh, 2016; Le, Tran L.T.T., Pham, & Tran DTD., 2018; Kim & Ko, 2012; Dehghani & Tumer, 2015; Poturak & Softic, 2019). Concerning free services of social media, there is a hypothesized effect of CBBE of social media or social media brand equity (SMBE) on usage intention that can be seeing as a possible brand contribution index in further studies of social media brand valuation.

### **H1: SMBE contributes to social media usage intention**

The marketing concept of brand value creation comprises a consequent process started from marketing activities to build brand equity, which contributes to increasing the brand value to a

consumer and value to a firm (Yoo, Donthu & Lee, 2000; Baldauf, Cravens, & Binder, 2003; Stahl, Heitmann, Lehmann, & Neslin, 2012; Amoako, 2019). This study suggests testing the contribution of brand equity to customer value in the social media context.

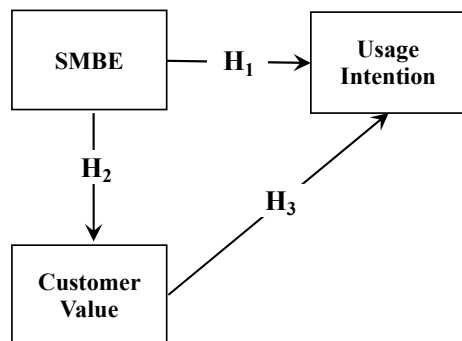
### **H2: SMBE contributes to social media customer value**

Some studies show the impact of customer value on purchase intention as the critical effect in brand equity management theory, which is actual for online and social media settings as well (e.g., Baldauf *et al.*, 2003; Joo, 2007; Kim, Gupta, & Koh, 2011). This study tests whether this effect reinforces the usage intention model. The augmented usage intention factor can be proposed as the brand contribution index for brand valuation.

### **H3: Social media customer value contributes to social media usage intention**

Therefore, this study proposes the research model presented in Figure 1.

**Figure 1.** Research model.



## **Methodology**

The methodology includes a theoretical literature review, prior observations, and the study objectives. The goal is to validate the construct testing of hypotheses about interrelationships among the measures based on theory (Harrington, 2009).

### *Sample and procedures*

This study used Instagram, as a platform for data collection, as it is one of the popular social media with 10 million users in Kazakhstan (Bederov, 2020). This survey was limited to Almaty adult citizens who use Instagram. Survio.com was used to run the survey with an online questionnaire between September 19 to October 18, 2020. In total, 550 users filled in the questionnaire. Females represent 59.6% of the sample. The biggest age group is 18-24 years old that is 42.5%. 25-34 years old is the second biggest age group that is 33.5%. The age group older than 35 years represents 24%. Graduates are 74%.

### *Measures*

Items were adapted from brand equity researches to measure factors in social media settings: SMBE (Schivinski, Lukasik, & Dabrowski, 2015), usage intention (Parra-Lopez, Bulchand-Gidumal, Gutierrez-Tano, & Diaz-Armas, 2011), and customer value (Itani, Kassar, & Loureiro, 2019; Stojanovic, Andreu, & Curras-Perez, 2018). A six-level Likert scale used with scores from 1 (one) to 6 (six) such as “strongly disagree 1, disagree 2, partly disagree 3, partly agree 4, agree 5, and strongly agree 6” is adopted for this research. Some authors (e.g., Willits, Theodori, & Luloff, 2016) recommend including a neutral point “neither agree nor disagree”. Other researchers opine that the neutral point does not noticeably impacts the data’s reliability, correlations, and factor loadings (e.g., Leung, 2011). This study excluded the neutral point to get the users’ differential attitudes and behavior.

## Results

### Measurement checks

SPSS 23 was used to test statistical assumptions of multicollinearity, normality, linearity for all variables. 12 outliers were detected and excluded from the analysis due to the extreme values of Mahalanobis distances below .73798 and above 47.70736. Collinearity assumption was met with variance inflation factors (VIF) below 10 that match the cut-off level of tolerance of 0.1 (Hahs-Vaughn, 2017). Homoscedasticity assumption was met with the graphical test of Locally Weighted Scatterplot Smoothing (LOWESS) graph with ZPRED on X-axis and ZRESID on Y-axis that showed the smooth fit line.

Descriptive statistics showed the data variance numbers below the recommended threshold of 10, skewness, and kurtosis within the recognized range between 1 and -1 values (Hair, Black, Babin, & Anderson, 2014) as shown in Table 1. However, Kolmogorov-Smirnov and Shapiro-Wilson tests have a significance level of .000 for all the items that reject a null hypothesis and demonstrate a non-normal distribution of the data’s means within the sample (Burdenski, 2000).

**Table 1.** Descriptive statistics.

Factors and items	Mean	Std. deviation	Skewness	Kurtosis
<b><i>Social Media Brand Equity</i></b>				
SMBE1 I trust Instagram.	3.81	1.426	-.345	-.558
SMBE2 I think Instagram is a good way to guarantee quality service.	4.03	1.387	-.448	-.381
SMBE3 I believe that Instagram increases the value of social media.	4.27	1.330	-.600	-.108
<b><i>Usage Intention</i></b>				
USIN1. I think that more and more people will use Instagram in the future	4.59	1.217	-.687	.097
USIN2. I am sure that I will use Instagram in the future	4.44	1.366	-.813	.161
USIN3. I will recommend my friends and acquaintances to use Instagram and contribute to its	3.81	1.583	-.282	-.934

development

**Customer Value**

CV1. It is beneficial for me to use the services of Instagram	4.16	1.434	-.552	-.369
CV2. Instagram provides valuable services to its users	4.21	1.336	-.636	.039
CV3. I believe that Instagram services are more valuable than other social media	4.01	1.432	-.454	-.477

*Hypotheses testing*

WarpPLS was used to perform confirmatory factor analysis (CFA) and structural equation modeling (SEM) for testing hypotheses. Firstly, reliability and convergent validity were established for all the constructs using Cronbach’s alpha coefficients, composite reliability (CR), and average variance extracted (AVE), which were above the recommended threshold of 0.7 (Cronbach, 1951; Werts, Linn, & Joreskog, 1974; Hair *et al.*, 2014) as shown in Table 2.

**Table 2.** Confirmatory factor analysis.

<i>Factors and items</i>	Convergent Validity	Reliability			
		St. loading (t-ratio)	C $\alpha$	CO	AVE
<b><i>Social Media Brand Equity</i></b>			0.870	0.920	0.793
SMBE1 I trust Instagram.	0.881***(22.677)				
SMBE2 I think Instagram is a good way to guarantee quality service.	0.910***(23.489)				
SMBE3 I believe that Instagram increases the value of social media.	0.881***(22.679)				
<b><i>Usage Intention</i></b>			0.837	0.902	0.755
USIN 1. I think that more and more people will use Instagram in the future	0.830***(21.244)				
USIN 2. I am sure that I will use Instagram in the future	0.897***(23.129)				
USIN 3. I will recommend my friends and acquaintances to use Instagram and contribute to its development	0.877***(22.576)				
<b><i>Customer Value</i></b>			0.887	0.930	0.815
CV 1. It is beneficial for me to use the services of Instagram	0.890***(22.943)				
CV 2. Instagram provides valuable services to its users	0.917***(23.716)				
CV 3. I believe that Instagram services are more valuable than other social media	0.901***(23.241)				

Note: C $\alpha$  = Cronbach's  $\alpha$ , CO = composite  $\alpha$ , AVE = average variance extracted, \*\*\* p value <0.001.

Squared roots of AVEs for all the factors, shown on the diagonal in Table 3, are higher than any other correlations among the constructs, which establish discriminant validity of the latent variables.

**Table 3.** Discriminant validity.

Constructs	(1)	(2)	(3)
(1) SMBE	<b>0.891</b>		
(2) Usage Intention	0.675***	<b>0.869</b>	
(3) Customer Value	0.722***	0.742***	<b>0.903</b>

Model fit indices satisfy acceptable ranges as shown in Table 4.

**Table 4.** Model fit

Indices formulas	Size	Indices values	Hypothesized Model	
			Endogenous factors	R <sup>2</sup> AVE
			Usage Intention	0.594 0.755
			Customer Value	0.522 0.815
			Average values	0.558 0.785
$f^2 = \overline{R^2} \div (1 - \overline{R^2})$	Large	$f^2 = 0.452$		
$GoF = \sqrt{AVE \times R^2}$	Large	GoF = 0.494		

$f^2$ - effect of size for R<sup>2</sup> (small = 0.02, medium = 0.15, large = 0.35); GoF - Goodness-of-Fit (small = 0.10, medium = 0.25, large = 0.36).

As expected, SMBE affects social media customer value, which noticeably reinforces the research model with a stronger SMBE impact on social media usage intention as shown in Table 5.

Mediation analysis resulted a smaller magnitude of the impact of SMBE on usage intention after inclusion of customer value ( $\beta=0.29^{**}$ , R<sup>2</sup>=0.59) than its direct influence ( $\beta=0.68^{**}$  R<sup>2</sup>=0.46). Therefore, the brand customer value is a partial mediator in the causal chain of SMBE effect on brand usage intention.

**Table 5.** Hypotheses results.

Hyp.	Paths	Estimate	S.E.	Test results
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H1	Social Media Brand Equity → Usage Intention	0.290***	0.042	Supported
H2	Social Media Brand Equity → Customer Value	0.723***	0.040	Supported
H3	Customer Value → Usage Intention	0.535***	0.040	Supported

## Conclusion

The present study demonstrates the role of SMBE and customer value in building the social media usage intention, which is the critical factor for the users' decision making and consequently generation of the brand's and firm's values. The model contributes to literature by extending the findings of prior studies on social media brand valuation with the proposed application of the user intention as the contribution index for value calculation of social media brands. This research is limited to one social media platform and one city. External validation is needed in further researches followed by testing the application of usage intention as brand contribution index in the financial calculation of Instagram brand value.

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# Corruption Im3pact on Innovation Performance: an Empirical Evidence from Kazakhstan

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## *Abstract*

This study aims to investigate the impact of corruption on the innovative performance of the firms in the economy in transition based on the firm-level data of the World Bank Enterprise Survey data conducted in Kazakhstan in 2019.

Existing literature on innovation development suggest that innovative performance largely contributes to the country's economic growth (Romer, 1990), therefore, there is a need to study the impact of corruption on innovative performance to ensure that state policies are imposed to remove possible barriers.

The previous research of corruption impact on innovative performance conducted in various regions indicate negative and positive results. For instance, studies conducted in USA reveal that corruption slows down innovation in the long-run (Dincer, 2019), and reduces innovation output both on average and for the most innovative firms (Ellis et al., 2019). In contrast, the study of 27 East Europe and Central Asian countries indicate that corruption has positive impact on innovations (i.e. speeding up the process of receiving new licenses; inability to afford higher bribes lead to higher quality of investment in innovations (Kabadurmuş, 2017).

Although existing research suggests that corruption can have both, negative and positive impact on the innovative performance of firms, empirical evidence of the ANOVA test of 200 firms suggests that there are no significant relations between corruption indices and innovative performance at the Kazakhstan firm level.

**Keywords:** corruption, innovative performance, innovation development, economy in transition

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# THE CHALLENGES OF CONDUCTING THE INNOVATION MANAGEMENT RESEARCH IN KAZKAKHSTAN

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## ***Abstract***

The innovation management research at the firm level is still novel in Kazakhstan. This research area requires exploratory and explanatory studies to signify conceptual and practical understanding of the innovation management issues in the case of the economy in transition.

Management research is a part of social sciences that also incorporates the studies of human behavior and their interactions either as individuals or as a group (Rose et al., 2015). Typical management research is action-oriented (leads to actions). Managers support researchers in exchange for potential economic benefits (Easterby-Smith et al., 2012). Success factors of production of knowledge include the existence of research intensive, knowledge producing institutions and high-skilled professionals (Ryan and Daly, 2018). Cultural differences play significant role during the data collection and publication stages (Amerson and Strang, 2015). Barrier to obtain access to quantitative data: researchers in more advanced countries have greater access to quantitative data (Steelman et al., 2014). Single theoretical perspective cannot explain strategic choices of firms in the emerging economies due to the specifics of institutional factors, and generally ‘high velocity’ environments (Hoskisson, 2005).

There were various research challenges related to finding the appropriate research methodology, measurement scales, collecting the data and conducting qualitative research. There is a need to conduct exploratory research due to the lack of previous studies of innovation management activities at the firm level. In addition, the measurement scales used in the developed countries may not be appropriate to apply at the economies in transition, and the research is limited the innovation management practice is limited in Kazakhstan due to the historically formed distance between science and industry. The discussion of innovation management research challenges will lead to the improvement of research quality and contribute to the growth of interest to innovation management studies in Kazakhstan.

***Keywords:*** *innovation management, research methodology, qualitative study, economy in transition*

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# **Impact of CoVid-19 on Purchasing Management in Almaty Catering Industry**

**Dinmukhamed Niyazov and Yevgeniya Kim (Supervisor), MBA**

## **1. Introduction**

Purchasing defines one of the essential steps in the business cycle, referring to the acquisition of goods and services at competitive cost from a competent and reliable source (Lackman, 2014). Such a process designed to obtain goods or services organization may need to run their activities efficiently and effectively. Thus, purchasing pursues an increase of purchased goods or services return and minimizes the project cost (Daniel, 2020).

Even though almost every business depends on the purchasing, public catering sphere appears to be the most dependent one, since success of the business strongly depends on ingredient stock. Another important factor to be mention is industry's strong dependence on clients enrollment, which was undoubtedly affected by the Coronavirus pandemic break out in 2020 (Zimmer, 2021).

Taking into account the specifics of the public catering business model, I consider it necessary to have a clear understanding and knowledge of the basics of purchasing management and factors which may affect this process. This paper is aimed to identify impact of COVID-19 pandemic on the purchasing management of public catering industry of Almaty.

## **2. Literature Review**

### **2.1 Introduction**

This section will be devoted to understanding concept of Purchasing management, public catering, and situation the world had to face due to CoVid-19 break out. This information will help in understanding significance of public catering in human life, significance of purchasing management for businesses in general, and, of course, will help answer the question "how CoVid-19 affected Purchasing Management in Almaty Catering Industry?"

### **2.2 Purchasing and Materials Management**

For the purpose of further discussion, it is essential to receive a deeper meaning of purchasing and materials management concepts, their necessity and importance in the business cycle, and understand the prime elements and steps of this process. Therefore, this section will be devoted to the literature review covering the topic and the previously listed aspects.

#### **2.2.1 Concept of Purchasing and Materials Management**

Purchasing, also known as Procurement, is the first phase of Materials Management as a part of a vast Supply Chain system (Chand, 2014). Purchasing affects the fulfillment of an organization's objectives as it provides demanded sources of the required quality at the required time and place, and of course, at optimal cost (Daniel, 2020).

Efficient purchasing management provides a blooming opportunity for wholesalers to receive significant profits by controlling inventory costs of stock needed to operate their business (Melanie, 2019). According to Westing, Fine and Zenz cited in Chand (2014) "Purchasing is a managerial activity that goes beyond the simple act of buying. It includes research and development for the proper selection of materials and sources, the follow-up to ensure timely delivery; inspection to ensure both quantity and quality; to control traffic, receiving, storekeeping and accounting operations related to purchases." Thus, Purchasing in modern understanding is a

strategic managerial function directly affecting the economic performance of the company. It may result either positively or negatively depending on attitude to this process.

### **2.2.2 Objectives of Purchasing and Materials Management**

“Purchasing departments are at the center of successful supply chain management” (How Your Purchasing Department Can Improve Your Business, 2020). Substantial tasks of ensuring quality and reducing costs fall on the shoulders of a purchasing manager. His duties are often credited with the following tasks:

1. *Lower costs*

Generally, this is the prime function of the purchasing department. Negotiations on the terms of the purchase in addition to monitoring the best alternatives may result in tremendous cost reduction. Moreover, it helps keep expenditure level in control and provide transparency in company spends in general.

2. *Reduce risk and ensure the security of supply*

Supply chain management involves sharing and managing risks with suppliers by moving some risks to the supplier who able to manage them. Additionally, the identification of crucial goods and services allows the company to take appropriate steps to secure their supply chains accordingly.

3. *Manage relationships*

In addition to sharing risks, purchasing department may offer suppliers share benefits from their relations. Make suppliers interested in working with your business appears to be vital and aimed to make them invest in the long-term relationship.

4. *Improve quality*

Purchasing department may help improving quality by tracking the best alternatives of the purchased goods or services and by improving relations with suppliers to provide timely delivery of required goods or services.

5. *Pursue innovation*

Since purchasing department is always in contact with outside businesses, it always aware of innovative goods and services, which may provide a competitive advantage for the business.

6. *Leverage technology*

The purchasing department should be an initiator of technological improvement of the company’s supply chain, which eventually positively affects overall performance and profits.

### **2.2.3 Importance of Purchasing and Materials Management**

According to Chand (2014), several factors are making purchasing such an important process in the whole business cycle:

1. Purchasing function supplies sources demanded by machines to run.
2. Efficient purchasing results in more returns than a comparable increase in turnover.
3. Competent purchasing management is essential since more than half of company earnings are spent on the purchase.
4. More and more needs can be fulfilled by procuring rather than producing.
5. Purchasing can contribute to import substitution and save foreign exchange.
6. Competent materials management is a key to the timely execution of the projects.
7. In a heavy competition of nowadays, purchasing may help in cost reduction and revenue increase as a result.



#### **2.2.4 Purchasing Cycle Elements**

The purchasing cycle — also called the procurement cycle or procure-to-pay (P2P) — is the process by which you order, receive, and pay for the goods and services your business demands (DeVecchio, 2020). For companies of all sizes, from a small family company to a huge global corporation, the purchasing cycle is pretty similar and differs only in scales of demanded goods or services. Despite some companies may have their own specifics, commonly the process follows the next scenario:

1. Analysis of the Need
2. Clarification of the Need
3. Purchase Requisition and/or Purchase Order
4. Authorization
5. Supplier Review
6. Supplier Selection
7. Price and Term Negotiations
8. Order Placement
9. Receiving and Inspection
10. Payment
11. Records Management

In this regard these steps symbolize main elements of the Purchasing mentioned in Lackman (2014):

1. Examination of the Needs
2. Consideration of the Sources needed
3. Consideration of the Value of the source
4. Selection of a Competent and reliable sources

### **2.3 Public Catering**

Public Catering (Food services) is the main scope of my study, thus it is essential to understand what it is, why it is important, and what is the role of purchasing management in public catering. This chapter will focus on answering the above questions to help in further discussion.

#### **2.3.1 Importance of Public Catering**

In accordance with GOST 50647 - 94 "Public catering. Terms and definitions" "public catering enterprise is an enterprise intended for the production of culinary products, flour confectionery and bakery products, their sale and organization of consumption. The authors of the book "Restaurant Business in Russia" give the concept of the restaurant market as a certain economic environment in which the restaurant business is formed (Murashova, 2004, p. 103).

Public Catering is considered as one of the major sectors of socio-economic activity. The main importance of public catering enterprises is that they satisfy the primary human need - the need for food - and have the ability to influence the rational consumption of food, the structure of good nutrition (Teplova, 2005).

Public catering, as industry, performs a number of functions that are inherent in other sectors of the economy, and its place can be described through relationship with these sectors (Murashova, 2004, p.103). This industry represents production, sales, provision of sanatorium and health services, population social protection, interaction with the cultural and touristic industries (Murashova,2004, p.103; Teplova, 2005).

Thus indeed, public catering plays a significant role in public life and it is important to understand how the industry works and what factors may affect its workflow.

### **2.3.2 Importance of Purchasing Management in Public Catering**

Public catering as any other industry requires sources for its operations. Taking into consideration the specifics of the industry, purchasing management appears to be essential as all products of the industry have to be premade or pre-purchased before being consumed by customers. Another significant factor to be kept in mind is specifics of purchased good, particularly, ingredients, having feature of deteriorating. Efficient purchasing management allows avoid waste of ingredients, stock out costs, unnecessary holding and ordering costs

### **2.4 COVID-19 pandemic**

COVID-19 (Coronavirus disease 2019) is a contagious disease caused by severe acute respiratory syndrome coronavirus 2 (SARS-CoV-2), the first case of which was identified in Wuhan, China, in December 2019 (Page et al., 2021). The disease has since spread worldwide in a high pace, leading to an ongoing pandemic (Zimmer, 2021) and it was just a matter of time, when it would reach Kazakhstan. First cases of coronavirus infection were dated March 13, 2020 according to Chukalina (2020). For the purpose of countering the spread of the infection, a state of emergency in the country and a lockdown throughout the country were declared. Thus, starting from March 16, 2020, Kazakhstani residents were forced to stay at home (2020), which undoubtedly affected many areas of life, including public catering industry.

### **2.5 Conclusion**

Ralph Waldo Emerson said: “Money is of no value; it cannot spend itself. All depends on the skill of the spender.” Purchasing management appears to be a significant part of the business cycle as it is literally the source of business operations. Taking it into consideration, the next chapters will be devoted to identify consequences of Coronavirus pandemic in purchasing management of Almaty public catering companies.

## **3. Methods**

### **3.1 Introduction**

The aim of the study is to explore effects on purchasing management in Kazakhstani companies, and changes of habitual purchasing cycle. For the sake of objectivity, my study included companies of different spheres and areas. Due to limitation of sources and time, my research included one representative from few selected industries more or less related to my life and similar category of people like me – students of young age. Data collection was represented in the series of surveys with procurement managers or authorized person of similar responsibilities. In this section I a) provide criteria for choosing research participants; b) introduce the methods that will be used for data collection; c) explain my data collection procedure.

### **3.2 Participants**

Target audience of my research is public catering companies (cafés, restaurants, and etc.) of different scale located in Almaty. Approaching companies of different size, location and popularity would help receive deeper understanding and remain objectivity in study of the impact of Covid-19 on industry.

### **3.3 Data collection methods**

In order to make my study more objective, I conducted an interview designed to identify specifics of purchasing cycle in public catering companies, challenges they faced due to corona outbreak and ways they managed them, and of course, answer the most important question:

“How CoVid-19 affected their purchasing management?”. A major advantage of using interview is collecting significant amount of qualitative data, which would be useful for the purposes of the research. To support received data I decided to conduct a survey among food service companies of Almaty to receive more qualitative information and understand the situation better.

### **3.4 Data collection procedure**

My data collection process manifested in the necessity to contact managers of public catering companies and request them to participate in my research. The survey was distributed among those companies, asked to be filled within one calendar week and submitted via e-mail or WhatsApp. At the same time, I was approaching some companies to conduct the interview with their managers responsible for purchasing or acknowledged about purchasing processes of the company they represented.

### **3.5 Ethical issues**

Considering the concept of corporate secret, participants were acknowledged with introductory statement that provides general information about my study, guaranty of full confidentiality, opportunity to skip unpleasant questions and stop data collection any time they want. All participants were informed about their rights prior to the collection of information to avoid possible uprising ethical issues. The gathered data was used only for purpose of the study.

## **4. Results**

### **4.1 Introduction**

Coronavirus disease affected all human spheres, and the catering industry was not an exception. Research of the subject of CoVid-19 impact on purchasing management in the Almaty catering industry may help understand the damage to the industry and damage on the society. At all times, difficulties forced people to adapt, made them stronger, and were a trigger of development. Thus, the value of the research is identifying the way the industry changed, adapted to new circumstances, and what was developed to resist such difficulties in future. My analysis was based on data gathered from several surveys and interviews with 23 representatives of foodservice companies of all kinds.

### **4.2 Findings**

#### **4.2.1 Purchasing cycle in Almaty catering companies**

Before talking about the impact of COVID-19 on purchasing cycle of Almaty food service companies, it was crucial to understanding their habitual purchasing process. Gathered data identified that despite the different scale of companies, they more or less had similar purchasing cycles, including steps described in section 2.2.4 of this paper. Nonetheless, the process differs in the way it is executed: while massive food chains purchase products from their headquarters, and they, in turn, purchase large batches of products from wholesalers, small cafes purchase products in smaller batches from retailers and small wholesalers.

In addition to the difference in the size of a product purchase, purchasing management also differs in different scale companies. Big companies are characterized by elaborate protocols, automatized ordering processes, while small companies were led by intuition and experience. Representatives additionally highlighted that a clear understanding of what to order, when and in what amounts to order is a crucial factor in their business process and all of them would like to have on staff a person who is versed in purchasing management.

#### **4.2.2 Difficulties introduced by COVID-19**

Foodservice companies indicated several problems they had to face due to coronavirus outbreak, which eventually led to a massive lockdown, obstructing their habitual activities. The most significant one, in their eyes, appeared to be the sanitary doctor's order to suspend the

activities of public places, including places of public catering. This event caused losses for foodservice companies leading small companies to go bankrupt.

Another problem they had to face were delays in deliveries and shortages of certain products. Subsequently, companies had to deal with inflated prices for many goods. It forced them either to increase their sale prices or to experience low profits. While such conditions were considered as timely difficulties for major food chains, it was fatal for smaller companies.

Research participants also reported pressure from the government, which introduced new rules for doing business. Now companies had to adjust their work schedule, change the seat arrangement, and limit customers they could serve. Thus, limitations, high fines for rule violations, and lower revenues forced them to adapt and find new ways to operate.

#### **4.2.3 Adaptation to new circumstances**

Although firstly, the lockdown was a strict limitation of almost any business activity, soon, companies were allowed to operate on limited mode or delivery mode. It marked the heyday of courier services, and at the same time, the emergence of a delivery option for companies that did not previously have one. Companies reported that almost 60% to 70% of their revenues were sourced from deliveries.

Talking about problems with product supply and the deficit of some products, companies adjusted their ordering protocols, changed suppliers, and even rearranged menus, which in some cases attracted more customers.

#### **4.2.4 Effects on the industry purchasing cycle**

Answering the question regarding the nature of the changes COVID-19 introduced, representatives of foodservice companies give an ambiguous opinion. All of them claim the destructive effect on their business cycle in general due to total lockdown and severe limitations of their activities. Massive losses and even bankruptcy in some cases are definitely considered as a negative consequence of the coronavirus crisis. Nonetheless, there were several positive effects mentioned. Any crisis, like a wildfire, is a positive event for weeding out weak companies and creating the ground for opening new ones.

Talking about the effects on purchasing cycle, companies mostly speak about the positive effect, since the crisis made it possible to identify the weaknesses of the existing process and improve it, adapting it to the realities of today. Small companies understood the necessity of a definite ordering protocol and are intended to automate processes like large companies.

## **5. Conclusion**

COVID-19 outbreak appeared to be a major event and significant economical factor that affected all human life spheres, and the public catering industry was not an exception. Taking into consideration the importance of purchasing management in business cycles, especially in public catering companies' operations, it was necessary to identify the effect of COVID-19 on this substantial business element.

By the results of the research, it is obvious, that coronavirus did not bypass this process and significantly influenced the understanding of purchasing management, its necessity, and proper operating methodology. Despite difficulties the foodservice industry had to face, coronavirus disease mostly positively affected purchasing management in the Almaty catering industry, and now, hopefully, purchasing management and operations management, in general, will be appreciated more by the Kazakhstani public.

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### **Appendix 1: Interview questions**

- 1) Describe your habitual purchasing cycle
- 2) What difficulties have you faced when the corona crisis occurred?
- 3) How have you adapted to the new circumstances?
- 4) How would you describe the effect of COVID-19 on your purchasing cycle?

### **Appendix 2: Survey questions**

- 1) What is your company's type of public catering?
  - a. Café
  - b. Dining room
  - c. Restaurant
  - d. Bar
  - e. Other (please specify)
- 2) Has COVID-19 quarantine affected your purchasing cycle?
  - a. Strongly Agree
  - b. Agree
  - c. Neutral
  - d. Disagree
  - e. Strongly Disagree
- 3) What was the effect of COVID-19 quarantine on your business?
  - a. Very positive
  - b. Positive
  - c. Neutral
  - d. Negative
  - e. Very negative
- 4) What challenges have you faced due to COVID-19 quarantine?
  - a. Supply disruptions
  - b. Ingredients stock out
  - c. Ingredients/Products deterioration
  - d. Other (please specify)
- 5) How have you adapted to the new circumstances?

# Literature Review of Current Publications on Managing the COVID-19 Crisis: Case of Tourism Industry

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## Abstract

*This paper aims to critically review the current literature on different strategies, methods and approaches to managing the COVID-19 crisis. Being severely vulnerable to the external shocks and, as a result, facing the unprecedented challenges caused by the pandemic, tourism industry was chosen as a case study for the research. For this study, 32 scientific papers indexed in Web of Science within 2020-2021 on the topic of COVID-19 crisis and crisis management in tourism industry were reviewed and analyzed with particular focus on methodologies used by the authors, as well as conclusions, practical approaches and recommendations in relation to managing the coronavirus crisis. The research results confirmed that the authors of the reviewed studies agreed that there is an urgent necessity in developing proactive and effective crisis management strategies and contingency plans.*

**Key words:** *managing crisis, COVID-19, tourism industry*

## Introduction

The coronavirus (COVID-19) pandemic has had a tremendous impact on the global political, economic, social and cultural systems. Tourism industry, being particularly vulnerable to external shocks, is facing the urgent need to address both the immediate and long-term risks brought by the pandemic through effective crisis management mechanisms. Many researchers in tourism and crisis management spheres worldwide have already been conducting case study investigations and analyses aiming to identify how different regions are battling the effects and consequences of coronavirus crisis on tourism activities. This work presents a literature review which focuses on COVID-19 crisis and crisis management and its application within the tourism industry.

The **purpose of the research** is to provide a systematic review of current crisis management mechanisms, practices and recommendations which would serve as a guidance to tourism managers for developing effective strategies for managing coronavirus crisis. Current work is aimed to be the first stage of a more comprehensive literature review on the topic of managing crisis with particular focus on pandemic crisis.

## Methodology

The study uses a theoretical framework developed by Jurdana, Frleta and Agbaba (2020) in building a research model. The literature analysis presented in this work is based on systematic approach to reviewing the existing literature on the themes of crisis management in tourism industry. For this paper, the authors reviewed studies published in scientific journals indexed in

Web of Science database. The time span of research studies publishing was 2020-2021. Key search items included ‘crisis management’, ‘COVID’ and ‘tourism’ inputted simultaneously through ‘AND’ logical operator. Other selection criteria were that the paper had to already have been cited and that the full text was openly accessible.

Based on the requirements, there were 32 studies selected for the analysis. Further, the selected articles were thoroughly reviewed for the methodology used, derived conclusions, practical approaches and recommendations with focus on crisis management tools and strategies used or proposed by the authors of the studies.

### Data Analysis

The overview of research findings from the selected articles is presented in Table 1. The studies were published in notable scientific journals: Current Issues in Tourism (22% of the selected articles), Sustainability (12.5%), International Journal of Hospitality Management (9%) and others, including Tourism Management, Tourism Management Perspectives, International Journal of Contemporary Hospitality Management, International Journal of Environmental Research and Public Health, etc. The methodology applied by the authors of the reviewed studies included literature review (used in 41% of the selected works), interviews (25%), surveys (22%), case studies (6%), big data analysis and data mining (each 3%). The majority of the analysed studies offered some recommendations and suggestions in terms of managing crisis in the tourism sphere, mostly based on the conducted research and/or observed experience of the related regions. The recommendations cited most often revolve around the need to develop precise crisis management strategies tailored to the tourism industry and activities; tourism practitioners and government officials to combine efforts to work on overcoming negative consequences of COVID crisis on tourism industry; expanding the use and applicability of technological innovations for adapting tourism activities to the new COVID and post-COVID realities; developing multi-skilled labour force by training and retraining employees of tourism sectors; boosting tourists’ confidence by strengthening destination images and ensuring safety requirements; contingency plans and long-term strategies to be implemented by management.

Table 1. Overview of research findings

Author(s)	Journal	# of citations	Methodology	Conclusions and recommendations
Hall, Scott & Gossling (2020)	Tourism Geographies	70	Literature review	Transforming tourism on global scale: commitment of global and international organizations
Sigala (2020)	Journal of Business Research	53	Literature review	Viewing COVID as transformational activity; technology innovations; social ventures
Wen, Kozak, Yang et al. (2020)	Tourism Review	37	Literature review	Introducing ‘slow tourism’ focusing on local populations and longer stay periods; combatting residual fear by satisfying tourists’ hygiene and cleanliness requirements
Zenker & Kock (2020)	Tourism Management	25	Literature review	Recommending 6 paths for corona research in tourism: changes in complexity, destination image, tourist



Author(s)	Journal	# of citations	Methodology	Conclusions and recommendations
				behaviour, resident behaviour, tourism industry, long-term and indirect effects
Gretzel, Fuchs, Baggio et al. (2020)	Information Technology & Tourism	24	Literature review	Rethinking 6 e-Tourism pillars: historicity, reflexivity, transparency, equity, plurality and creativity
Baum, Mooney, Shelagh, Robinson et al. (2020)	International Journal of Contemporary Hospitality Management	21	Literature review	Need for a future-centred multi-disciplinary research agenda in the area of hospitality employment that will have multiple tools for adjustment to crisis
Hao, Xiao & Chon (2020)	International Journal of Hospitality Management	17	Literature review	Developing a thorough COVID-19 management framework containing disaster scenarios, anti-pandemic phases, principles and strategies
Lai, Wong & Weng (2020)	International Journal of Contemporary Hospitality Management	10	Interviews (5, structured)	Changing the management views from reactive to proactive: educating and training employees, reducing maintenance costs, increasing attention to marketing practices
Kaushal & Srivastava (2021)	International Journal of Hospitality Management	7	Interviews (15, structured)	Need for multiskilling and professional development of employees; increasing sense of hygiene and sanitation, need for better crisis preparedness
Yeh (2020)	Tourism Recreation Research	7	Interviews (12, semi-structured)	Need for open communication; need for government-sponsored loans
Miles & Shipway (2020)	Event Management	7	Literature review	Developing multidisciplinary framework for advancing knowledge on crisis management in sports and events management
Farmaki, Miguel, Drotarova et al. (2020)	International Journal of Hospitality Management	6	Interviews (45, semi-structured)	Building host pandemic responses typology which can be used to improve governance of peer-to-peer accommodation platforms
Chemli, Toanoglou & Valeri (2020)	Current Issues in Tourism	5	Survey (1845 respondents)	Recommending tourism practitioners and government authorities to work together to provide real-time accurate information
Ahmad, Jamaludin, Zuraimi et al. (2020)	Current Issues in Tourism	5	Survey (426 respondents)	Physical factors and destination image are main factors influencing tourists' visit intention
Rodriguez-Anton & Alonso-	Sustainability	4	Case study analysis	Need for public-private collaboration; building trust in tourists, reinforcing brand image

<b>Author(s)</b>	<b>Journal</b>	<b># of citations</b>	<b>Methodology</b>	<b>Conclusions and recommendations</b>
Almeida (2020)				
Ivanov, Webster, Stoilova et al. (2020)	Tourism Economics	4	Literature review	Need for increased incorporation of automated technologies
Zheng, Luo & Ritchie (2021)	Tourism Management	3	Survey (1235 respondents)	Developing understanding of tourists' 'travel fear'; building public confidence by providing real time information and protective instruction messages
Chua, Al-Ansi, Lee et al. (2020)	Current Issues in Tourism	3	Survey (367 respondents)	Building conceptual model explaining reasons behind tourism avoidance behaviour during pandemic; need for recovery strategies
Gallego & Font (2020)	Journal of Sustainable Tourism	3	Big data analysis (>5 million air passenger searches)	Big data can be used to acquire knowledge to reduce risk in uncertainty and to improve public sector operational effectiveness
Chen, Peng, Yin et al. (2020)	Risk Management and Healthcare Policy	3	Data mining (82486 online comments)	Introducing 'safety' and 'economy' policies simultaneously would have the greatest social impact potentially leading to recovery of the cultural and tourism industry
Skare, Riberio Soriano & Porada-Rochon (2021)	Technological Forecasting and Social Change	2	Literature review	Coordinating public and private policies support would assure capacity building and operational sustainability of tourism sector
Melian-Alzola, Fernandez-Monroy & Hidalgo-Penate (2020)	Tourism Management Perspectives	2	Survey (72 respondents)	'Strategy' and 'change' dimensions have most considerable effect on hotel resilience which has a positive influence on hotel performance
Zielinski & Botero (2020)	International Journal of Environmental Research and Public Health	2	Literature review	Introducing a range of strategies focused on beach-user safety by ensuring the physical distancing of visitors and their risk perception management
Radic, Law, Luck et al. (2020)	Sustainability	2	Interviews (16, semi-structured)	Using technology to develop an early crisis warning signals; developing marketing content for cruise tourism industry
Shao, Hu, Luo et al. (2020)	Current Issues in Tourism	2	Literature review	Recommending government to find a right balance between epidemic

Author(s)	Journal	# of citations	Methodology	Conclusions and recommendations
				prevention and tourism promotion; adapting tourism recovery strategies based on region
Rittichainuwat, Laws, Maunchontham et al. (2020)	Tourism Management Perspectives	2	Interviews (37, semi-structured)	Identifying key resilience factors including good value for money, Thai hospitality, business and leisure attractions and international standard venues
Su, Tra, Huynh et al. (2021)	Current Issues in Tourism	1	Interviews (20, semi-structured)	Need for developing HR resilience-building strategies based on various crisis stages
Robina-Ramirez, Medina-Merodio, Moreno-Luna et al. (2021)	International Journal of Environmental Research and Public Health	1	Survey (843 respondents)	Need for affordance and fast mass testing surveillance; training measures are needed to develop a crisis management team; public authorities should introduce observed protocols; healthy measures should be periodically adjusted; each hotel should set up own surveillance process
Quang, Tran, Tran et al. (2020)	Current Issues in Tourism	1	Interviews (30, semi-structured) and group discussions (2)	Tourism stakeholders in Vietnam see pandemic as opportunity to review some practices; need exists for preparing contingency plans and proactive long-term strategies for risk reduction
Zhan, Zeng, Morrison et al. (2020)	Current Issues in Tourism	1	Survey (1818 respondents)	Health and social risk dimensions had high levels of risk perception; obtaining information from interpersonal communication also had high level of risk perception; there is a need in domestic tourism market segmentation
Hsieh, Nguyen, Wang et al. (2020)	Sustainability	1	Case study analysis	Appropriate strategic Knowledge Management implementation can potentially lead to organization's survival in crisis
Varelas, & Apostolopoulos (2020)	Sustainability	1	Literature review	There is a lack of concrete economic crisis management strategy; dynamic pricing as a strategy in hospitality industry should be investigated

### Research Limitations

One of the major limitations of this study is that only the papers indexed in the Web of Science database were reviewed; also, the articles published in scientific journals and with existing

citations were selected. Since the study focused solely on COVID-19 crisis, the period of articles publishing was 2020-2021 with no consideration given to managing crises related to past pandemics/epidemics. All of these limitations could serve as the basis for extending the current research by including more databases and other types of crises.

## Conclusion

Following the established purpose of this research, the systematic analysis of the reviewed 32 studies on the topic of COVID-19 crisis and crisis management in tourism industry was performed. The results indicated with certainty that COVID-19 has proven itself as one of the most disruptive events that has ever hit the tourism sector worldwide. Majority of the tourists' destinations appeared to be practically defenceless against the threats imposed by the pandemic which led to the loss of tourists' confidence resulting in widespread "travel fear". Even though the authors of the reviewed studies offered various ways to combat the consequences of the COVID crisis, they unanimously agreed that there is a necessity in developing proactive and effective crisis management strategies and contingency plans. As the authors suggested, such crisis-coping strategies need to be embedded with open communication with customers, introducing timely marketing initiatives to revive destination images and brands, governments initializing programs to provide efficient support to the local tourism operators, introducing technology innovations for serving as means of adapting the tourism activities to the new conditions, and perhaps, even addressing COVID as a new transformational opportunity which could potentially bring out the new improved practices and more adjusted and flexible mindsets. It can also be concluded from the current research that the number of authors addressing the crisis management strategies in tourism is increasing. Therefore, the further research is essential to more thoroughly focus on both the presented recommendations and on the development of effective crisis management strategy in tourism sector.

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# The Decline People's Well-being in Kazakhstan: Evidence from the World Value Survey

Dina Sharipova, PhD and Alma Kudebayeva, PhD

During the last thirty years, the government of Kazakhstan has made big strides to improve people's standards of living. The GDP per capita has grown from \$1,500 in 1992 to \$ 9,139 in 2019. The poverty rate has been reduced from 57% in 1996 to 8.6% in 2017 and the life span increased from 64 to 73 years.<sup>1</sup> The government of Kazakhstan has started to pay more attention to well-being of citizens since the quality of human capital defines many positive outcomes, including economic growth and development, promotion of democratic values and healthier and longer life.

Scholars have explored various factors that might influence well-being of people. Some research focused on the level of GDP as an important indicator of people's satisfaction with life (Adler and Fleurbaey, 2016). Higher levels of GDP are associated with better welfare of citizens. Other scholars, however, have argued that it is important to move "beyond GDP" (Fleurbaey and Blanchet, 2013) and focus on non-material factors such as social networks, education, health, and freedoms. The variety of explanations shows the importance of contextual variables to explain why people are satisfied or not in their lives.

As evidence suggests, satisfaction with life on Kazakhstan has declined from 2011 to 2018, despite the increase in GDP per capita. We can also assume that after the pandemic, people's well-being declined even more due to the loss of jobs and psychological distress experienced by the population. Indeed, even before the pandemic, the incomes of people were quite modest – about 70% of citizens earned less than 150 thousand tenge (about \$360) for a family. After the first quarantine, the share of such households increased to 74%, while the share of families with a higher income level (from 150 thousand tenge and above) decreased from 23% to 17%. (Sharipova and Beysembayev, 2020). Why has SBW declined over the last decade? What factors explain the decrease of SWB in the country? Despite a vast array of studies, little has been written on well-being of people in Kazakhstan. Some ethnographic research on how people in Central Asia experience contentedness in their daily lives has been done (Montgomery, 2013a, 2013b; 2015; Zanca, 2015, Roche, 2015; O'Neill Borbieva, 2013; Werner et al., 2013). However, no one analyzed the determinants of subjective well-being and why it has decreased in Kazakhstan, a middle-income developing Central Asian state.

This study fills the gap in the literature on change in subjective well-being in Kazakhstan. We will show that well-being declined from 2011 to 2018 and compare it to the statistics during the pandemic.

We can assume that there are contextual distinctions that might influence the SWB. These factors might be different from those, for instance, in the USA or European states since the latter are developed democratic states. Using the data from WVS6 and WVS7, we explore the determinants of subjective well-being in Kazakhstan and provide insights on its decline.

This research uses a new dataset on Kazakhstan that allows us to evaluate the change in SWB from 2011 to 2018. We will also provide some statistics during the pandemic period. In addition, we want to find out how better off and poor people have experienced the change in

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<sup>1</sup> Kazakhstan's poverty rate 1996-2021, <https://www.macrotrends.net/countries/KAZ/kazakhstan/poverty-rate>



SWB over several years. We use the Blinder-Oaxaca method to determine the change of SWB. In our study we are going to look at both material and non-material factors such as social capital, health, education, income, and other determinants found in the scholarly literature to explain the decline of SWB.

### Findings

As this study shows, subjective well-being has declined in Kazakhstan from 2011 to 2018. There have been some important factors that influenced the change in SWB. As it was shown, freedom of choice decreased the gap of SWB, thereby showing the importance of this factor for SWB in Kazakhstan. During this period, people experienced the shrinkage of freedom of choice and decrease in terms of control over their lives due to economic crisis, devaluation of tenge and political instability. This has negatively affected their satisfaction with life. To increase SWB, people should have better control and more certainty in their lives. At the same time, education and financial satisfaction positively influence the gap in SWB, thereby increasing the difference in SWB and thus diminishing citizens' satisfaction with life.

One of the interesting findings of this study is the difference in terms of life satisfaction across financially satisfied and dissatisfied groups. We have observed that from 2011 to 2018, SWB has decreased for the financially dissatisfied and increased for the financially satisfied population. This disaggregate analysis shows that the decline in SWB is not a universal trend for the entire population of Kazakhstan. Rather, it might vary from one social group to another. A uniform approach glosses over important nuances that might exist on the ground. Hence, it is important to disentangle various factors to have a better understanding of change in SWB in various contexts. This finding also confirms the idea that financially satisfied citizens experience higher levels of life satisfaction.

A poll by the National Bank of Kazakhstan showed that with the start of the pandemic, Kazakhstanis began to assess their financial situation as being much worse. So, in January (2020) only 22% of the respondents believed that their financial situation rather worsened, after five months this figure almost doubled to 42%. According to the data of the National Bank of the Republic of Kazakhstan, at the beginning of 2020, ¼ of citizens estimated the average monthly income of their family being less than 70 thousand tenge.<sup>2</sup> A relative majority of people (44%) reported that they earn from 70 to 150 thousand per month. About 17% of the respondents on average had an income of 150-300 thousand tenge, and only 6% of the respondents reported that they earn more than 300 thousand tenge per month. (Sharipova and Beysembayev, 2020). Having lost the previous levels of income, citizens felt the worsening of their financial situation and reduced their expenditures on paid educational and medical services. As a result of inflation, expenditures on food products increased significantly – Kazakhstanis began to spend more than 60% of their income on food. This of course, can negatively influence people's well-being.

Thus, the government of Kazakhstan should pay more attention to the provision of better-quality education and provide more freedoms to people in order to improve their well-being. At the same

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<sup>2</sup>The National Bank of the Republic of Kazakhstan. A poll across Kazakhstan among the adult population (18 years and older) on a representative sample at the republican and regional levels, including all regional centers, as well as Nur-Sultan, Almaty, Shymkent, Semey (with population over 250 thousand people). Each survey involves 1,500 respondents. Survey method: telephone interview. FusionLab <https://bsbnb.nationalbank.kz/?docid=3331&switch=russian>

time, people also should engage more in public life since higher levels of social participation can improve their well-being. In addition, Kazakhstani citizens should be aware of their level of tolerance toward other people. As such, the government and people of Kazakhstan should aim at the construction of liberal and inclusive society to improve their well-being. The pandemic situation decreased people's well-being even more and more research should be done on that topics.

# Neoliberal financialisation and economic inequality in Kazakhstan

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## **Research objectives**

The main purpose of this study is to develop an understanding of the impact of neoliberal financialisation on economic inequality in Kazakhstan. This research involves addressing the question as to whether financialisation facilitates uneven income and wealth accumulation. I argue that a current phase of the contemporary capitalism in Kazakhstan – neoliberal financialisation – has a regressive effect on income distribution thus leading to increased socio-economic inequality. Drawing on critical political economy, the analytical framework of a financialisation-induced income inequality hypothesis will be tested. This framework is based on the assumption that finance within the neoliberal mode of production facilitates upward income distribution.

## **Background**

A number of studies have explored the idea of a new type of capitalism which is described as “financialisation of capitalism” (Foster, 2007). Other descriptions include Minsky’s (1996) “money manager capitalism” and terms such as “coupon pool capitalism” (Froud et al., 2002), “grey capitalism” (Blackburn, 2006), “finance-led capitalism” (Guttmann, 2008), “financialised capitalism” (Lapavitsas, 2009a), “finance capitalism” (Peet, 2011), “patrimonial capitalism” (Piketty, 2014), and “financial capitalism” (Tridico, 2018). Most of these studies have either only focused on financialisation per se or suffer from the fact that, though explicitly or implicitly claiming increased income inequality in the financialisation era, discrete causal factors leading to the alleged upward income distribution remain either too abstract or undiscovered and unexplained. Such approaches have failed to address the underlying combinatorial effects of variables such as rates of financial profit and rent, levels of wages and debt, and institutional transformations which impact power dynamics in labour-capital relations in finance capitalism. The generalisability of much published research is also problematic since it mostly explores advanced capitalist countries without comparing them with low- and middle-income countries. There is a growing literature that recognises that the process of financialisation has taken place in developing and emerging economies (DEEs) (e.g. Barbosa-Filho, 2005 on Brazil; Akyuz and Boratav, 2005 on Turkey; Lapavitsas, 2009b; Bonizzi, 2013). Recent studies investigating financialisation in DEEs found, in accordance with non-mainstream economic theories, that different patterns of financialisation negatively affect development (Karwowski and Stockhammer, 2017) and exacerbated the disadvantageous position of these countries (Bortz and Kaltenbrunner, 2018).

## **Methodology**

There is a consensus among social scientists that neoclassical economics has been inadequate and has failed to contribute to the understanding of, for instance, income inequality or the 2008 economic crisis (Blaug, 1998; Davis, 2006; Colander, et al., 2009; Syll, 2010). The grounds of this inadequacy are traced first and foremost to neoclassical economics’ deep-rooted

foundations in positivist orthodoxy. In the mainstream project, orthodox economic theories are constructed by employing *fictional assumptions* and are set in an artificial institutional context (closed system) to create general propositions. My research project is based on a view of *social reality as having a causal-processual nature* (open system) rather than a *deductively closed system* with *stochastic and stationary economic processes*. Accordingly, this project will be undertaken by employing the philosophy of critical realism, which questions mainstream economics essential approaches to social reality at the level of method and advocates pluralist and interdisciplinary approach (Lawson, 1994, 1995, 1996, 2003, 2005, 2009, 2013). From the perspective of the critical political economy, the methodological approach in my research is based on various heterodox economic schools. Heterodox-based methods provide an alternative means of investigating and conceptualising the complex causal relationships of widening income inequality and its relation to the financialisation phenomenon. This strategy includes developing explanatory causal-processual analytical constructs derived from different heterodox schools of thought (neo-institutional, neo-Marxist, and post-Keynesian). These analytical constructs comprise:

- analysing financial liberalisation and deregulation policies in creating new institutional preconditions for the evolution of the financial sector and development of financialisation as a new technological organisation instigated by neoliberal restructuring (neo-institutionalist perspective);

- exploring the dynamics of the rate of profits in the financial sector in comparison to the level of wages as shares of GDP to look at the evolution of finance capital historically (neo-Marxist perspective);

- investigating the dynamics of the rental income from financial assets and the level of private/public debt (post-Keynesian perspective).

Thus, an ontology-centric (realist) as opposed to epistemology-centric (positivist) principle of the investigation will be met. The research rejects methods of formalistic deductivism of the neoclassical (mainstream) economics with its widespread usage of mathematical modelling. Its ontological neglect constitutes the primary failure of neoclassical orthodoxy to explore the nature of social reality in the financialisation-income inequality nexus and at the same time has led to the development of inequality-legitimizing environment that legitimises kleptocratic and authoritarian regimes of the Eurasian region.

### **Summary of key results**

As the overexploitation of natural resources has become less reliable, newly established Kazakh comprador class is increasingly turning to a regime of neoliberal financialisation. These corrupted elites are becoming embedded in the matrix of the contemporary finance capitalism when Kazakhstan had engaged in radical pro-market reforms building neoliberal economic model culminated in the creation of The Astana International Financial Centre (AIFC). From the perspective of critical political economy, neoliberal economic ideology which has been dominant in Kazakhstan since the early 1990s leads to the embeddedness of the country into the Global Financial Order (GFO). That approach helps to see how current GFO and neoliberal restructuring entrench financialisation in the peripheral capitalist economies such as Kazakhstan. The relationship between neoliberal socio-economic ideology and finance capitalism of the peripheral economy is vital for understanding the context-specific nature of financialisation in Kazakhstan.

Signs of institutionalisation of the worst forms of skewed distributional patterns in this former Soviet republic are evident and undermine the very idea of social justice. So far, however,

there has been little discussion about the financialisation processes, means and aspects of this embeddedness of the newly-emerging post-Soviet capitalist class into the global financial architecture. Very little is currently known about the socio-economic and political implications of the development of finance capitalism as a mode of social production in this part of the Global South. It is not clear to what extent, if at all, global financial capital is to blame for the upward income distribution and increased socio-economic disparity in Kazakhstan.

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# **Economic Impacts of Governmental Policies on the Manufacturing Sector in Kazakhstan: Analysis of the Automotive Assembly Industry**

**Akylbek Kazimov**

This abstract serves to the purpose of presenting some findings gathered during my experimental work while pursuing PhD in the KIMEP University. This paper is intended to contribute to the discussion on economic development and diversification of Kazakhstan during the time period 2000-2015. It is aimed to providing an explanation of the development dynamic of Kazakhstani automotive assembly industry through the lens of the “Developmental State” (DS) model. The present study seeks to evaluate progress of Kazakhstani economy on its quest towards diversification and what is the role of the state in this process. This research aims to respond to the questions about what impact does governmental policies have on the development of manufacturing sector and automobile industry in particular both worldwide and, specifically, in Kazakhstan, taking into account careful study on Kazakhstani specifics in order to avoid over-generalizations.

The paper argues that development of Kazakhstani automotive assembly industry was determined by the governmental policies, which initially, established the industry and then contributed to its development. The evidence suggest that governmental policies established a legal framework for functioning of the industry. Moreover, the state provided support for automobile sector entrepreneurs in various ways such as encouraging domestic and foreign investments, favorable tariffs and currency exchange rates, efforts for promoting an export.

During post-Soviet transition sovereign Kazakhstan inherited Soviet industrial base, which was situated in the territory of newly independent state, but in situation of the loss of export markets, breakup of All-Union industrial chain linkages, attacks on new businesses from both organized crime and rent-seeking officials, massive immigration of skilled industrial labor etc. (Felipe and Rhee, 2013). As a result, economy was shattered. Market reforms were made within the framework of liberal economic thought, which advocated for using comparative advantages in international trade. Vast and rich deposits of commodities became such advantage and became a fundamental of Kazakhstani economy. That was made by attraction of foreign multinational corporation investments into the extraction sector and led into an influx of foreign expertise, labor, technologies and finance. In 1996 the economy demonstrated economic growth of 5% (Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan, 1996).

However, the model of reliance on incomes from extraction of natural resources resulted in the so called “resource curse”. “Dutch disease” meant more and more dominating extraction sector in the structure of economy (The Economist, 1977). As a result, there were imbalances within the economy in terms of higher mining sector revenues and diminishing returns in other sectors along with higher dependence on extraction as primary source of income. This was significantly influenced by external factors like world prices on minerals, which was demonstrated during Asian financial crisis in 1998. It hit hard on Kazakhstani economy while it began to recover from initial shocks of the fall of Soviet economy (International Monetary Fund, 1999). Furthermore, financial crisis in Russia in the same year had its negative impact on Kazakhstani economy.

The government realized that growing dependence on commodity extraction sector meant greater risks for macro-economic stability along with degradation of other sectors of economy.

The Kazakh government openly declared its modernization and industrialization goals in the governmental “Strategy “Kazakhstan-2030” (Republic of Kazakhstan Presidential Address to the People of Kazakhstan, 1997). One of the goals was that Kazakhstan should be one of the 50 most developed countries in the world by 2030. Special emphasize was put on securing market economic institutions, attraction of foreign direct investments and intensification of state industrial efforts.

Enhancing manufacturing sector capabilities is an integral part of economic development (Rodrik, 2006). It is a long process taking decades to develop industries in order to make them competitive and requires active industrial governmental policies. Manufacturing development also brings technological advancement due to the largest input of R&D and many advanced services rely on production industries (Aiginger, 2014).

Furthermore, growth in manufacturing sector generates respective growth in productivity in other sectors of the economy. Manufacturing sector tends to draw resources from traditional sectors of the economy, without significantly reducing output in these sectors (Felipe, Mehta and Rhee, 2014). Channeling these resources into manufacturing is beneficial because manufactured goods have high share of added value meaning high income for producer.

Additionally, growth of manufacturing industry brings more jobs for population securing employment (Jones and Olken, 2005). De-industrialization in developing countries, in opposite to developed ones, leads to higher unemployment due to limitations on the behalf of service industries, which are skill-dependent, thus unable to provide jobs for masses of population. Also service industries are dependent on income of consumers and due to, in many cases, non-tradable nature of services’ product, thus, intertwined with national wealth, while manufacturing allows to export product on external markets (Rodrik, 2015). The developed countries’ deindustrialization, observed nowadays, have less significant impact on economic development of respective nation-states to industrial legacy and overall higher levels of development providing population and entrepreneurs with wider and richer opportunities (UNIDO, 2015).

Studies on successful industrial transformations of less-developed countries especially in East Asia in 1960-80s have articulated the importance of efficient state interventionist actions in economy (Amsden, 1989; Evans, 1989; Johnson, 1994; Woo-Cumings, 2000; Weiss, 1995). The state’s role was considered to be decisive in terms of economic mobilization due to the weaknesses of local private capital and rent-seeking behaviors of unruly officials. From import substitution industrialization theory, which failed to deliver desired results, the DS borrowed an idea of governmental policies of supporting infant industries, but adapted them to shifting global environment of 1980-1990s. Globalization bringing open borders for movement of goods created a space for DS export-oriented industrialization (EOI).

Efficient bureaucracy, which weren’t bound to electoral promises of politicians; private-public partnership instead of dictate from the state and political leadership unwavering will were considered to be key factors of successful industrial policies along with the EOI (Evans, 1995; Kohli, 1999; Polidano, 2001; Onis, 1991; Wong, 2004; Woo-Cumings, 1999; Thompson, 1996).

For methodology part, mixed approach consisting of both quantitative and qualitative methods is expected in order to enhance credibility of acquired information and diminish bias. For quantitative part I plan to analyze economic data on performance of Kazakhstani manufacturing sector and the automotive industry, in particular, taken from verified economic statistical sources. Meanwhile for qualitative part it is intended to use secondary sources like academic journals, peer-reviewed articles and case-studies.

Main goal is to analyze the policies implemented by Kazakhstani government in regard to the development of automotive industry. I will break down them into several broad categories: overall governmental automobile development strategy; investment policies, which include local content requirements; state protectionist measures; state financial support of the industry and state efforts encouraging an export. Correlation is expected to be found between implementation of governmental policies and economic performance of the automotive industry and, thus, identifying the impact of governmental policies on the industry. Limitations of such approach is taken into account as well. Economic performance is determined by various factors not related to direct actions of the state but, nevertheless, such method is seemed to be preferable as the most optimal way to answer the research question.

In sum, to repeat, evaluation of development of Kazakhstani automotive industry contributes to the discussion on economic development and diversification. Examination of the state efforts and its impact on economy in this task would asses on efficiency of state role in economy along with the state commitment to own declared economic goals.

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# Ecological restoration and economic recovery in Kazakhstan's Northern Aral Sea region

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## Abstract:

The famed Aral Sea crisis has gained global notoriety and ample scholarly attention across numerous academic disciplines. The regional crisis stems from the disastrous repercussions associated with unsustainable management of the Aral's feeder rivers, the *Syrdarya* and *Amudarya*. Largely anthropogenic in genesis, the crisis is most dramatically exemplified by the near-disappearance of what was once the world's fourth-largest inland water body by area. Ubiquitous photographic images of Aral shipping vessels stranded in the desert are a dramatic reminder of the sheer power of faulty logic and myopic vision vis-à-vis human interference in ecosystem functioning. Biophysical, environmental repercussions have included desertification, habitat destruction, species extinction, soil mineralization, dust storms, and the concentration of toxic chemical substances. Relatedly, socio-economic repercussions coalesce along the human health impacts associated with environmental exposure and dire economic situation resulting in the destruction of the region's economic base – the fishing industry. The totality of negative consequences for regional residents has led many scholars to identify the Aral Sea crisis as among the worst environmental disasters in human memory.

Part of what remains of the Aral Sea is located within Kazakhstan, including a small remnant lake fed entirely by the *Syrdarya*. This Northern Aral Sea (NAS) has been the focus of a number of optimistic popular press accounts of the so-called “saving” of the Aral. Simple examination of MODIS satellite imagery between say, 2000 and 2019, shows clearly that the Aral Sea has not been saved and in fact continues its receding desiccation. The lone point of optimism has been the 2005 completion of the Kok Aral dam and infrastructure associated with the partially World Bank-funded Syr Darya Control and Northern Aral Sea Phase 1 project. Since this project's completion, NAS water area and volume have been stabilized at an 18 percent increase. While this might be considered a rather modest improvement, the positive developments in both ecological and economic terms has been real and tangible. Habitat restoration has included that for the foundation of the region's economic base – fish and the resulting return (however modest) of the fishing industry.

The paper on which this presentation is based is forthcoming in *Focus on Geography* and co-authored with fellow geographer and noted Aral Sea scholar Philip Micklin. While ecological restoration will be addressed, primary focus is on the return of local fishing economic activity, including the harvest, processing, and export of fish. Positive ecological and economic developments have resulted in a genuine sense of hope and optimism within the NAS region, emotions long absent in the half century of assault from the Aral Sea crisis.

Keywords: Aral Sea, regional economy, fishing, World Bank, sustainability

# **Kazakhstan feminist march in 2021 and social media reaction**

**Nygmets Ibadildin**

## Abstract

This research is an analysis of the reactions to the feminist march in Almaty in 2021. Media both printed and TV are severely limited in Kazakhstan and main reaction was coming from the social networks. Our research puzzle is simple: why many females among Kazakhstan's Facebook users were negative to the march. Quite a few Kazakh female users stated that march does not reflect real needs of the females in Kazakhstan. Then the debate continued and Kazakh Facebook users were divided. Our research questions are: Was it language divide as critics claimed it was Russian and Western type of march or was the main claim of the march misleading and worked to support individual political capital of march organizers.

Methods we use are interviews with the five main participants of this discussion and discourse analysis of their statements and posts, where we look to connection between power and meanings in the texts. We think our paper would contribute to better understanding of the situation with female rights and feminism movement in Kazakhstan

*Key words: feminism, female rights, Kazakhstan, political protests, cyberactivism, social networks*

## LATINIZATION OF THE KAZAKH LANGUAGE: POST-COLONIAL ASPECT

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**Abstract.** Since Kazakhstan got independence in 1991 republican leadership persistently raised the issues of Kazakh language switching to Latin script that have been realized in some Central Asian states. This transformation should be completed by 2025: this step has caused a large number of discussions concerning its long- and short-term consequences.

**Introduction** Since Kazakhstan gained its independence in 1991, along with a consistent effort to improve the status of the Kazakh language, the administration of the Republic raised the issue of switching to the Latin alphabet several times, motivating this step by keeping pace with the demands of the time, as it took place in other Central Asian republics - Turkmenistan, Uzbekistan and Azerbaijan. In January 11, 2013 speaking at a meeting of the Senate, President of the Republic of Kazakhstan Nazarbayev made a statement about the planned transition of the Kazakh language to the Latin alphabet. In an interview to television channel 'Khabar' (August, 2017), the President reiterated the need to complete the transition to the Latin alphabet by 2025. This initiative causes a large number of discussions in the republican media space. The president believes that *"All business documents, periodicals and books should start to appear in Latin by 2025. At the moment, a lot of preparatory work will start"* [1]. The presidential statement should be viewed as the result of several and often contradictory processes taking place in the country, both in the field of nation building and the implementation of the program "to enter the list of the 30 most developed states". The transition of the Kazakh language into Latin is part of the program for modernization of public consciousness, proclaimed by the president in April 2017 [2].

In the light of the adopted program, issues arise related to its short-term as well as its long-term consequences. First of all, why exactly in the past, in 2017, did it again become necessary to implement it? Which political groups are interested in implementing it? What geopolitical / political / or ethno-linguistic processes are driven by the president's initiative?

The first part of the process of "Latinization" is connected with the internal problems of the republic. As the president pointed out in his article [2], Kazakhstan is now passing through the third wave of modernization in order to achieve the goals set in the state strategy - to become one of the 30 most developed countries in the world. Reforms in education, economy and finance sectors move Kazakhstan towards the Western model state, herewith, the mixed model of the economy with the growing role of the state became a feature of the Kazakhstan model [3]. On the other hand, economic pragmatism, as an instrument for implementing this program, should focus on long-term interests and the economic feasibility of taken decisions.

Along with economic transformations, the rapid transformation of Kazakhstan's society was accompanied by the strengthening the role of the nation-state and, accordingly, the Kazakh language. The Kazakh elite in the 1990s successfully used Soviet technologies of national construction to achieve a relatively painless dominant position [4]. It is this strategy, along with

the objective processes of the 1990-2000s, which made it possible to translate the Russian-speaking population into the category of ethnic minority [5].

American researcher S. Peyrouse argues that a new trend towards "de-russification" led to paradoxical results in relation to the Russian ethnic minority. Russophobia in the Central Asian space has little in common with the "Russian question" - the dynamics of the relations of the Asian republics is determined, to a large extent, by labor migration and, consequently, by good relations with the former metropolis. In addition, quite often "nationalist rhetoric" uses arguments rooted in the economic mistakes of the political leadership, which later becomes part of the nationalist agenda [6].

One can agree with the opinion of Peyrouse that it is the "migration agenda" that dictates the policy towards the Russian language [5: 1-2], including the preservation of Cyrillic in such labor-surplus republics as Kyrgyzstan and Tajikistan. Uzbekistan stands apart, since the decision to transfer to the Latin alphabet was made back in 1993. By 2005, Russian language had ceased to be used at the official, state level, although it still has a circulation at the household level. Kazakhstan does not fit into this regional migration agenda; however, until recently, the future of the Russian language in this republic did not cause much concern. Nevertheless, Peyrouse quite rightly points out the different nature of such phenomena as Russophobia and the "Russian question" - the latter for Kazakhstan is the most relevant part of the nation-building program.

R. Brubaker, in his article "Nationalizing States in the Old "New" and the New Europe", defined this concept as a "nationalizing" state, understood as "the state created by the indigenous nation for a particular "ethno-cultural" indigenous nation, "whose language, culture, demographic position, economic prosperity and political hegemony it (the state) should protect and whose interests it promotes" [7:]. Moreover, Brubaker believes that, obviously, the main element of this process is the existence of such a feeling as "belonging to a certain ethnic group", which has nothing to do with the concept of citizenship or belonging to the nation as a whole. This is a sort of "compensation" project aimed at correcting the admitted historical injustice, which can be viewed as an anti-colonial or post-colonial project. Post-Soviet Kazakhstan certainly belongs to this category of states.

Simultaneously with the postcolonial /anti-colonial project, the main task of the "nationalizing" post-Soviet states was the building of a national identity that would become a guarantee of the political stability necessary for the realization of economic and political reforms. Thus, the "nationalizing" state is trapped in two opposite trends: the need to integrate into a global world governed by liberal values, and actually a "national-ethnic" project that can only advance on the principles of nationalism.

Attempts to harmonize these heterogeneous problems in the national project lead to a sphere, which allows to simultaneous changes in political, social and importantly, in cultural environment. This is the sphere of language and language policy.

In 1984, the American researcher R. Ruiz published an article "Orientations in Language Planning", where he outlined the main problems of language planning, such as 1) language - law, 2) language - resource and 3) language - problem. [8]. Despite the fact that Ruiz wrote about the situation with bilingualism (Spanish, English) in the United States, having in mind the peculiarities of the introduction of bilingual education, he nevertheless came to the conclusion that the initial education in native language allows subsequently to easily switch to the study of other languages.

The theory of Ruiz played a big role in the history of education and language planning. First of all, this concerns the modern interpretation of the three aspects of language planning. If the transition of the Kazakh language to the Latin alphabet proceeds from the premise of "language as a resource", this means equal learning of the two languages, with the full opportunity to use both languages for professional and personal development. "Language as a problem" means that the language of an ethnic minority gives little grounds for such growth, while "language as a right" makes it possible to learn the language of its ethnic group / ethnic minority. However, if this right is realized formally, knowledge of the language will not at all mean additional professional or career opportunities in life.

The language policy declared by the leadership of Kazakhstan looks like the realization of the concept of "language as a resource", which makes it possible to explain the transition into the Latin alphabet by the need to take into account the linguistic features of the Kazakh language. Conditionally, this process can be designated as "technocratic", i.e. not having clearly defined political goals.

In addition to the technocratic trend, analysts consider, there is also a geopolitical order for the implementation of the latinization project. To put it differently, the transition to the Latin alphabet will divide the Kazakh society into those who use the Cyrillic alphabet, and this is mostly middle-aged and elderly people, and those who, due to lack of knowledge of this alphabet, will be closed to the Russian-speaking community. An alarming signal for the society is poor education level, ignorance of literature and the art of Russia, which is a part of world culture. After the introduction of the Latin alphabet, this trend will be completed accompanied by the political withdrawal of Russia from the Kazakh-language Kazakh cultural space.

Most experts, as well as academic scholars, consider the process of "latinization" as a factor of geopolitical preferences [9; 10; 11], or considers it to be a technocratic task [12], but the question is which group is promoting this project and its strategic goals has remained virtually undisclosed.

In the opinion of the author, today, in the Latinization project, the last stages of the post-colonial phase of Kazakhstan's development are traced, despite the fact that this process was basically completed in the 1950s-1980s of the 20th century [13] during the Soviet period of the republic's history. Russian researcher A. Remnev believes that the Russian language and literature plays a big role in the post-colonial discourse, especially in the context of the phenomenon of "Russian-speaking" of the Soviet period, when many Kazakh writers created their works in Russian. In one of the articles the author expressed the opinion that the culture of the metropolis, and this position continued to exist in the Soviet period, was perceived as a "high culture", as a model and an example for imitation, and most importantly, as the main channel for familiarizing with the global, culture". It was this factor that gave the Kazakh intelligentsia an additional reason to feel part of a large, magnificent cultural space, moving away from the dual, splitting influence of anti-colonial discourse. The rise of nationalism and national cultures in the USSR in the 1970s and 1980s contributed to the emergence of new trends, for which "the Russian language no longer seems to be" the great legacy of the empire" and its "valuable gift"[14: 177]. Nevertheless, these are still manifestations of post-colonial discourse, which continues to maintain the high status of the Russian language, even if it is still a language of communication. Anticolonial discourse shifts to simpler solutions - to copy and reproduce the imperial and colonial on its national basis, using the resources of the state [14].

In a small polemic article by Alima Bisenova “О манкуртизме и пост-колониализме” [15], published in 2008, very important issues related to the anti-colonial and post-colonial discourse of Kazakhstan society are raised. Bisenova considers the problem of Kazakhstan's post-colonialism as a necessity to position itself in isolation from the former metropolis, since we do not want to be ‘mankurts’, i.e. people who abandoned their native culture and language in favor of the colonizer. However, the task of modern, i.e. The post-Soviet ‘mankurt’ is much more complicated, it should not only realize and condemn its ‘mankurtizm’, i.e. clean up from the previous identity, but still not fall behind the general goal of modernization and westernization, which the Bolsheviks “seduced the poor indigene”.

The post-colonial ‘Mankurt’ is trapped in diametrically opposite paradigms of development. On the one hand, it returns to the origins, and, consequently, the language and culture of the former metropolis must withdraw from the new reality, moreover, it must realize and condemn this colonial status. On the other hand, it needs to wear a “white mask”, to become different, to be recognized in the ‘world of whites’, and thus, somehow, to find oneself. This is the pressure of a new global world with already established rules and norms.

The Latinization project seems, as an attempt, first of all, to condemn “its shameful colonial past”, but not to stand apart from the main road of development of the rest of humanity. The article attempts to answer the question, which groups are currently promoting this project in the context of post - colonial discourse.

The value of this project, if in case of successful implementation, will be difficult to overestimate. The transition to the Latin alphabet, according to the authors of the project, will contribute to the gradual withdrawal from the sphere of influence of the metropolis, while simultaneously aimed at further rapprochement with the Western world, which means the implementation of the modernization program begun as early as 1920-1930.

## **Theory**

The post-colonial theory today is more relevant than ever in the Central Asian region [16]. However, post-colonial discourse itself demonstrates the extreme inconsistency of its application. On the one hand, post-colonial discourse “is aimed at combating the legacy of the past in the style of” deconstruction of old myths “[17]. At the same time, it is closely connected with the anti-colonial project, as it is “1) a project of deconstruction of the West as a subject of imperial discourse ... The West is viewed as a Great Colonizer” and “2) a project of legitimizing anti-discourses, a program for developing and reflecting various anti-colonial strategies “[18: 34].

One more feature of the post-colonial discourse of recent decades should be noted. It is the product of a completely successful academic environment of post-colonial countries [18], which is increasingly drawn into the global international field of science. In turn, in this field we observe the crisis of the Eurocentric and American - centric worlds, which adds deconstructive elements to the processes analyzed by post-colonial discourse. Despite the attempts of post-colonial discourse to become a kind of “mediator” between the colonized and the colonizer, post-colonial discourse itself is not free from internal split.

Summarizing what has been mentioned, it can be said that the dual nature of post-colonial discourse manifests itself in its orientation against the heritage of colonialism, and, therefore, in attempts to integrate it into various anti-colonial projects. Within this paradigm, a proprietary self-identification model is being developed, in the case of “nationalizing” states, a new ethnic

identity. Indicators of this identity may change during the implementation of this project due to the correction of goals and objectives of state policy. For example, the history of post-Soviet Kazakhstan demonstrates that at certain periods nationalist rhetoric played a significant role, influencing the adoption of the most important decisions of the political leadership of the republic, especially in the field of language policy. Understanding the specifics of the construction of the nation-state is connected with the trends that set the agenda, is it about the growth of nationalism and, specifically, civil, state, separatist or ethnic?

The second side of the dual nature of post-colonial discourse manifests itself in its further development, and like any development process it will break up into a multitude of themes and subtopics, which later disintegrates into themes of nationalism, regions, gender, empire, etc. [18].

It is this disintegration into separate areas (nationalism, gender, empire, etc.) of post-colonial discourse becoming the main destructive tendency in the process of creating an ethnic identity that would be sustainable in a multinational state that is striving to meet international norms and standards. However, in the "nationalizing state", the global history - domestic / regional / local - is changing in favor of the latter in a number of objective and subjective factors. First of all, the dominance of anti-colonial and post-colonial discourses, that displaces the world's themes often on the periphery of the research interest.

Thus, the main focus of the research is the problem of national / ethnic identity which affects the choice of language, not only as a language of the state, but also as a language that should dominate the media and cultural space.

In order to specify what kind of political groups are promoting this project, it is necessary to identify which trends prevail in this period and how it is synchronized with the indicators of ethnic identity that change depending on the nation-building priorities.

### **Research Methodology**

The present study is devoted to the identification and analysis of such event as the transition of Kazakh language into the Latin alphabet by 2025. The program, announced by the President of the Republic of Kazakhstan N.A. Nazarbayev, caused a widespread response and ambiguous assessment, both among the academic community as well as among ordinary citizens. The main questions around which the study is being built are: 1) Why the program was adopted in 2017, part of which was the transformation of the Kazakh language into the Latin alphabet, 2) Which political groups were most interested in promoting this project, and 3) The ethno-linguistic, political and geopolitical processes that catalyzed the adoption of this program.

In order to establish the nature of the processes that have affected the "Latinization" of the Kazakh language, one should dwell on the history of the introduction of the Latin alphabet in Kazakhstan: when, at what period, which political groups implemented this process. It is necessary, using the historical method, to establish the reasons for the transformation of the Kazakh language from the 1920s. Comparison of the historical situation of the 1930s - 1940s years of the transformation of language policy in independent Kazakhstan will help to identify the cause-effect relationships of changes in language policy. The establishment of cause-effect relationships, relevant to the research tasks, in turn, will help to reveal the nature of the processes taking place in the republic today and their impact on political decisions.

Comparative analysis of the indicators of modern Kazakh identity and the one that was created in Soviet Kazakhstan in the 1920s and 1930s should reveal what groups are currently promoting



project of “Latinization”. According to Kazakh scholar A. Gali the modern Kazakh identity is built on such indicators as “Kazakh language, traditions, Muslim religion, history and statehood [19:16]. At the same time, it is recognized that Islam is not a “key factor in the ethnic mobilization of Kazakhs” and was simply included in Kazakh traditions, along with traditional cults.

Russian historian Remnev considers “much more important in this list are language, history and commitment – through them – to Kazakh traditions” [14: 178].

In order to identify the groups most consistently supporting the implementation of this project, you can use the content analysis of those publications, essays, analytical and polemic materials that appeared on various Internet resources after the publication of the article by President N.A. Nazarbayev, dedicated to the spiritual modernization of Kazakhstan society. By comparing the number of keywords in these Internet sources, which should be distributed according to indicators 1) Kazakh language, 2) traditions and 3) history, we can conclude who (scientists, experts, a separate group - philologists, active citizens, state officials) are the most interested part of the Kazakhstani society in promoting this project. It is this section of this work that gives some objective justification for the conclusion about the post-colonial nature of the ongoing language policy and, in particular, the project of "Latinization".

The study of the timeframes for the implementation of the project, that is, what exactly causes the political leadership to intensify its efforts in 2017 with the prospect of its completion in 2025 is based on an analysis of geopolitical / political and ethno-linguistic processes. First of all, it is a model of Kazakhstan's cooperation with its neighbors in the region, as well as participation in various integration processes, and involvement in the global political agenda. Ethno-linguistic processes are closely related to the demographic situation, changes in the composition of the population, and the type of nationalism promoted. The combination of all these factors gives grounds for a conclusion about the nature of post-colonial discourse in the program of "Latinization" of the Kazakh language.

### **From the history of the problem to its present**

A very controversial researcher, the "freelancer" and oppositionist E. Bitici, defines post-colonialism as "a historical state marked by visible, official independence and a latent state of dependence on the former metropolis, revealed in the remnants of the colonial hierarchy of knowledge" [20]. When and how does this very dependence appear? How much language does this hierarchy reflect? The post-colonial theory considers colonial dependence, including the power established by the colonialists over the culture and education of the conquered population. The latter is important for understanding the hierarchy of culture, and most importantly the language, since the imperial language, of course, must dominate in this area.

Importantly, as it can be seen in Bitici's approach, the understanding of such phenomenon as "Post-imperial determinism", when practically all social and political phenomena's in the life of the new independent states are explained by the influence (as a rule, negative) of the former metropolis. Inside this perspective of post-colonial theory, there is a dual splitting of the consciousness of new independent societies. On the one hand, "colonial societies are characterized by a desire to restore the" authenticity "of their culture," on the other hand, they "encounter in this case the fact of hybridity of their own origin under the influence of colonization, torn between imitation and originality" [15].

So, what reforms did the Kazakh language experience during its stay in the USSR? And how did these changes affect the understanding of the "originality" and "imitation" of the native language?

Based on the works of foreign and domestic researchers of the Soviet period, M. Isaev in a monograph published in 1977, identified three main stages of the implementation of language policy in the USSR. The first involves the reform of the old spelling, the second stage involves translating the Latin alphabet and creating new spellings for languages that did not previously have their own written language, and the third is the translation of national languages into Cyrillic [21:16].

The translation of the languages into the Latin alphabet was carried out on the territory of Central Asia, Siberia, the Volga region, and also in the Caucasus. This twist in language policy was explained by the fact that many languages of the peoples of the USSR were based on Arabic, Hebrew, and also Uighur-Mongolian fonts. The complexity of these languages has become a main task to solve for the authorities – to eliminate illiteracy. In addition, Soviet linguists believed that the Arabic alphabet is not capable of transmitting the sounds of the North Caucasian and Turkic languages. The Arabic alphabet was used in Turkic languages, including the Kazakh language. Not surprisingly, those languages borrowed a large number of words from the Arabic language.

The Bolshevik government was very attentive to such a sensitive political theme as teaching in their native language. Back in the early 1920s, I.V. Stalin wrote that there is no compulsory state language, since each region has the right to choose the language spoken by the majority of the population, while the rights of national minorities should also not be discriminated, including on the issue of school education [24]. Already in 1921, Turkestan began teaching in national languages, including the Kazakh language, and in March the Kazakh Central Executive Committee adopted a decision on the compulsory study of the Kazakh language.

Regarding language policy, the most interesting question is when the Stalinist strategy of Soviet construction integrated the imperial dimension. Is the Stalinist modernization project, known as the building of socialism in one single country with a program of "Russification", as an imperial ideology, fully consistent?

Since 1940, the introduction of the Cyrillic alphabet, also a politically motivated campaign, has begun to divorce most of the Kazakhs from pan-Turkic and pan-Islamic views [22]. One should not forget that most of the political emigrants from Central Asia settled in Turkey in the 1920s-1930s, where Kemal Atatürk conducted a successful translation into the Roman alphabet of the Turkish language.

In fact, since 1940 the language was created, in which there were many new words and borrowings close to the Russian language. Those countries that use the Cyrillic alphabet can communicate with each other quite easily, including the CIS countries and the Balkan republics. In part, this creates prerequisites for geopolitical attraction to Russia, as to the core of this world [9]. On the other hand, this project is fully consistent with the imperial dimension of the new Soviet strategy for building such a geopolitical reality as the Soviet Union.

First, if we accept the thesis that the USSR was built not so much as a socialist project, but rather as a project of a modernized empire aimed at restoring its economic and political positions in Europe and beyond, in the world space. No matter how critical the attitude of the academic

community to the personality of I.V. Stalin, no one can deny certain successes of his policy in the context of imperial ambitions. Secondly, the very project of the USSR in the context of the realities of the 1920s and 1930s can be interpreted as a regional integration project [27]. Like any integration project, the USSR needed a driver with a strong economy and certain political advantages to successfully implement this project. Only Russia with its vast resources, population, imperial management traditions and attractive national policies could become this driver.

The period 1950-80s became a new stage, fundamentally different from the previous anti-colonial direction. The rise of interest in history, the flowering of the historical novel, the appearance of literature devoted to the universal themes is the period of post-colonial discourse. Only this discourse has not yet been directed against the idea of Eurocentrism and the West, since the very project of the USSR is the implementation of the "Westernization" project of Soviet society. The successful academic and literary community focuses their efforts on the anti-imperial direction, which is seen as the main obstacle to the creation of its national state. The former identity is becoming obsolete, and the main element that needs to be replaced is language - the Kazakh language.

### **Independent Kazakhstan: the trend towards "Latinization"**

Since the period of 1991, i.e. when Kazakhstan began to pursue an independent policy, the ratio of Kazakh-speaking and Russian-speaking citizens in the country has changed dramatically. The question of a simple ratio of Kazakhs and Russians is not intentionally affected, as there is still a rather large proportion of Russian speakers among Kazakhs - in this language they learned, it is the language of communication and cultural space. Today we observe a steady trend towards an increase in the number of Kazakh speakers, including representatives of other ethnic groups who are fluent in the Kazakh language. President of Kazakhstan N.A. Nazarbayev in his article [2] paid special attention to the preservation of the national culture, language and history, which underwent fundamental changes in the 20th century. So, one of the main tasks of the nation will be the preservation and augmentation of the national spiritual wealth, which is impossible without the development of language. The question of language is also very closely related to the demographic factor. In 1989, the population of the republic was 16 million 200 thousand people, of which the Kazakh population was 40%, while in 1999 this figure reached 53.4% [30]. The economic reforms of the 1990s led to a sharp reduction in the number of unprofitable enterprises and, accordingly, to a sharp outflow of the Russian-speaking population from the republic [31], primarily because they formed the backbone of workers in heavy and light industry.

Promotion of the status of the Kazakh language is closely connected with the processes of successful nation-building [32], which was fixed in the 2000s. This process coincides with the process that Peyrouse called "passive loyalty to the new state, which is explained by the beginning of linguistic and cultural assimilation and the development of a dual Russian-Kazakh identity [31: 500].

In the light of the foregoing, the translation of Kazakh into Latin is a logical step of the government in the course of implementing the national construction program. Nevertheless, the question of translation into the Latin script caused a huge number of discussions [33], which showed that along with positive, there are a lot of controversial points in this program. First of all, there was a need to develop the Kazakh language itself, to develop new norms of language [12; 22; 34], which could provide a common platform for Kazakhs living in the republic and in the

CIS countries, and most of all, to those oralmen who return to the country from China, Mongolia, Iran, Turkey and Afghanistan. The fact is that among more than a million Kazakhs (oralmen) returning after 1991, many did not know Cyrillic. Some, like the Kazakhs of China, Afghanistan, Pakistan and Iran use the Arabic alphabet; other Kazakhs living in the neighboring republics of Kyrgyzstan, Russia, Uzbekistan and Turkmenistan use the Cyrillic alphabet. In the article of the director of the Republican Center "KAZBILIM" Akhmetzhan, it is affirmed that for the Kazakhs of the republic, there is only one option - to teach children in the Kazakh language, since the Russian language has no future prospects, which makes the transition to the Latin alphabet even more actual [22].

## **Content analysis: expectations and results**

### **Instead of conclusion**

The second part of the project was the work to identify the groups most interested in promoting the latinization project today. To solve this problem, 14 different kinds of publications published in Internet resources were analyzed. Nevertheless, it should be noted that most publications belong to language specialists or those who focus readers' attention on the linguistic aspects of the "latinization" program. They made up the most numerous group - 6 out of 14 works, then we can select publications that are conditionally united as "geopolitically" - 4 out of 14, the remaining 4 publications are judgment-based, whose authors try to conduct a more balanced analysis of the consequences of the program. As a result, the ratio of publications is as follows 6: 4: 4 - technocrats-linguists, geopolitical and judgment-based. It should also be noted that virtually all of the works in question are published in Russian and English. Publications in the Kazakh language were not considered, which as the author wanted to devote a separate work to these problematic.

The key words for these publications were divided into the following categories: **history** (*Soviet legacy, Soviet domination, Russian-speaking, ancestral heritage, national history*), **language** (*ethnic / ethnic identity, Kazakh language, urban Kazakhs, language status, language of instruction*), **traditions** (*to live on the land of great-grandfathers, the national idea, the national spirit, the native land, historical justice*). The set of keywords was based on the premise of the post-colonial nature of the program: in this case, it will be connected with colonial themes, for example, the key word of **tradition** will be the image of a return to the sources, to what once existed.

Analyzing the data of the table, we can come to the following conclusions. The largest number of keywords was recorded in the language section - *Kazakh language* (161) and *language status* (15). In the category of tradition, none of the authors use keywords: the only exception is the word of **tradition**, which occurs 4 times in all publications. In the category of **history** (26) there is practically no mention of the Soviet past, as domination, the Soviet legacy and the very concept of *Russian-speaking* are mentioned only 6 times. (Annex 1).

It seems that these very limited and approximate data give some food for thought. First, anti-colonial discourse is over, at least in the Russian-speaking environment. A separate issue is the post-colonial nature of the latinization program. Two approaches should be emphasized here, referring to the need for language modernization, the authors emphasize the need for integration into a global cultural space in which the primacy of the English language is not questioned. Secondly, the need to take into account the peculiarities of the language, without which its full functioning and further development is impossible, is constantly stressed. Linguists and

specialists close to their point of view believe that the imperial (Soviet) project has exhausted itself, there is no need to preserve the outdated basis of the language. This approach, with some caution, can be regarded as post-colonial, since it is necessary to get rid of the "colonial" past, but at the same time, the very idea of the "white mask" of its relevance does not lose. The post-colonial language wants to preserve itself in a global space, to keep pace with modern processes, which cannot be accomplished without being inscribed in modern world processes.

The Kazakh language still cannot compete in attractiveness either with the Russian, or, especially, with the English language. To complete the anti-colonial project, it would be enough to simply translate into the Latin script, as was the case in Uzbekistan and Azerbaijan. The task of Kazakhstan's specialists is more complicated: they want not so much the completion of the anti-colonial as the addition of new content to the post-colonial aspect of the latinization program.

#### Annex 1

	Satpaev	Aydos	Temirgaly	Dotomz	Ospanova, Dautova, Iskhan,	Shustov	N.A.	Lynn Andrew	Fiernan	Fiernan	Balova	Kapital kz	Tukeva
History	1	0	1	0	16	1	2	1	3	0	0	0	1
Soviet legacy	0	0	0	0	0	0	0	0	0	0	0	1	0
Soviets supremacy	0	0	0	0	0	0	0	0	0	0	0	0	0
Russian-speaking	0	1	0	0	6	0	0	0	0	0	0	0	0
The legacy of ancestors	0	0	0	0	0	0	0	0	2	0	1	0	0
National history	0	0	0	1	0	0	0	0	0	0	0	0	0
National / ethnic identity	0	0	0	6	0	4	0	0	0	0	0	0	0
Kazakh language	2	4	2	67	16	3	0	6	31	1 1	3	1	13

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## **Kazakhstan's new environmental law**

**Federico Dalpane<sup>1</sup>**

On 2 January 2021, Kazakhstan adopted a new ecological code, which will enter into effect on 1 July 2021, replacing the ecological code adopted in 2007. The new code makes numerous changes to the environmental legislation of Kazakhstan, and was meant to be a comprehensive act to reorganize the whole environmental legislation, which is currently laid down, besides the code, in a number of separate statutes. The new environmental code takes into account the recent domestic and international developments in environmental protection and environmental law; it clarifies and expands on the principles enshrined in the prior code, and introduces a few new ones.

This paper will first outline the main legislative changes introduced by the new code; then it will examine the principles and the objectives of environmental law set in the code. The paper will highlight the shift from a "negative" view of environmental protection aimed at containing harm from human activities, to a "positive" view of environmental protection as the driver to a new way to conceive economic development and human activities in general. No longer an antagonist of industrial and commercial activities, in the new code the protection of the environment expressly becomes the key to the transition to the "green economy"; a conceptual and strategic shift, which is presently happening in the legislation and in the government action of many other world countries as well.

The new code features a new article on the goals and objectives of Kazakhstan's environmental legislation, art. 3. Among these objectives, a new emphasis on international cooperation is apparent, beyond compliance with international law; objective #4 is particularly eloquent: "ensuring the contribution of the Republic of Kazakhstan to strengthening the global response to the threat of climate change in the context of sustainable development, as well as to the implementation of international, regional and transboundary programs for environmental protection, adaptation to climate change and the transition to a "green" economy". Another prominent feature is the emphasis on building the capability for an effective environmental action, which is a necessarily complex activity involving the interaction and the coordination of all state bodies, and which therefore requires an effective public administration (objective #6). Notable are also objective #13, the formation of an environmental culture in society and the promotion of environmental education; and objective #14, promoting and strengthening legality in the field of environment.

The following principles, stated by art. 5 of the new code, underlie all the environmental legislation of the Republic: prevention (any harmful or potentially harmful activity is allowed only if all necessary measures are taken to prevent environmental harm); rectification (environmental damage must be eliminated in full); the precautionary principle (if there is a risk of causing environmental damage due to any activity that has significant and irreversible consequences for the natural environment, appropriate measures should be taken to prevent the onset of such consequences at economically acceptable costs, even if it is not possible to accurately assess the likelihood of these negative consequences); the principle of proportionality (measures for environmental protection must be those that are strictly sufficient to achieve the objectives of the environmental legislation; "the polluter pays" (the person, whose activity causes environmental damage in any form or harm to life and (or) health of people, bears all the

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costs of compliance with the environmental legislation of the Republic of Kazakhstan); sustainable development (the use of natural resources must be sustainable and must not harm future generations; renewable energy sources must be preferred, waste minimized); accessibility of environmental information (as provided for by international law, in the limits established by the law); public participation (the right of the public to participate in environmental decision-making); the ecosystem approach (when planning and making decisions, which affect the environment, the natural balance of the natural environment must be taken into account).

Subsequently, the paper will discuss two important areas of the code, which reflect the "participatory turn" of environmental protection, or the democratization of environmental protection, which is one of the most interesting developments in environmental law since the Aarhus Convention of 1998. This development has in fact two aspects: the right to access to ecological information, and the right for citizens and no-profit organizations to participate in government decisions in the sphere of environment. While the 2007 ecological code does provide for the right to access to ecological information and for the participation of citizens and no-profit organizations to government decisions, the new code gives them more prominence. The structure of the act itself offers a clue as to the increased importance of these aspects. In the old code, access to ecological information is regulated by a set of articles located in the middle of the long act, separately from topics such as participation to administrative decisions or ecological expertise (chapter 21, articles 159 and following). In the new code, instead, access to ecological information is provided for by chapter 4 (articles 17 and following), which immediately follows the chapter on the rights and obligations of citizens, including participation in environmental decision-making.

In conclusion, the new ecological code appears to be a modern and comprehensive instrument for the protection of the environment, informed by a new conception of sustainable development and by the powerful idea of the transition to a green economy. It is undoubtedly a major milestone; time and practice will tell which amendments will be necessary, and whether it will be properly implemented by citizens, companies, and government.

# **Economic Sanctions, Moral Norms and Geopolitical Security: The Triple Paths of Interaction between Russia and EU**

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At the beginning of the third decade of the 21st century, changes and chaos are emerging in world politics. The existing international structure is about to collapse, while the new world order has not yet taken shape. Every international actor, especially the world and regional powers, is making strategic adjustments according to the changing international system. Since the Ukraine crisis, Russia and the West have entered a period of stagnation. The European Union followed the United States in imposing sanctions on Russia. Sanctions and counter-sanctions constituted the new normal of Russia-EU relations in the past six years. The gradual increase in the contradiction between the United States and Europe, the launch of the EU's Strategic Autonomy and the outbreak of COVID-19 have brought new variables for the development of Russia-EU relations. At present, the EU adopts a dual-track system on the Russian issue. That is, it tries to solve the conflict in eastern Ukraine through diplomatic means while imposing sanctions on Russia. Economic sanctions, geopolitical security and moral norms have become the key factors affecting Russia-EU relations after the Ukraine crisis. The relations between Russia and Europe are not only shaping the peace and development of Eurasia in the future, but also have a profound impact on world order in the post epidemic era.

## **Economic Sanctions: the European Union and Russia in the trough**

Since 2014, the EU has periodically renewed sanctions against Russia for its involvement in the conflict in eastern Ukraine, while Russia has retaliated against sanctions imposed by the EU and western countries, including the US, Canada and Australia, by imposing counter-sanctions on agricultural products, raw materials and food. Since the entry into force of the Lisbon Treaty, the European Council has become the key decision-maker of EU sanctions policy. EU heads of state and government are more involved in sanctions policy than ever before. This part focuses on analyzing the legality of EU sanctions against Russia; criteria for judging and measuring the effectiveness of sanctions; discussing whether the EU's economic sanctions against Russia have achieved the goal and whether Russia's counter-sanctions measures have caused the internal differentiation of the EU and have a negative impact on European integration, the sustainability of Russia's counter-sanctions measures in the context of the COVID-19 pandemic.

## **Geopolitical Security: the Construction of the External Security Space of Russia and Europe**

From the perspective of the EU, Brexit, the refugee crisis, the debt crisis and the terrorist threat, etc, have made the EU into an awkward situation of internal and external troubles, resulting in the decline of its status and influence in world politics. The new major security challenges facing

Europe are characterized by the resonance between non-traditional and traditional security threats and the interweaving of internal and external security challenges. At the same time, Europe's interests are increasingly diverging from those of its traditional military ally, the United States. Under the combined effect of these factors, EU member states have developed a strong desire to strengthen independent defense cooperation. The EU and Russia share common interests and have reached many consensus in such aspects as nuclear non-proliferation, anti-terrorism, resolving conflicts in the Middle East and easing tensions in the Caucasus. This part mainly analyzes the joint point of establishing long-term stable relations and cooperation in the construction of external security space between Russia and the EU.

### **Moral Norms: Obstacles to the Normalization of Russian-EU Relations**

Sanctions and counter-sanctions have dominated Russia's relations with the West over the past six years. Economic sanctions, diplomatic isolation and military deterrence from the West have put Russia under the greatest geopolitical pressure since the end of the Cold War. However, under Trump's administration, the cracks in the trans-Atlantic alliance have been widening, which objectively provides favorable conditions for the strategic proximity between the EU and Russia. In March 2016, the EU Foreign Affairs Council made the implementation of the Minsk agreements a key condition for any substantive change in the EU's position towards Russia, while the European Parliament has repeatedly expressed its strong concern about Russia's respect for human rights, the rule of law and a democratic state. This part focuses on the analysis of the conditions to be met for the normalization of relations between the EU and Russia, as well as the obstacles and difficulties faced by the normalization of relations between Russia and the EU.

# **Competition in Convergence: US-China and co-evolution in Global Capitalism**

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## **Abstract:**

We locate the on-going hegemonic rivalry between the United States and China in the long-term cyclic changes of global capitalism. Rather than sustaining the story of “de-coupling” or “divergence”, which sees Sino-American competition arising from increasing gap in ideological and institutional differences between these two powers, we argue that the recent more confrontational US-China relation is the result of significant convergence between the two countries on multiple fronts. Starting from different starting points, the two countries are subject to the same larger systemic trends, including recent financialization, in global capitalism and have experienced significant co-evolution during the past four decades. As a result, the two countries are more like similar species competing for the same “ecological niche” in the ecosystem of global capitalism. Meanwhile, since they are converging from different starting positions in the world system, American and Chinese ruling elites present different spatial visions, advocating for different political geography of their preferable arrangement of global capitalism, hence the new spatial/geographic dynamics of hegemonic competition. “Competition in convergence” is also fully reflected in the on-going trade war between the two countries.

# Cooperation of digital economy between China and Central Asian countries in the Post-Pandemic Era

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**Abstract:** In recent years, Central Asian countries, including Kazakhstan, have generally regarded the digital economy as a new driving force and direction for building a modern economic system and promoting the high-quality development of their own economies, and have actively carried out foreign cooperation. China and Central Asian countries have established good neighbor relations, have a good foundation for digital cooperation. The digital economy development strategies introduced by Central Asian countries in recent years coincide with the initiative of jointly building a digital silk road proposed of China. China and Central Asian Countries have cooperated in factors of Digital Interconnection and E-commerce. The digital economic cooperation between China and Central Asian countries will face many challenges. In the Post-Pandemic Era two sides can cooperate in digital infrastructure hardware and software construction, provide human resources guarantee and so on.

Digital economy refers to a series of economic activities that use digital knowledge and information as key production factors, modern information networks as an important carrier, and the effective use of information and communication technology as an important driving force for efficiency improvement and economic structure optimization. The essence of the digital economy lies in informatization. Relying on Internet technology, it promotes the construction of digital infrastructure, smart payment and logistics systems based on cross-border e-commerce, connecting the whole world as a whole and becomes a new engine of cooperation among countries along the “Belt and Road”.

In recent years, Central Asian countries, including Kazakhstan, have generally regarded the digital economy as a new driving force and direction for building a modern economic system and promoting the high-quality development of their own economies, and have actively carried out foreign cooperation. Especially after the epidemic, digital economic cooperation may become a new area with the greatest potential for China and Central Asian countries to jointly build the Silk Road and improve the level of regional economic development.

## **I China and Central Asian countries have established good neighbor relations**

After 30 years of development, the relationship between China and Central Asian countries has continued to improve. Since the 21st century, China and Central Asian countries have established strategic partnerships. China and Kazakhstan have risen to a permanent comprehensive strategic partnership, China and Uzbekistan, China and Tajikistan, China and Kyrgyzstan have all upgraded to a comprehensive strategic partnership. Central Asian countries regard the development of relations with China as the priority direction of their foreign cooperation, which provides a basic political guarantee for digital cooperation between the two sides.

Since the outbreak of the new crown virus in early 2020, both Kazakhstan<sup>1</sup> and Uzbekistan<sup>2</sup> have provided emergency medical supplies to China. They have appeared on the list of the first 30 countries and international organizations that provided humanitarian assistance to China, providing moral and practical support to China. It embodies the close partnership with China. Since the outbreak of the epidemic in Central Asian countries from 2020 to 2021, China has provided Kazakhstan, Uzbekistan, Tajikistan and Kyrgyzstan with anti-epidemic materials and medical technical assistance for many times, and has become the country with the most humanitarian assistance to Central Asian countries. Almost half of the aid received in Central Asia.

Under the new crown pneumonia epidemic, telemedicine has developed rapidly in China, and contactless consultation has become the safest mode of doctor-patient communication. This has opened up a new path for China and Central Asia to enrich the cooperation model in the future. China and Central Asian countries uphold consensus, strengthen mutual assistance and cooperation in the fight against the epidemic, share anti-epidemic experience, technology and scientific research results, and jointly ensure the security of Central Asia and global public health. Under the 2020 epidemic, China has not terminated its investment projects in Central Asia due to the new crown epidemic. The transit transportation capacity of Central Asia has been steadily improved through the China-Europe Express Train. China and Kazakhstan's railway departments have reached an agreement to upgrade Dostyk-Alashankou. With the cargo passing capacity of Attenkerry-Khorgos Port, China and Kazakhstan have worked together to achieve a year-on-year increase in cargo throughput and stable operation of port facilities. Facts have proved that cooperation between China and Central Asian countries is a solid guarantee for the Eurasian region to defeat the new crown virus, and the strategic partnership between the two parties is unbreakable.

## **II Comparison of digital development strategies between China and Central Asian countries**

Both Central Asian countries and China regard the development of the digital economy as the focus of future economic development. Kazakhstan passed the "Digital Kazakhstan" National Plan in December 2017<sup>3</sup>. The President of Turkmenistan approved the "Turkmenistan Digital Economy Development Conception for 2019-2025" in November 2018<sup>4</sup>, and Kyrgyzstan passed the "2019--2025 Digital Economy Development Concept"<sup>5</sup> in December 2018. The resolution of Kyrgyzstan's Digital Transformation Concept in 2023 and an implementation roadmap<sup>6</sup> was issued in February 2019. Tajikistan government passed the resolution on the results of Tajikistan's social and economic development in 2018 and tasks in 2019 in January

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<sup>1</sup>МИД КНР поблагодарил Казахстан за гуманитарную помощь в борьбе с коронавирусом. 3 Февраля 2020, [https://www.inform.kz/ru/mid-kr-poblagodaril-kazahstan-za-gumanitarnuyu-pomosch-v-bor-be-s-koronavirusom\\_a3610464](https://www.inform.kz/ru/mid-kr-poblagodaril-kazahstan-za-gumanitarnuyu-pomosch-v-bor-be-s-koronavirusom_a3610464).

<sup>2</sup>李遥远: “乌兹别克斯坦援助中国医疗物资启运”, 经济日报-中国经济网, 2020年2月13日, [http://intl.ce.cn/specials/zxgjzh/202002/13/t20200213\\_34257664.shtml](http://intl.ce.cn/specials/zxgjzh/202002/13/t20200213_34257664.shtml).

<sup>3</sup>Об утверждении Государственной программы «Цифровой Казахстан». Постановление Правительства Республики Казахстан от 12 декабря 2017 года № 827., <http://adilet.zan.kz/rus/docs/P1700000827>.

<sup>4</sup>[Утверждена Концепция развития цифровой экономики в 2019-2025 годах](https://www.tfeb.gov.tm/index.php/ru/2013-09-20-04-46-10/802-2018-11-30-10-53-29), 30 ноября 2018, <https://www.tfeb.gov.tm/index.php/ru/2013-09-20-04-46-10/802-2018-11-30-10-53-29>.

<sup>5</sup>Совбез одобрил Концепцию цифровой трансформации на 2019–2023. 14 Декабря 2018, <https://elgezit.kg/2018/12/14/sovbez-odobril-kontseptsiyu-tsifrovoj-transformatsii-na-2019-2023-gody-2/>.

<sup>6</sup>Правительство Кыргызской Республики. Распоряжение. от 15 февраля 2019 года № 20-р., <http://cbd.minjust.gov.kg/act/view/ru-ru/216896?cl=ru-ru#P>.

2019<sup>7</sup>.Uzbekistan in 2019 In November, a number of documents including the draft discussion draft and implementation road map of the "Digital Uzbekistan 2030 National Strategic Conception" <sup>8</sup>were released to actively promote the rapid development of the country's digital economy. The focus of digital economy development in Central Asian countries is mainly to accelerate economic development through the use of digital technology and improve people's quality of life; the long-term goal is to create conditions for the country's economy to embark on an innovative development path, including industrial digitization, transportation and logistics digitization, and agriculture digitization , Develop e-commerce and e-government, develop financial technology and non-cash payments, build smart cities, expand the coverage of communication networks and communication technology infrastructure, ensure the security of information and communication technology, improve the education level of residents and the digital literacy rate, and support the establishment of innovation Development platforms and other fields.

The development of China's digital economy has gradually risen to the height of national strategy, and specific decisions and arrangements for building a digital China and accelerating the construction of an innovative country have been proposed. In the past few years, China has intensively issued a series of policy documents covering various aspects such as Internet+, big data, e-commerce, smart cities, innovative development strategies, etc. It has established a policy support system with both top-level design and specific measures. This has created a strong synergy of all parties to promote the development of the digital economy.<sup>9</sup> The 14th Five-Year Plan that China has just adopted specifically refers to accelerating digital development, building a digital China, promoting the deep integration of digital technology and the real economy, accelerating the promotion of digital industrialization, and advancing the digital transformation of industries.

Digital cooperation between China and Central Asia is complementary. In recent years, Central Asian countries have begun to introduce planning measures for the development of the digital economy from a national strategic perspective, and continue to learn from China's experience to mobilize the forces of all parties to form a joint force for the common development of the digital economy. In addition to policy design and planning, Central Asian countries also need to learn from the experience and technology of Chinese companies in developing the digital economy. KPMG and Alibaba Research Institute conducted research on the development of the global digital economy, comparing the development levels of the digital economy of major global economies from five dimensions: digital infrastructure, digital consumers, digital industry ecology, digital public services, and digital scientific research. , The United States and China lead the world, ranking the top two.<sup>10</sup> China's e-commerce, mobile payment, cloud services, smart logistics, etc. will not only enable small and medium-sized countries, underdeveloped regions, small and micro enterprises, and ordinary people to obtain more development opportunities, but will also change the traditional business model regardless of location, scale

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<sup>7</sup>Концепция Цифровой Экономики в Республике Таджикистан. Утверждена постановлением Правительства Республики Таджикистан. от «30» декабря 2019 года, №642., <https://medt.tj/images/news/2020/15-01-2020-konsepsiya-rusi.pdf>.

<sup>8</sup>Представлен проект Концепции цифрового развития. 28 ноября 2019, <https://www.gazeta.uz/ru/2019/11/28/e-transformation/>.

<sup>9</sup>张德勇：“数字经济成为中国高质量发展的重要推动力”，中国网，2019年5月6日，[http://opinion.china.com.cn/opinion\\_52\\_205852.html](http://opinion.china.com.cn/opinion_52_205852.html)。

<sup>10</sup>“中国经济的韧性 | 毕马威康勇：数字经济是中国创新发展的重要动力”，新华网，2019年8月23日，[http://www.xinhuanet.com/tech/2019-08/23/c\\_1124911102.htm](http://www.xinhuanet.com/tech/2019-08/23/c_1124911102.htm)。

and time. Restrictions and support for merchants of different sizes to establish a systematic digital business model. The current economic growth of Central Asian countries is generally slowing down, and they hope to learn from the successful experience<sup>11</sup> and technology of integrating traditional industries and digital technology in China's "Internet +" action plan to create a new impetus for their own economic development.

The digital economy development strategies introduced by Central Asian countries in recent years coincide with the initiative of jointly building a digital silk road proposed by President Xi Jinping. During his two visits to China in 2019, the new President of Kazakhstan Tokayev emphasized the need to jointly develop cooperation in the digital economy and other fields. The leaders of Uzbekistan, Kyrgyzstan, Turkey, and Tajikistan have also proposed to develop digital cooperation with China. China and Central Asian countries, both developing countries and countries in transition, can jointly build the Digital Silk Road, dock digital economy development strategies, deepen practical cooperation in multiple fields such as digital facility interconnection, digital technology innovation, and digital transformation, and complement each other's advantages. Jointly seize the opportunities brought by the fourth industrial revolution to achieve leapfrog development.

### **III Digital Interconnection Cooperation between China and Central Asian Countries**

Central Asian countries and the Asia-Europe region generally suffer from lagging problems in the construction of network and other hardware infrastructure. For example, Uzbekistan lacks modern technology and infrastructure that can ensure the stable operation of the digital economy, the quality of urban fiber optic equipment is not high, the stability of telecommunication networks is insufficient, it is difficult to ensure the continuous operation of digital equipment, wireless broadband coverage and transmission speed are very slow, and it is difficult for remote areas. Use network infrastructure.<sup>12</sup>Turkmenistan's Internet coverage is relatively limited. It has just begun to build an advanced communication system to increase the number, quality and types of communication services, and to connect broadband to the most remote areas of the country.<sup>13</sup>

As the lag in the construction of internal digital infrastructure in Central Asian countries affects network coverage and operation speed, it will affect the number of users participating and the efficiency of cooperation in digital cooperation between Central Asian countries and China. China and Central Asian countries have developed digital hardware facilities and digital software. Effective cooperation.

First, China and Central Asian countries cooperate in the interconnection and interoperability of digital hardware facilities. China has a strong ability to build hardware facilities. For example, the European and Asian optical fiber cables from Shanghai, China to Germany through Central Asia have been opened, and the Urumqi regional international communication business import and export bureau for Central Asia and West Asia has been established. China China Telecom, China Unicom and China Mobile participated in the

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<sup>11</sup>Постановление Правительства Республики Казахстан от 12 декабря 2017 года № 827. Об утверждении Государственной программы «Цифровой Казахстан» (с изменениями и дополнениями по состоянию на 20.12.2019 г.).

<sup>12</sup>Абдурашидов Ж. Ф., Толибов И. Ш. К проблеме формирования цифровой экономики в Узбекистане. // Молодой ученый. №29(267) / 2019. С. 42-44.

<sup>13</sup>Цифровизация: интегрированная модернизация экономики Туркменистана. 9 сентября 2019, <http://turkmenistan.gov.tm/?id=19449>.



construction of China-Central Asia optical cable connection.<sup>14</sup> These have greatly improved China's data communication capabilities and speeds to Central Asia and even Europe, improved the distribution pattern of China Telecom's international communication entrances and exits, and effectively improved the quality and network security of China and Central Asian countries' cross-border communication networks.

Second, China and Central Asian countries cooperate in digital software. The agreement<sup>15</sup> signed by China and Kazakhstan in 2019 on the donation of supercomputers by the Chinese government to Kazakhstan will promote the improvement of Kazakhstan's digital research and development level. In terms of network construction, Huawei, ZTE and other companies have become intermediaries and participants in the digital economy of Uzbekistan, Kazakhstan and other Central Asian countries, as well as important telecommunications equipment suppliers, and have carried out a number of cooperation with Central Asian countries.<sup>16</sup> Since 2007, Huawei has actively participated in the "Village Connect" project in Kazakhstan, exclusively providing technical equipment to solve the communication problems of more than 300,000 people in remote areas of Kazakhstan; within two years from 2013 to 2015, it has completed the construction covering the entire territory of Kazakhstan 4G network, 4G network is available in the rural areas of Kazakhstan with more than 5,000 people.<sup>17</sup> Inspur Weihai Overseas Service Co., Ltd. and Kazakhstan National Railway Telecommunications Company have signed the "Kazakh National Data Center Cooperation Agreement."<sup>18</sup> At the end of February 2020, Huawei cooperated with Tajikistan operator Megafon to open the first 5G site in Dushanbe and start the first phase of 5G network operation.

#### **IV E-commerce cooperation between China and Central Asian countries**

##### **1. The development of e-commerce in Central Asian countries is on the rise**

First, the rapid growth of e-commerce in Central Asian countries. For example, e-commerce in Kazakhstan grew by an average of 26% from 2013 to 2014, and the average annual growth rate has accelerated to 30% since 2015. In 2018, the number of online shoppers in Kazakhstan reached more than 2.3 million, and the transaction volume of online shopping reached 259.5 billion tenge, an increase of 50% over the previous year. There are more than 1,700 independent online stores and about 20 e-commerce platforms providing products for more than 1 million SMEs Sales service.<sup>19</sup> In 2020, under the conditions of the epidemic, small and medium-sized enterprises urgently need to develop merchandise sales channels to drive the development of e-commerce and the change of residents' consumption habits, and e-commerce in Kazakhstan will achieve explosive growth. As of the end of 2020, the scale of Kazakh e-commerce transactions is 900 billion tenge, which is expected to reach 1.9 trillion tenge in 2022, accounting for 13% of

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<sup>14</sup>“乌鲁木齐区域性国际电信业务出入口局正式揭牌 中国—中亚光缆正式对接”，人民网，2012年5月21日，<http://politics.people.com.cn/BIG5/17945846.html>。

<sup>15</sup>*Асель Муканова* Казахстан – Китай: новый уровень всестороннего стратегического партнерства. 12 сентября 2019, <https://kazpravda.kz/articles/view/kazahstan--kitai-novii-uroven-vsestoronnego-strategicheskogo-partnerstva..>

<sup>16</sup>徐惠喜：“中亚国家搭上‘一带一路’快车”，《经济日报》2018年6月4日，第16版。

<sup>17</sup>黄文帝：“推进经济发展 实现共同繁荣——

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<sup>18</sup>王晓涛：“数字丝绸之路分论坛聚焦创新驱动数字经济等领域发展”，《中国经济导报》2019年4月26日，第02版。

<sup>19</sup>Одного триллиона тенге может достигнуть объем e-commerce в Казахстане к 2025 году. 28 Октябрь 2019, <http://academy.kz/it-v-kazahstane/item/7834-odnogo-trilliona-tenge-mozhet-dostignut-ob-em-e-commerce-v-kazahstane-k-2025-godu>.

total retail sales. It is expected to achieve the government's set of e-commerce proportion in 2025 ahead of schedule. Reach the 10% goal. Non-cash payment transactions have grown rapidly. According to statistics from the Central Bank of Kazakhstan, as of the end of October 2020, the value of non-cash transactions in Kazakhstan exceeded 26.7 trillion tenge, a year-on-year increase of 1.5 times.<sup>20</sup>

Second, Central Asia has issued policies on e-commerce one after another. The "Roadmap for E-commerce Development by 2025" formulated by Kazakhstan was approved in 2019. It clarifies three main development directions: expanding the scale of e-commerce exports; attracting companies to participate in e-commerce development and infrastructure construction; strengthening consumer rights protection And promote the development of e-commerce.<sup>21</sup> The government of Kazakhstan has also formulated preferential tax policies for e-commerce practitioners, which are guaranteed through legal forms. As early as December 2015, Uzbekistan passed the "Concept for the Development of E-commerce in Uzbekistan from 2016 to 2018".<sup>22</sup>In 2018, Uzbekistan issued a presidential decree on "Measures to Accelerate the Development of E-commerce" and determined the Uzbekistan's e-commerce development plan for 2018-2021, which involves six major areas, including: improving the laws, regulations and management framework of e-commerce development; Create a favorable environment for e-commerce; strengthen export capabilities and international e-commerce cooperation; develop e-commerce logistics infrastructure; develop human resources in the field of e-commerce; promote and raise public and business awareness of e-commerce.<sup>23</sup>

Third, Central Asian countries have begun to focus on the construction of logistics platforms. For example, Kazakhstan has greatly increased the speed of logistics by improving postal services. At present, there are about 120 companies in Uzbekistan engaged in international express delivery business, and its e-commerce and service industries have made great progress.<sup>24</sup> Kyrgyzstan intends to formulate plans for storage and processing facilities for agricultural products based on the supply of commodities, and to strengthen the attraction of investors to develop agricultural products trade and logistics center systems.<sup>25</sup>

## **2. The rapid development of cross-border e-commerce cooperation between China and Central Asian countries**

China has formed a huge market with a population of more than 1.4 billion and the world's most populous middle-income group. As of December 20, 2020, the number of Internet users in

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<sup>20</sup> Айнагуль Елюбаева : “Объем рынка e-commerce может достичь 1,9 трлн тенге к 2022 году” , 08.02.2021 , <https://kapital.kz/economic/93261/ob-yem-rynka-e-commerce-mozhet-dostich-1-9-trln-tenge-k-2022-godu.html>.

<sup>21</sup>“哈萨克斯坦将通过电商平台出口商品”, 中国商务部网站, 2019年9月10日, <http://kz.mofcom.gov.cn/article/jmxw/201909/20190902897766.shtml>.

<sup>22</sup>“乌兹别克斯坦出台多部法律大力发展电子商务”, 中国商务部网站, 2016年4月22日, <http://uz.mofcom.gov.cn/article/jmxw/201604/20160401303356.shtml>.

<sup>23</sup>Постановление Президента Республики Узбекистан. О мерах по ускоренному развитию электронной коммерции. 14 мая 2018 г., № ПП-3724., <https://lex.uz/docs/3744601>.

<sup>24</sup>Что может помешать развитию в Узбекистане перспективной сферы электронной коммерции и услуг?. 2 октября 2019, <https://uzdaily.uz/ru/post/46512>.

<sup>25</sup>Президент Кыргызской Республики Сооронбай Жээнбеков подписал Указ об объявлении 2019 года Годом развития регионов и цифровизации страны. 11 января 2019, <http://gamsumo.gov.kg/ru/press-center/news/517>.

China reached 989 million, ranking first in the world.<sup>26</sup>It has formed an online consumption, sharing economy, Credit payment and other digital life models. Since the 21st century, Central Asian countries' dependence on China for trade and investment has continued to increase. China has become the top three trading partners and investors of Central Asian countries for many years. In order to reorganize the economy after the epidemic, Central Asian countries are also urgently Need to cooperate with China, which has a huge market capacity. Central Asian countries are paying more and more attention to China's huge market potential and digital society, and they have a sense of urgency and crisis that they need to conform to China's digital society model to participate in the Chinese market competition.<sup>27</sup>In recent years, they have clearly regarded China as their export-oriented economic development. In important markets, through digital cooperation, we will vigorously develop markets in China's agricultural products trade, industrial industry, tourism and other fields.

In recent years, China and Central Asian countries have built a number of cross-border e-commerce platforms and logistics bases in each other's countries, and new business models and formats keep emerging. Cross-border and third-party e-commerce cooperation is growing rapidly, and cross-border, cross-institutional and cross-field e-commerce layout has expanded to the vast region of Asia and Europe.

First, the governments of China and Central Asian countries have promoted e-commerce cooperation. For example, in November 2019, the Ministry of Commerce of China and the Ministry of Investment and Foreign Trade of Uzbekistan signed "The Memorandum of Understanding on the Establishment of Investment Cooperation "and "The Memorandum of Understanding on E-commerce Cooperation".

Secondly, the scale of cooperation between enterprises has been expanding. Almost all large Chinese e-commerce enterprises have carried out multi-field and multi-mode cooperation with Central Asian countries.For example, in September 2018, the Kazakhstan Railway Express Company with Huawei and Yili Baitexing Trading Co., Ltd.signed the "Strategic Cooperation Agreement on Jointly Developing Cross-border E-commerce Business" , and all parties will make full use of the existing Kazakhstan Railway Express Co., Ltd. Infrastructure such as Atenkoli Dry Port, Khorgos Special Economic Zone, Transport and Logistics Center, Airport, Aktau Port, etc., carry out cross-border express logistics business between China and Europe through Central Asian countries, the annual cargo volume is expected to reach 1 million tons.<sup>28</sup>

Third, some companies in China and Central Asian countries have established e-commerce systems specifically for both markets. For example, AliExpress PayPal under Ali has entered Kazakhstan and Uzbekistan for a long time, and has now become the number one online in the local area. Among the trading platforms, Chinese clothing, home furnishings, and digital products are the most popular among Kazakh consumers. Agricultural products from Central Asian countries have also begun to enter the table of Chinese families more and more quickly.<sup>29</sup>

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<sup>26</sup>"2021 年中国网民人数是多少?"经理人网, 2021 年 2 月 5 日, <http://www.jinglire.org/rdxx/240494.html>.

<sup>27</sup>Вице-президент Евразийского региона компании Huawei Хоу Тао: ИКТ-база цифровой экономики Узбекистана будет прочной. 27 сентября 2019.

<sup>28</sup>"哈铁公司将与中方合作开展跨境电商业务", 中国驻哈萨克经商参处网站, 2018 年 9 月 25 日, <http://kz.mofcom.gov.cn/article/jmxw/201809/20180902790323.shtml>.

<sup>29</sup>"哈萨克斯坦主权基金同阿里巴巴签署战略合作备忘录", 中国财经网, 2016 年 5 月 27 日, <http://finance.china.com.cn/roll/20160527/3742739.shtml>.

Fourth, the e-commerce cooperation model between China and Central Asian countries has continued to innovate. For example, in 2016, Kazakhstan's national sovereign wealth fund Samruk-Kazyna led Kazakhstan Telecom, Kazakhstan Post with Alibaba Group signed a memorandum of cooperation, and Alibaba promotes Kazakhstan Telecom's Payment business cooperates with Alipay, promotes cooperation between Kazakhstan Post and Cainiao Network, and accelerates the logistics development of cross-border e-commerce in Russia, Central Asia and Eastern Europe. E-commerce cooperation is becoming an important engine for China and Central Asian countries to jointly build the Digital Silk Road in the post-epidemic era.

China's e-commerce, mobile payment, cloud serving, smart logistics, etc. will not only enable small and medium-sized countries, underdeveloped regions, small and micro enterprises, and ordinary people to obtain more development opportunities, but will also change the traditional business model regardless of location, scale and time. Restrictions and support for merchants of different sizes to establish a systematic digital business model. Affected by the epidemic, the world economy is currently experiencing negative growth. Central Asian countries can learn from the successful experience and technology of integrating traditional industries and digital technologies in China's "Internet +" action plan to create new impetus for their own economic development.

## **V Challenges**

Because the development of the digital economy in Central Asian countries has just started, there are differences in national strength, promotion efforts, and the choice of partners. There are huge differences in the digital divide between Central Asian countries, between industries, and between urban and rural areas. There are universal grand strategies and grim realities. It is difficult to achieve the goal of digital transformation. Therefore, the digital economic cooperation between China and Central Asian countries will face many challenges. Competition from external countries will also bring certain challenges to China and Central Asian countries to jointly build the Digital Silk Road.

### **1. Central Asian countries' digital infrastructure construction is lagging behind**

Internet informatization is based on "electronic" technology or equipment, and submarine optical cables are used as the means of connection between continents. The speed, quality and cost of network communication are important factors that restrict the development of the digital economy. Therefore, the quality of digital infrastructure services and services are improved. The primary task of efficiency is the substantial increase in network bandwidth and network performance. However, there is a widespread problem of lagging in the construction of network and other hardware infrastructure in Central Asian countries and the Asia-Europe region.

The slow development of infrastructure software such as digital finance in Central Asian countries affects the development of e-commerce. For example, Uzbekistan's mobile Internet often fails, the Internet itself is also very slow, bank card cash replenishment is difficult, the monopoly UzCard payment system itself is not perfect, 70% of citizens still like to pay cash when buying goods online, Not a bank card or payment system.<sup>30</sup>

### **2. Differences in digital governance rules and regulatory levels**

The development of the digital economy requires a strong legal framework and rule system

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<sup>30</sup>Что препятствует инициативам?. // Правда Востока. 19 марта 2019. №53 (29016), <https://www.pv.uz/ru/newspapers/e-commerce-association-uzbekistan-muzaffar-azamov>.

to protect the interests of all participants. In terms of cross-border digital services and trade, it is increasingly difficult to establish and implement national laws and regulations. Governments of all countries need policy space to regulate the digital economy in order to achieve various legitimate public policy goals. The digital development of Central Asian countries is faster than the formulation of relevant legislation and regulations, including digital competition, electronic taxation, cross-border data flow, intellectual property rights, digital trade, and digital use policies. The level of digital governance and supervision and management in China and Central Asian countries is quite different. It also lacks clear and unified governance rules and regulatory policies. Both parties need to jointly determine digital governance and regulatory standards and rules in multiple fields such as cross-border e-commerce payment methods, customs electronic ports, and cross-border tax supervision.

Digital rules in Central Asian area have not yet been established and unified, and there are greater hidden dangers and concerns about network security. The Central Asian region lacks basic regulations and principles of information and communication technology at the legislative level, the legislation lacks consistency, and the supervision of information and communication technology is fragmented. There are several different sets of differences in the regional legal protection system in Central Asia. The first group of countries, including China and Kazakhstan, has comprehensive legal protections against cybercrime, and all have data protection and confidentiality laws. In the second group, in the main legislative areas of Uzbekistan and Kyrgyzstan, there is at least one draft law on electronic transactions. In the third group, relevant laws in Tajikistan and Turkmenistan are still brewing, and consumer confidence is still low, which limits the growth of its e-commerce.<sup>31</sup>

In addition, cyber fraud and cyber crimes occur from time to time in Central Asian countries. Netizens face risks such as spam, cyber viruses, and cyber attacks. There are widespread cyber security concerns involving consumer privacy, personal data protection, and e-government information security. All these will affect the safe and effective supervision of digital economic cooperation between China and Central Asian countries.

### **3. Complex investment environment in Central Asia**

The business environment in Central Asian countries is unsatisfactory. According to the 2020 Doing Business Report released by the World Bank, Kazakhstan ranks 25th, which is relatively good; Uzbekistan, Kyrgyzstan and Tajikistan rank 69th, 80th and 106th respectively.<sup>32</sup> At the same time, the corruption problems of Central Asian countries are relatively serious. According to the Global Corruption Perceptions Index released by Transparency International in January 2019, Kazakhstan, Kyrgyzstan, Tajikistan, Uzbekistan and Turkmenistan ranked 124th, 132nd, 152nd, 158th and 161st.

In recent years, nationalism or regionalism has risen in some Central Asian countries. In the process of selecting and implementing digital economy-related projects, they may give priority to domestic companies or Western companies, which may increase the cost and uncertain risks of China's investment in Central Asia's digital projects.

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<sup>31</sup>Развитие электронной коммерции в Центральной Азии - «Финансы». 25 января 2016, <https://piv-bank.ru/finansy/17968-razvitie-elektronnoy-kommercii-v-centralnoy-azii-finansy.html>.

<sup>32</sup>“哈萨克斯坦计划进入全球营商环境排名前 20 位”，外交部网站，2019 年 9 月 2 日，<http://kz.mofcom.gov.cn/article/jmxw/201909/20190902900071.shtml>。

#### **4. Insufficient digital talent in Central Asian countries**

There is a serious shortage of digital talents in Central Asian countries, and there is a lack of interdisciplinary talents who understand both technology and foreign languages, and can communicate and cooperate smoothly with the outside world. This has become a bottleneck restricting digital cooperation between China and Central Asian countries. For example, within the framework of "Digital Kazakhstan", it is planned that the electronic rate of public services will reach 80% by 2022. However, due to the serious shortage of information and communication technology professionals in Kazakhstan, the implementation of this framework is bound to be affected.<sup>33</sup> Central Asian countries urgently need to train more digital professionals, but also need to improve the digital capabilities of their people. Insufficient digital literacy rate in Central Asian countries will affect the breadth of digital cooperation between China and Central Asian countries, and the lack of digital talents in Central Asian countries will affect the depth of cooperation between the two sides.

### **VI Thoughts on Digital Economy Cooperation between China and Central Asian Countries**

China and Central Asian countries have reached a broad consensus on deepening cooperation in the digital economy and jointly promoting the construction of the Digital Silk Road. According to the different stages of the digital economy development of Central Asian countries, China can carry out different cooperation strategies for countries with different national conditions, and through policy support and national strategic alignment, jointly promote the digital transformation process and modern development of Central Asian countries, improve the level of digital economy development in Asia and Europe, and create a beautiful and win-win digital silk road.

#### **1. To jointly build digital infrastructure and promote connectivity between China and Central Asian countries**

China leads the world in digital industry, Internet finance and other fields, and has successful experience and sound business model. Central Asian countries are in the early stage of digital economy development. China can help Central Asian countries build digital infrastructure and realize interconnection with Central Asian countries in the fields of data information services, Internet services, and international communications services.

First, cooperation in digital infrastructure hardware construction. Central Asian countries have great demand for digital infrastructure construction. Relevant Chinese companies can take advantage of their own advantages to actively participate in a number of hardware facilities projects such as the Internet, the Internet of Things, and optical fiber and cable planned by Central Asian countries. For example, Kazakhstan plans to provide broadband Internet to 18 million people by 2022.<sup>34</sup> Chinese companies can work with Central Asian countries to build fiber optic cables, artificial satellites, telephone lines, cable TV lines and other network facilities to provide Central Asian countries with routers, readers, repeaters and other hardware devices that control transmission channels. Promote the availability of digital infrastructure and services in Central Asian countries, and promote high-speed, wide-spread, full-coverage, and intelligent networks on both sides.

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<sup>33</sup>Марина Попова «Цифровому Казахстану» не хватает специалистов. 1 октября 2019, <https://kursiv.kz/news/ekonomika/2019-10/cifrovomu-kazakhstanu-ne-khvataet-specialistov>.

<sup>34</sup>Асель Шайхынова Реализация цифрового Шелкового пути. 9 февраль 2018, <https://railnews.kz/ru/news/2823/>.

Second, cooperation in the construction of digital infrastructure software. Chinese enterprises can continue to participate in the construction of digital software facilities in Central Asian countries, and work with Central Asian countries to establish basic information and communication technology infrastructure that combines high-quality software and hardware. At present, the Ministry of Digital Development of Kazakhstan has formulated a 5G development roadmap, is studying and formulating new 5G mobile communication technology standards, and has implemented 5G pilot projects in Nur-Sultan, Almaty and Shymkent. It is planned to be in Nur-Sultan, Almaty and Shymkent before the end of 2021. Nazarbayev University and the World Expo Park in Sudan have introduced 5G technology and will be promoted nationwide since 2023.<sup>35</sup>China can participate in cooperation.

China can also participate in the construction of digital industrialization at different stages of the economic digitization of Central Asian countries, such as with Central Asian countries jointly building Central Asian digital pipelines and other oil and gas industry informatization projects, and applying 5G technology and Internet of Things technology to Central Asian countries. In the field of energy mining; participate in the construction of industrial digitization, digital medical treatment, digital education and other fields in Central Asian countries, and promote China's "Internet +", cloud computing, blockchain and other technologies and experience to Central Asian countries. China can cultivate more new business forms and models in Central Asian countries that adapt to the level of local digital economy development, promote the digital transformation of Central Asian countries, develop and prosper the local digital ecosystem, and can help Central Asian countries realize their dream of catching the fourth industrial revolution and overtaking.

## **2. Vigorously develop e-commerce cooperation and create new opportunities for regional economic cooperation**

China's e-commerce development speed ranks among the highest in the world. Ten years ago, China's retail e-commerce transaction volume was less than 1% of the global total. By 2019, China's e-commerce transaction volume has ranked first in the world, accounting for more than 40% of the global e-commerce transaction volume.<sup>36</sup>

--Share the development experience of e-commerce and vigorously promote the cooperation between the two parties in this field.

--China and Central Asian countries can jointly develop cross-border e-commerce markets for each other. Central Asian countries can fully tap the potential of China's huge market of 1.4 billion people, and use e-commerce to make China an important export-oriented country and a major exporter of agricultural and manufacturing products. In addition, China's strengthening of cooperation with Central Asian countries lies not only in its huge market with a population of more than 70 million, but also in the huge potential of its transit transportation to third-party markets such as Europe, South Asia, and West Asia.

--Continuously innovate the e-commerce cooperation model between China and Central Asian countries. Breakthroughs have been made in cross-border e-commerce export business

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<sup>35</sup>Внедрить 5G планируется до 2021 года в Нур-Султане. // Казахстанская правда. 1 Октября 2019, <https://kazpravda.kz/news/tehnologii/vnedrit-5g-planiruetsya-do-2021-goda-v-nur-sultane>.

<sup>36</sup>“中国创新发展的全球位势:积极谋划, 加强数字基础设施建设”, 电子说网, 2019年4月26日, <http://www.elecfans.com/d/922935.html>.

model identification specifications, business processes, technical standards, and regulatory models to improve operational efficiency.

--Work together to create a good environment for cross-border e-commerce and promote regional trade facilitation. China and Central Asian countries can jointly improve the level of customs supervision services, simplify the inspection and quarantine process, negotiate and improve policies on cross-border e-commerce payment, quarantine, and logistics, and reduce the policy and legal risks of cross-border e-commerce companies on both sides.

### **3.Strengthen digital talent training cooperation and provide human resources guarantee**

The quality of digital talents determines the quality of digital transformation. China and Central Asian countries can further promote their cooperation in fostering digital talents from two aspects: the cultivation of basic digital capabilities for the whole people and the cultivation of digital professionals.

The focus of cultivating basic digital capabilities for all people in Central Asian countries is to provide digital training facilities such as computers and basic school education starting from elementary and middle schools to improve the people's digital application capabilities. China can cooperate with Central Asian countries to participate in various cooperative projects such as community IT training programs and digital literacy training courses in Central Asian countries, and assist Central Asian countries to carry out digital education and develop digital skills in educational institutions at different levels.<sup>37</sup>

Adopt multi-channels and multi-models to train professionals to improve the digital professional capabilities of employees in Central Asian countries. China and Central Asian countries can jointly cultivate digital talents. The universities and enterprises of both sides can be used as the media to coordinate education through various methods such as intergovernmental projects, school-enterprise joint projects, and targeted training projects. With the improvement of the digital capabilities of Central Asian countries, a new generation of information technology compound talents such as e-commerce, blockchain, artificial intelligence, big data, Internet of Things, and cloud computing can also be jointly cultivated in Central Asian countries to help the digitalization of Central Asian countries transformation and economic development.

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<sup>37</sup>Концепция Цифровой Трансформации «Цифровой Кыргызстан» - 2019-2023.



## **The phenomenon of synergy in education**

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The term "phenomenon" in the Philosophical Dictionary refers to "phenomenon according to Kant's philosophy: our knowledge is limited to phenomena (phenomena), that is, "matter for us"- "self-matter" - as the knowledge of the narrow world[1].

In the dictionary of the Russian language by S. I. Ozhegov, it means "a phenomenon is about a person or phenomenon that is not exceptional in any case[.]".

The term "synergy" is a Greek word for "synergy", "community", "cooperation" and is based on the interaction of parts in the formation of the structure as a whole[2].

The Philosophical Dictionary contains a detailed definition: "Synergetics is a modern theory of self-organization, the study of the phenomena of self-organization, nonlinear, unbalanced, global evolution, "order through chaos" (I. Prigogine), "bifurcation change, non-return of time", the study of the process of instability as a fundamental characteristic of evolutionary processes» [3].

Synergy of education is considered three-way: 1) synergy for the field of Education; 2) synergy in education; 3) synergy of Education.

Synergy in education manifests itself in the form of a combination of Science and culture, when the emergence, formation and development of new ones in various fields of knowledge is studied. The synergy of education is clearly evident in the educational process in the process of formation and development of the individual and his knowledge. The main principles of synergistic management are bitterness, completeness and subjectivity. And synergy in the system of professional development begins first of all with an attempt to build a whole system from various limited information, understanding that it is necessary to move on to the formation of a holistic view of the world through contextual perception of information[4].

According to V. Ignatov, the active introduction of synergistic ideas into education hinders, first of all, traditional pedagogical thinking and the adoption of the cognitive model in science and the reliability of developers of educational content, which will last at least half a century. For these reasons, the state of synergy in the system of pedagogical science has not yet been fully established[5].

Nevertheless, the question of introducing the principles of synergy into pedagogical theory and practice is becoming increasingly important, and this has been implemented by many researchers studying the specific problems of this theory.

V. A. Ignatov identifies three main components of the use of synergistic ideas in education:

- didactic aspects of adaptation of the ideas of synergetics of the content of Education;

- their application in forecasting and modeling the development of educational systems;
- use in the management of the educational process.

In order to analyze the principles of synergy of educational processes, it is necessary to determine how much the education system can be considered synergistically. To do this, it should be considered as an open, self-organizing, nonlinear system from the point of view of synergy methodology.

The education system can be considered open, since, first of all, the process of information exchange between the teacher and students is constantly going on (feedback), information collection, knowledge improvement, etc. in this process, new goals, methods and means of learning appear. Secondly, the content of education is changing, as it currently does not correspond to the knowledge and skills of students. Both the system and the result have linearity (non-linearity). Third, the ever-growing educational information space brings the system to a stable balance.

Budanov V. G. proposes three directions for the introduction of synergy in the educational process:

1. synergy of education (cycle of integrative courses in synergy at the end of secondary and secondary schools)
2. synergy in education (introduction to individual disciplines of materials reflecting the principles of synergy in each discipline)
3. synergy of Education (synergy of the educational process , formation of personality, knowledge ) [6].

As we can see, synergy in pedagogy is a methodological principle of the interdisciplinary level, since within the framework of concentrated participation in the pedagogical process, the phenomena studied in this field are considered.

Zhanabayev Z. zh., Mukushev B. A.: the education system needs a qualitatively new approach to solving these problems. Here, synergy can be used as a paradigm of the education system. If pedagogy has formed the knowledge, skills and upbringing of students, then the new paradigm means the development of creative initiatives and personal cultures. This, in turn, leads to self-development, self-development of Students, Students. In order for the education system to achieve these goals and objectives, three main conditions must be met: nonlinear (nonlinear), inequality (nonlinear) and transparency (nonlinear). It can be presented as follows and must have several specific cases:

- the pedagogical system should be open, for the exchange of information and energy with the outside world
- the pedagogical system should contain an active, energetic principle, characterized by the manifestation of the initiative of teachers, the desire for self-improvement, self-realization and increasing the effectiveness of the pedagogical process;
- the pedagogical system should be free to choose, which allows you to determine the ways of development, without pressure from the outside;
- The pedagogical system should generate real "energy", in addition to educational and practical activities, the implementation of initiatives aimed at achieving positive results;
- the pedagogical system can only develop in a system of dialogic interaction at different levels;
- the pedagogical system should be focused on the goals of self-development, the development of students ' personality, and the formation of value orientations[7].

These conditions are the most important factor in the implementation of the process of self-development of the education system, the process of self-government, which is the main problem of pedagogy. To solve this problem - to increase the professional activity and professionalism of the teacher. The reality of modern higher and secondary schools depends on the psychological, pedagogical and methodological growth of the teacher's professional qualifications.

Currently, the use of synergistic ideas in practice has made it possible to explain various phenomena of pedagogy from the point of view of synergistic approaches in pedagogical research. Makarova N. V.-synergistic platform for informing higher schools

G. I. Aksenova - the subjective position of the teacher in building the model of theoretical knowledge, Yu.V. Sharonin-the formation of creative qualities of a person in the system of continuing education in the study of psychological and pedagogical foundations, as well as in the management of educational institutions using synergetics, B. N. Bogatyr-conducted research in the discussion and general problems of informatization of Education.

V. G. Vinenko spoke about the application of the ideas of synergy to the school. A number of teachers paid attention to the introduction of synergistic ideas in the content of teaching subjects. For example, M. G. Gapontseva developed and proposed a universal course of Natural Sciences for the humanities, taking into account the idea of synergetics[8].

In a synergistic sense, knowledge is a person's self-organization in a full-fledged, disciplined system, developed in conjunction with the ideals of culture and connected with the images of the modern world.

The "open model" (open model) corresponds to the synergistic paradigm of Education:

- transparency of future education;
- integration of human scientific research of the world ;
- inclusion and implementation of synergistic ideas about the openness of the world, the integrity and interrelationship of Man, nature and society in the processes of formation;
- free use of various information systems that today play a more important role in education than direct communication with the teacher;
- individual direction of the educational process;
- the most important task of the student is to create a psychological climate, thanks to which education is constantly in the process of search and change, while forming new guidelines and goals;
- changing the role of the teacher: moving to modern actions in new, non-trivial conditions in an open, changing, irrevocable world [9].

In conclusion, synergy, which has become the triumph of reason in the light of science of the twentieth century, is still the future, when the ideas of synergy in the educational process occupy an important place in the field of Education.

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## **The role of the government policies in the higher education management in Kazakhstan under COVID-19.**

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### **Abstract**

The coronavirus pandemic has affected all spheres of people's lives, especially health and education systems. This research focuses on the role of the government policies in the management decisions of the higher education system (HES) of Kazakhstan during COVID-19 era. The Ministry of Education Science of the Republic of Kazakhstan stated that the Higher Education system has previously provided distance learning and was less affected by the new government policies than school education system. However, other analysts admit that HES was not ready to operate under lockdown and now has to adapt to new realities and challenges quickly. Moreover, the HES in Kazakhstan were based on the Soviet education system that has been managed and developed differently from the Western countries. The main purpose of this research is to understand the management effectiveness and public policy in decision-making of the higher education system in Kazakhstan. Particularly, there are two aspects in this study: 1) what problems and challenges the leadership of higher educational institutions (HEIs) of Kazakhstan faced during the pandemic; 2) how the government supported, helped and guided higher education institutions in overcoming the crisis of urgent transition to online education during the pandemic. The research methodology is based on both primary sources – public documents such as presidential speeches, government policies and institutional records – as well as secondary sources the critical literature review in English and Russian languages, and available data on official government sites. Moreover, this study discloses the results of online structured questionnaire with higher administration representative (rectors, vice-rectors, vice-provosts) of the 17 HEIs in Kazakhstan. Finally, the chapter provides the policy recommendations and discusses possible implications.

**Keywords:** *Higher Education; Global Pandemic; COVID-19; Management, distance learning, online learning, transition, emergency.*

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# The Determinants of Student Satisfaction in Private Higher Education Institutions in Kazakhstan

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## Introduction

Higher education institutions constantly focus on improving their teaching practices and physical facilities in the quest to attract more students. The higher education sector in Kazakhstan is no exception and has been experiencing rapid growth. To retain their competitiveness in the industry, Kazakhstani institutions are improving the overall quality of the services they provide. The number of students willing to enroll at a university is an essential factor that determines the university's survival. So far, Kazakhstani higher education institutions have been unable to measure the determinants of students' responses such as satisfaction and loyalty that can further contribute to the long-term sustainability of these institutions.

More urgently, they also face challenges in seeking to acquire and retain a significant market share. As of the 2018-2019 academic year, there were 128 universities in Kazakhstan, including 79 private universities, 4 foreign-owned universities, and 45 state-owned universities (Zakon.kz, 2019). However, the number of full-time students has continuously decreased. To overcome this existential challenge, research on the potential factors influencing Kazakhstani students' satisfaction is worthwhile and meaningful. Thus, the goal of the present study is to bridge the gap in the literature by investigating the factors that positively influence students' satisfaction with private universities in Kazakhstan. The results offer several managerial takeaways that Kazakhstani private universities can use to elaborate a strategic plan and take relevant actions to enhance student satisfaction and loyalty.

In the present study, students' satisfaction with their overall college experience is measured to assess the extent to which university students' needs are met during college. Two types of factors are represented: 1) institutional factors, such as a university's soft power (e.g., academic programs, services, student life, and education quality) as well as hard power (e.g., campus facilities, location and size of campus); and 2) students' personal factors, such as their personal evaluation of the university.

## Methodology

Participants for this study were 131 students (56.8% female) studying at a private university in Kazakhstan, aged from 17 to 25 years ( $M_{age} = 19.99$  years,  $SD = 1.61$  years). Random sampling was used to eliminate bias and increase the overall credibility of the research findings. Participants voluntarily filled out the questionnaire for course extra credit. To enhance the external validity of this study, we surveyed students in a wide range of courses from basic to advanced. Thus, participants are in different majors (e.g., accounting, finance, management, and marketing) and at different academic years. Specifically, participants responded to 25 items measuring the seven constructs: 1) recommendation intention; 2) overall satisfaction with the university; 3) academic performance; 4) University's soft power; 5) University's hard power; 6)

personal perspective toward the university; and 7) students' social environment. All items were ranked on a 7-point scale (1 = strongly disagree, 7 = strongly agree). A total of 131 complete responses were returned, but 2 were excluded due to an excessive number of missing values (over 40%). Thus, we used 129 responses for data analysis.

**Results & Analysis**

Data were analyzed using the covariance approach to structural equation modeling (SEM) with AMOS 24.0. Following Anderson and Gerbing (1988)'s recommendation, we used a two-stage method.

First, the validity and reliability of measurement were tested by confirmatory factor analysis (CFA). The standardized factor loadings, AVEs and CRs of all constructs meet the recommended guidelines. Consequently, we can conclude that the measurement model is reliable and valid. In addition, the results of CFA indicate that the overall measurement model fit is considerably good. Concretely, the following goodness of fit indices exceeded their commonly accepted thresholds:  $\chi^2$  (254) = 363.341,  $\chi^2/df$  = 1.430, TLI = .948; CFI = .956, RMSEA = .058 (Hu & Bentler, 1999; McDonald & Ho, 2002). Second, the hypotheses and the overall fit of the proposed research model were tested using the SEM technique. The following goodness of fit indices revealed that the research model fits the data reasonably well:  $\chi^2$  (282) = 427.411,  $\chi^2/df$  = 1.516, TLI = .932; CFI = .941, RMSEA = .063 (Hu & Bentler, 1999; McDonald & Ho, 2002).

Table 1 presents the results of the structural model, path coefficients, and CRs for hypotheses H1-H6, which reflect the relationships among the constructs in terms of their magnitude and statistical significance.

**Table 1:** Results of the Structural Model: Hypothesis Testing

	<i>Path</i>	<i>Path coefficient</i>	<i>C.R.</i>	<i>Results</i>
<i>H1a</i>	USP → SAT	.342	2.511*	Supported
<i>H1b</i>	USP → AP	.699	3.619**	Supported
<i>H2a</i>	UHP → SAT	-.001	-.004	Not supported
<i>H2b</i>	UHP → AP	.533	2.440*	Supported
<i>H3a</i>	PP → SAT	.370	2.493*	Supported
<i>H3b</i>	PP → AP	-.257	-1.136	Not supported
<i>H4a</i>	Classmate → SAT	.071	.883	Not supported
<i>H4b</i>	Classmate → AP	.129	1.014	Not supported
<i>H5</i>	AP → SAT	.214	2.460*	Supported
<i>H6a</i>	AP → WOM	-.192	-1.503	Not supported
<i>H6b</i>	SAT → WOM	1.335	8.388**	Supported

Note: \*  $p < 0.5$ ; \*\*  $p < 0.01$



Specifically, Hypothesis 1 predicted that the university's soft power is related to students' overall satisfaction with the university and academic performance. As shown in the first and second rows of Table 1, the university's soft power significantly and positively influences students' overall satisfaction with the university as well as their academic performance. Thus, H1a and H1b were strongly supported.

Hypothesis 2 predicted that the university's hard power is related to students' overall satisfaction with the university and academic performance. As shown in the third and fourth rows of Table 1, the university's hard power significantly and positively influences students' academic performance, but not students' overall satisfaction with the university. Thus, H2b was strongly supported, but H2a was not supported.

Hypothesis 3 predicted that students' personal perspective about the university's values is related to their overall satisfaction with the university and academic performance. As shown in the fifth and sixth rows of Table 1, students' personal perspective about the university's values significantly and positively influences their overall satisfaction with the university, but not their academic performance. Thus, H3a was strongly supported, but H3b was not supported.

Hypothesis 4 predicted that students' social environment is related to their overall satisfaction with the university and academic performance. As shown in the seventh and eighth rows of Table 1, the social environment does not influence students' overall satisfaction with the university or their academic performance. Thus, H4a and H4b were not supported.

Hypothesis 5 predicted that students' academic performance is related to their overall satisfaction with the university. As shown in the ninth row of Table 1, students' academic performance significantly and positively influences overall satisfaction with the university. Thus, H5 was supported.

Lastly, Hypothesis 6 predicted that students' academic performance and overall satisfaction with the university are both related to recommendation intention. As shown in the tenth and eleventh rows of Table 1, students' overall satisfaction with the university significantly and positively influences their recommendation intention, but their academic performance does not. Thus, H6b was supported, but H6a was not supported.

### ***Discussion & Conclusion***

Our results demonstrate that, in line with our hypotheses, a university's soft and hard power and students' personal perspectives have significant positive impacts on students' satisfaction with the university, academic performance, and recommendation intention. Furthermore, the strongest influential driver of students' overall satisfaction is the soft power of the university. For students' academic performance, the factor that matters the most is faculty members, as they are the key for students' academic success. More importantly, students' academic performance influences their recommendation intention through student satisfaction.

These aspects are very meaningful in the Kazakhstani higher education industry because building a reputation that helps recruit new students is very costly in money, energy, and time. Moreover, carrying out conventional marketing tactics such as advertising and promotion is not simple or easy (Vaz & Mansori, 2013). In this kind of market, word of mouth can be an effective tool for marketing.

Previous studies have focused on either institutional or personal factors rather than on their combination. The theoretical contribution of the present study is that it fills the aforementioned gaps and contributes to a better understanding of the factors that affect students' satisfaction with Kazakhstani private universities. Our results also provide meaningful insights

for university management about the changes needed to improve university services in Kazakhstan. Therefore, our results will be helpful to build a foundation for further research. Specifically, our findings suggest that universities should invest much more effort into increasing their soft power and hard power to boost students' recommendation intention. This boost could be achieved by improving the quality of their facilities, lowering tuition fees, and promoting the university's brand in the community. In addition, to improve students' overall satisfaction, universities must enhance their soft power.

Despite its valuable contributions, the present study has several limitations. First, it focused only on one private Kazakhstani university located in Almaty. Due to several specific characteristics of this university, the findings might not be applicable to other private universities in Almaty or other regions of the country. Second, the situation in private and state universities may differ. Our results for a private university may be less relevant and applicable to state universities. Third, the respondents were predominantly local Kazakhstani and Central Asian students. The exclusion of international students could have created a bias in our data, as students from different cultural backgrounds may have different perspectives and perceptions of the factors that determine their satisfaction with higher education institutions.

The limitations outlined above need to be considered in future research on the determinants of student satisfaction with universities in Kazakhstan. However, our findings remain useful as a reference point for future studies. In future research, we recommend studying the factors that affect student satisfaction with universities using a wider range of information sources and focusing on different types of universities.

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## **Digital learning tools in journalism education: from online teaching experience during COVID-19 pandemic**

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### **Abstract**

This paper discusses the shift from offline education to online format that happened in educational institutions across the globe due to COVID-19 pandemic. It was a new experience and challenge for both learners and educators worldwide. The coronavirus pandemic brought changes into the teaching-learning process and has influenced the way teachers used to teach and students used to learn. Both sides of the process had to adapt to the new educational conditions in a short period.

According to Joel T. Schmidt (2020), “the field of education is mainly reactive, as new disruptive technologies develop in other industries and are then applied and accommodated into existing educational cultures and systems”. The author of this study will explore how integrating online resources and tools into the curricula helped to make teaching engaging and interactive for students and professors. A few of these digital learning tools that were used in the journalism classes will be considered and analyzed in the study.

Despite the challenges and concerns that educators and learners faced during the transition period, it is important to mention the benefits of existing online resources that support communication, collaboration, comprehension, creation, reflection and curiosity for learners in this distance learning context.

**Key words:** *digital learning tools; COVID-19 pandemic; online teaching; journalism education; distance learning; digitalization*

# **Language Education Policy and Practice in a University in the Multilingual Context of Kazakhstan.**

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## **Abstract of proposal**

According to the reports from the Ministry, 42 universities are engaged in the current implementation of trilingual education and EMI within the framework of trilingual policy implementation (MoES, 2016). EMI is planned to be implemented in all higher education institutions. However, the announcement of the initiative by the Kazakhstani government does not mean a successful policy implementation. The need to know and speak English pragmatically to enter the "The road to Europe" and become a competitive country in the world arena. Saying that a university has a policy of using English as a medium of instruction and getting that policy enforced in Kazakhstan are two very different things. An additional and crucial goal of this research study is to uncover language in education policy and practice at one of the EMI universities in Nur-Sultan. In particular, the EMI policy and practice and how that practice relates to evolving perceptions of policy implementation in Kazakhstan. This study will employ Ethnography of Language Education Policy perspective by and combining top-down research approach with the bottom-up approach, it will investigate how language-education policies get translated into teaching-learning practices in EMI classrooms at Nazarbayev University through the following research questions: 1. What are the perceptions about the language education policy of EMI at the national, university, school/department, and classroom levels?; 2. What beliefs and attitudes do different stakeholders hold towards the use of English and other languages in the multilingual repertoires of the teachers and students in EMI classrooms? 3. How do the perceptions, beliefs, and attitudes towards the EMI policy and multilingualism shape interactions between teachers and students?

Using the multi-layered methodology associated with Ethnography of Language Education Policy perspective, the study will involve semi-structure interviews to elicit perceptions, beliefs and attitudes of the stakeholders, and observations of classroom practices. In addition, the policy documents at different levels of the policy implementation will also be analysed.

## **Internationalization and the English language at Kazakhstani University**

The choice of English as a medium of instruction at Nazarbayev University can be related to the future political leanings of Kazakhstan away from its Soviet history towards Europeanization. The Republic of Kazakhstan entered the Bologna Process on March 11, 2010, a series of multinational education reforms aimed at establishing a barrier-free EHEA (European Higher Education Region). This is defined by compatibility between the Higher Education system and increased academic mobility between students and faculty (Byram, 2006).

Phillipson (2006) states "what unambiguously occurs is that 'internationalization' means that 'the English language plays a vital role in higher education' within the Bologna Process" (p. 16). This case, which is of historical significance to the Kazakhstani education system, meant that the country aimed at integration with the European Higher Ed. system. One of the main

goals of the Bologna Process is "to improve the attractiveness and competitiveness of the European higher education for Europeans and people and scholars from other continents" (European Union, 2007). In Soviet times, the student exchange programs with Latin America and Africa, and scholarships for students from African countries, the recruitment of foreign students took place in Kazakhstan and other Soviet republics (Starr, 2010; Weaver, 1970).

The Kazakhstani students should pay for their education after the political and financial breakdown of the Soviet Union. Furthermore, university courses that welcome students have traditionally been taught in Russian or Kazakh. In 2006 the former president of the Republic of Kazakhstan initiated a new policy called "Trinity of languages" (Address of the former president of the Republic of Kazakhstan, Nazarbayev, to the People of Kazakhstan", 2007). According to this project, Kazakhstani citizens should develop Kazakh as the state language, maintain Russian as the language of international communication and learn English as the language for successful integration into the global economy (MoES, 2011; MoES, 2015). Attending classes in English can be a way of encouraging the growth of multilingualism in students who do not speak English as a native language, while at the same time it could be an obstacle for some students if it becomes too difficult for them to study academic subjects in English only.

#### **Education Policy and Practice in Kazakhstan.**

Before and after independence, this distinction between covert and overt education policies such as trilingual policy, internationalization policy, in Kazakhstan was clearly stated concerning the medium of instruction in Kazakhstani universities: three languages 1) the Kazakh language and the Russian languages as a historic heritage and advantage of the nation; 2) the English language to make a breakthrough as one of the main aspects of the development of Kazakhstan. (Irsaliyev, Karabassova et.al, 2017; Maudarbekova & Kashkinbayeva, 2014; Zhumzhumina, 2013).

Former President of Kazakhstan N. Nazarbayev launched in Higher Education an initiative which is called the "Trinity of languages" (Address of the former president of the Republic of Kazakhstan, Nazarbayev, to the People of Kazakhstan", 2007). The former President's statement is of utmost importance who states, "Kazakhstan should be seen around the world as a highly educated country, with a population use three languages" (Address of the former president of the Republic of Kazakhstan, Nazarbayev, to the People of Kazakhstan", 2007).

The former president supports a strong political value to outline an image of the citizens of Kazakhstan. Every citizen is required to know the Kazakh, Russian, and English languages. According to this project, Kazakhstani citizens should develop Kazakh as the state language, maintain Russian as the language of international communication and learn English as the language for successful integration into the global economy (MoES, 2011; MoES, 2015). Therefore, the Kazakhstani ethnic and linguistic diversity and trilingual policy are good examples of a multilingual country in the modern global era.

The government of Kazakhstan started the implementation of the English medium of instruction in Higher Education within a trilingual policy. This is one of the key initiatives by Elbasy (former President) in his address called the Strategy 2050 (Nazarbayev, 2012). Strategy 2050 states that English proficiency is an important skill. The English language is seen as a facilitator to life opportunities whereas the role of the Kazakh language as a vehicle for building national identity and social cohesion, and Russian and English languages as a road to economic progress and internationalization of higher education. However, it requires new educational programs and their compliance with the trilingual policy within a set of activities to foster the

new initiative (MoES, 2015). Universities try to comply with the new initiative by introducing programs where students are educated in three languages.

According to the reports from the Ministry, 42 universities are engaged in the current implementation of trilingual education and EMI within the framework of trilingual policy implementation (MoES, 2016). EMI is planned to be implemented in all higher education institutions. However, the announcement of the initiative by the Kazakhstani government does not mean a successful policy implementation.

The need to know and speak English pragmatically to enter the "The road to Europe" and become a competitive country in the world arena (Merlingen, Mireanu, Stavrevska, 2009). However, there is no in-depth study in this university or any other EMI university in Kazakhstan that has investigated how the EMI language policy gets translated into practice. There are interview-based studies that have looked at the attitude and beliefs about EMI practices of teachers in the classroom, but the discourse analytical studies at micro-level interactions are entirely lacking.

During the last two decades, however, this gap is increasingly addressed by research internationally that is carried out under the theoretical perspective of Ethnography of Language Education Policy. Historically, there was no collaboration between the researchers working on language planning and policy and those carrying out ethnographic and discourse analytic research on classroom interaction. Ricento and Hornberger (1996) addressed this gap. They pointed out that while language policy research in the mid-1990s made some progress through critical approaches to the study of policy-making by revealing the ideological underpinning of policies, there was a need to pay more attention to the different 'agents, levels and processes' (ibid: 408) involved in language planning and policy. Research studies in Language and Education have taken on board the concerns of researchers working in the newly established field of ethnography of language policy (Ricento & Hornberger 1996; Hornberger & Johnson 2007; Johnson 2009; McCarty 2011), drawing on rich insights from ethnographic work into the rigor of close discourse- analytic research. The continuity can be seen in the foregrounding of situated practices and meaning-making in interaction; in the emphasis on the agency exercised by teachers and students, as key social actors in policy-making processes; and in the concern with the ways in which interactional practices and classroom routines index wider language and cultural ideologies.

Guided by this approach, the main aim of this research study is to uncover language in education policy and practice at one of the EMI universities in Nur-Sultan. In particular, the EMI policy and practice and how that practice relates to evolving perceptions of policy implementation in Kazakhstan.

### **Research questions**

This study will employ Ethnography of Language Education Policy perspective by and combining top-down research approach with the bottom-up approach, it will investigate how language-education policies get translated into teaching-learning practices in EMI classrooms at Nazarbayev University through the following research questions:

- 1) What are the perceptions about the language education policy of EMI at the national, university, school/department, and classroom levels?
- 2) What beliefs and attitudes do different stakeholders hold towards the use of English and other languages in the multilingual repertoires of the teachers and students in EMI classrooms?

- 3) How do the perceptions, beliefs, and attitudes towards the EMI policy and multilingualism shape interactions between teachers and students?

Using the multi-layered methodology associated with Ethnography of Language Education Policy perspective, the study will involve semi-structure interviews to elicit perceptions, beliefs and attitudes of the stakeholders, and observations of classroom practices. In addition, the policy documents at different levels of the policy implementation will also be analysed.

### **The Ecology of language**

The study is based on the theoretical framework of the ecology of language. This framework is focused on language policy, planning, and a multilingual educational environment. A literature review of international research (Saxena and Martin-Jones, 2013) on language-in-education policies in the contexts of multilingual classrooms have developed over three decades. The current strands of research combining various strands of research (e.g., discourse analyses of classroom interaction, translanguaging, multimodality, language education policy, etc.) under a new perspective called Ethnography of Language Planning and Policy (Hornberger et al., 2018). This research study is primarily based on this multidisciplinary perspective informed by a broader theoretical framework called the Ecology of Language. The theoretical framework called the Ethnography of Language Education Policy. The existing literature on language policy and planning (LPP) (Hornberger, 2003; Pennycook, 2004; Phillipson, 1996) refers to the origin of the Ecology of Language to Einar Hegen (1972) who stated that language learning could go beyond the use of words or grammar. The ecology of language supports the notion of multilingualism that views language as a valuable source (Hornberger, 2003 as cited in Ruiz, 1984). Hornberger (2003) defines the notion of ecology as a kind of metaphor: "Languages, like living species, evolve, grow, change, live, and die concerning other languages and also about their environment" (Hornberger, 2003, p.320).

### **Decision-Making Processes of Language Policy and planning**

Historically, there was no collaboration between the researchers working on language planning and policy and those carrying out ethnographic and discourse analytic research on classroom interaction. Ricento and Hornberger (1996) addressed this gap. They pointed out that while language policy research in the mid-1990s made some progress through critical approaches to the study of policy-making by revealing the ideological underpinning of policies, there was a need to pay more attention to the different 'agents, levels and processes' (ibid: 408) involved in language planning and policy.

More recently, Hornberger and Johnson (2007) have also criticized language policy research which focused only on the global, national, and institutional dimension of policymaking and on the political and ideological processes driving language education policies. They wrote, "an (over)emphasis on the hegemonic power of policies obfuscates the potentially agentive role of local educators as they interpret and implement the policies" (ibid: 510). They have established ethnography central to the research on language policy. Ricento and Hornberger (1996) coined the metaphor related to language policy and practice research called "unpeeling the onion". They outlined 4 layers of the onion of language policy, practice, and planning: 1) legislation and political processes; 2) states (i.e., nations) and supranational agencies; 3) institutions; and 4) classroom practitioners. Ricento and Hornberger (1996) defined institutions as socially constituted systems where individuals construct identity, share cultural values, and meet social needs. Further, Hornberger and Johnson (2007) describe the process of how language

policies are being implemented, developed, and resisted. Hornberger (2006, p. 35) sees it as a model that includes 3 fundamental aspects ecology, ideology, and agency.

The relation between the ecology of language and bi/multilingual education is seen with the structure of bi/multilingual education programs as well as the use of L1/L2 or more languages in a classroom. Saxena (2009) states that "the socio-cultural settings in English-medium classrooms are intrinsically bi/multilingual and bi/multicultural as both learners and teachers bring their multiple identities and home-community sociolinguistic practices into the classroom" (p.168). In particular, he notes that in some countries where stakeholders and policymakers accept the use of the first language, these practices are exploited as "resources" (Martin-Jones & Saxena, 2003; Creese, Bhatt, & Martin, 2006).

On the contrary, in the countries where the use of L1 is not accepted by stakeholders, "they are positioned as "problems" (Saxena, 2006, p.168). Therefore, these countries have monolingual ideologies with the top-down principles of language education policies (Phillipson, 1992; Lin & Martin, 2005; Li Wei & Martin, 2009). Therefore, faculty members think that they underestimate and underachieve the first language use in the classroom and promote the English language only policies (Saxena,2006). Hornberger (1991) defined a bilingual education framework by 3 models: enrichment, transitional, and maintenance. The transitional program focuses on linguistical and cultural assimilation of students into the dominant society to encourage language shift from their native language to the language of power. Whereas maintenance programs aimed at maintaining the minority language and at the same time developing competence in the dominant language. This kind of approach is strengthening the cultural values of the minority languages and promotes language pluralism and national identity in a society.

### **Bi/multilingual Education**

Bilingual language policy refers to the notions of additive and subtractive bilingualism. Additive bilingualism develops the native and the target language, while subtractive bilingualism subtracts the native language and only the target language is being learned by students (García, 2011). She expands the framework stating that the 21st-century classroom should focus on promoting dynamic multilingualism to highlight the non-linear relations between 2 or more languages in a classroom (Garcia, 2011). Additional components of bi/multilingual programs within the ecology of language: 1) the languages and their place in a university; 2) the role of 2 languages in the curriculum; 3) several literate or oral development; 4) the use of languages in a classroom (Baker, 2001; Hornberger, 1991). The role of each of the languages used in the course curriculum is considered as a factor to avoid the hegemony of English (Mortensen & Haberland, 2012).

### **Codeswitching and translanguaging**

Codeswitching and translanguaging are concepts used as a part of convergence communication language practices within the multilingual practice of communication. Park (2013) describes code-switching as a means of using 2 languages in communication. Similarly, Kanwangamalu (2010) defines this term as a use of language varieties in a conversation. While the definition of code-switching that was given by Park (2013) might refer to the use of this term in bilingual settings, the explanation given by Kanwangamalu (2010) explains code-switching in the framework of a multilingual environment. Thus, as this research considers teachers, learners'



practices, and language education policy in a university within the multilingual context of Kazakhstan, the second definition is taken as one of the guiding ones for this research.

### **EMI policies**

EMI practices and policies are a global phenomenon. At the national level, EMI policy was promoted by several countries such as South Korea (Lee, 2009), Malaysia (Gill, 2004; Tan, 2005), Bolivia (Hornberger, 2009). The government of Bolivia promotes EMI and English as a language of international communication. EMI policy in South Korea English is used in English classes and in teaching other subjects. European EMI programs are a part of the internationalization process in higher education. Bolsmann and Miller (2008) identify 3 discourses around EMI programs universities:

1) internationalization; 2) economic growth; 3) academic development (Bolsmann & Miller, 33 2008, p. 80).

Kirkpatrick (2014) notes that EMI in Asian countries is a bit more problematic than in European countries regardless of the universal intentions of EMI implementation. He highlights the fact that in these countries EMI policy is being introduced with insufficient planning to receive international universities rankings as well as to invite international students who will be paying tuition fees and in the case of Kazakhstan more importantly to attract local students to study at EMI university (Nazarbayev University) instead of studying abroad so that the local students will get English education in a country. However, EFL pedagogy is not ready to prepare learners to use the L2 language for academic purposes (Sawir, 2005).

In Kazakhstan, the first so-called 'germs' of trilingual education policy are EMI and universities with trilingual programs (Kazinform, 2016). Smagulova, Mazhitaeva, and Tuleuova (2012) highlight the important role of English as this foreign language aimed at achieving the future competitiveness of the country. Likewise, Sadybekova (2013) mentions the important role of English by giving some information on the Kazakhstani progress in teaching languages. What she highlights is that English that along with linguistic and ethnic diversity, English education is another important characteristic of multilingual Kazakhstan. Hence, language education policy is an important feature of the development of Kazakhstan. These include linguistic and ethnic diversity; EMI programs are important since they maintain and develop human capital and the competitiveness of the country. The range of research related to the theme of the current Ph.D. research study in Kazakhstani is scarce and limited. Although, there are some studies (Akynova, Zharkynbekova, Agmanova, Aimoldina, and Dalbergenova, 2014; Alishariyeva, 2014) that address language education practices in EMI universities, including codeswitching, tranlsanguaging, and separate multilingualism used by the Kazakhstani students.

Within this multilayered framework, the English language as a medium of instruction at Nazarbayev University can be explored through language policy and practice at the institutional level. However, any failures in implementation and interpretation might be viewed as an implementation space for language policy development as different stakeholders wish at Nazarbayev University.

The significance and the contribution of this research study is to uncover language in education policy and practice at one of the EMI universities in Nur-Sultan. As this study is theoretically grounded, the outcomes of this research study might get translated into practice at other universities in Kazakhstan. The paper will contribute to theoretical and pedagogical knowledge. In particular, the EMI policy and practice and how that practice relates to evolving perceptions of policy implementation in Kazakhstan. The paper will illustrate the notions of the language education policy of EMI at the national, university, school/department, and classroom

level, beliefs, and attitudes of stakeholders towards the use of English and other languages in the multilingual repertoires of the teachers and students in EMI classrooms, perceptions, beliefs, and attitudes towards the EMI policy and multilingualism. It will have a critical discussion of the national, regional, and international literature on EMI in Higher Education.

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# **The value of the Kazakh language in a society, an attitude of young learners towards the Kazakh dialects**

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## **Abstract**

Most of the languages have their own varieties or the dialects spoken by particular groups of people. As languages change over the time, people who live in the same area or who have the same social identity speak the same dialect. This study analyses the use of the Kazakh dialects in the education field by the tenth grade students. The results of the questionnaire showed that seventy percent of pupils speak with the Southern Kazakhstani dialects. It is vital to teach the literary language at school, however the study of dialects could help to extend the horizons of students, to understand the word formation process and to promote the formation of philological thinking.

**Key words:** dialects, Kazakh dialects, word formation, literary language, sociolinguistics, linguistics.

## **Introduction**

“Languages, like living species, evolve, grow, change, live, and die in relation to other languages and also in relation to their environment” (Hornberger, 2002, p. 33). Thus, the language can vary based on the geographical location, where the speakers might have differences in the way of speaking, use of vocabulary, grammar and pronunciation, which in linguistics is known as a dialect (American Heritage Dictionary of the English Language, 2000). This paper analyses the Kazakh dialects and their use in the education field of Kazakhstani schools.

The Kazakh language is a member of the Turkic language family within the Altaic language group mutually intelligible with Karakalpak (Qaraqalpaq) and Nogai (Noğay) languages (Britannica, 2020). The Kazakh language is primarily spoken in Kazakhstan as a state language, it is estimated that around eighty three percent of the population can speak this language (Omirgazy, 2018). Apart from Kazakhstan, it is spoken in parts of Turkey, Afghanistan, Kyrgyzstan, Iran, Mongolia, China, Russia, Tajikistan, Turkmenistan and Uzbekistan. Historically, the Kazakh nation traces its origin back to 1456 and 1465 CE, where two Uzbek separatist tribes led by Janybek and Kerey Khans separated from Uzbek Khanate to create their own powerful Islamic empire of their own, known as the Kazakh Khanate and settled in the steppes of Kazakhstan. Thereafter, Qasim Khan (Janybek Khan’s son) created Kazakh Orda and after his death it was split into the three large Hordes known as Jüz. They were divided into three, based on their geographical position and were known as the Older Jüz (Uly), Middle Jüz (Orta) and Younger Jüz (Kishi). The Older Jüz inhabited the Southern and Eastern parts of Kazakhstan, Middle Jüz (Orta) in Northern and some parts of Central Kazakhstan, and Younger Jüz (Kishi)

lived in the Caspian to the South of the Ural mountains. The main language spoken at the Uzbek Khanate by all the three Jüz was Chagatay language, however after it's split the language begun to change acquiring the new vocabulary and grammar, thus gave rise to the emergence of the Kazakh language (Wong, 2021). Initially, it was an oral language, however it was written down in the same Arabic script as in the Chagatay language and the Arabic script was applied due to the introduction of the Islam to the country in the tenth century.

In the eighteenth century Russia provided the protection to the Middle and the Yonger Jüz from the Dzungars, which in the mid-nineteenth century led all the three Jüz being seized by the Russian Empire. In the nineteenth century the new, literary form the Kazakh language was established by the help of intellectual elite and the poet, Abay Qunanbayuli (1845-1904). In the twentieth century the Kazakh script underwent changes from the Arabic to a Latin script, however later Joseph Stalin changed all the languages in the Soviet union including the Kazakh to the Cyrillic script. After gaining the independence in 1991, the Kazakh language became the official language along with the Russian, as the majority of people have been speaking the Russian language.

### Literature review

Many linguists supported the idea that there was no dialect for the Kazakh language until 1937-1938, only in 1946 there were the first articles on the Kazakh dialectology published by linguists Zhumat Doskaraev and Sarsen Amanzholov. It is believed that the first who started to write about the regional varieties of the Kazakh language was Zhusipbek Aymauytov (1889-1931), who was the Kazakh linguist and poet of the twentieth century. In his article 'About the Language', published in 1926 in the newspaper 'Enbekshi Kazakh', Aymauytov wrote that there were words and phrases used by different Kazakh tribes living in specific places that could be understood only by them. The Kazakh linguist Amanjolov (1959) divided the dialects of the Kazakh language into three, the *Northeastern*, *Southern*, and *Western*. Prof. Amanzholov claimed that the dialects could be determined geographically but not by tribes or the Jüz, which contradicts the previous point by Aymauytov (Kazakh encyclopedia, 2015). In the linguistic studies it is vital to take into account the geographical facts and the relationship between geography and linguistics gives a rise into a new branch of science knows as linguistic geography. Linguistic geography illustrates the extent to which phonetic, lexical, and grammatical phenomena are spread in language and geographically indicates that linguistic geography is especially important in determining the range of dialects (Tasymov, 2014: 7). For example, in Arys region near Shymkent city (the Southern part of Kazakhstan), the word kettle is chaugim (чәугім) instead of standard shainek (шайнек), an egg is tukym (тұқым) instead of standard zhumurtka (жұмыртқа). In Ural region (Northern part of Kazakhstan), the word scale is shekki (шеккі) instead of standard tarazy (таразы).

These are the minor examples of the Kazakh dialects, there are more changes in the phonetics, for example, the Southern dialect has changes in 's' to 'sh' (see table 1), 'sh' to 'ch' (see table 2), 'd' to 'l' (see table 3), 'b' to 'p' (see table 4), 'n' to 'ñ' (see table 5), 'm' to 'p' (see table 6), 'k' to 'g' (see table 7), 'zh' to 'i' (see table 8) and 'a' to 'ä' (see table 9); The Western dialect has changes in 'sh' to 's' (see Table 10), 'sh' to 'zh' (see Table 11).

**Table 1**

	Kazakh standard word	Southern dialect	English translation
1.	mysyk (мысық)	myshyk (мышық)	cat

**Table 2**

	Kazakh standard word	Southern dialect	English translation
1.	<b>shana</b> (шана)	<b>chana</b> (чана)	sleigh

**Table 3**

	Kazakh standard word	Southern dialect	English translation
1.	<b>tynda</b> (тыңда)	<b>tynda</b> (тыңла)	listen

**Table 4**

	Kazakh standard word	Southern dialect	English translation
1.	<b>bolat</b> (болат)	<b>polat</b> (полат)	steel

**Table 5**

	Kazakh standard word	Southern dialect	English translation
1.	<b>erteñ</b> (ертең)	<b>erten</b> (ертен)	tomorrow

**Table 6**

	Kazakh standard word	Southern dialect	English translation
1.	<b>maqta</b> (мақта)	<b>pahta</b> (пахта)	cotton wool

**Table 7**

	Kazakh standard word	Southern dialect	English translation
1.	<b>Küriş</b> (күріш)	<b>Güriş</b> (гүріш)	rice

**Table 8**

	Kazakh standard word	Southern dialect	English translation
1.	<b>o jaq</b> (о жақ)	<b>o iaq</b> (о йақ)	there

**Table 9**

	Kazakh standard word	Southern dialect	English translation
1.	<b>qattı</b> (қатты)	<b>kätti</b> (кәтті)	badly; very much

**Table 10**

	Kazakh standard word	Southern dialect	English translation
1.	<b>sheker</b> (шекер)	<b>seker</b> (секер)	sugar

**Table 11**

	Kazakh standard word	Southern dialect	English translation
1.	<b>keleshek</b> (келешек)	<b>kelejaq</b> (кележақ)	future

The Western and Northeastern dialects appeared as a result of local disunity and tribal association of the local Kazakhs over the centuries. The Southern dialect of the Kazakh language

appeared due to the dominance of the Kokand Khanate, which was heavily influenced for several centuries by the Uzbek language, but, in turn, influenced individual dialects of the Uzbek and Kyrgyz languages.

### Methodology and research findings

The research participants were the tenth grade students of one hundred and nineteen school located in Almaty city, Kazakhstan. The research consisted of two parts, an online survey and an assignment. In the questionnaire along with the questions there were the images for the words so that the students could write the answers for them. The results of the survey showed that the Southern dialect was more popular than the other dialects and that might be connected with prevalent number of respondents from the Southern part of Kazakhstan.

The second part of the study included short texts with the Kazakh dialects to know if the students had a general knowledge about the Kazakh dialects.

Table 1 shows the results of the survey. Out of 48 students 20 were from the Southern part of Kazakhstan, 12 were from the East Kazakhstan, 16 were from the West Kazakhstan and there were no students from the Northern part of Kazakhstan.

**Table1. The part of area where the respondents were from**

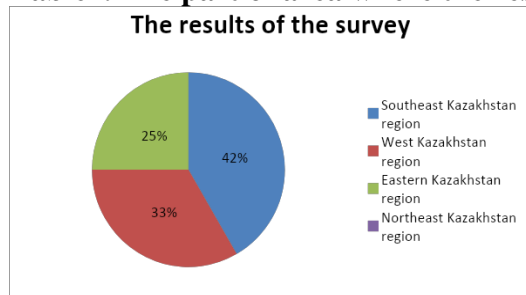
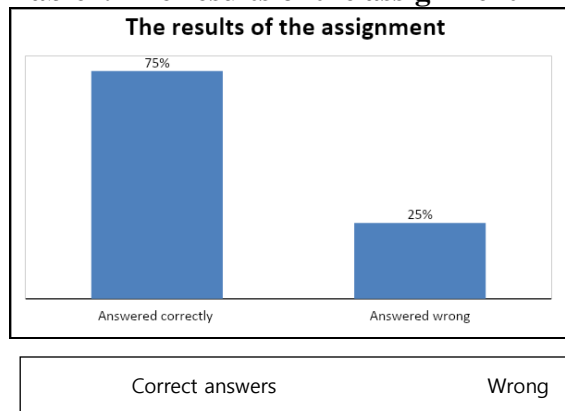


Table 2 shows the results of the assignment. It was found out that 25% of the respondents provided wrong answers to the texts about the dialects and 75% answered correctly. That means that the majority of students were all well aware of the Kazakh dialects.

**Table2. The results of the assignment**



### Conclusion

The Kazakh language has a rich literary heritage, it is essential not to forget the poetry, folklore and the literary works of the past Kazakh writers. Almost all the languages along with the literary have regional dialects and the Kazakh language according to Amanzholov (1959) has the three dialects, however some might disagree and consider four. This research paper focuses on the three dialects and aims to encourage young people (the future generation of the country) to know more about the local dialects and to teach them the Kazakh literary language. The study



analyses the use of the Kazakh dialects in the education field by the tenth grade students of one hundred and nineteen school, Almaty city, Kazakhstan. The results of the questionnaire showed that seventy percent of students speak with the Southern Kazakhstani dialects and more than a half of the respondents have the general understanding about the Kazakh dialects. It is vital these days to teach the literary language at schools and Higher Institutions, however the study of dialects plays an essential role along with the literary language.

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# **Challenges for reflective teaching experienced by Finnish and Kazakhstani EFL university lecturers**

**Dinara Karimova**

## **Abstract**

This study aims at identifying challenges for reflective teaching that the Finnish and Kazakhstani EFL university lecturers experience at their workplaces. The data includes 65 semi-structured, recorded interviews with 31 Finnish and 34 Kazakh EFL lecturers in higher education institutions. The data is being analyzed through qualitative content analysis by comparing similar and dissimilar patterns (Moretti et al. 2011; Schreier 2012). Descriptive and inferential statistics were used to make inferences about the significance of the results. The study discusses several challenging factors that discourage teachers to reflect on their work for better teaching outcomes. The main findings in terms of various challenges for reflective thinking and teaching reveal more similarities than differences between the Finnish and Kazakh participants. The similar challenges for reflection mentioned by both national groups are primarily a shortage of time, busy work schedules filled with both teaching and non-teaching duties, a lack of teachers' personal energy levels, and insufficient opportunities for in-service teacher training highlighting the use of reflection in higher education. The two dissimilar hindrances reported more by the Kazakh than Finnish teachers concentrate on teachers' own reserved attitudes to critical reflection and on unmotivated students and other learning issues. The findings may assist universities to improve their foreign language instruction offered to local and foreign students, thus positively affecting the international image of tertiary education in these countries.

## **Influence of the International Financial Reporting Standards implementation on investment attraction in the Eurasian Economic Union countries.**

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### **Abstract:**

The aim of this study is to find out more about the effect of IFRS implication on FDI influx in EAEU republics, by comparing the data before and after integration of the Standards in particular countries. After monitoring conventional determining factor of Foreign direct investments influxes and international trade, it has been found a significant fact that International Financial Reporting Standards triggered increasing significantly the number of foreign direct investment inflows. The research has been performed by using regression analysis where ordinary least squares method was used. The results demonstrate that countries which have adopted IFRS are tending to have positive impact on foreign direct investment influxes. Finally, this paper empirically verifies and ensures that some fundamental variables (including IFRS) can clarify the importance of settled standards for countries to follow.

**Key words:** International Financial Reporting Standards, the Eurasian Economic Union countries, Foreign direct investments.

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*

# Income Determinants of Kazakhstan Petroleum Companies

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## Abstract

*The study's main goal is to determine the factors that effect on the profitability of Petroleum firms in Kazakhstan. Secondary data were collected from financial statements of five largest Kazakhstan Petroleum companies: National company "KazMunayGaz" JSC, KazTransOil JSC, MANGISTAUMUNAIGAZ JSC, Caspi neft JSC, Maten Petroleum JSC. All data were collected for the period of 2012 – 2020 when IFRS based system being used. The research was conducted in a quantitative manner. The panel data was used to conduct regression analyses where OLS (ordinary least squares) was employed. We expect some effects of firm specific variables on profitability of the Petroleum companies.*

**Keywords:** Determinants, Profitability (Return on equity), Liquidity, Tangibility.

## 1. Introduction

Profitability is the most important factor for any business. Profitability ratios are a type of metric that is used to assess the profitability of a company and to calculate a company's bottom line, are one of the most often used financial ratio measurement instruments. Measures of profitability are essential to both management and owners of companies. In case a small corporation is backed by outside investors who have invested their own money, the primary owner must prove that the enterprise is profitable for those who trade in the stock market. The number of studies looking for metrics and determinants of firm profitability has recently increased. Because of its role in output assessment, the profitability of the financial sector has drawn academic interest in recent studies. However, it has received little attention in the petroleum sector, especially in developing countries like Kazakhstan.

Kazakhstan is a landlocked country that borders Turkmenistan, Uzbekistan, and Kyrgyzstan and is located between Russia and China. Kazakhstan is rich in mineral resources as well as significant oil and gas reserves.

Energy is commonly recognized as a vital determinant of global growth and development. The demand for energy is expected to rise in the coming years, and oil and natural gas already meet more than half of the demand. Despite the exponential growth of renewables, fossil fuels remain the primary source of energy. Since the mid-1900s, fossil fuels have made up almost 80% of the global primary energy supply. According to Cooper (2003), crude oil has a dominant presence at the center of the global economy and is the most significant source of energy on the globe, accounting for about 40.6 percent of primary energy demand. As a vital material and a high-quality energy supply, oil plays a critical role in the global growth process (Xiong and Wu, 2008). Oil has fuelled the great economic boom of the last century more than any other energy source, and it continues to do so today (Tsirimokos, 2011).

There are 51 countries in the world that manufacture oil (according to the OPEC Annual Statistical Bulletin 2020). Kazakhstan's gross oil reserves are estimated to be about 30 billion barrels, or 1.7 percent of global reserves. Kazakhstan is ranked 12th in the world in terms of oil and condensate deposits, behind countries in the Middle East, Latin America, Russia, and the United States, according to this metric.

Over the last decade, Kazakhstan's oil and gas sector has received more than \$70 billion in foreign direct investment. The involvement of many global leaders in the oil sector shows the region's attraction to investors

One of the most important aspects of Kazakhstan's socioeconomic growth is the fuel and electricity complex. And Kazakhstan's oil sector is critical to the country's economy. Kazakhstan's fuel and oil industry accounts for about 20.4 percent of overall GDP and 60 percent of all export revenue.

Kazakhstan has more than 250 oil and gas reserves, with 104 companies producing oil and gas. For the last ten years, annual output growth has varied from 1% to 5% each year. Around 90 million tons of oil, including gas condensate, have been emitted annually in the last two years. This output levels are almost 2.5 times higher than those of the 2000s. This year's production totaled 78.5 million tons in November 2020.

K Kazakhstan's most significant economic field is the oil and gas industry. It accounts for a large portion of the country's overall tax revenue as well as export revenue, and it is a popular target for foreign direct investment. If well managed, these taxes could provide a significant long-term funds for industrial investments. According to Nguyen (2006), profitability is one of the most important priorities of financial management since one of the goals of financial management is to maximize the owner's worth, and profitability is a core determinant of performance.

## 2. Literature Review

The financial system is made up of financial institutions, financial instruments, and financial markets that facilitate the flow of funds from savers to economy investors by making payment, credit, and risk transfer easier. Financial markets and banks, according to Frederic S. Mishkin and Stanley G. Eakins (2009), not only impact the daily life, but also include massive transfers of funds – trillions of dollars – in our economy, which affect corporate earnings, the development of goods and services, and also the economic well-being of countries other than the United States. Indeed, one of the major factors that generate quick economic growth is the well-funded capital markets and institutions, and poor financial markets and institutions are one of the reasons that many countries worldwide remain terribly small.

There are a limited number of studies modeling income determinants for oil companies. It is studied in general, but each source of energy has its own economic effects (Stambuli 2013). When it comes to oil income determinants, the majority of studies use time series analyses, with just a handful using panel data models. As a result, a variety of time series studies focusing on a single country or a group of countries have been conducted.

**Table 1** Summary of Literature Review

Study	County	Period	Method
Behmiri and Manso (2012)	27 OECD countries	1976-2009	Panel integration tests and FMOLS
Cho et al. (2011)	51 countries	1971-2005	Panel integration tests and FMOLS
Narayan and Smyth (2007)	12 Middle East countries	1971- 2002	Panel integration tests and DOLS
Altinay (2007)	Turkey	1980-2005	ARDL

Ghosh (2009)	India	1970–71 to 2005–06	ARDL
Tsirimokos (2011)	10 IEA Member countries	1980-2009	Nerlove's partial adjustment model

Work on bank determinants in Kazakhstan is well beyond the oil field. Indeed, very little has been done to determine the profitability determinants of oil companies in Kazakhstan. The number of oil firms is continuously rising in recent times and those that already exist are growing, but not much has been done to identify what feed the growing number of oil firms in Kazakhstan. In the field of research particularly in developing countries like Kazakhstan, little or none attention has been paid to the profitability determinants of oil companies. Literature review shows that much of the profitability analysis in the banking industry in the world has been carried out like it can be said for the petroleum industry. The above shows that in the oil industry, particularly in developing countries like Kazakhstan, the factors determining profitability have been investigated significantly. This study focuses on addressing this void by identifying some of the profitability determinants of oil companies in Kazakhstan to aid oil companies in increasing profits and investors forecast the profitability of Kazakhstani oil companies. In order to mitigate risk, this analysis aimed to figure out the profitability determinants of oil companies.

### 3. Methodology

#### 3.1 Research Design

This is a quantitative study that uses both analytical and inferential statistics in the context of an exploratory study. The total population of this sample is Kazakhstani petroleum companies. This gave the opportunity to learn not just about Kazakhstan's largest petroleum companies and the products they produce, but also about the factors that influence their profitability. However, as Punch (1998) points out, one cannot research everybody, anywhere, and everything, so sampling decisions must be taken not only about how to interview or what activities to observe, but also about the settings and procedures. The most practical sampling approach was used. The aim was to select Petroleum firms operating in Kazakhstan which financial statements can be made available by the Kazakhstan Stock Exchange (KASE). A sample of 5 largest Petroleum firms was used: National company "KazMunayGaz" JSC (KMGZ), KazTransOil JSC (KZTO), MANGISTAUMUNAIGAZ JSC (MMGZ), Caspi neft JSC (KSNF), Maten Petroleum JSC (MATN). This was due to the easy accessibility of retrieving available financial statement.

#### 3.2 Source of Data Collection and Data Management

Since the research is exploratory in nature, the data provided is dependent on secondary data obtained from the Kazakhstan Stock Exchange (KASE). For the years 2012 to 2020, data on selected Kazakhstani petroleum companies was gathered. In this study we demonstrate the magnitude of the relationship between the dependent variable (benefitness) and the explanatory variables (leverage, tangibility, size, liquidity, risk, and growth). It paves the way for solid cross-sectional and longitudinal data to support multiple regression, following the calculation of values from the financial statements of the respective years. The regular LSR was used to determine whether profits and leverages, tangibility and liquidity were linked to the Kazakhstan oil companies in this study. Due to the series structure of the data, panel data techniques were employed to provide a successful result.

#### 3.3 Model Specification, Estimation and Tests

The Leverage, Tangibility, Liquidity, Growth, Size and Risk were used as the independent variables.

**Table 2** Expected Relationship between Return on Asset of Petroleum firms and Determinants

<b>Determinants</b>	<b>Expected Relationship</b>
Leverage	Positive
Tangibility	Positive/Negative
Size	Positive
Liquidity	Positive
Risk	Positive
Growth	Positive

Model construction, according to William G. et al. (2010), entails identifying relationships between two or more variables, as well as the creation of descriptive or predictive equations. To accomplish the goals of this report, we devised a model that pitted Return on Assets against a series of explanatory variables that we think can justify the benefit levels of Kazakhstan's petroleum companies. The model is illustrated below:

$$\text{ROA} = \mathbf{0} + \mathbf{1}(\text{LG}) + \mathbf{2}(\text{TA}) + \mathbf{3}(\text{SZ}) + \mathbf{4}(\text{LQ}) + \mathbf{5}(\text{RK}) + \mathbf{6}(\text{GR}) + \mathbf{e}$$

Where:

ROA=Return on Assets = (Net income before interest and tax divided by total assets)

LG = Leverage (Total debts divided by total assets)

TA = Tangibility (Fixed assets divided by total assets)

SZ = Size (Log of premiums earned)

LQ = Liquidity (Current assets divided by current liabilities)

GR = Growth (Percentage change in premiums earned)

e = the error term or residual

#### **4. Conclusion**

As part of their eco-friendly energy policy policies, most developing countries aim to reduce their oil consumption by searching for sustainable energy options such as wind and nuclear energy. Furthermore, the high concentrations of greenhouse gas (GHG) emissions and the global loss of oil reserves necessitate this initiative. Oil is still necessary in supporting day-to-day operations, particularly in developed countries, due to rapid urbanization and improved living standards (Stambuli, 2013). Furthermore, despite its declining market share since the 1970s, oil remains the world's most common commodity, accounting for 33% of total global primary energy consumption. (Finley, 2012). As a consequence, identifying the factors that affect oil companies' income determinants is important. Furthermore, as reported by Lee and Lee (2010), precise and credible forecasts of oil demand income and price elasticities provide valuable information for governments and energy firms as they devise policies to restructure the energy market and update energy demand policies.

The oil and gas sector is critical to the global economy. Our world's energy demand will rise by 56 percent by 2040, according to the EIA (US Energy Information Administration). Mohn (2008) estimates that the oil and gas sector supplied 60% of global energy demand. Both investors, market actors, and regulatory agencies may benefit from a more reliable and thorough understanding of what defines the capital structure of companies supplying to the above increased demands.

There is a close connection between leverage and profitability, according to the findings. The interaction's size, on the other hand, is expected to be negligible. In addition, a reduction in debt

will only have a marginal effect on profitability. We expect the study to show that tangibility has an imperfect or negative significant relationship with profitability. There is a potential positive association between profitability and liquidity, according to the study, but it is negligible. In reference to the profitability model that was used, all of the independent variables can be explained. In reference to the profitability model that was used, all of the independent variables can be explained. Leverage and liquidity, according to the results, have a positive effect on profitability, while tangibility has a negative impact. We recommend that we look at other profitability determinants on the Return on Assets in addition to the Return on Assets used to proxy profitability in this article. To measure the degree of their correlation with profitability, the explanatory variables included in this study should be regressed on Return on Equity.

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# Impact of the adoption of IFRS on foreign direct investment in the case of Kazakhstan

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## Abstract

The purpose of this article is to determine whether International Financial Reporting Standards (IFRS) affects foreign direct investment (FDI) in Kazakhstan.

This paper discusses the impact of the adoption of IFRS on FDI in the case of Kazakhstan. To achieve this, data were collected for the periods 1992-2018, pre and post IFRS adoption in Kazakhstan.

Despite the fact that today there have been many studies on the impact of IFRS on FDI in both developed and developing countries, there is no information about the Kazakhstan. Therefore, to expand research in terms of countries, this work will be devoted to the Kazakhstan.

According to numerous studies, IFRS have a positive impact on investment decisions as they eliminate information asymmetries and thereby improve the quality of financial information of companies. And foreign direct investment, in turn, affects the economic growth of the country as a whole. Thus, it can be assumed that IFRS can become an additional important driver of foreign direct investment. Nowadays, there are many factors that serve as determinants of FDI, depending on the decisions of investors.

**Key words:** IFRS, foreign direct investment, Kazakhstan.

## 1. Introduction

IFRS is a high quality, internationally recognized set of accounting standards that ensures transparency, accountability and efficiency in financial markets around the world (IFRS Foundation). The goal of IFRS is to maintain stability and transparency in the financial world, which allows enterprises and individual investors to make qualified financial decisions, since they can see exactly what is happening with the company in which they want to invest. They were created in order to have a “common language” in accounting, because business standards and bookkeeping can differ from country to country. IFRS are standard in many parts of the world, including the European Union and many countries in Asia and South America.

The Republic of Kazakhstan is one of the first countries in the post-Soviet union to begin carrying out high-quality economic reforms and integration into the world economy. In 1996, it was one of the first CIS countries to develop and implement the Kazakhstan Accounting and Financial Reporting Standards (KAS) based on IFRS, and in 2002 it announced the transition to IFRS in full until 2006.

Stages of IFRS implementation in Kazakhstan:

- In 1996, development and implementation of Kazakhstani accounting and financial reporting standards (KAS) based on IFRS.
- Since 2003, some banks and financial institutions were required to implement IFRSs.
- Since 2004, all banks have been required to prepare IFRS financial statements.
- Since 2005, IFRSs have been required for all listed companies.
- Since 2006, IFRSs have been required for other companies with significant public interest, including large unlisted companies, extractive industry companies and companies with Governmental ownership.

In addition, large SMEs must use full IFRSs, medium-sized SMEs have a choice between full IFRSs and the IFRS for SMEs Standard, and small SMEs have an added choice of a national standard developed by the Kazakh Ministry of Finance. As for foreign listed companies, they have a choice between full IFRSs and US GAAP (Deloitte 2009).

According to Gordon et al., 2012, preparing financial statements in accordance with IFRS increases the transparency of the statements, thereby increasing the investment potential of the country. This means that investors have an increased level of confidence in financial statements, as well as a desire to invest in this country, since it is prepared in accordance with international standards. A large number of researchers and practitioners have analyzed FDI issues, including the key determinants of FDI.

Our study analyzes the true impact of modernizing accounting infrastructure on FDI in an emerging economy. In particular, has the adoption of IFRS increased the interest of foreigners in investing in companies in Kazakhstan. Despite the great interest in this topic, there is still not enough research in countries with economies in transition, and in particular in Kazakhstan.

## **2. Literature Review**

According to Gordon (2012), global business is becoming an increasingly important part of the global economy. One of the fundamental aspects of this activity is related to FDI. Foreign investment is of particular importance for countries with economies in the early stages of development (i.e. developing economies). FDI provides an economic boost for these countries that would normally not be possible otherwise. Thus, it is not surprising that researchers in the field of international business and economics have devoted considerable attention to studying the determinants of FDI.

Hang Bich Phung (2016) examines the determinants that make developing countries more attractive as a destination for FDI. There is a global trend in sectoral FDI changes during the 1990s. From 1990 to the present, investments have shifted from primary products to the service sector and knowledge-intensive industries. Over time, infrastructure and trade have proven to be critical drivers of FDI flows.

The analysis and results show that developing countries will benefit from trade openness and quality infrastructure. The more a country trades, the more FDI inflows it attracts. Likewise, improved infrastructure, which stimulates efficiency-seeking investment, has particularly attracted FDI investors in recent decades.

Denis Mukha (2014) identified economic and institutional factors that influence FDI attraction. The study was conducted on 144 developing countries and countries with economies in transition (including Kazakhstan). As a result of research among these countries, the determining economic factors of FDI inflows were the size of the market, natural resources and developed infrastructure, and the level of trade openness of the country. And the main institutional factors for attracting FDI are a favorable domestic government policy to develop business and encourage foreign trade, a low level of bureaucracy, the presence of developed democratic institutions and the state of political institutions.

Consequently, at the stage of development of the world economy, along with the formation of favorable economic conditions, it is also important to create favorable institutional conditions for attracting investment. This is confirmed by the research data of A. Abdullah, I. Khadaroo, N. Zhameshov (2014), who believe that changes are needed in the institutional and cultural environment in order to simplify the implementation of new accounting technologies for greater compatibility and success.

Many researchers believe that IFRS is hardly mentioned in the literature on determinants of FDI (Gordon et al. 2012). As well as in the accounting literature on IFRS data on FDI, as the link between FDI and IFRS is not sufficiently developed.

However, the transition to IFRS and the convergence of national GAAP with IFRS have an impact on the efficiency of capital allocation and its international mobility. But many researchers and scientists can argue with this statement, since the data differs from country to country.

There are several studies that believe that IFRS adoption has a significant positive impact on FDI inflows in developing countries (Camelia Luliana Lungu, Chirat, A Caraiani and Cornelia Dasca~ LU 2017, Jinadu, Olugbeng, Ojeka, Stephen Aanu, Ogundana, Oyebisi Mary 2016, Lawrence A. Gordon, Martin P. Loeb, Wenjie Zhu 2012).

The transition to IFRS by an emerging economy, on average, has a positive and statistically significant impact on the overall FDI inflow to that country. However, this is not the case for a country classified as a developed economy by Gordon (2012).

In terms of European Emerging Economies (CEEs) Central and Eastern Europe, Camelia Luliana Lungu, Chirat, A Caraiani and Cornelia Dasca~ LU (2017) believe that IFRS transitioning countries are more likely to subsequently benefit from more a significant increase in FDI inflows than non-IFRS adopters. Policymakers in emerging European economies should view the IFRS transition as a component of their macroeconomic decisions.

Jinadu, Olugbeng, Ojeka, Stephen Aanu, Ogundana, Oyebisi Mary (2016) investigated the impact of IFRS adoption on FDI in Nigeria. The results of the tested hypotheses showed a positive and statistical significance between the adoption of IFRS and FDI in Nigeria. They believe this will increase investor confidence and lead to international financial transactions. The author agrees with Camelia Luliana Lungu, 2017, that the government creates favorable conditions to encourage investors to attract FDI to improve the country's economic status. This process will generate more reliable annual reports that will provide a basis for true interpretation, as it will increase investor confidence and encourage the desire to transact internationally.

However, despite the positive results in these emerging economies, there is evidence where the adoption of IFRS did not have a significant impact on FDI.

For example, Adetula, D.T., Owolabi, F. (2014) found that the transition to IFRS does not affect the flow of FDI in Nigeria. However, other factors such as institutions, natural resources, and gross domestic product (GDP) have a significant impact on FDI. Research shows that companies with a very good reputation around the world already had good FDI inflows prior to the transition to IFRS.

There is even data where the introduction of IFRS has a negative impact on FDI inflows in developing countries (R.R. Abduraupov, F.A.Ibragimov, B.B.Khamidov 2019). The reason for this is transparency, as well as lower processing costs, allowing potential investors to identify flaws that may have been hidden in advance when reporting in accordance with local standards. Here, as in Adetula, D.T., Owolabi, F. (2014), other factors are important determinants of FDI inflows (GDP per capita, exchange rate, trade, management efficiency).

These results contradict the findings of researchers who focused on developed and developing countries (Gordon et al 2012). The adoption rate of IFRS is an important factor in attracting FDI and increasing its profitability in developed countries (Olga Golubeva 2018). She agrees with the findings of Adetula, D.T., Owolabi, F. (2014) and R.R. Abduraupov, F.A. Ibragimov, B.B.Khamidov (2019) that modernizing the accounting infrastructure in emerging markets may not necessarily lead to an increase in FDI to these countries.

In this study, not IFRS, but several other factors play an important role for investors, such as market size, availability of finance, infrastructure development and level of corruption.

In the next study, we see that the application of IFRS in developed European countries, EU members, has a positive effect on the development of trade and FDI, since it promotes transparency and comparability of financial information, and also reduces information asymmetries and perceived risks of investing abroad (Laura Márquez-Ramos 2011 ).

Maryam Yousefi Nejad, Azlina Ahmad, Fairuz Salleh, Ruzita Abdul Rahim (2018) is considering the adoption of IFRS by ASEAN countries for the period 2001-2016.

This work is very interesting because ASEAN countries consist of developed and developing countries, incl. Asian, thereby providing an opportunity to some extent compare it with Kazakhstan. The results show that the transition to IFRS significantly improves FDI inflows. There is also a positive and significant relationship between FDI inflows and GDP growth, education, governance, and inflation.

The results also show that IFRS is an important incentive for foreign investors, even for Indonesia, which has not adopted IFRS but is taking steps to comply with IFRS.

Kazakhstan, like Nigeria (Adetula, D.T., Owolabi, F.2014), is a country rich in natural resources. And the main inflow of FDI arises from the availability of huge natural resources (oil sector, mining industry).

Assistance in attracting foreign investors to priority sectors of the Kazakhstani economy is a key element of the foreign economic policy of the Republic of Kazakhstan.

In particular, the government introduced a simplified tax regime, the national legislation is constantly being improved, and the package of investment preferences is expanding. The adoption of IFRS by Kazakhstan is also one of the steps taken by the government and standards developers to form a positive investment image of the country.

Approaching the main goal of the current research, the analysis of the available literature leads to the main hypothesis.

**Hypothesis H0: The adoption of IFRS has a positive impact on FDI inflows to emerging economies and, in particular, to Kazakhstan.**

### **3. Methodology**

We use the OLS regression model to estimate the impact of some macroeconomic variables on FDI. Data for analysis for the period 1993-2018 obtained through databases: World Development Indicators (WDI), Deloitte and Touché Database, Reports of the International Accounting Standards Board (IASB), International Monetary Fund and Transparency International (Table 1).

*Exogenous variable.* FDI inflows are an exogenous variable. In Kazakhstan, before the global financial crisis in 2008 FDI inflows continued to grow, lasting for 3 consecutive years. The slowdown in FDI inflows in the world was observed in 2008, and in KZ in 2009-2010.

*Endogenous variable.* The indicator of integration into the IFRS system is considered as an endogenous variable, which is accounted for as a dummy variable.

Information on the level of adoption of IFRS in Kazakhstan is obtained from the official web page of the IASB and the Deloitte-Touché database. The convergence process can be divided into four levels. The first stage involves adoption by financial institutions. In the second step, listed companies whose securities are traded in the market must report in accordance with IFRS. With full convergence, IFRS should be adopted by small and medium-sized companies (Table 2). Only after fully adopting the IFRS system, the country will be classified as a user of IFRS.

*Control variables.* To avoid bias in estimates due to missing significant variables, multiple control variables have been added to the base model that affect FDI inflows.

In this work, the control variables are selected based on a model developed by L.A. Gordon et al (2012). The following macroeconomic variables were used in the regression: GDP, openness to imports and exports, exchange rate, interest rate, corruption, oil price, and year.

- GDP is used as a proxy for market size. Expected that a large domestic market will have a positive effect on FDI flows and will have a positive coefficient in the regression.

- Openness to trade reflects the trade relations of host countries with the world and, accordingly, the share of trade, consisting of imports and exports, in GDP. This is expected to have a positive coefficient as more FDI is attracted to countries that are more open to trade.

-High exchange rate and corruption, in turn, should negatively affect FDI inflows. The adverse effects of a rise in the exchange rate have been the subject of much research. A devaluation of the host country's currency can reduce the relative wealth of foreign investors, offsetting the beneficial effects of host country acquisitions. Especially considering the devaluation of the tenge in 2014, 2015 and 2016, which negatively affected the purchasing power of the country's citizens. The exchange rate is also a dummy variable, 1- for 2014-2016; 0 - for other years.

-Crude oil is the main source of income and cost factor for many countries. Kazakhstan's economy is heavily dependent on crude oil exports as most of its revenues come from oil exports. Falling oil prices and its volatile behavior negatively affect foreign exchange reserves and lead to devaluation of the national currency.

The variable YEAR takes into account whether the evaluated function has changed over time. Due to the fact that we take data from 1993 to 2018, we use a dummy value of 1 for the acceptance from 2003 and zero for the period from 1993 to 2002, since Kazakhstan began to apply IFRS from 2003.

Based on the above, our regression model is:

$$\ln FDI_{i,t} = \beta_0 + \beta_1 * ADOPT_{i,t} + \beta_2 * GDP_{i,t} + \beta_3 * OPEN_{i,t} + \beta_4 * EXCHANGE_{i,t} + \beta_5 * INTEREST_{i,t} + \beta_6 * CORR_{i,t} + \beta_7 * OILP_{i,t} + \beta_8 * YEAR_{i,t}$$

**Table 1.**

**Variable descriptions and source of data.**

Variables	Measures	definitions	Source
LnFDI	Natural logarithm	FDI inflow data	World Bank
ADOPT (IFRS)	Dummy variable	a score measured on a 1-4 scale (Table 2)	Deloitte and Touche Database (2016)
GDPG	Natural logarithm	GDP growth measured by dividing normal GDP with current year population	World Bank
OPEN	As % of real GDP	Exports plus imports in relation to GDP	World Bank
EXCHANG E	dummy variable	1- from 2014 to 2016 0-other years	World Bank
INTEREST	Natural logarithm	National lending interest rates	International Monetary Fund
CORR	Scale of zero to 100	Corruption Perceptions Index 0-highly corrupt; 100-very clean	Transparency International

OILP	Natural logarithm	oil price	World Bank
YEAR	Dummy variable	1-for adoption from 2003; 0-for adoption prior to 2003	Deloitte and Touche Database (2016)

Source: Authoring

**Table 2.**  
**Levels of IFRS adoption**

Score	Charachteristiccs of IFRS adoption	KZ
1 level	For financial institutions are IFRS standards required or permitted?	1
2 level	Are domestic and foreign companies whose securities trade in public market required or permitted to use IFRS standards in their consolidated financial statements?	1
3 level	Are IFRS standards incorporated into law or regulation?	1
4 level	Are IFRS standards required or permitted for SMEs?	1
	<b>Total</b>	<b>4</b>

Source: Authoring

#### 4. Empirical results

Based on empirical research, we tested the hypothesis of the impact of IFRS on FDI inflows. Table 3 provides the result of the pooled OLS regression model on the impact of the variables on FDI. The overall fit of the model is 59,81%, measured by the adjusted R-square.

Specifically, adoption of IFRS (ADOPT), openness to trade (OPEN), Exchange rate and Oil price (OILP) is positive and significantly associated with FDI ( $t = 2.23, 1.83, 1.17$  and  $0.47$  respectively), whilst GDPG, Interest, CORR и YEAR have a negative effect ( $t = -1.13, -0.89, -1.56$  and  $-1.13$  respectively).

We see that the variable for adoption (ADOPT) is positive and highly significant in determining the level of FDI inflows for Kazakhstan. This provides evidence that IFRS adoption is a one of key determinants of FDI which confirms our hypothesis that it a positive impact on FDI inflows to emerging economies and, in particular, to Kazakhstan.

**Table 3.**  
**OLS regression**

Source	SS	df	MS	Number of obs	=	24
Model	5.1786e+20	8	6.4733e+19	F(8, 15)	=	5.28
Residual	1.8394e+20	15	1.2263e+19	Prob > F	=	0.0028
				R-squared	=	0.7379
				Adj R-squared	=	0.5981
Total	7.0181e+20	23	3.0513e+19	Root MSE	=	3.5e+09

FDI	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]	
ADOPT	3.24e+09	1.45e+09	2.23	0.041	1.47e+08	6.34e+09
GDPG	-4.05e+08	3.59e+08	-1.13	0.277	-1.17e+09	3.60e+08
OPEN	1.73e+08	9.44e+07	1.83	0.088	-2.87e+07	3.74e+08
Exchange	3.09e+09	2.65e+09	1.17	0.261	-2.55e+09	8.74e+09
Interest	-7.24e+07	8.14e+07	-0.89	0.388	-2.46e+08	1.01e+08
CORR	-5.07e+08	3.25e+08	-1.56	0.139	-1.20e+09	1.85e+08
OILP	2.30e+07	4.84e+07	0.47	0.642	-8.02e+07	1.26e+08
YEAR	-4.30e+09	3.79e+09	-1.13	0.274	-1.24e+10	3.78e+09
_cons	3.08e+09	1.20e+10	0.26	0.801	-2.25e+10	2.87e+10

## 5. Conclusions

The main purpose of the study was to identify the impact of unexplored global standards on FDI in Kazakhstan. The results of this study are consistent with the analysis of Gordon et al. (2012). The findings are important for future research and policymakers in accounting, international business and economic development. Since the results are based on the control variables that drive FDI, it can be argued that IFRSs illustrate a critical component of the institutional infrastructure that is important for attracting FDI.

Like most empirical research, the current analysis has certain limitations. First of all, the assessment of the increasing impact of IFRS on FDI inflows in Kazakhstan is limited due to the lack of a comprehensive theoretical model.

The findings of our study should help shed light on the complex link between reforms aimed at adopting IFRS and FDI inflows. The results should be interpreted as a cause for thought, but not as a final conclusion.

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# **The Effect of Audit Committee and Board Characteristics on Real Earnings Management**

**Temirlan Tenezbayev and Kunsu Park, PhD (Supervisor)**

## **Abstract**

The role of corporate governance on financial reporting has received great attention in recent years. The aim of corporate governance is to ensure that companies are run well in the interests of their shareholders, employees, and other key stakeholders such as the wider community. Researchers have examined whether the corporate governance activities hold back earnings management factors in public companies. The primary purpose of this research proposal is to examine the effect of the Audit Committee on real earnings management. In this context, the real earnings management means when the companies use specific technics in order to achieve desired earnings performance by departing from normal operating activities. The results of this research should be of interest to shareholders and financial regulators in order to obtain reliance on the integrity of corporate financial reporting.

## **1. Problem Statement and Objectives**

In recent years, financial reporting to the public has been highlighted by several scandals of financial fraud by the management of the company. The confidence of investors in companies' financial statements has been shaken after the recent Enron scandal and the legal proceedings that had been since October 2001. On July 21, 2015, the Indonesian national newspaper released the article, that Toshiba, a manufacturer of televisions and electronics, including personal computers, has been involved in accounting irregularity scandal. Toshiba's top management was accused of inflating the company's profit for the amount of USD 1.3 billion since 2008, in order to keep the view of the company's success. As the response to this practises, those charged with governance, shareholders and the government have called corporate businesses to assess and develop the corporate governance from different sides, such as accounting and finance, economies, law, and management.

A primary object of the Sarbanes-Oxley Act and the last updates to the stock exchange listing rules is to improve the quality of the corporate financial reporting. In my research, I want to examine the relationship and major effects of the expertise of the audit committee of public interest entities and real earnings management.

Real earnings management instruments include three major approaches: the manipulation of operating cash flow, the manipulation of production costs and the manipulation of discretionary expenses. Manipulation of real activity is a practice that departs from the ordinary activity of the company with the aim of management to mislead shareholders. The opposite action of this management is the impact of the agency relationship conflict. Implementation of corporate governance is expected to overcome this agency problem. The motivation of this research is how corporate governance, especially the audit committee, can minimize real earnings management.

This study aims to analyze the impact of the audit committee composition on the real earnings management of the representative sample of listed Europe companies. Corporate governance figures and financial data will be uploaded from the open sources (internet research) and the analytics and equity trading platforms, such as Bloomberg Terminal and Thomson Reuters platform.

## 2. Preliminary Literature Review/Background Information

There have been a number of worldwide researchers that studied the impact of audit committee variables on firm financial reporting. Several studies from other parts of the world have become useful to review in order to understand and inform the current study.

### *Audit Committee of Accounting Experts and Real Earnings Management*

Bedard et al. (2004) states that the audit committee of accounting experts negatively affected by aggressive earnings management. Lin et al. (2006) found that there is a negative relationship between the audit committee with accounting experts and earnings management. The research finds that there is a reduction of earning management in case the audit committee includes at least one accounting expert. Otherwise, there is no effect of the audit committee of accounting experts on earnings management for the company has implemented good corporate governance.

However, Susanto (2014) stated that an audit committee including accounting experts, has an insignificant effect on earnings management. They state that the inclusion of the members of the audit committee with strong accounting and finance expertise is only mandatory to the regulations. In addition, they state that there is no strict definition of financial literacy; thus different companies have different definitions in the determination of the number of audit committee members with accounting and finance expertise.

Qi and Tian (2012) found that a rich experience helps members of the audit committee in decision-making procedures. The members of the audit committee, who have a lot of experience in the accounting sphere, are good at dealing with problems and good at decision-making. Different results showed that work experience in finance has a positive effect on earnings management (Qi and Tian, 2012). The first hypothesis is the stronger the audit members accounting knowledge and experience, the lower real earnings management.

### *Audit Committee size and Real Earnings Management*

Lin et al. (2006) stated that there is a reverse relationship between the number of the audit committee and real earnings management. It indicates that the larger the size of the audit committee more quality financial reporting. However, Susanto and Pradipta (2016) showed in their studies, that the size of the audit committee has no significant effect on earnings management. The second hypothesis is the larger the composition of the audit committee members, the lower real earnings management.

### *Audit Committee Meetings and Real Earnings Management*

Susanto and Pradipta (2016) stated that there is no relationship between the numbers of the meetings of the audit committee and the real earnings management activities. However, the frequency of the audit committee can help the audit committee members to understand the activities of the company better. As Qi and Tian (2012) stated the more frequent audit committee meetings, the easier it is for an audit committee to oversee the management of the company and the possibility of identifying earnings management activities. This means that the number of meetings of audit committee members has a reverse effect on real earnings management. The third hypothesis is the more frequency of audit committee meetings, the lower real earnings management.

### *Non-executive members of the audit committee and Real Earnings Management*

The existence of non-executive members in the audit committee acts as a counterweight in the decision-making process in order to defend the interests of minority shareholders and other stakeholders related to the company (Susanto and Pradipta, 2016). If the company has a majority of non-executive members in the audit committee, the likelihood of earnings management will be smaller. This is because they are not related to management and are aimed at detecting earnings management but not hiding it. Gulzar and Wang (2011) showed that the non-executive members negatively affect earnings management. The fourth hypothesis is the bigger the share of non-executive members in the audit committee, the lower real earnings management.

### **3. Preliminary Methodology**

The research design is organised in the following way:

- 1) Data and Sample Selection;
- 2) Measurement of efficiency;
- 3) Measurement of real earnings management;
- 4) Empirical Models.

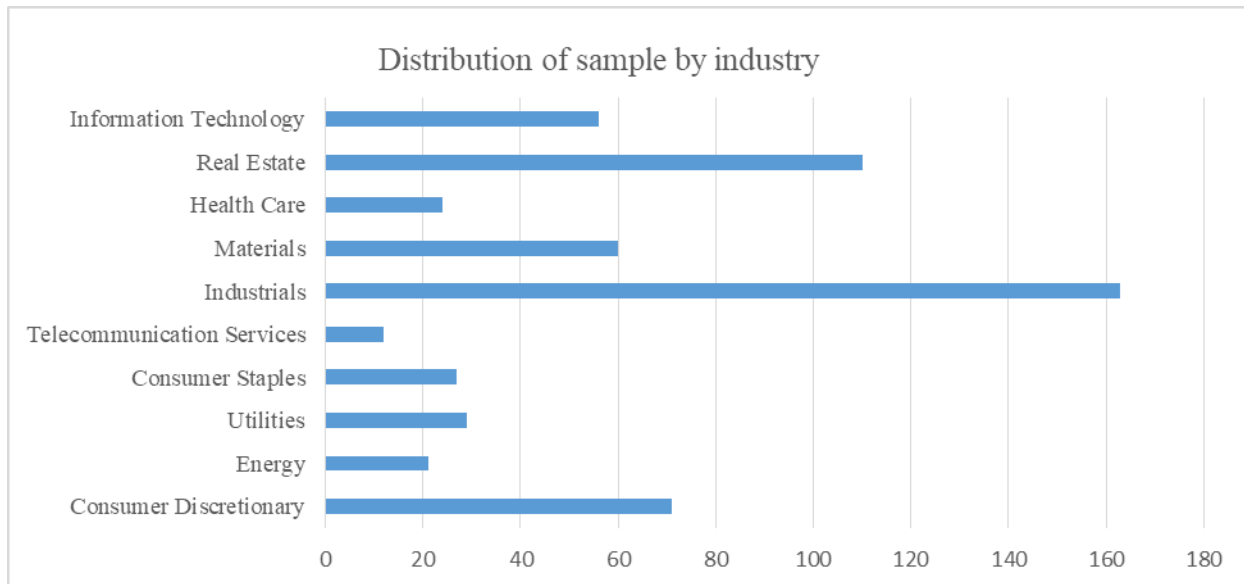
The information related to the firm's performance and corporate governance characteristics will be collected from the Thomson Reuters platform. Companies will be selected according to the following criteria:

- Data is available in a period of 8 years (2009 to 2016). 2009 is selected, as it is a year of a post-financial crisis. Therefore, it is more likely that the level of financial distress varies substantially among firms. Because of this variation, this study can examine the effect of financial distress on the relative use of real earnings management.
- The entities that have been closed or merged with any other entities during this research period, will be excluded from the study.

The study will analyze the performance of the sample of 573 public companies operating in the Europe for a eight-year period from 2009 to 2016 (please see Table 1), operating in 10 different industries.

**Table 1. Classification of Europe listed companies by industry**

<b>Industry</b>	<b>Number of companies</b>
Consumer Discretionary	71
Energy	21
Utilities	29
Consumer Staples	27
Telecommunication Services	12
Industrials	163
Materials	60
Health Care	24
Real Estate	110
Information Technology	56



#### Measuring of Variables:

Variables used in this empirical study include:

- 1) Dependent variable (firm's financial performance);
- 2) Independent variables (audit committee characteristics);
- 3) Control variables.

The dependent variable will be represented by the total level of real earnings management activities through reducing R&D expenditures, reducing G&A expenditures and increasing production. This study will be concentrated on discretionary expenditures, such as R&D and G&A expenditures since that expenditures are the primary instruments to manage the earnings.

Independent variables will be represented by the measurements such as:

- Audit committee size - the total number of audit committee members at the end of the fiscal year.
- Non-executive members - the percentage of non-executive members.
- Audit committee member's skills and knowledge - the percentage of audit committee members who have an accounting background and strong financial expertise.
- Number of audit committee meetings - the number of audit committee meetings during the year.

Control variables will be represented by the firm size, profitability (ROA), and firm leverage.

#### 4. Significance of the Issue

This study examines the impact of the audit committee on real earnings management of listed companies in Europe. The proxy of Europe listed companies will be represented by the sample of 573 listed companies.

I tentatively predict that the audit committee meetings, audit committee size, accounting experts in the audit committee and non-executive members in the audit committee will affect the level of real earnings management; and it is likely, that there is a negative relationship between number of audit committee and real earnings management.

This study will have several limitations, which also provide avenues for future research. Firstly, I will use only two dependent variables, R&D and G&A expenditures, while there are

many other variables that can affect real earnings management, as overproduction, price reductions, and inventory build-up.

From the societal perspective, the results of this study have implications for investors. Investors should be aware that the firms facing the industry competition could use real earnings management in order to meet its short-term financial reporting targets. Thus, investors should be more skeptical during the analysis of the company before investing in a firm, which faces the industry competition.

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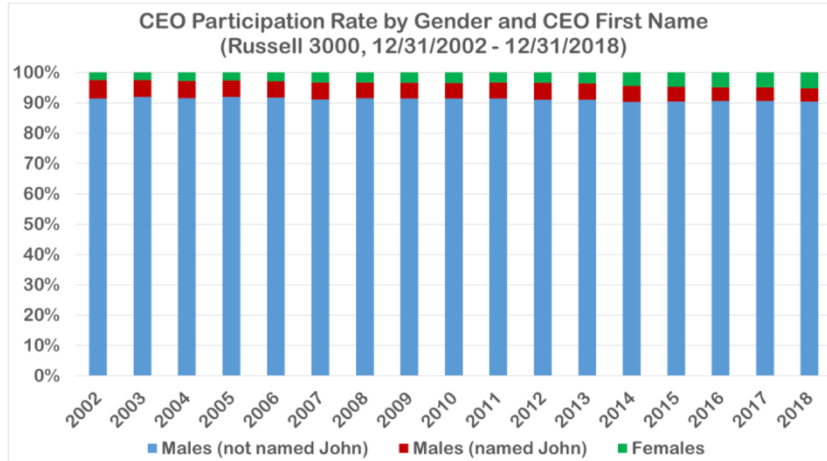
# **A study of female leadership in the fashion industry and what we can apply to the woman's career development?**

**Nurlan Dilda and Muhammad Nadeem Khalid, PhD (Supervisor)**

## **Problem Statement**

This paper will study the female leadership in the fashion industry, and provide a better environment for the next generation of women in career development by studying the reasons why these women can succeed in their career. As we all know, no matter what industry, women's career always has a lot of uncertainty, and women also need to face more queries and more pressure. As catalyst research shows this year, Women currently hold 30 (6.0%) of CEO positions at those S&P 500 companies. (Catalyst,2020). According to this data, we can imagine that women are in a disadvantaged position in the whole industry, and the ratio of men to women is unbalanced. From a subjective point of view, we would think that the fashion industry is dominated by women, but quite the contrary. "Our analysis of government and industry data found that almost 80% of students in leading fashion schools are women. " (Pwc,2019). Meanwhile, according to one industry report, fewer than half of leading womenswear brands have a female designer at the helm, while another found that only 14 percent of major brands are run by a female executive. (George-Parkin,2018). From Figure 1 (CEO participation rate Gender and CEO first name), The number of female CEO increased slightly from 2002 to 2018, but not much in 16 years. The surprising statistics show that the number of female leaders is lower than the number of male CEO whose last name is John, and that in 16 years there were more male leaders named John than there were female CEO. This statistic once again confirms what we think of the fashion industry, where most women are stuck in middle management. They will encounter more external obstacles and internal influences. Women suffer more than men from career setbacks, such as family and work balance, having children and mostly compare to men, women are lack of confidence. In the mid-management level, gender balance shift dramatically, most of the time, quite number of women stay in entry-level and manager level, being promoted are getting harder and harder gradually. Except for external issues, there also appears to have some internal problems going on. Which we specifically need to figure out, what is holding women to have more opportunities. At the same time, there are still some women who occupy important positions in the fashion industry and play an important role, and they will be the object of my study.

Figure 1: S&P Global Market Intelligence Quanta Mental Research. 2019.



**Figure 1. Female Participation Rate for Chief Executive Officer Positions.** Relative percentage of companies in the Russell 3000 Index by gender. Males are subdivided by those named John versus not named John. Source: S&P Global Market Intelligence Quantamental Research. Data as of June 6, 2019.

In women's career development, stereotypes of women are forced to make women suffer from unfair treatment in the workplace. "Their findings concurred the stereotype that **women "take care"**--women scored higher than men in building relationships, inspiring and motivating others, practicing self-development. However, at the same time, it braked the stereotype that **men "take charge"** as the two traits where women outscored men to the highest degree were--taking initiative and driving for results."(Angelovska,2019). But a more worrying problem is that more than 50 percent of male survey participants see no gender inequality in the industry. This lack of awareness translates into a lack of action. (McKinsey & Company,2018). When no one is aware of the problem, companies do not place too much emphasis on women's development and it is difficult to put women's career development in priority agenda. On the other hand, is it women's lack of education, or their inability to work as well as men, or their inability to lead, that makes it more difficult for women to advance in the workplace than men.

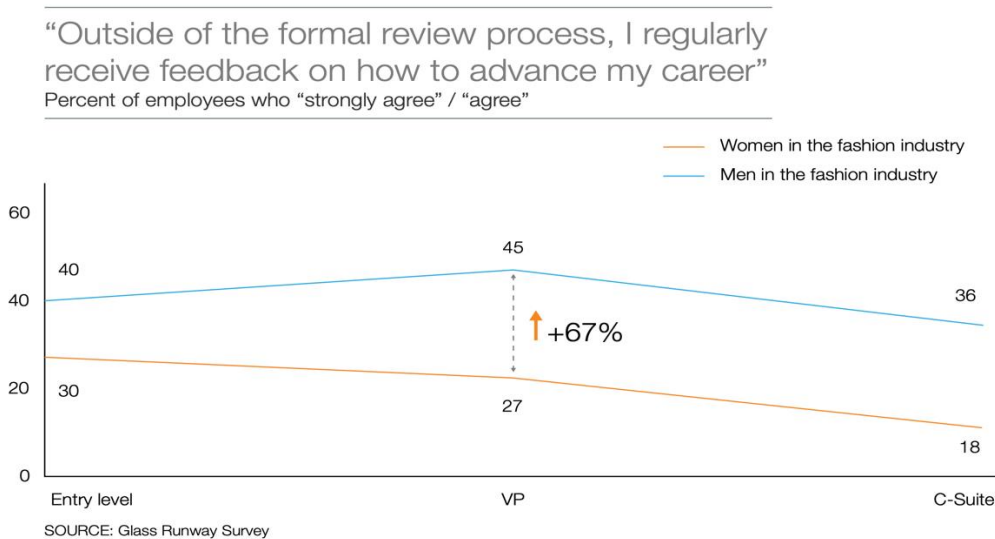
Say a woman and a man who graduate school with comparable educations, grade point averages, and internships enter the fashion industry at the same time. As they start moving up the ranks, everything is fine for a while. But eventually, the woman is much more likely to get stuck in middle management while the man continues to rise. "Women often won't apply for a job unless they meet 100% of the requirements, where men will apply if they meet 60%, creating a so-called confidence gap."(Bain,2019). There are many reasons why women are not confident. The stereotyped image that has been given for a long time, as well as the pressure brought by the social and cultural environment, as well as the deep-rooted education to distinguish women from men at a young age, have a lot of influences on the future development of women. On the other hand, due to the lack of opportunities, women, to a large extent, are more active in developing themselves and pay more attention to their study and improvement, because compared with men who make 50% efforts, women need to make 100% efforts to compete with men. With a lack of confidence, women develop a high level of self-doubt when faced with new job opportunities and promotions. In such cases, support and encouragement from the company may help women's advancement in the workplace become more stable, and otherwise, women will lose valuable opportunities.

Another problem arises when we mention the company: no support structure. Women face many dilemmas and are sometimes forced to make a choice between career development and

family life. Most of the time, women choose to sacrifice their career development to satisfy their family life. However, when women need help, companies can introduce more flexibility to meet the needs of working women so that they can find a work-life balance. Both men and women need a mentor to help them to develop in their career path. Women are different from men in their career development, but they are not effectively helped. Men may be more willing to mentor men, and the extreme lack of female leaders has created a lack of mentoring for women in the workplace. “Across all tenures, only 22 percent of women report getting advice to advance their careers, versus 33 percent of men. At the VP level, the gap widens markedly to 27 percent of women versus 45 percent of men.” (McKinsey & Company,2019). Even though companies have intensive training programs, there are few programs for women's career development. Even with the guidance of male leaders, their guidance of female employees will be different from that of male employees because of gender bias and unconscious discrimination. “Bias training for staff is also useful to ensure staff is spotting it where it appears, and companies should review how they handle hiring and promotions, as well as investigate any anomalies they see.” (Bain, 2019) From Figure 2, At the beginning of the career, there was only a 10 percent difference between the percentage of women and men who received guidance from a mentor. As their careers progressed, the percentage of women who received guidance and supervision declined. Then at the senior position, the percentage of women who could be mentored dropped to 18%.

Figure 2: (McKinsey&Company,2019)

**Women may be less confident about what it takes to succeed because they are receiving less advice on how to advance their careers**

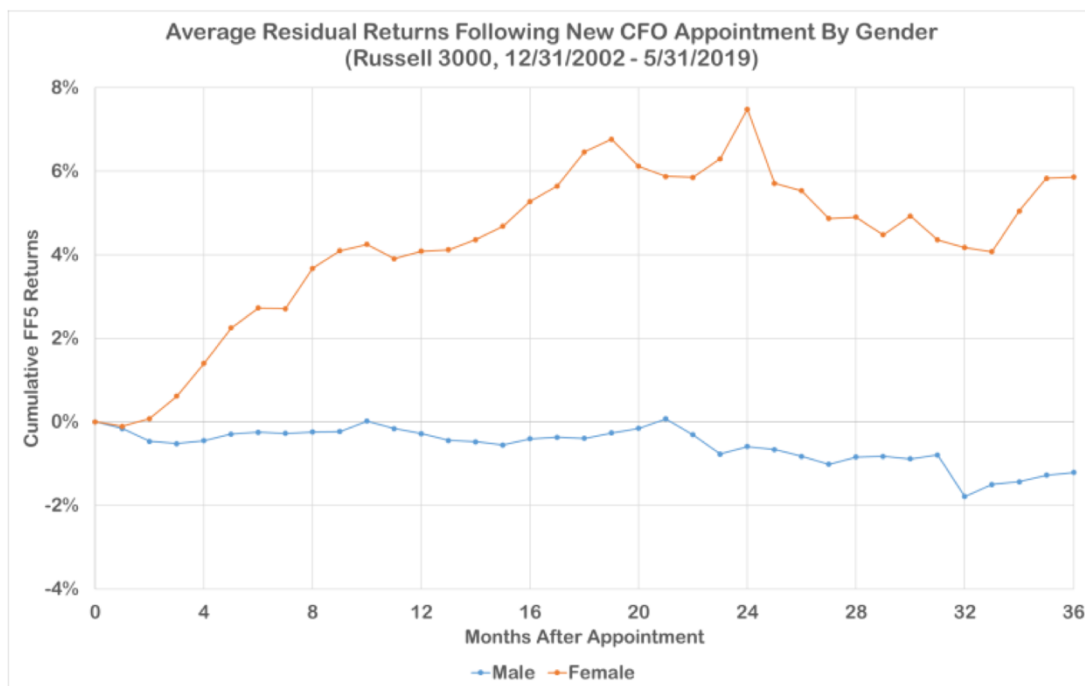


As women, we should first clearly recognize the factors that are detrimental to women's career development. Whether it is external environment factors or women's factors, we should first understand what makes career development so difficult. Secondly, when we understand these situations, we can make better plans and achieve better results in our career development. The development of female leadership at the same time is of great benefit to companies and organizations, except gender diversity, Women as leaders can also bring great benefits to companies. “When a company augments female leadership by 30%, it experiences a 15% boost in profitability, according to a global survey of more than 20,000 companies from 91 countries.



“(Pwc,2019) Another statistic number shows: "They say companies, where women made up at least 15% of senior management, were 50% more profitable than those where fewer than 10% of senior managers were female."(BBC News,2015). There have numerous studies shows women-led companies perform better than male-led companies, “Out of more than 40 companies he invested in, about 95% of the women-led companies met their financial targets, compared with just 65% for businesses with male leaders.” (Castrillon,2019). From figure 3, (Average residual return following new CFO appointment by Gender) shows: After CFO appointed the return with the company, the following 36 months' performance we can separate into Female contingent and Male contingent. From the forth months' Female CFO started to have differences from Male CFO. After 20 months' male contingent return numbers statistically lower than average. At the end of the 36-month observation period, the difference in returns between male and female CFO was greater than 8%. According to these data, female leaders are able to excel in leadership and lead their companies to success. It means that more excellent female leaders can be trained in the future, and companies should attach importance to women's career development and put it on the top of the company's agenda, which is a win-win situation for both women and the company.

Figure 3 : S&P Global Market Intelligence quanta mental Research. 2019.



\*\*\* = Significant at the 1% level; \*\* = Significant at the 5% level; \* = Significant at the 10% Level Figure 2. Fama-French 5 (FF5) Factor Adjusted Returns. The average FF5 residual return demeaned at the sector level is reported for the male and female contingent in the 36-months following appointment of a new CEO (left) and CFO (right).

In this case, what should we do to empowering women in the workplace? how to benefit women's career development. Even though there still have some many issues needs to be addressed in term of gender equality and unconscious bias, there still have a way for female to focus on their self-development.

Through the analysis, we will guide what are the important factors that enable them to achieve success in their career development, and through the research on them, what development

methods can company and enterprises use to guide the career development of female employees in the future and turn them into learning samples of female career development.

In this study, there will be about 30 female leaders in the fashion industry as research subjects, who play an important role in various fields of the fashion industry and make an extremely important contribution to the career development of women. For example, the CEO of YNAP company has launched a project to develop future female leaders, which is launched in the form of sponsorship. The company not only develops under the leadership of female leaders but also makes the development of women's career a top priority.

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# **Women entrepreneurs in Kazakhstan: the consequences of Covid-19 pandemic and ways of solution.**

**Aisha Bolatbekkyzy and Muhammad Nadeem Khalid, Ph.D. (Supervisor)**

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## **Abstract:**

Business led by women in Kazakhstan shows good growth and dynamics. This is evidenced by statistics: the share of female entrepreneurship in a country's GDP is 39%. Women lead in the following sectors: education - 67%, healthcare - 53%, trade - 54%. The same firmly held positions in real estate transactions - 61%, accommodation and catering services - 58%. Main support from government women entrepreneurs can receive through special programs of the "Damu" fund and there were successful business cases during Covid-19 pandemic. However, studies of the UN and World Bank shows that women entrepreneurs suffer more than men because of the coronavirus crisis. Mainly because women are forced to stay at home with their families, help children with studies because schools are closed, their house duties increased for two-three times, and unfortunately, in some cases they face home violence. Main idea of this study is to find possible ways to help women promote their business and reduce the damage from the spread of coronavirus. One of the ways of running business in the current situation is transferring it from offline to online format, which means that women entrepreneurs are in need to gain knowledge in online promoting. Other possible ways - the creation of coworking zones with children's rooms and classes with teachers, to give mothers time to work or study. While the children are studying or entertaining, mothers can solve their own affairs or undergo training to advance their business.

Keywords: women, entrepreneurship, Covid-19, business in online.

## **I. Introduction**

For long time there are belief that woman intended to create a family, give birth to children, take care of them and a husband, by keeping the family hearth. Similarly, in Kazakhstan, this ideology is preserved in the traditions of real Kazakh woman. While being developing country, which is willing to become a significant economic player in the world market, Kazakhstani people are changing their thinking and lifestyle, however, do not forget about their roots and traditions. Exactly at this point contradictions meet, what should modern woman do in Kazakhstan? She needs to make a choice or combine everything in her life and be a superwoman. Some of women are choosing to be traditional Kazakh "kelin" (housewife), follow traditions, raise children and take care of family; while others are in need to work and help their husbands to financially support family, while being mother and wife. By understanding that combining all duties is very energy and time-consuming, there is a group of women, who decide to start business and do it successfully. Because there is belief, that women take care of their business as of child and raise it carefully. There is a good definition about modern businesswomen: "Business is always about discipline, planning and creativity; and women's' business is how at the same time to remain yourself, not to change to your principles and your nature (Selyavina, 2019)". Women, nowadays, are willing to be financially independent, always

develop and keep up everything at once and lots of them succeed in this desire and it is proven by statistics.

Unfortunately, Covid-19 pandemic, which started in 2020y. made corrections in lifestyle of whole world and entrepreneurship suffered a lot. Pandemic situation clearly showed, how health is important and lockdowns and restrictions of conducting various types of businesses made another step forward in the transition to the virtual world, and this is evidenced by online shopping, education and even basic medical consultations. This research work aimed at studying the consequences of how women's entrepreneurship suffered in Kazakhstan and what are possible solutions, especially providing basic guidelines on cheap ways of transferring business from offline to online format and provide possible ways of supporting women entrepreneurship.

## **II. Literature Review**

Based on statistics, provided on "Kursiv.kz", which is republican business weekly in November 2020, women entrepreneurship takes 39% of Kazakhstani GDP. This is weighty figure and only in Almaty, 45% of entrepreneurs in small and medium sized business segments are women and mostly they take niches as education (67%), healthcare (53%), trade (54%). The same firmly held positions in real estate transactions (61%), accommodation and catering services (58%). As it was mentioned above, since the beginning of coronavirus pandemic worldwide economic suffered and mostly businesspeople, due to urgent lockdowns and various types of restrictions. Common problem for all entrepreneurs (men and women) was sharp decline in customer flow because of closure of all those who conduct business in an offline format (everyone except grocery stores and pharmacies). In order to have a chance to continue running business, owners were forced to convert offline to online, however it was not that simple. Second common problem for Kazakhstani entrepreneurs was closure of countries borders, due to lack of own production and being mostly importing country for running SME business. Main reason for this problem is difficulties with access to raw materials and components. Shipping delays for unpredictable period was one of the main problems if the process of doing business online has been streamlined. According article published on September 2020, on ranking.kz, women entrepreneurs suffered for 12% rather than men in small and medium sized entrepreneurship segment due to two more actual problems. First is that women face more IT issues in converting offline business to online. Lack of knowledge and education in this sphere, lack of time makes this difference between women and men. However, second problem is more important: Women, according real experience and statistics, suffered more due to raise of house duties. Which means, that during lockdowns, families were forced to stay at homes and work, study and leave there. This entailed cooking, making laundry and cleaning houses and other household duties several times more and more often. Also, schools were closed and children were forced to study online and mothers needed to help their children with studies and replace teachers, which gave additional load and cut time, which women as entrepreneur could spend on doing her own staff. Unfortunately, during quarantine also raised divorce percentage and home violence, which made women more sensitive in a psychological way, which is also another factor of suffering more. Even facing all problems, women stay strong and continuing chase success and move forward.

Kazakhstani government is working on gender equality and it is positive step for county, which is original positioning itself as patriarchal country. One of the evidences, based on article from kursiv.kz, is that country was selected as executive board structure of "UN Women" and actively supported by such partners as: the National Commission on Women Affairs and Family and Demographic Policy under the President of the Republic of Kazakhstan, the Ministry of

Foreign Affairs of the Republic of Kazakhstan, the Ministry of National Economy of the Republic of Kazakhstan, the Ministry of Labor and Social Protection of the Population of the Republic of Kazakhstan, civil society organizations, as well as signatory companies of the Principles for the Empowerment of Women. One of the bright representations of governmental support is partnership with Entrepreneurship Development Fund “DAMU” with special programs for business ladies. Because of these special offerings, 52% of clients, who received loans from the Fund are women. Moreover, government provided exceptions from several types of taxes till the end of 2022y. and loan repayment holidays in order to support entrepreneurs during hard crisis times because of spreading Covid-19.

According to all information provided above, it can be summarized, that Kazakhstani government makes work on supporting entrepreneurship from financial part and there is a gap in social support, which will be discussed further. Moreover, it can be highlighted two point as hypothesis for current research work, is that need to be emphasized:

Hypothesis 1: Female entrepreneurship needs governmental support for educational purposes on converting business from offline to online format.

Hypothesis 2: Older generation in Kazakhstan is not ready to transferring to online format.

### **III. Research methodology**

In order to provide applicable and reliable information on possible ways of solution current problems in business there were conducted interviews with business women, who are working right now, and faced all problems of pandemic crisis. Also, there were conducted interview of SMM-specialist, who are providing services of promoting business in online sphere. These people understand the urgency of the problem and are willingly looking for options for solving it.

First group of respondents were business women, who are running business either offline or online in different spheres. There were representatives of retailing in clothing and crockeries, who are producing own products and providing services. Each representative faced difficulty or vice versa got benefits from pandemic situation.

Second group of respondents were SMM specialists, who provide services in helping of transferring business to online format and promote it successfully.

All interviews with respondents were conducted in online format via video or telephone calls in order to follow quarantine rules. In order, to save time of respondents' time and distinguish problems related to Covid-19 pandemic, there were asked several questions for first group of respondents and more detailed interview with second group of respondents, whose answers are more actual in current situation.

All answers were analyzed individually in order to identify all possible problems caused by spread of virus and possible ways of solutions.

Interview questions for the first group of respondents:

1. Please tell about yourself and what is your business?
2. Do you import your products or some components?
3. Do you conduct your business in offline or online format? Or you combine?
4. If you are conduct business in online, which type of online platforms you use?
5. What problems you faced during pandemic?
6. Did you lose or received benefits during pandemics?

Interview questions for the second group of respondents:

1. Please tell about yourself and what kind of services you provide?

2. Which promotion platforms you offer your clients?
3. Did percentage of entrepreneurs, who are willing to receive your services raised?
4. What steps to follow would suggest to your clients?

By analyzing responses, I found out common problems of women entrepreneurs and recommendations from specialists and came up with ideas of helping them.

#### **IV. Results**

For the first group of respondents and avoiding possibility of bias conclusions, there were eight respondents from different business spheres such as: crockeries retailer, owner of offline and online shops; coach of conducting business with suppliers from China and owner of online shop on Instagram platform; creator of hand-made photo albums, who sells them via Instagram platform; Kazakhstani producer of care cosmetics, running business in online format; owner of offline boutique, selling Italian women's clothing; and travel company owner, who is running business in offline as well. All respondents are fully or partially importing their products or components, which caused problems with logistics: delay in deliveries in the beginning of quarantine regime, especially from countries with highest number of Covid-19 cases (China, Italy), when borders were closed or partners from that countries were forced to close their firms due to lockdowns. Due to restrictions of leaving country and quarantine regime, people were forced to stay at home, which caused completely temporarily terminate the activities of the travel agency, which caused losing any possible income for the owner and employees, and only last few months agency able to provide services thanks to the opening of the borders of tourist countries, however, they are not able to fully recover from continuing pandemic situation. Not only touristic agencies suffered completely, but entrepreneurs, who conducted their business only in offline format were forced to lose income due to restrictions for customers visit public places and closure of all types of businesses, such as shopping malls, boutiques, restaurants, universities and schools, etc. rather than supermarkets and pharmacies during first and strictest period of quarantine regime. However, in Kazakhstan, there are still partial restrictions on conducting business offline due to pandemic situation in current place. That is why, entrepreneurs searching possible ways of continuing working opportunities, like providing delivery and promoting themselves in social media. While offline entrepreneurship suffered a lot from varieties of restrictions, businesswomen, who conduct their business in online format and know how to correctly promote in social media vice versa raised their income during pandemic situation. For example, producer of hand-made photo albums used the opportunity to increase number of orders by providing services of delivery her products as present from relatives or friends from other cities, who cannot visit receivers due to rules of social distancing. Otherwise, owner of online shop in Instagram platform increased supply of pajamas from China and because of skills in proper promotion on Instagram, raised her sales for several times, while owner of Italian clothing boutique suffered because of lack of skills of promoting in Instagram and closed offline boutique during first half of pandemic in 2020y, but thankfully of having freestanding boutique she avoided restriction policies which were faced by boutique owners in shopping malls. Also owner of crockeries retailing boutique shared that they were planning to open website of their online shop before pandemic and had huge problems due to lack of knowledge in IT sphere and difficulties to sync database with offline store, and during pandemic restrictions only forcing of acceleration of opening of online shop helped them to suffer before allowance of opening offline shops. By analyzing good and bad scenarios provided by respondents, it can be summarized, that the main problem was of restrictions of conducting business offline and lack of

knowledge, how to run business in online format and that converting and promoting business in online is costly and time-consuming. However, reality shows that after pandemic will end, that world will not come back to offline regime and entrepreneurs should continue running business in online format, or in combination of offline and online format, because still not everyone are ready to fully switch to online regime. One more actual and common problem of women entrepreneurs, that during quarantine regime they were not able to spend enough time on solving business cases they faced, because whole family was staying at home and household duties took most time of the day, which caused disturbance of time allocation between family and business.

Analysis of the responses of the first group shows the relevance of the second group. Both SMM-specialists responses, that the cheapest and easiest way to promote business online is to have profile page in Instagram, rather to spend huge amount of money and time for creating website, however there are a lot of hidden difficulties of proper promotion of page and it is really hard work, and if person does not have sufficient knowledge in this specific field, he or she will not receive any profit that they could have earned, while spending time. There are a lot of available free articles on rules of promotion Instagram page, however it will be time consuming for entrepreneur and will cause a lot of mistakes in the beginning, that is why SMM-specialists advise firstly use services of specialists and then, continue on their own, it will more safe for entrepreneurs. For instance, in order to start promotion business in Instagram for the first step it is needed to open special business profile, then:

1. Fill in all contact information
2. For profile-photo use Company's logo
3. For profile-name use Brand's name or simple key words associated with your business
4. For information use short and simple definition and the most important information
5. Create highlights with important information, telling new customers about your business
6. Use link for service which will help to provide active information for clients as links for contacting with administrator or website (ex. Taplink)

After creating profile, owner should continue with following main steps:

Step 1: Competitor analysis

Step 2: Content plan

Step 3: Visual

Step 4: Promotion strategy

Step 5: Distribution of duties

These steps look easy however, it seems so only at first glance, and for the error-free implementation of these recommendations. It is better to contact a knowledgeable specialist who will additionally analyze this situation in which your business is and will offer a strategy for further advancement.

## **V. General Discussion**

By analyzing all aspects of raised problems and suggestions from specialists, I found ideas on possible helpful ways of solution of women entrepreneurs' problems:

- On a base of social support for women entrepreneurs:
  - Organize sessions to analyze the current business situation.
  - Conduct a course of basic SMM skills for promoting business in an online format.

As it was mentioned above there are various programs on financial support from government, however it would be great if women entrepreneurs will receive social support as well. Not all entrepreneurs still understand importance of conducting business in online format and ready to

invest their money in SMM courses and other type of promotions. If they will receive basic courses as support, then they will see how it should work, receive profit and that will make them become more interested and ready to invest for further knowledge and willing to hire SMM specialist, which will lead popularization of this profession and create workplaces. One more important point, that not all entrepreneurs have business, management or marketing education, especially older generation of entrepreneurs, who cannot fully analyze current situation and need support in analyzing and creating new possible ways of promotion established businesses.

- Create co-working zones for mother – entrepreneurs with playing room for children and study-rooms for older children.

There is an additional option of helping women entrepreneurship, it was mentioned more than once, that there are sufficient number mother-entrepreneurs, who are suffering from that schools and kinder gardens are still closed, and they are in need to spend their whole time on taking care of family and helping each member of family, however there is an possible way of helping herself. Creation of co-working zones especially for women entrepreneurs, where they will be able to book any convenient time frame and solve her business issues or take her time, while her children will be in the same building and will be entertained by themselves. For entertaining children like a: having additional classes in order to better understanding school program or doing homework with support of teachers; have additional developing sections, sports or other will help women-entrepreneurs who are conducting their business in educational spheres and help mothers have their own time. For following all epidemiological requirements these coworking zones will work by appointment and with a limited number of visitors in a particular zone, while helping mothers and support businesses.

In order to sum up, as an author, I would like to highlight the importance of every woman in society and to express my gratitude for all women for contribution to society by working, running business or giving birth to children.

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# Talent Management in SMEs of Kazakhstan

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## **Abstract**

**Purpose.** The research paper investigates the evolving and common patterns and challenges of talent management (TM) practices in the context of Kazakhstan's small and medium enterprises (SMEs). The increased understanding of TM may better equip the SME owner to effectively manage and lead the talents within their SME.

**Research Design.** This exploratory study conducted on a selected 27 Kazakhstani SMEs. After collecting the sample, the data was analyzed with the use of CAPI technique. Also, three semi-structured interviews took place, with owners of three SMEs: private medical hospital, linguistic educational center and Yoga studio.

**Findings.** The study confirms that TM in Kazakhstani SMEs occurs in a variety of ways and approaches of ones differ from others. However, the common patterns are spotted in budget allocation in TM activities, talent identification, TM activities undertaken and talent's responsibilities.

**Recommendations.** Due to a variety of approaches to TM, the main proposal of the study is to suggest the application of a contextual framework, which should consider both internal and external factors. Overall, this research paper advises the owners and managers of local SMEs to define the main aim and objectives of introducing TM practices and shape them in a way that allows them to fulfil the desired outcomes.

Keywords: talent management, HRM, SME of Kazakhstan

## **I. Introduction**

Nowadays, TM is a vital source of competitive and sustainable advantage for organizations throughout the world. Organizations use their resources such as equipment, cash and working power in order to achieve organizational objectives. The human capital is the most crucial resource among all other resources because the organization's success significantly and directly depends on the contribution of employees (Kahinde, 2012). The objective of TM is defined as a company's ability to attract, select, develop and retain key employees. Most academic publications on TM are conceptual and only a few have conducted empirical studies (Thunnissen et al., 2013).

The purpose of this research is to identify TM practices in Kazakhstan's small and medium enterprises (SMEs) and also map their common patterns through an empirical investigation. Unlike large corporations, SMEs possess less funding independency and ownership skills and they usually undertake various actions in order to maximize their use of human capital. The scope of these actions highly depends on the industry in which SMEs operate, their business characteristics and the resources they have. On the other hand, in contrast to large enterprises, Vlachos (2009) mentions that SMEs tend to be more flexible adopting TM practices and it helps them to judge the effectiveness of change more promptly. The positive correlation of TM practices and SME performance can also be supported in other studies (Rauch et al., 2016). The growing interest of Kazakhstani companies in TM is reflected in the number of scientific publications. For instance, Yessengeldin and others (2015) emphasize that there is a substantial disparity between labor market's requirements and skills in human resources. The

reasons behind this mismatch are generally based on low qualifications of workers in professional education and a lack of knowledge of advanced technology. This is why the authors highlight the importance of education in implementing the TM practices in SMEs of Kazakhstan.

This research aims to develop a better understanding of SME's perceptions of TM practices in the context of Kazakhstan, what sort of strategy they should adopt and what kind of TM challenges SMEs currently encounter. Primary issues regarding defining, attracting, retaining and developing talent are described, followed by several practical recommendations for SMEs and suggestions for further research.

The following key questions were formulated during the research design phase:

- How talent is defined in the context of SMEs and what the indicators are?
- What factors influence TM practices in SMEs?
- What approaches to TM do SMEs in Kazakhstan adopt?
- What sort of activities relating to TM do SMEs perform?

The above stated questions were particularly useful in obtaining data on how the processes of talent identification, evaluation, acquisition, remuneration, career planning, teambuilding, training and development are organized in SMEs. The answers for these questions can form the foundations for developing a checklist for defining TM in SMEs of Kazakhstan.

## **II. Literature Review**

Although there are many studies on TM, the definition of talent is still an issue that needs a revision. Many business scholars have been constantly discussing whether talent is innate or acquired and they also argue whether the designation should be based on potential or performance (Morley et al., 2015). Collings and Mellahi (2009) propose a 4P model to approach TM – people, practices, position and strategic pools approach. On the basis of these approaches, the authors state that the first step in designing and implementing TM system should be the identification of pivotal positions because it enables to determine high performing and high potential candidates, who might be the potential participants of any TM program. In addition to these approaches, Iles et al. (2010) propose a four-square model consisting of four parts: 1) key individuals; 2) everyone has a talent and potential; 3) social capital development in pivotal positions; 4) the right people to fill key positions. In other words, TM is aimed at attracting the right candidates, selecting workers with the highest potential within or outside the organization, providing developmental programs, motivating and remunerating for high performance. It is reasonable to conclude that TM has advanced frameworks, which enable the organization to maximize the use of its current human capital, create knowledge, develop necessary skills, build strong culture and attitudes that are crucial for achieving the strategic goals.

TM in Kazakhstan is not only reflected in the number of scientific papers, but it is also a central interest of many HR managers, especially in government agencies and multinational corporations. Unfortunately, there are no publications that directly refer to TM in SMEs of Kazakhstan due to unique characteristics of SMEs. Research conducted by Selivanovskikh (2018) discusses main issues and peculiarities of managing talent in Kazakhstan. The author indicates that TM is still in transition from Soviet practices to ones existing in foreign companies. The Soviet heritage has strongly impacted various aspects of management, behaviors of people,

as well as some cultural, economic and social factors. This results in a low variety of TM practices. Specifically, most Kazakhstani companies employ a culture with a higher power distance between managers and junior or mid-level employees. They also have a more 'particularistic' culture, where social orientation prevails over a task orientation. Thus, TM practices show low rate of recruiting and training policies. On the other hand, Kazakhstani companies have started adopting various TM practices from the developed countries due to increasing the country's attractiveness to foreign investors. Since many local companies are unaware of the most innovative TM practices, they tend to seek foreign expertise in order to increase transfer of knowledge and experience to local employees. Davis and Yugay (2012) state that such measure is not enough to create an advanced workforce. The above-mentioned scholars mainly focus on large organizations in their research without paying attention to SMEs.

Unlike large organizations, SMEs are organized in a different manner to meet their specific needs and operating models. As it was mentioned earlier, SMEs have limited resources, which results in optimizing and even reducing HR processes. According to Patel and Cardon (2010), some TM practices requires organizational restructure, which can be too expensive for many SMEs. Moreover, solutions developed in large companies might be suitable for SMEs due to the absence of HR division. Processes such as recruitment, training, remuneration, appraisal are normally executed by managers and owners, who frequently suffer from insufficient managerial skills. Apart from the inclusion of the internal factors, the approach to TM in SMEs should also consider country-specific cultural context.

Taking into account the complexity of implementing TM in SMEs, it can be stated that the TM programs should be organized in various ways in SMEs. The following general findings are presented concerning the TM approach in SMEs on the basis of the conducted research: 1) the key features of a talented employee refer not only to innate qualities and skills, but also knowledge and experience; 2) there is a greater emphasis on identifying gaps in current employee and candidate competency levels; 3) SMEs have started preparing mid-level employees to step into leadership position; 4) SMEs state that they have enough budget in place to develop and retain employees over the next three years; 5) there is a small percentage of employees have prepared a personal development plan, which has both short- and long-term goals to succeed within the SME. As the context of SMEs operations vary, it is nearly impossible to create a coherent model in approaching TM in SMEs.

Overall, this research study contributes to the existing literature on TM practices in emerging markets such as Kazakhstan by reflecting on primary approaches and existing issues of TM practices in the context of Kazakhstani SMEs. The paper also pays attention to the current condition of the following practices in SMEs: recruitment, motivation, training and development, performance management. Due to the limited number of conceptual and empirical studies on TM practices in Kazakhstani SMEs, this research does not put forward any propositions related to the TM approach in local SMEs. Instead, it discusses the evolving patterns and challenges of TM. In this case, a qualitative research is the most appropriate method to examine the opinions and experiences of the SME leaders in Kazakhstan. It is also useful in exploring the voices of SME leaders and identify emerging TM prospects and challenges, as well as their likely outcomes.

### **III. Research methodology**

This research draws primarily upon the research and interview with entrepreneurial owner-managers of SMEs by employing the CAPI technique. A survey comprising three main sections was sent out to 27 SMEs representing a variety of industries and ranging in size

from 10 to 250 employees. The survey participants proved to be open and thorough in their responses. The first section aimed at diagnosing the context in which SMEs function. The second section identifies what kind of actions they undertake towards the TM implementation. The third section covers the evaluation of trends in performance indicators referring to their business flow. All questions were open-paragraph and multiple-choice, which was useful in capturing distinct actions undertaken by SMEs and also in assessing the level of application of theoretically grounded practices. An anonymous survey was chosen due to the reluctance of local SMEs to participate in this kind of research and it also allowed to see a broader picture from a large number of respondents.

The in-depth semi-structured interviews were also conducted with owners of three Kazakhstani SMEs – private medical hospital, linguistic educational center and Yoga studio. These businesses are located in several regions. To assure anonymity, the real names of the above-mentioned SMEs are not mentioned in this report. The interviews were conducted in Russian. The analytical procedure includes examination of the raw data. Data collected from the interviews incorporates the interpretations of the primary research questions:

- How do you spot talents?
- What are the current patterns and challenges of TM implementation in your company?
- How do you communicate TM decisions to employees?
- How do intrinsic rewards and working conditions affect the employee retention in SMEs?
- How does promotional opportunity affect the talent retention in SMEs?

#### IV. Results

Only SMEs which reported the introduction of TM practices were described in this research paper. SMEs that have 2-180 employees are also included in this report. General characteristics of the sample is presented in Table 1. 5 clusters of the most demanding job positions within SMEs are defined and measured against the following criteria: talent indicator, approach to TM, main activities, scope of talents and tasks, dedicated HR activities, main area of development. The table of features for each cluster is presented in Appendix.

**Table 1.** Sample characteristics (in %)

<i>Criteria</i>						
Tenure	0-2 years		2-5 years		5-10 years	
	30.4		50.8		18.8	
Sector	Medicine	IT	Services	Education	Energy	Culture
	11.1	14.8	33.3	11.1	11.1	7.4
Number of employees	up to 25		26-100		101-180	
	58.4		30.8		10.8	
TM was first introduced	last year		2-5 years ago		over 5 years ago	
	36.7		48.3		15.0	

For this study, survey data was collected from managers and owners of 27 SMEs in Nur-Sultan and Almaty. The achieved sample included approximately equal number of respondents from five size band (2-9, 10-19, 20-49, 50-99, 100-180 employees) and 8 industry groupings (Figure 1). 70.8% respondents agree that SMEs increase employee involvement in decision making (Figure 2). The workplace is conducive enough for the employees to fully concentrate in work.

Figure 1. Percentage of the SME sample in each sector

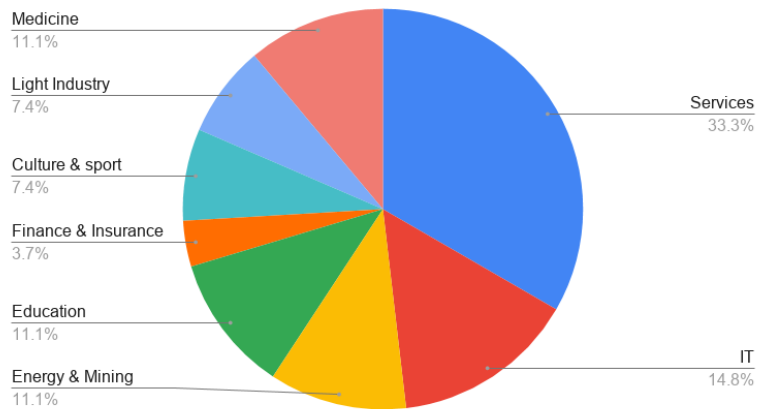


FIGURE 2. CURRENT STATE OF GENERAL TM PRACTICES IN SME



87.5% respondents agree that SMEs offer attractive non-monetary rewards to make the employees stay a longer period of time. Most respondents approve that the SMEs need to ensure that their workers are satisfied and motivated. They also anticipate that good communication takes place currently between SME owner and workers. With regards to employment benefits, the respondents expect that the package (e.g. gym, retirement plan, health insurance) will be expanded within the next three years once the SME hits the growth target. According to Figure 3, it is difficult to state whether the promotional opportunity in these SMEs are currently better than the competitors. 42% respondents have adequately prepared junior or mid-level employees to step into leadership positions. Overall, the survey results indicate that 70% respondents seek guidance and new sources of knowledge about TM practices and this signifies an increase in the understanding of the strategic role that TM has on SMEs.

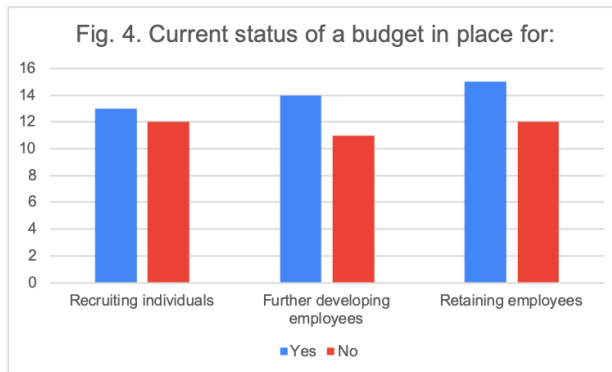
Figure 3. Current strategies of TM practices in SMEs



Tentative results from the semi-structured interviews with the SMEs in line with the research objectives indicate:

- Talent identification assists owners and managers of SMEs in retaining talents and reducing staff turnover. Three SMEs mentioned that ‘spotting’ the talent is not a formalized process. It is more of an open discussion. According to them, their talent identification is not only based on performance appraisals and past experience, but also on the assessment of personal skills. For instance, medical SME points out that the primary personal skills they seek in talents are ability to learn fast and communication skills, whereas the owner of the yoga studios puts entrepreneurship and leadership skills first because their yoga instructors must be capable of assembling classes, be inspiring and encouraging towards clients.
- The SMEs face several challenges in implementing TM practices. In terms of compliance, employee misclassification is a common issue and failure to comply is costly. The interviewers also emphasized the necessity to handle conflict resolution because some employees experience conflict in the workplace, which wastes working hours. Regarding compensation packages, the founders of education centers and yoga studios say that obtaining the full package of comprehensive benefits is very expensive and time-consuming. They also have a growing issue to retain high quality employees. Fierce competition for talents and insufficient supply are also the primary challenges that TM faces.
- Only a few of the interviewers were skeptical about the positive impact of TM decisions on various worker attitudinal and organizational outcomes. The SMEs attempted to organize a talent pool membership, but the workers were less committed to their enterprise than expected because the workers were more concerned about monetary rewards than about the status of being a talent pool member: “It’s hard to spot a talented and motivated person. Everyone just wants to get their salary with bonuses and perform only their direct duties” [educational SME]. Also, owners of these SMEs felt uncomfortable communicating to the rest workers who were not part of the SME’s talent pool. “We just can’t say to someone that they are talented and the rest is not” [medical SME].

- Yoga SME does not employ professional expertise to manage the employment relationship. Only two SMEs employ a personnel manager and medical SME has even a director of HR. All of them agree that they do not need a membership in any of the trade unions because they believe that the problems could be freely discussed at any time. With regards to training and development, all SMEs provide a variety of trainings to their employees.
- Yoga SME confirms that recruitment and selection is mainly performed via informal channels based on previous knowledge of the candidate. Although this tactic is considered to discriminatory and simplistic, the owner claims that this approach is less cost effective. Medical and educational SMEs instead use a formal procedure.
- SMEs agree upon factors determining the needs to acquire TM practices and these are the necessity to implement innovation and the need to retain the employees. Although there is some evidence that the SMEs have incorporated some elements of TM practices, it is still unknown how effective they are.



Preliminary research findings indicate that TM is identified as one of the key factors that determine the implementation of competitive advantage and sustainable HR development. However, as figure 4 demonstrates, not all SMEs have enough budget for TM activities, but the trend is growing though. The owners and managers understand the concept of TM, can identify the practices related to the concept and implement single solution.

## V. General Discussion

The study confirms that TM in Kazakhstani SMEs is performed and executed in a variety of ways. Particular approaches significantly differ from each other. On the other hand, the paper has drawn some similarities in TM practices on the basis of the data gathered. Since most SMEs do not have own HR division, scope of TM practices executed in SMEs is very diverse. For instance, merely six out of 27 SMEs focus solely on talent acquisition, whereas the rest focus more on retaining key employees, and few perform training and development planning.

This research confirms that 88.4% respondents have introduced some corrections in existing systems with regard to talented workers. 54.3% of SMEs have applied development and remuneration systems for talented employees, 45.6% spot talents in a variety of ways, 43.2% develop distinct career plans. On the basis these findings, SMEs pay a huge attention to managing their talented workforce and perceive the most talented ones as those who can significantly contribute to the growth of SME.

In emerging market like Kazakhstan, SMEs characterize talents by outstanding performance, possession of individual attributes such as charisma, emotional stability, dominance, sociability and drive. Finally, the paper has revealed the fierce competition and



insufficient supply of talents as the one of the key challenges of TM and perhaps this is why owners of SME are reluctant to inform employees of their talent status, if or not they are in the talent pool. The owners usually tend to avoid feeding motivation to look for a job elsewhere and they also do not want to precipitate an atmosphere of destructive competition between internal employees. This could in turn discourage and demotivate other employees and the overall organizational spirit might get decreased. It seems that these challenged will remain in place in near future. Therefore, SMEs that do not have systems to identify, develop and retain talents might get into a losing position compared to those who use well-established TM transparent practices.

Overall, the owners are positive about introducing the TM practices. However, the process of talent identification remains unclear and informal. Therefore, it is proposed to execute the talent identification process only from the employee perspective and particularly in the case of those identified as talents.

This research is not free from limitation. The study has mainly focused on the perceptions of owners and managers of SMEs. However, line workers, HR managers and other business leaders might have different views on TM perspectives. Furthermore, the story may look different for SMEs functioning in other cities apart from Nur-Sultan and Almaty. Therefore, there is a call for future research employing larger samples, incorporating multi-level and multi-actor analyses.

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## Appendix

Table 2. Difference between clusters

Criteria	Clusters				
	1	2	3	4	5
	Line-Specialist	Manager	Director	Finance & Law	Marketing & Sales
Main talent indicator	Results	Results	Skills, knowledge and experience	Skills, knowledge and experience	Creativity
Approach to TM	Systematic and inclusive/exclusive	Systematic and inclusive/exclusive	Systematic and inclusive	Systematic and inclusive	Mainly exclusive
Main activities in TM	Identification and acquisition	Identification and development	Appraisal and development	Identification and development	Talent identification
Scope of talents tasks and roles	Strictly connected with roles and tasks	Mainly referring to qualifications	Managing or coordination of tasks and processes	Mainly referring to qualifications	Strictly connected with roles and tasks
Dedicated HR activities	No	Yes	No	Yes	No
Main area of development	Competences related to tasks fulfilment	Managerial competences	Competences connected with general management and firm functioning	Competences related to tasks fulfilment/ Managerial competences	Competences related to tasks fulfilment

Source: own elaboration

# **Long-lasting effects of COVID 19 on Global and Kazakhstan logistic and supply chain.**

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## **Abstract:**

A pandemic is not a new event in human history because humanity has faced various pandemics in the past. A common feature of pandemics includes their severe negative impact on the global economy and livelihood. Considering the supply chain, one of the most important sectors of the economy, it has been observed that COVID-19 is having an impact on the entire process. In light of recent supply chain challenges, there are now significant concerns about supply, production, processing, distribution and demand. COVID-19 has led to restrictions on the movement of workers and vehicles that resulted in changing consumer demand and behavior, plant closures, restrictive trade policies and financial pressure on the partners of the supply chain. Ultimately, governments around the world had to facilitate the movement of workers and goods, although in the restrictive environment. In addition, it is necessary to provide financial support to small entrepreneurs and vulnerable groups of the population. Businesses had to adapt and change working conditions (e.g., distance/online mode) and ensures the health and safety of employees by adopting safety measures (e.g., use of mask). In such situation, food protectionist policies at company and individual levels should be avoided to prevent food price increases and availability of food for all. In conclusion, each country must be aware of the severity of the changing situation and must, if and when needed, tighten or relax restrictive measures depending on the spread of the pandemic. The supply chain must also be flexible enough to respond to meeting the supply and demand challenges. The purpose of this research paper is to conduct an in-depth literature review to assess the impact of COVID-19 on the supply chain in the world with a particular focus on Kazakhstan, and to draw some recommendations to reduce and control the impact of the pandemic, as well as ways to modernize and improve vulnerable areas.

Keywords: COVID-19, pandemic, lockdown, long-lasting effects, logistic and supply chain,

## **I. Introduction**

The research aims to: better understand the problems created by OVID-19 pandemic situation by explaining concepts; problems associated with global supply chain disruptions; consider and compare such problems in the context of Kazakhstan, find and suggest ways to reduce the impacts of the pandemic and make projections on the vulnerable areas in the supply chain. The above mentioned aims are achieved by conducting a research that includes literature reviews of journal and conference papers, primarily available online and informal consultation with relevant practitioners and experts. In the future, the findings of this study will be used in a detailed quantitative study focusing on international companies doing business in Kazakhstan.

## **II. Literature Review**

There is a belief that the humanity faces the pandemic situation like COVID at least once every 100 years. Also, towards this, we have conducted a brief historical review. The historical lesson suggest us to predict that the rhythm of life and processes occurring 100 years ago was very different from the current situation. For this, we have collected information bit by bit from various online resources, journal and conference publications and other forms of research outcomes, briefly noted below and also, listed in details in the Reference list.

- *International Journal in Management and Social Science Volume 08 Issue 06, June 2020 ISSN: 2321-1784 Impact Factor: 6.178 Journal Homepage: <http://ijmr.net.in>, Email: [irjmss@gmail.com](mailto:irjmss@gmail.com) Double-Blind Peer Reviewed Refereed Open Access International Journal*
- <https://www.retail.ru/articles/logisticheskie-trendy-2020-2021-goda-vliyanie-pandemii-covid-19-na-perevozki/>
- <https://www.centralasiaprogram.org/archives/16542>
- *1 State Revenue Committee of the Republic of Kazakhstan 4 ...www.wcoomd.org › covid\_19 › kazakhstan\_en*
- [https://www.researchgate.net/publication/343841426\\_Impacts\\_of\\_COVID-19\\_on\\_Food\\_Supply\\_Chain](https://www.researchgate.net/publication/343841426_Impacts_of_COVID-19_on_Food_Supply_Chain)
- <https://www.centralasiaprogram.org/archives/16542>
- <https://www.pwc.com/ng/en/publications/covid19-and-the-supply-chain-industry.html>
- <https://www.eurasia.undp.org/content/rbec/en/home/library/sustainable-development/covid19-and-central-asia.html>

### **III. Research methodology**

The study applies qualitative research method. Towards this, we conduct in-depth literature review of journal and conference papers; online publications and government documents and news. As the pandemic is still an ongoing phenomenon, there are limited published high-quality journal and conference papers. As a result, we had to rely on primarily various online sources including companies' and government websites.

### **IV. Results**

This review allowed us to trace the stages of the development of the pandemic. We used food supply chain, as an example, to consider all the difficulties associated with the global and local supply of raw materials, production, processing, storage, transportation and consumption of these goods, in particular focus on Kazakhstan. Based our literature reviews, information observation and information discussion with practitioners and experts, once the pandemic is over, we make the some projections, listed at the end of section V, in the post-crisis period that will affect the logistics industry around the world. Further research in these area will allow us to analysis as to whether, how much and how the lessons from the pandemic were realized and the pandemic will have a long-lasting effect on the global and local supply chain.

### **V. General Discussion**

**A little history about the pandemic.**

Our planet has a long history of exposure to fatal health crises and pandemics.

These crises are mostly the result of an unprecedented disaster, which has forced people to compromise on their existing lifestyles. The COVID-19 pandemic is getting worse day-by-day, with interruptions in human activities, a huge death toll, and a direct hit on the global economy.

The claim that the devastation caused by COVID-19 is not a surprise, as pandemics, namely Spanish flu, polio, HIV, severe acute respiratory syndrome (SARS), Zika virus, Middle East respiratory syndrome (MERS), and Ebola are the recent realities of modern peace (Saqr and Wasson, 2020). In the past century, deaths from viral diseases have been much higher than in major armed conflicts. For example, at the beginning of the last century, the Spanish flu was one of the worst catastrophic pandemics, killing 50 million people worldwide. During previous pandemics, risks were reduced because travel and urbanization were not as severe as they are today, and therefore the infection could not spread as it does today (Adda, 2016).

In December 2019, the novel Corona Virus Disease, which was later named “COVID-19” after World Health Organization (WHO) had categorized it as a pandemic, was initially reported in Wuhan city, China (Chakraborty and Maity, 2020). Since then, it became an epidemic and widely spread to other provinces in mainland China (Muhammad et al., 2020). Subsequently, several cases were confirmed in neighboring countries like Thailand, Japan, Singapore, and South Korea (Huang et al., 2020). Six weeks after the first case was confirmed, WHO declared COVID-19 as a pandemic and an international concern that needed public health emergency (Tay Juhana Foundation Brief Indonesia, 2020).

However, the pandemic quickly spread and became a challenge for medical facilities especially in southern Europe and North America. Failure to take lessons from previous disasters, laxity to adopt too early preparedness from warnings by health organizations and scientists, globalization, and highly interconnected living systems are believed to trigger the pandemic spreading and impacts (Saqr and Wasson, 2020). As per the reports, in the second week of September 2020, more than 28 million confirmed cases with more than 20.5 million recoveries and more than 900 thousand deaths have been recorded globally, of which the USA shared the largest number, followed by India, Brazil and Russia (World Health Organization, 2020).

The COVID-19 prevention measures such as lockdown, stay-at-home order, 2 meter distance, mass quarantine, and transport halt are highly challenging in those societies. Many developing countries imposed a short state emergency when the first case was confirmed. As a result, the movement of imports and exports is becoming slower or even stopped in some cases. The pandemic leads to this economic crisis where the countries and people have to depend on emergency packages/supplies, which might not be adequate to cushion them and their vulnerable population. The transport sector has also halted operations owing to lockdown imposed in several countries and this has disrupted the supply chain for even essential goods, especially food (Reardon et al., 2020) and humanitarian aid activities donated by different agencies and needed

for the needy people. Although the levels of implementation of these measures vary significantly, their effect in controlling COVID-19 has been considerably successful in some countries. However, a comprehensive assessment of the pandemic's impacts in the developing world is missing. Given these facts, we highlighted the effects of COVID-19 on sustainability, particularly concerning food security and agriculture in the developing world. Additionally, the authors attempted to provide possible mitigation and coping mechanisms.

### **COVID-19 in Kazakhstan**

The first coronavirus case was recorded in Almaty on 13 March, 2020. It involved two Kazakh citizens on their return flight from Germany (Coronavirus2020.kz). On 15 March, President Tokayev declared a state of emergency that began at 8am on 16 March to 7am on 15 April, 2020. In addition, on 17 March, the president ordered the cancellation of Nauryz (public holiday) celebration and military parades in honor of the 75<sup>th</sup> anniversary of the victory day in the Second World War. On 19 March, 2020, the cities of Nur-Sultan and Almaty were fenced by roadblocks and campaign of sanitary posts, which restricted the entry and exit of individuals to the cities and also imposed a blanket lockdown that started. On 13 April, 2020 the state of emergency was prolonged until 11 May, 2020. This date effectively marks the strict lockdown period and “shelter-in-place” (or stay at home and save lives) policy due to the coronavirus outbreak in Kazakhstan.

As of 1 July, 2020, the total number of cases in Kazakhstan reached to 41,065 patients and with about 1,500 new cases daily on average during the month of June 2020. As we can conjecture from the statistics, in terms of mitigating the spread of the disease, the lockdown policy was effective as the curve was steadily converging towards plateau by the end of the lockdown term. However, the eventual removal (of lockdown) of the state of emergency policy produced another upward-sloped tendency in total infection cases, which suggests that the did not allow for a sufficient suppression of the coronavirus infection that contributed to rapid uncontrolled spread later. Such ups and downs of infection cases with the lockdown and restrictive measures are also visible in other countries.

### **Effects of pandemic on global food supply chain (as a good example for whole global SC).**

The food supply chain can be divided into five stages: agricultural production, post-harvest handling, processing, distribution/ retail/service, and consumption.

Two systems are being used in the food supply chain regarding food quality and safety: the first one is based on regulations and laws that use mandatory standards which are inspected by state agencies. The Second one is relying on voluntary standards which are defined by market laws or international associations (Bendekovic et al., 2015).

Safety measures to ensure the continuity of food flow in each stage can be grouped into: food employee’s health issues, personal hygiene, using personal protective equipment such as helmets

and glove, sanitization of surfaces and working environments, safe handling/preparation/delivery of food, and maintenance of social distance. Protective measures in the last stages of the food supply chain are critical since more people can be potentially affected as we move towards the last stages (Rizou et al., 2020). Unlike foot and mouth disease, bird flu, Escherichia coli (E. coli), or Listeria, the COVID-19 pandemic does not directly affect production, as it does not spread directly through livestock or agricultural products (FAO, 2020a). However, due to the pandemic situation, governments around the world have made significant restrictions in the transportation (land, water, and air transport) of goods, as well as in the movement and migration of labor forces. For example, the movement of trucks carrying for food distribution was declined by 60% since the restrictions in France which was 30% before the pandemic (FAO, 2020j; Bakalis et al., 2020). In developing and underdeveloped countries, temporary or seasonal employment is common, especially for planting, sorting, harvesting, processing, or transporting crops to markets. Therefore, the supply chain is significantly affected as a result of the absence of local or migrant workers due to COVID -19 sickness or travel restrictions imposed by lockdown. It also weakens not only production abilities for others, but also their own food safety, in cases where the disease directly affects their health or movement (FAO, 2020k). Especially, labor shortage due to COVID-19 crisis caused severe disruptions in some sectors such as livestock production, horticulture, planting, harvesting, and crop processing which are relatively labour intensive (Stephens et al., 2020). However, it should be noted that the shortage of farmworkers was a major issue well before the COVID-19 outbreak, too (Richards and Rickard, 2020).

Due to the fact that many skilled workers during the harvest season could not travel to various countries because of the border controls and or restrictions, a call has been made to the unemployed persons to work in the fields in France. In Britain, 'Pick for Britain' campaign was aimed to find 70 000 British to work in the field and during the harvest (Nature Plants, 2020). However, due to the shortage of workforce as a result of illness and physical distance to be maintained during production, the crisis undermines the ability of farms and agricultural businesses to work. These conditions retarded the delivery of food and agricultural inputs and created problems in providing continuous food supply to markets (ILO, 2020). Although many manufacturers rely on their core inputs, most are more susceptible to disruptions, as they must obtain their requirements from domestic markets.

Logistics barriers that disrupt food supply chains further weaken high-value goods due to their short shelf life (Shahidi, 2020; FAO, 2020j; FAO, 2020k). Most agricultural activities depend on the season and weather, and therefore, activities need to follow a fine-tuned schedule with flexibility so that immediate actions can be performed when needed. Since all processes and stages in a supply chain are strongly connected to each other, a slight delay or glitch can trigger a butterfly effect resulting in a big loss in the yield and output (FAO, 2020k). Actually, there are many reports that farmers were forced to destroy their products by burning or leaving them to spoil because of the restrictions. Dairy Farmers in America Co-operative consider 14 million



litres of milk are being dumped every day due to interrupted supply chain. In England, the chair of dairy farmers reported that approximately 5 million litres of milk are at risk in one week. Also, it was reported that tea plants were being lost because of the logistical challenges in India (BBC, 2020a). Therefore, maintaining logistical efficiency is a key factor for the food industry, especially during this in global crisis. The biggest issues in the food supply chain are obtaining raw materials from suppliers and ensuring the continuity of food flow from manufacturers to end users (Alonso et al., 2007). The problems are jeopardizing the ability of agricultural businesses to continue their business as usual, and may have negative effects on food quality, freshness, and food safety, and hinder access to markets and affordability (FAO, 2020k). As countries struggle with the pandemic, they must make every effort to move the gears of the food supply chains. The impact of pandemic problems on agricultural systems largely depends on the intensity and composition of agricultural inputs and varies depending on the product produced and the country. Capital-intensive techniques are usually used in high-income countries for agricultural production, whereas production is mostly labor dependent in low-income countries. Thus, the supply chain should be kept running with a particular focus on the basics of logistic challenges (FAO, 2020j).

Food sector contains many diverse products such as meat, fruit, vegetable, dairy, ready-to-eat foods, and other edible products (Hueston and McLeod, 2012). However, the food and agriculture chain can be broadly classified into two categories regarding capital investment and labor. The first one can be defined as staple products such as wheat, corn, maize, soybeans, and oilseeds. The second one contains high-value products such as fruit, vegetables, and fisheries. Staple products require large amounts of capital investments. Restriction on movements between cities, provinces, regions, and countries has a negative impact on the distribution of staple products (FAO, 2020c). In contrast to staple products, a great deal of labor is required to obtain high-value products. However, time-sensitive nature of the agricultural operations (O'Brien et al., 2014) and needs for higher productivity over time might lead to the agricultural transformation which can be defined as technological advancement and up-skilling of the labor force (Jeon, 2011; Martin, 2016).

The challenges that have been driven by movement restriction (national or international border closures) and the changes in demand of consumers are important. Because of the restrictions, consumers cannot go out to restaurants and they prepare their meals at home. In addition, consumers do not want to go to markets and supermarkets due to the fear of catching the COVID-19 at the stores (FAO, 2020g).

The supply chain affects not only producers, distributors, and consumers, but also food-processing plants that are labor intensive. Production was reduced, suspended, or temporarily discontinued in many plants due to the workers who were found to be COVID-19 positive and who were reluctant to go to work, thinking that they would get sick at work, mostly in meat-processing food companies at the time of the outbreak. For these reasons, the production capacity

of pork facilities decreased by approximately 25% in late April (Devereux et al., 2020; Flynn, 2020).

### **Difficulties of supply chain during lockdown and quarantine in Kazakhstan:**

With the introduction of the state of emergency in Kazakhstan, many long-distance truck drivers who have traveled to the nearest countries (Russia and Kyrgyzstan) with an identity card for years can no longer leave the country without a passport. As a result, some of the drivers in these areas were left without work. The largest cities of Kazakhstan are almost completely closed for freight traffic (except for meeting the needs of the city: food, medicines, basic necessities, etc.).

New rules for crossing borders have been introduced. Drivers who travel from countries (or in transit) with infected residents must remain in quarantine for 14 days at the border with the Republic of Kazakhstan. That is, if earlier the cargo was transported from Europe by road within 7-10 days, at the time of the pandemic the period are increased to 21-24 days. Such delays at the border lead to additional costs for transport companies (an increase in travel expenses for drivers, payment for paid parking lots, etc.), to a shortage of vehicles and, as a result, an increase in the price of goods for the end consumer.

Many countries have suspended production or redesigned for medical needs (for example, clothing factories have now started producing medical masks and medical gowns), which also has a negative impact on the logistics industry. Freight traffic, which has been working for years, is frozen. For example, shipments from China: their number dropped several times due to the interruption of production in the country. On February 20, after a long Chinese weekend, the first trains from China were launched - at the end of March 2020, auto service from Khorgos was resumed, and until that time the forwarders who work in these directions were out of work.

For consumers, this meant two problems. Firstly, there is an increase in prices for almost all types of goods, since most of them are imports. If you just walk around the grocery stores, you will already see an increase in essential goods (shampoos, soap, etc.), and the cost of medicines has also increased. Secondly, there is a decrease in wages and loss of jobs, since many enterprises simply will not recover from the emergency and the economic situation in the country. We can call it double whammy.

Air traffic almost completely stopped in Almaty and Nur-Sultan. Those goods that were previously delivered from all over the world on passenger planes did not arrive. Unfortunately, not many cargo planes arrive in Kazakhstan. For example, during this pandemic, the tariff for transportation from Hong Kong to Almaty is almost 40% higher than the previous one. If earlier up to 7 flights a week came from Hong Kong to Kazakhstan, now deliveries go once a week. The main logistics hubs of Kazakhstan, the airports of Nur-Sultan and Almaty, are paralyzed by the introduction of quarantine. Earlier, cargoes from different countries arrived in passenger planes, today this possibility is completely excluded. Air traffic with all airports in Kazakhstan has been

stopped. Since March 22, due to quarantine, the market has not received air cargo from Russia, Uzbekistan and other countries whose airlines operated in the passenger market of Kazakhstan.

Almost all customs and related operations are transferred online, and this is reflected in the speed of customs clearance of goods. More than 80% of cargoes went in the “red corridor”, that is, they are subject to mandatory customs inspection. Due to the fact that government agencies use only part of the employees in their work, the goods are idle at the temporary storage warehouse: pending inspection, further placement under a certain regime or release for free circulation on the territory of the Republic of Kazakhstan. These costs are included in the cost of goods.

### **Ways of quick adaptation to changing conditions which help logistics companies to quickly "recover" after the crisis.**

Based our literature reviews, information observation and information discussion with experts, once the pandemic is over, we make the following projection in the post-crisis period that will affect the logistics industry around the world.

**Projection 1.** Dumping in the logistics market. The intensification of the struggle for the client entails the emergence of price dumping in the freight market, since the amount of cargo decreases, and the transport is idle. Many companies will not be able to withstand prolonged dumping.

**Projection 2.** Departure of weak players from the market. The post-COVID-19 situation will create a Perfect Storm. In the near future, the logistics services market will be forced to leave the small and some medium-sized players. Here, as in Darwin's theory, the fittest will survive. Anyone who has managed to save money over the past two "fat" years and have not burdened themselves with significant obligations will now definitely look at the opportunity to buy something, increase their park and market share. A series of bankruptcies, mergers and acquisitions will take place.

**Projection 3.** Development of collaborations, cooperation, consolidation of services. Players will start joining communities to share each other's abilities and services. Logistics and other service companies are starting to collaborate, develop unique complex offers for customers and, as a result, strengthen their joint positions by combining their services.

**Projection 4.** Refusal to purchase. Increased demand for repair and maintenance services for vehicle fleets. Refusal to renew the vehicle fleet due to the rise in the exchange rate and the pandemic is observed in 90% of logistics companies. This means that the car park will become obsolete, and services related to the repair and maintenance of car parks will be in demand.

**Projection 5.** Increase in demand for the "groupage" service. There is a tendency towards a decrease in the number of delivered cargoes and an increase in the number of groupage cargoes sent. Significant restrictions on air transportation will "shift" part of the demand from cargo

owners for the transportation of groupage cargo. The development of outsourcing will teach market players to "fill" vehicles and group shipments on mutually beneficial terms. Particularly high demand is observed for groupage cargo from European countries.

**Projection 6.** Implementation of the latest IT technologies. Optimization and digitalization have been talked about for a long time, but only few people dared to make real and fundamental changes in the approach. During the COVID-19 pandemic, many companies decided to move all work on a "new track". The IT revolution has begun in logistics. It is worth noting the use of IT platforms for logistics companies in order to exchange tariffs and rates.

**Projection 7.** Ordering shipments from a mobile device. The emergence of a separate industry "mobile carriers". A highly automated supply chain is now in great demand. Cargo owners need a full range of services with access from their mobile device. The client gets the opportunity to order transportation on a digitalized logistics platform by clicking on a button in the mobile application. It is these systems that will be in demand in the future. For example, for individuals, the Russian Post has launched a new service for sending parcels by phone number - the function is available to all users of the logistics operator's mobile application. The sender only needs to enter the recipient's phone number or select it from the phone book. It is also worth noting the high service of Glovo, Yandex Delivery.

**Projection 8.** Development of domestic cargo transportation and logistics chains. Until recently, most of the traffic was directed to the export or import of goods, neglecting domestic markets. The crisis gave a powerful impetus to the development of the domestic product, the development of industries within the country. A significant decrease in cargo flows from other Asian countries and the threat of closing borders with China in the event of the next wave of a pandemic lead to the fact that some of the resources, goods, products that were previously purchased there, manufacturers will try to produce in their country. For example, the top 5 goods that are supplied to Russia from China - smartphones, garlic, professional sports equipment, chemical fertilizers, clothing and footwear - can be produced within the Russian Federation. Now I want to believe that for Russia this is a chance to close the logistics chain on itself. There will be an increase in domestic production due to the closure of borders and, as a result, the development of internal logistics, reaching a new level of quality.

**Projection 9.** Development of outsourcing. The trend of outsourcing non-core processes and services will gain momentum. Although this trend has been actively developing since the 2000s, now it brings not only budget saving opportunities, but also significant time savings.

**Projection 10.** The emergence of demand for the delivery of goods to the provinces of the Kazakhstan. Delivery of a wide range of FMCG goods will spread even in remote villages. Consumption in small towns and villages will grow rapidly, along with migrants, trends from megacities will come there. Shipping companies will learn to find customized solutions. A short delivery route is not always the best one.

**Projection 11.** Contactless courier delivery. Contactless delivery - taking care of the health of senders and recipients. The winners will be those companies that can offer the safest method of delivery of goods from the point of view of health. The end consumer is offered the widest range of goods with contactless home delivery. Buyers are ready to overpay 5-10% of the cost for goods with fast delivery (1-3 days) and be able to avoid being forced to visit crowded places.

**Projection 12.** Development of parcel delivery by "drones". Development of "autopilot" deliveries. This trend came from Asia as a continuation of the idea of contactless delivery. During the pandemic in China, most parcels were delivered "to your home" in this way.

**Projection 13.** Transfer of the majority of employees on a permanent basis to remote work. This will require optimization and automation of all business processes in a logistics company. Involving employees in the development of the company by creating platforms for the exchange of ideas will help create transparent and streamlined business processes in the organization.

**Projection 14.** Compliance with sanitary standards, disinfection of equipment, vehicles will become the norm and requirement on the part of recipients. For safety reasons, logistics companies will be forced to continue to comply with sanitary standards.

**Projection 15.** Enterprises began to change vehicles to rail. Our literature reviews suggests Analysts say that due to the high volatility of rates for air and sea transport, there will be a redistribution of volumes towards land transport, especially on the route.

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# The Effect of Covid-19 on Finance and Stock Market Indices

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## **Abstract:**

In this study, we are conducting an analysis of the stock markets' reaction to the pandemic of COVID-19 in Russia, Kazakhstan and Ukraine. Using daily data of return rate at the stock market indices and confirmed cases of coronavirus disease, also number of deaths in Russia, Kazakhstan and Ukraine over the period from January 22, 2020 till March 22, 2021, we identified that there is a negative correlation between stock markets and the increased number of coronavirus disease confirmed cases. Specifically, the rate of returns at the stock markets had been decreased whereas the number of people infected with COVID-19 had been increased. It was also found-out during analysis conducted by us that stock markets responded more intensively to the rise in number of cases registered with COVID 19 rather than to the increase in number of deaths from this disease. Based on the subject research it can be concluded that in March 2020 there was a strong negative market reaction. In addition, we found in our study the moderately strong correlation between Brent oil price, GDP with stock market index in each country. We notice that there is a negative correlation between interest rate, exchange rate and stock market index. In general, as a result of the analysis it can be concluded that markets providing stocks in these countries promptly responded to COVID19 epidemic and this reaction fluctuates over the time at the open stages of epidemic.

Keywords: COVID-19, coronavirus disease, epidemic, Vector Auto Regression (VAR), GDP (Gross Domestic Product) World Health Organization (WHO), Augmented Dickey-Fuller test (ADF test), capital markets, stock exchanges.

## **MAIN BODY**

### **I. Introduction**

#### **1.1 Research Problem**

The research aim is to find relationship between number of cases and death from COVID-19 and the price on stock market in Kazakhstan, Russia and Ukraine, using the data from the month of January 2020 till March 22, 2021. The requirement of this study is the outcome of several multi factors for shaping up the future of Financial and Monetary Systems. Since February 2020, the findings virtually has convened senior leaders from financial institutions, international organizations, central banks and other institutions to hold several discussions about the impact of COVID-19 on the financial system. These discussions purpose to identify emerging financial stability risks, understand adjustments to consumption and investment due to COVID-19 pandemic look where policy-maker attention is required, and share upcoming measures implemented by firms as well as lessons learned from this crisis and quite earlier times of so much market stress. The goal is to present and bring on top of the current state of debate among key financial system stakeholders. As the human and economic impacts of COVID-19 continue



to be felt till today, such study forum will convene similar discussions and share this learning to mitigate the situation and financial problem in investments.

### **1.2 Research Objective**

This study's research objective is to know how the stock market in 3 countries reacted during the Covid-19 times, how the government responded to economy and financial markets policy implementation, and what were the reactions of people toward in that stressful financial crisis.

- The general objective is to observe investment plummeted following the effect of COVID-19 outbreak, which already sees that the global economic fallout has led to a flight to safety. However, the impact and effect of this short-term reaction is unprecedented, the investment capital flows observed non-resident portfolio outflows from emerging markets twice as high as previous years of portfolio outflows. Post COVID-19 effect and shocks on economy resulted in inflation rates rise and unemployment increase, also government sustainability and their policy for financial markets control measures to cope COVID-19 pandemic.
- The specific objective of this study is to see the pandemic effect on 3 countries stock markets how they evolved economically and performed during these stress and pressure times on financial markets and stocks share fluctuations result in a drop of investment opportunities dramatically.

### **1.3 Research Questions**

This study has a key question which needs to be answered in a more detailed way and to elaborate in much more widely manner, than the previous studies done and present ongoing studies in times of this Covid pandemic effect on financial institutions and investments. The all crucial and essential question which is going to be answered by the maintenance of this study is of different articles from different sources and authors about:

- What is the influence of COVID-19 on the stock markets as well as in the investment areas?
- What are the further opportunities and options available as an outcome of that financial crisis effect?

## **II. Literature Review**

### **2.1 The Economies so far in Covid-19**

Given the growth of this deadly universal pandemic since January 2020 is almost one year and few months, study research in contact with the COVID-19 outbreak is still at early developing stage and still arising with its third wave of disaster. As in the evidence of financial impact personnel come out with research think tanks and publication broadcast channels are keeping an eye to publish editorials and examining pieces of articles. Among the first arranged exertion, Baldwin and di Mauro (eds.) (2020) assemble an eBook containing 14 briefs of various authors talk over with another the impacts concern common macro saving and tactics in economies, finance, banking, supply chain, travel, and characteristic of a region responsiveness to stimuli. While few of complete depend on simulation-located form, most happen based on the past happening.

According to Baldwin and di Munro (eds.) (2020), the COVID-19 pandemic has universally affected all bigger frugality containing nation countries, who as one share 60% of realm supply and demand (GDP), 65% of class of existing beings manufacturing, and 41% of person's environment production exports; as a result, as this frugality are immediately harshly changed in a bad or artificial way, the rest of the world will imitate what someone else is doing. di Mauro (2020) term specific consequence as 'macroeconomic infirmity' a temporary negative supply and

demand shock - bring about something produced to fall temporarily, trail by a quick improvement and in some way a filled catch-knowledgeable the shortfall. But that come to pass when it happens a usual flu or a macroeconomic expulsion of air - not a universal like COVID-19 that is apparently bearing abundant scale, worldwide, and possibly determined financial turmoil (di Mauro, 2020).

## **2.2 Effects on stock market and investors**

The stock market ancient overall performance has been discussed and seen in lots of research literature, which record the impact of influenza and/or one-of-a-kind sorts of epidemics on stock marketplace and popular financial overall measure and practicing performance of stock markets and countries throughout the world. Number of findings from the past have come to existence from preceding research study which tested impact of beyond epidemics at the stock marketplace; as an example some researchers observed that for example the intense acute respiration syndrome (SARS) episode in the year of 2003 weakened and infirm the Taiwanese economy (Chen et al. 2007).

Another study and research at the impact of flu epidemic on stock marketplace analysis took place with the aid of using *Dong and Heo (2014)* provides instantaneous evidence in their study that restrained consideration introduced approximately with the aid of using exogenous interruption influences the stock market contributors and standard investors. Specifically, they checked out the improvements of professional future forecast behavior in the course of flu pandemics while people who was investigating are confronting barriers caused with the aid of using interruption of encountering influenza facet consequences with the aid of using their relatives, members of the family, the connecting people, and themselves.

Moreover, associated studies on Ebola epidemic and stock marketplace overall performance tested the volume to which media has its say on Ebola epidemic had an effect on stocks cost within United States of America. There they made a discovery that Ebola media center reporting greater pronouncedly have an effect on the shares of West African Community majority area of regions, that epicenter of the Ebola disorder; it additionally affected the U.S stock markets as well but not much though just slightly. This supplied a piece of evidence that the nearer the media center reporting to the center of ailment disorder incidence and to the stock markets the much more likely the media center on the disease will have an effect on the stock marketplace.

## **2.3 Financial vulnerability to COVID-19 for Ukraine**

Situation with the ongoing COVID-19 pandemic, the Ukrainian areas extensively range inside the populations vulnerability to this infectious virus. Most significant styles and combinations of various highlighted reasons and factors which motives for nearby differentiation of risk of death and impermanence from COVID-19 in the region. These factors were forming and gathered over a lengthy period of time and so known as retrospective pictures of that side of regions intense vulnerability to COVID-19 for every area.

By finishing of the last September, the figure of deadly virus took deaths till that period in the international arena by COVID-19 contamination reached to 1 million (1,006,467). The excessive powerful replica fatal COVID-19 pandemic suggests that the height of this lethal contamination virus in Ukraine and round the international community has not been overcome yet. By the end of September in Ukraine as of the cease of month, the populace vulnerability degree from this infectious virus, i.e. the variety of positive infected or those human beings lost lives in this time with 100,000 residents was the peak death rates in Chernivtsi (1586 / 40) and Ternopil regions (1283 / 16), and the smallest in Kherson (106 / 2) and Poltava (152 / 3) regions. (*Kuzmenko O., Leonov S., Kashcha M. 2020*).

## **2.4 Negative financial effects on Russia economy**

The change to the improvement and renewable power appears to be halted worldwide and as in Russia and to their economic debt. The big dip fall in prices for conventional power resources such as Oil and gas on which economy and GDP of Russia heavily depend on, on which country's defense and aerospace rely, which turned into additionally pressure due to the outbreak of COVID-19 through this times, within the sides of these situations of total disaster and recession of all sectors economic system by large objectively helps the old and conventional method of financial improvement to stand the economy. By given the huge price for many states to fight and combat with COVID-19 virus and the sector-huge growth in public finances deficits, it is also feasible that we can expect a huge dip into the interest of a change in sustainable improvement, application and implementation of the UN Sustainable Development agenda and goals, preventing economic crisis to not go further deep in the roots of every sector of the economy and financial support is an alternate way in maximum international locations of the sector to provide to uplift negative effect on economy.

## **III. Research methodology**

### **3.1 Sample construction**

We constructed my sample by collecting the data of mortality and confirmed cases of coronavirus disease from the dashboard and dataset provided by the Johns Hopkins University and maintained by the Center for Systems Science and Engineering (CSSE). The CSSE has been publishing data since the first confirmed case, which was on January 22, 2020. For our research this data allows me to track the course and evolution of the COVID-19 in Kazakhstan, Russia and Kazakhstan. We use the data from January 22 till March 22 of 2021. The next step was to download stock market returns from the website investing.com for these periods at the Kazakhstan, Russia and Ukraine stock markets. After that we appended the data of daily confirmed cases and mortality from coronavirus disease to the daily stock market returns. In the end, I added the policy control variables. Overall, we have 894 and 1326 observations from two countries for the period between January 22, 2020 and March 22, 2021. During our research we used the following stock market indexes: MOEX, KASE and PFTS.

### **3.2 Diagnostic test/feel of data**

It is important to make the diagnostic before running the regression analysis, because without making the tests for stationarity, autocorrelation, heteroskedasticity the results of the study will be meaningless, which causes a lot of problems in the end. Therefore, before running the regression analysis, it is important to fulfill all of the assumptions.

### **3.3 Data analysis procedure**

To test the null hypothesis, we use the regression analysis and correlation coefficient in STATA program for calculations and findings.

## **IV. Results**

### **Regression analysis for Russia and Kazakstan**

```
. regress LNINDEX COVID19CASE COVID19DEATH BrentOIL GDP Lintrate Dummycountry
```

Source	SS	df	MS	Number of obs	=	894
Model	13.4222627	6	2.23704379	F(6, 887)	=	1164.70
Residual	1.70365984	887	.001920699	Prob > F	=	0.0000
				R-squared	=	0.8874
				Adj R-squared	=	0.8866
Total	15.1259226	893	.016938323	Root MSE	=	.04383

LNINDEX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
COVID19CASE	-1.24e-06	5.50e-07	-2.25	0.025	-2.32e-06 -1.59e-07
COVID19DEATH	-.000245	.000025	-9.81	0.000	-.000294 -.000196
BrentOIL	.0046621	.000132	35.33	0.000	.0044031 .0049211
GDP	.007519	.0006582	-11.42	0.000	-.0088108 -.0062273
Lintrate	-.0368881	.0177419	-2.08	0.038	-.0717091 -.0020672
Dummycountry	-.1211404	.0102824	-11.78	0.000	-.1413211 -.1009597
_cons	7.655705	.0418791	182.80	0.000	7.573511 7.737899

$$\begin{aligned} \text{LnIndex}_{it} = & 7.6557 - 1.24e - 016\text{COVID19CASE}_{it} - 0.00245\text{COVID19DEATH}_{it} \\ & + 0.0046\text{BrentOil}_{it} + 0.0075\text{GDP}_{it} - 0.0368\text{LnInterestrates}_{it} \\ & - 0.1211\text{Dummycountry}_{it} + u_i \end{aligned}$$

Holding all other things constant, for the unit increase in  $\text{COVID19CASE}_{it}$ , a  $1.24e - 016$  unit decrease in  $\text{Index}_{it}$  is predicted. In addition, holding all other things constant, for the unit increase in  $\text{COVID19DEATH}_{it}$ , a  $0.00245$  unit decrease in  $\text{Index}_{it}$  is predicted. The p-value of these parameters is less than 5% significance level. Therefore, the parameters are statistically significant.

### Regression analysis for Russia, Kazakhstan and Ukraine

$$\begin{aligned} \text{Index}_{it} = & 5674.342 - 0.0216\text{COVID19CASE}_{it} - 0.0267\text{COVID19DEATH}_{it} \\ & + 5.8799\text{BrentOil}_{it} + 2.8495\text{GDP}_{it} - 8.4638\text{ExchangeRate}_{it} \\ & - 580.626\text{Dummyvar}_i + u_i \end{aligned}$$

```
. regress INDEX COVID19CASE COVID19DEATH BrentOIL GDP Exchangerate Dummyvar
```

Source	SS	df	MS	Number of obs	=	1,326
Model	1.4747e+09	6	245789435	F(6, 1319)	=	7026.01
Residual	46142328.1	1,319	34982.8113	Prob > F	=	0.0000
				R-squared	=	0.9697
				Adj R-squared	=	0.9695
Total	1.5209e+09	1,325	1147833.16	Root MSE	=	187.04

INDEX	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
COVID19CASE	-.0216206	.0010403	-20.78	0.000	-.0236614 -.0195798
COVID19DEATH	-.0266268	.0025544	-10.42	0.000	-.031638 -.0216156
BrentOIL	5.879966	.4300961	13.67	0.000	5.036219 6.723714
GDP	2.849504	1.626736	1.75	0.080	-.3417679 6.040777
Exchangerate	-8.463861	.098897	-85.58	0.000	-8.657874 -8.269849
Dummyvar	-580.626	21.49201	-20.07	0.000	-622.788 -538.464
_cons	5674.342	45.70328	124.16	0.000	5584.683 5764.001

Holding all other things constant, for the unit increase in  $\text{COVID19CASE}_{it}$ , a  $0.0216$  unit decrease in  $\text{Index}_{it}$  is predicted. In addition, holding all other things constant, for the unit increase in  $\text{COVID19DEATH}_{it}$ , a  $0.0266$  unit decrease in  $\text{Index}_{it}$  is predicted. The p-value of these parameters is less than 5% significance level. Therefore, the parameters are statistically significant.

### Correlation coefficient for Russia and Kazakhstan

	INDEX	COVID1~E	COVID1~H	BrentOIL	GDP	Intere~e
INDEX	1.0000					
COVID19CASE	0.6766	1.0000				
COVID19DEATH	0.7613	0.9255	1.0000			
BrentOIL	0.4932	0.0883	0.2188	1.0000		
GDP	-0.1650	-0.2954	-0.2150	0.3758	1.0000	
Interestrate	-0.7986	-0.6987	-0.6901	-0.0799	0.3641	1.0000

## Correlation coefficient for Russia, Kazakhstan and Ukraine

```
. correl INDEX COVID19CASE COVID19DEATH BrentOIL GDP Exchangerate
(obs=1,326)
```

	INDEX	COVID1~E	COVID1~H	BrentOIL	GDP	Exchan~e
INDEX	1.0000					
COVID19CASE	-0.3002	1.0000				
COVID19DEATH	-0.5204	0.2499	1.0000			
BrentOIL	0.1418	0.1154	0.1001	1.0000		
GDP	0.1867	-0.3210	-0.1787	0.3252	1.0000	
Exchangerate	0.3968	-0.3709	-0.3450	-0.0059	0.4977	1.0000

In statistics, the correlation coefficient shows the strength relationship between two variables. The range of the correlation coefficient is between -1.0 and 1.0. The table below represents the results of correlation coefficient analysis. Result shows that exchange rate is positively correlated with stock index and interest rate is negatively correlated with index. According to the above tables, the correlation between Covid-19 case and Index is -0,3 is negative weak relationship between these two variables. However, the correlation between COVID-19 death and Index is a negative moderate correlation. The correlation between Index and GDP is 0.1867 and 0.1650 respectively, which is positive, but weak and likely unimportant. The correlations between Brent oil and Indexes are 0.1418 and 0.4932. The last correlation coefficient between Exchange rate and Index is 0.3968

## V. General Discussion (Summary, conclusion and recommendations)

Our study concludes the investigation based upon the data from stock markets and business sectors of the 3 different countries' economies. To capture the impact of Covid-19 and the associated independent variables for the types of market reactions, Brent oil prices, GDP and exchange or interest rates we apply a novel smooth transition regression analysis, heteroskedasticity test, auto correlation model to identify transition between regimes. Thereby, our analysis brings early insights to the intensity, the timeliness and the homogeneity of volatility shifts as well as the rankings of countries and stock markets index sectors of economy. Our results are robust to the use of alternative realized measures of volatility and dynamic models.

Our results show a negative growth of stock markets in transition to a crisis regime for all 3 countries and oil business industry of COVID-19 confirmed cases and death cases which are not strong.

### Future Research Recommendation

This study has featured a few issues that need further objective and quantitative testing among bigger populaces. One proposal is to make a bigger example of stock markets firms that have experienced economic effects of COVID-19 break down measure because of various conditions, to look for likenesses and contrasts among the observations just as across data collection. Proof from this study has uncovered that the prices of oil has put a halt to the growth of countries economy significantly, particularly in stock market index drop. At long last, another area for future research is to examine the estimations of solid base gaps and loss of investments, stocks

and oil prices occurred in times the financial crisis of COVID-19 virus and how this influences performance of economy of countries and how to overcome them.

### ***Limitation of the study***

Like most empirical research, this study has suffered from lack of availability of data.

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## **Covid-19 and stock market volatility: An industry level analysis.**

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### **Abstract:**

The spread of novel coronavirus has increased economic uncertainty among the economies on the global scale. The development of the virus crisis into a pandemic as well as shift of the epicenter from China to Europe and later to United States had led to increased stock market volatilities in the countries with strong market reliance. Increased uncertainty, investor panic and sudden withdrawal of the insurance funds by the corporations all contributed to increased pressure on the banking as well as financial institutes that have seen unprecedented levels of increased credit demand during the short-term period as COVID-19 spread was considered as a global pandemic.

Given such changes, the current study is intended to analyze the impact of COVID-19 pandemic on the stock price volatility among the banks as well as financial services companies in Kazakhstan to determine the degree of interrelationships. Theoretical foundation of the research work is based on the critical analysis of the literature review on the topic. The research work was based on the linear regression analysis focused on the metadata about daily stock price changes covering the period of March 20, 2020-March 20, 2021. The study is considered as novel due to the fact that there was no previous works attempting to explain the COVID-19 impact on the stock price volatility. Primary reason for selecting banking and finance sector include its strategic importance in ensuring financial liquidity of entire economy as banks serve as lenders of first resort in Kazakhstan, to determine whether if the banks and financial companies' performance was influenced by non-market factors and analyze the strength of the sector to withstand the crisis.

The results of the regression analysis revealed that banking and finance sector of Kazakhstan was not adversely affected by the spread of the virus. In fact, the findings were statistically insignificant to consider them as influential leading to the conclusion that there are other market and macroeconomic factors that would tend to contribute towards the stock price volatility.

**Keywords:** *COVID-19, pandemic, stock market volatility, indexes, regression analysis, COVID-19 metadata, virus-induced crisis, short-term liquidity.*

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*

## **The Role of Marketing in the World of Pandemics**

**Akhmetbek Aida and Garkavenko Vladimir, PhD (Supervisor)**

### **Abstract**

As the world was stuck into the COVID-19 pandemic the human life has totally changed. Thus, all spheres altered the way it works, as well as marketing did. This study identifies the marketing sphere that changed the most after pandemic. There are 4 spheres to be considered: marketing communications, digital marketing, consumer behavior and marketing research. Primary and secondary data have been used to obtain diverse and relevant data for analysis.

The findings were unexpected, secondary data claim that consumer behavior changed a lot due to its direct connection with people's lifestyle. While results of survey and interview shows that marketing communication changed the most due to adaptation of the advertising to the new lifestyle of people.

**Key words:** pandemics, COVID-19, marketing communication, digital marketing, consumer behavior, marketing research.

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*



# **Identification of the level of knowledge and awareness regarding post pregnancy dietary supplements and other problems among women age 25-30 old in Kazakhstan**

**Almira Mekezhanova and Dewan Md Zahurul Islam, PhD (Supervisor)**

JEL code: M31, M37

## **Abstract**

### **Objective**

The objective of this research is to identify the level of knowledge and awareness regarding post-pregnancy dietary supplements as well as any other needs, wants, interests and problems among women age 25-30 old who just had given birth or have children under 3 years old.

### **Background**

An in-depth literature review suggest that many women suffer post-pregnancy related health issues. Actually, the feeling of physical an emotional issues starts from pregnancy and continue until newly born child aging 2/3 years and experts suggest that this period is “the window of opportunity to prevent chronic malnutrition, childhood obesity and medical complications arising later in life”. If and when a mother is not feeling well physically or emotionally, it may affect her newborn child in many different ways. It is a known fact that mothers’ diet is crucial for an infant particularly while breastfeeding.

### **Problem statement**

This research was conducted to investigate the issues and problems among Kazakhstan women regarding their knowledge and awareness of nutrition and dietary supplements after the childbirth. The research also investigates that whether or how some channels or people reach to the women under investigation and how the women make the decision to buy certain products.

### **Research methodology**

The current research applied structure interview method. The data was collected the Kazakhstani women age 25-30 in March 2021. Analysis of the data gathered from deep interviews conducted among thirty women. Criteria for participation in an interview were children aged 0-3 years old. All interviews where recorded and transcribed.

### **Findings from the collected data**

Research showed that about 75% of women buy dietary supplements to keep themselves healthy. A 12.5% of the interviewed know that they need to consume vitamins, but don’t want to spend money. Another 12.5% have a negative association toward dietary supplements and vitamins. These women who do use dietary supplements buy them by gynecologists’ recommendation. Half of the respondents estimated their physical condition 6 out of 10, the other half 10 out of ten. 37.5% of mothers had emotional crisis right after giving birth, due to lack of sleep and avitaminosis.

In regards to what they watch, listen to and read the main channel they get information on maternal issues are gynecologists and pediatricians’ recommendations, as well as experts who use social media platforms. 100% of them have Instagram accounts and watch YouTube.

### **Conclusion**

When it comes to health and maternity women in Kazakhstan don’t hesitate to take action. They buy dietary supplements; see doctors regularly. However, they lack of knowledge on whether these vitamins are of good quality or not. Even though they base their purchases on

recommendations by the doctors, there is no consideration onto side effects. The new mother hugely relies on gynecologists and pediatricians' prescriptions. We recommend that there is a need to increase awareness about the needs and right dietary supplements through media campaign.

## **Introduction**

There are around 450 000 children born in Kazakhstan annually. Potential target audience of the research is 450 000 mothers, who without fail have to take vitamins and dietary supplements in order to recover. It is a known fact that childbirth is a serious stress for the body of a woman. During pregnancy and childbirth women's body is depleted to the limit. However after delivery the cycle reverses and recovery begins. Nutrition during pregnancy and after delivery effects not only child's health but mothers as well. If nothing is taken to speed up this process, it may take a long period of time or have consequences (McGowan, 2012).

The objective of this research is to identify the level of knowledge and awareness regarding post-pregnancy dietary supplements as well as any other needs, wants, interests and problems among women age 25-30 old who just had given birth or have children under 3 years old.

## **Literature Review**

An in-depth literature review suggest that many women suffer post-pregnancy related health issues. Actually, the feeling of physical an emotional issues starts from pregnancy and continue until newly born child aging 2-3 years and experts suggest that this period is "the window of opportunity to prevent chronic malnutrition, childhood obesity and medical complications arising later in life" (Islam, 2013). If and when a mother is not feeling well physically or emotionally, it may affect her newborn child in many different ways. It is a known fact that mothers' diet is crucial for an infant particularly while breastfeeding.

Pregnancy and infancy stages are considered as the main reasons of the risks in development of the child. The concept of the "first 1000 days" is mentioned quite frequently, it a period of time from conception to 2 years of age is considered to be most important time, and malnutrition can lead to health related problems (Mameli, 2013).

According to studies done 96% of women register their pregnancy with their general practitioner. The more educated women tend to visit their doctors more often according to the studies (Popa, 2013). However there are many articles and researches done on this subject, there is a gap in research of Kazakhstani women awareness of these issues.

## **Problem statement**

This research was conducted to investigate the issues and problems among Kazakhstan women regarding their knowledge and awareness of nutrition and dietary supplements after the childbirth. The research also investigates that whether or how some channels or people reach to the women under investigation and how the women make the decision to buy certain products.

### *Hypothesis 1*

Women with children under 3 years old don't know that they need dietary supplements and vitamins in order to stay healthy and help the baby develop accordingly while breastfeeding.

### *Hypothesis 2*

Women with children under 3 years old know only about the products, dietary supplements and vitamins, that their doctors subscribe to them.

### *Hypothesis 3*

Women with children under 3 years old watch, listen and read mother-influencers, experts, pediatricians on social media platforms for advice and recommendations about motherhood

### **Research methodology**

The current research applied structure interview method. The data was collected among the Kazakhstani women age 25-30 in March 2021. Analysis of the data gathered from deep interviews conducted among thirty women. Criteria for participation in an interview were children aged 0-3 years old.

#### *Survey points of interests:*

- Portrait of the person interviewed: name, age, place of residence & occupancy, number of children and their age.
- Assessment of the physiological and psycho-emotional state.
- What are their pains and problems?
- How do they maintain health now? Why did she decide to consume health-maintaining supplements? How did they discover these products? Under what circumstances made a purchase?
- What kind of vitamins and dietary supplements they consume, if they do so? How much money they spend on vitamins and other dietary supplements.
- What kind of social platforms, or other media they use to read, listen or watch?

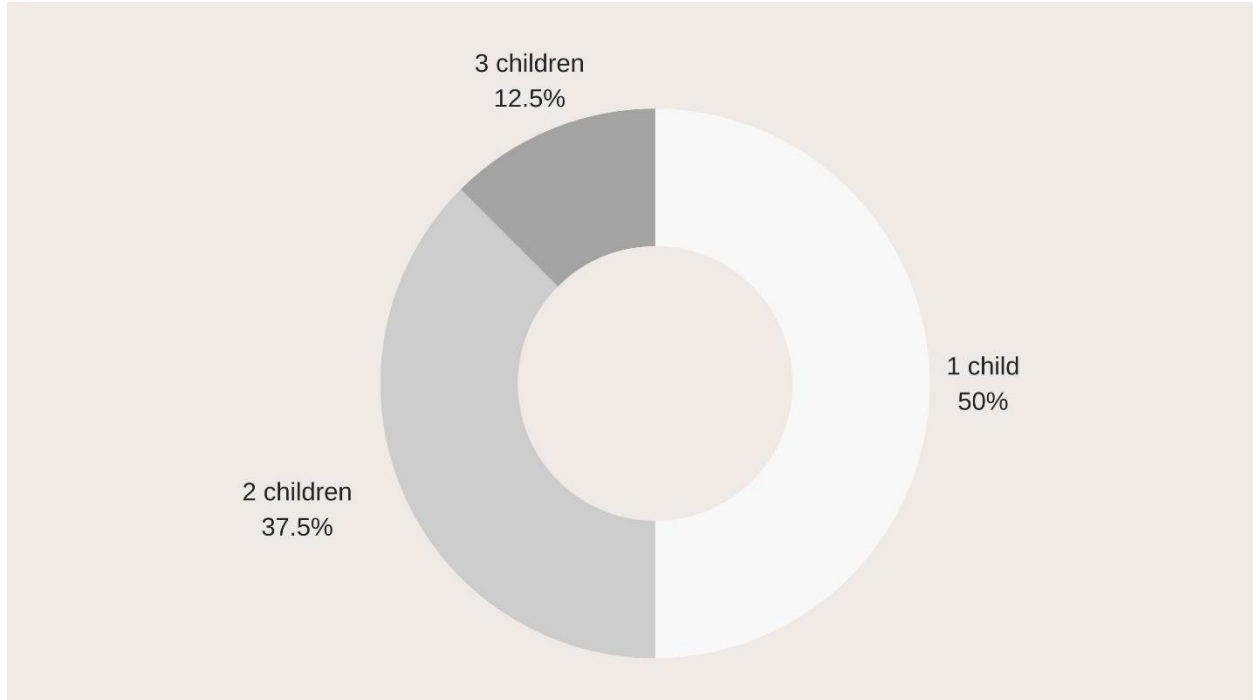
#### *Procedure*

Since we live in a COVID 19 pandemic world it was decided that in person interviews or focus groups involved contamination and health risks. Thus all interviews were conducted over the phone. Approximate time of the single interview was about one hour to an hour and a half. It this period of time respondent had the time to open up and answer more personal questions. That in return allowed understand more and dig deeper. All interviews where recorded and transcribed. Data collected was thoroughly analyzed and separated into sections.

### **Results**

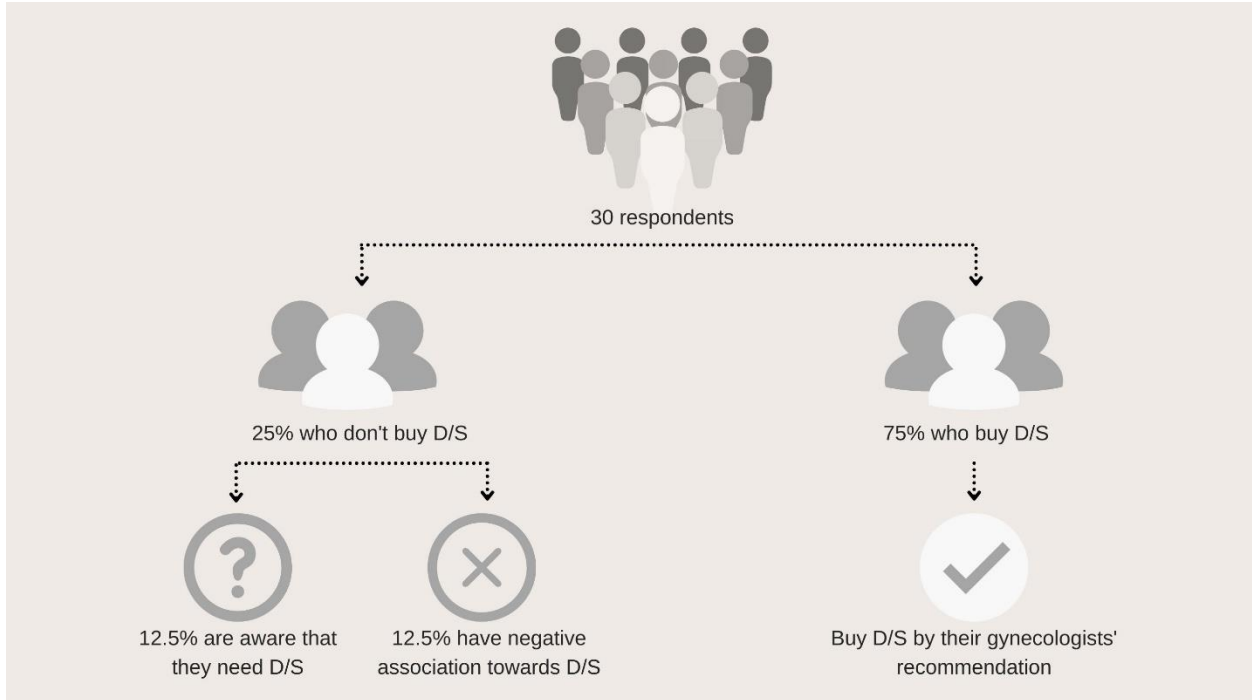
Among women who were interviewed 50% had one child, 37.5% had two children and 12.5% had three children (Table 1).

Table  
1



Research showed that about 75% of women buy dietary supplements to keep themselves healthy. A 12.5% of the interviewed know that they need to consume vitamins, but don't want to spend money. Another 12.5% have a negative association toward dietary supplements and vitamins. These women who do use dietary supplements buy them by gynecologists' recommendation (Table 2). Personal gynecologist who led them through out the pregnancy had a great amount of influence. It was obvious that mothers with first child trusted their gynecologists and for the most of the time followed their prescriptions.

Table 2



Half of the respondents estimated their physical condition 6 out of 10, the other half 10 out of ten. 37.5% of mothers had emotional crisis right after giving birth, due to lack of sleep and avitaminosis (Table 3).

Table 3



In regards to what they watch, listen to and read the main channel they get information on maternal issues are gynecologists and pediatricians' recommendations, as well as experts who use social media platforms. 100% of them have Instagram accounts and watch YouTube. Interestingly, they consume big amounts of information on child's health and development. However practically none of them mentioned watching or listening any information on their own health, physical and mental, after giving birth. Although more than a half expressed these difficulties when asked about post-birth problems. Mothers of Kazakhstan tend to focus on their child and neglect their own problems.

### **General Discussion**

Purpose of the research was to find what exactly this target audience's needs, wants and pains were. We conducted about 30 deep interviews among women aged 25-30 years old, who have children. Research included questions about demographics, physical and mental state, what kind of resources they use to solve their problems, who they listen and watch, whose opinion they value etc.

#### *Hypothesis 1 – not confirmed*

When it comes to health and maternity women in Kazakhstan don't hesitate to take action. They buy dietary supplements; see doctors regularly. However, they lack of knowledge on whether these vitamins are of good quality or not. Increase in awareness of side effects should be in place.

#### *Hypothesis 2 - confirmed*

The new mother hugely relies on gynecologists and pediatricians' prescriptions. Entering the market with this target audience through doctors might lead to sales and awareness increase.

#### *Hypothesis 3 – confirmed*

We recommend that there is a need to increase awareness about the needs and right dietary supplements through media campaign. Main channel for targeting these newly mothers would be through influencers and advertising on social media platforms. Further research is needed.

Our research showed that these women are aware that there is a post pregnancy depression and other health issues. They realize that the need for vitamins is real. This research showed that there is a need for the product, but the main problem was that target audience didn't know about it. Based on these data we recommend further investigation is needed to make a strategic plan for the future campaigns development.

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# **Factors behind success and failure of small business: A study in food truck industry in Almaty**

**Iliyas Kuzar and Vladimir Garkavenko, PhD (Supervisor)**

## **Abstract**

This study aims to identify the strategic elements that contribute to the success and failure of small businesses in the food truck industry in Almaty. The research is conducted to guide the administrative procedure for the establishment of a food truck in Almaty and to study the factors that lead a business to success or failure. The study uses a qualitative method with primary interview data and complete observations from a sample group of five food trucks. The data is then analyzed using thematic and content analysis. The results of the study answered the research question and revealed the crucial factors related to people, operation, marketing, and finance, as well as related issues that can lead food trucks to success and failure. Operational training, proper training and management system, low fixed cost and active customer service are offered for implementation. There are recommendations on product quality, menu, pricing strategy, and service location. At the end of the study future research ideas were also mentioned. The results of the study are useful both for students and for anyone interested in the food truck industry in Almaty.

**Key words:** Food truck, Almaty, success, failure, critical factors

## **Background**

The network of public catering facilities in Kazakhstan is constantly developing mainly due to the attraction of private investment to the opening of restaurant business facilities. The purpose of the Concept of development of small and medium-sized businesses in the Republic of Kazakhstan 2025 is to support small and medium-sized businesses to provide high-quality food services for various categories of the population and their availability by price and territorial factors. (Asylkhanova Zh. 2021)

The field of public catering is very diverse. There are places where people come to enjoy socializing with friends, try delicious, exclusive dishes. At the same time, serious attention is paid to the opening of facilities with Kazakh national cuisine, as well as quick service facilities focused on sales volumes at minimum cost and ensuring the affordability of public catering products and services. Food truck is one of the most wider spread business tendency in the world for the last couple of years. Street food is a new trend for Kazakhstan, which has not been regulated by law. Street food is popular all over world. Almost every European city offers its own traditional meals which can be bought cheaply on every corner. Most of all objects of public catering have fixed location in Almaty. The topic of the dissertation is primarily motivated by personal interest, as the author intends to open a business for the production of food trucks in Almaty, Kazakhstan in the near future. The question of success and failure of small business elements forces the author to conduct this research not only to support the author's own future business but also to help other entrepreneurs to turn their business ideas into reality, from the beginning of the formation process to the stage of growth and subsequent success.

## ***Literature Review***



Food trucks are defined as, "...large wheeled vehicle[s] from which food is sold that typically contains cooking facilities where the food is prepared" (Merriam-Webster's Collegiate Dictionary, 2018). The food truck industry has been defined as, "...establishments primarily engaged in: preparing and serving meals and snacks for immediate consumption from motorized vehicles or non-motorized carts" (Mobile Food Services, 2018).

The predecessor of the food truck was the chuckwagon, which appeared in the US state of Texas in 1866. Its inventor was Charles Goodnight, who created a wagon with internal racks and boxes, equipped it with a vessel and food, and helped cowboys graze cattle for several months. In addition, the car had a barrel of water and a device for lighting fires and cooking food. The meal consisted of coffee, dried beans, cornmeal, bacon, and salted meat. (Thompson B., 2016). Today, in the United States and Europe, food trucks serve about 2.5 million person every day (Marras S., 2014). For example, in Australia food trucks have become a mass trend and are extremely common. So, the Australian national register counts 170 registered food trucks. This phenomenon is also very common in Belgium: Food Truck Festival the largest of its kind in Europe it is held annually in Brussels. The development of mobile food in the UK began during the World War 2 when food trucks came into use. The Mobile buffets in wartime were used almost exclusively to raise the morale of soldiers and provide them with food (Buck S., 2011).

In Kazakhstan, there was traditionally either a kiosk or a refrigerator with ice cream, which was always brought to the same place. The legal framework in the country is not adapted to the format of a mobile retail outlet. Here, this format of outbound trade is only developing. If this movement develops, the laws may change. Thus, today food truck is a modern direction that attracts attention, is beautiful, interesting, and evokes emotions. The food truck is also considered a profitable business. Key feature food truck compared to a regular cafe is its mobility, which allows you to choose your own place, contributes to the creation of the largest flow of customers, and also gives you the opportunity to expand the flow of visitors indefinitely and explore new territories. To simplify the work of business in Almaty the Chamber of entrepreneurs "Atameken" has created a group that oversees the development of mobile commerce. For a couple of years, they managed to make an adjustment to the sanitary standards. *"To work out the process of collecting taxes (in food trucks we installed cash registers with a Wi-Fi module linked to the taxpayer's e-cabinet). Also, Entrepreneurs are required to have a trade permit and comply with the sanitary rules"* established by the Ministry of Health for public catering facilities," the Department of Entrepreneurship of the Akimat of Almaty reported. (Baitelova Zh., 2018)

Food truck is a symbiosis of a car (or a trailer to it) and a full-fledged kitchen. Also, a food truck is a "food on wheels" or as it is also called a "mobile cafe". Cafe-van which has everything you need for quick preparation of food and drinks (Osipov A., Mizraki K. 2016). There are factory and homemade food trucks.

In Europe and America where this industry is most developed, there are entire production facilities that produce such mobile kitchens for different needs. In Kazakhstan due to the low prevalence and high cost, food trucks for the most part the parts are a kind of hand-made collection of used cars or trailers and similar kitchen equipment, assembled together on the outskirts of the city. But due to the rapid development of the new-fangled direction, domestic manufacturers also appear (Nastiukova O., 2018).

## **Significant of study**

The aim of the dissertation is to identify the strategic elements that contribute to the success and failure of small businesses in the production of food trucks in Almaty. Therefore, research plays an important role not only for me but also for a particular business sector. First of all, by conducting research I hone his knowledge of the critical factors that contribute to the success and failure of a business. With this understanding in mind I can focus on the business factors being improved and avoid the common mistakes that lead the business to failure. This basic understanding is valuable for my future career development regardless of my status as an entrepreneur or employee.

Secondly, the study fills a gap in the market. Among the significant number of studies that give entrepreneurs a practical guide to starting a business in Almaty as well as success and failure factors in the small business or restaurant industry none of them focuses on the food truck sector. As a result, it is expected that the results of the study will bring a fresh breath of air to this modern business sector.

### **Research Problem**

Central point of the study are critical factors of success and failure that can be interpreted with benefits and new achievements for the business. The biggest challenge a food truck can face is not being attractive and losing its customers. Therefore, entrepreneurs should consider educating themselves and their employees on how to act based on these factors. In addition, it is important to understand what these factors are that can be used to achieve success and what factors can bring a business to failure.

### **Research question**

The thesis aims to answer the question: *What are the key factors food trucks need to pay attention in order to succeed and prevent failure?* The research question has been developed to fulfill the research purpose. Business performance is influenced by implementation and changes. This study aims to find out what factors can be improved and what factors should be avoided while operating the food truck. Then I and those who intend to do business with food trucks can experiment on the business operation to bring better and more efficient service.

### **Hypotheses**

- Marketing

H1: Using the right social media marketing strategy will be a positive factor in the success of the food truck.

H2: Working in the two B2C and B2B segments will be a positive factor for the success of the organization.

- Management

H3: Involvement of the staff in the project will be a factor in the success of the food truck.

H4: Professionalism of the staff will be a positive factor success of the food truck.

H5: Support from the city government will be a positive success factor.

### **Research design and methods**

This research is about to seek similarities and differences between case studies. In details I research looks at similarities among the viewpoint of different food truck owners towards the

most significant elements that lead a food truck to success or failure. Also, from their opinion and evaluation I look for similarities and difference between different food truck owner samplings together with a possible explanation for that. In general, this research is designed based on a qualitative approach; hence, the methodology, data collection and data analysis are also qualitative-oriented. The data analysis is set at the micro level which means research sampling units focus on individual food truck owners.

### ***Methods and sources***

A qualitative approach is used to conduct this research as it is suitable with data collection method and author's budget, time, resource accessibility constraints.

As in this research, the nature of research question requires data to be interpreted and structured by the researcher in analytical process and data are not efficiently coded and categorized to for counting purpose, the most suitable method is the qualitative approach.

### **Sampling approach**

Under the framework of this research, target research groups are non-probability and purposive samples. Other sampling approaches were not selected due to (1) researcher's limited time and resource and (2) difficulty in accessing statistical data of all potential cases (e.g. all food trucks in Almaty). Because a non-probability and purposive sample, the research does not include all possible food truck cases in Almaty but a small number of cases with relevant interested characteristics only five food trucks were chosen in this research,

### **Data Collection**

In this research, both primary and secondary data collection is in progress.

*Primary data* is gathering by entrepreneur interview and non-participant observation. *Secondary data* is collecting thoroughly from credible sources for example official published books and archives, also it can be represented as the search service of reliable documents in universities' portal such as KIMEP. Presented information also was taken from books, websites, scientific articles and research projects that already done. All secondary were assessed and reviewed carefully to ensure its relevance, accuracy and validity to the research subject.

### **Data analysis**

Using the key features of the analysis, the author begin the procedure for analyzing the data of this study by processing all relevant data collected from interviews and observations of non-participants and considers all data equally, keeping in mind the research question. During this process, the strategy and the analysis plan are also frequently reviewed. In this study, the nature of the data is semi-structured. Some analysis methods for qualitative research analysis include thematic, comparative and content analysis.

### **Discussion**

This section provides a conclusion and an answer to the research question in which the author considers the results of the study. This is followed by a self-assessment of the results and methods of the study. The limitations of the study are further explored.

Finally, an assessment of the author's learning process and further research ideas are given.

## Conclusion and recommendations

Literature reviews have identified significant causes affecting the success and failure of the food truck which have been categorized by people and marketing. Most of the research results correspond to the literature reviews. The results of the study are not surprising and do not contradict the literature reviews but they reveal a lot of practical and valuable information.

Since the data collection and analysis is now at the stage of the process, full recommendations will be given by the author at the end of the study.

## Limitations

Challenge in data collection is small number of samples. The reason for this lies in the difficulty of contacting and making an appointment with owners for face-to-face interviews. Some food trucks operators were not willing to open and share their stories.

Another research limitation is referencing sources. Literature reviews about food truck' success and failure are mainly from a few books and online articles written by American authors, in the context industry's history and culture have huge difference from Almaty (Kazakhstan).

## Further research

One idea for further research is to conduct the same research in other cities. At the moment, there are researches about entrepreneurship and small business environment also in the restaurant sector in Kazakhstan. Unfortunately, there has not been in-depth research about the food truck business in our country. The question is whether or not a significant difference in the business environment between the Almaty (megapolis) and other cities?

Another idea there is a possibility to conduct further research about the same food trucks after a few years. It is interesting to see how time changes food trucks. whether or not did food trucks operator learn from experience and mistakes?

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# **An Empirical Investigation on Relationship between Corporate Social Responsibility and Corporate Financial Performance: Country Model Study**

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## **Abstract**

Corporate social responsibility became an inevitable part of every company's sustainability strategy. CSR concept has entered Kazakhstan recently, and from other countries example, can bring lots of advantages. However, key managers and stakeholders may regard it only as expenditure or as regulatory must to donate. This paper seeks to justify CSR level of company have a direct impact on financial performance and wealth of the company.

## **I. Introduction**

### ***Introduction***

The introductory part sets the background of corporate social responsibility, its importance in risk management, defines the rationale to study this topic, aims to conduct empirical research and establishes the objectives and aims of the thesis paper.

### ***Background***

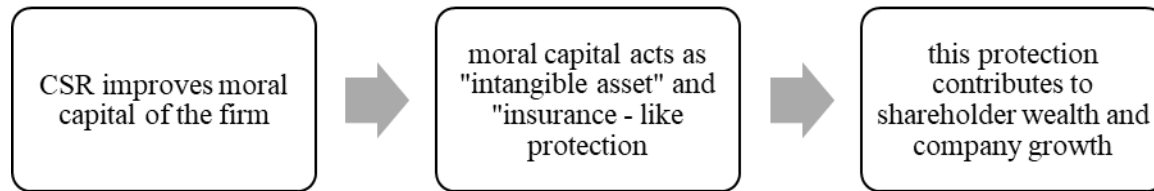
In 1970 Milton Friedman stated the only one and major social responsibility of the business is to use its resources to maximize its profits (Friedman, 1970). However, as years passed by, the meaning of businesses to be social responsible developed and expanded its concepts applicable to various spheres. Corporate Social Responsibility (CSR) became valuable indicator of how corporation interacts with stakeholders and communities and how it reflects on social needs both on a local and global basis (DesJardins, 1998). Level of CSR can be a measurable indicator for shareholders of financial performance of corporation and how fast it reflects to raising external problems (Enquist et al., 2006). The awareness of CSR building solid reputation and mitigating conflicts has grown among CEO's, investors, managers and politicians. As a result, CSR can be used as an instrument of risk management of corporations as well as an important factor of convergence of societal, governmental and businesses interests (Makdrakhimova, 2013). Moreover, using CSR as a powerful instrument can raise financial wealth of the corporation, according to the studies made by Samy and Bampton (2011), Uadiale et al. (2012), Liu et al. (2019).

Nevertheless, worldwide practice of corporate sustainability includes reduction of pressure from local communities and prevents the possibility of social tensions; it became "a must" for corporations include social and environmental risks in their overall risk management strategy (Moura-Leite RC, Padgett RC, 2011). Thus, the CSR policy becomes a tool for managing risks, primarily social and environmental. Concept of corporate citizenship or CSR is becoming an inevitable part corporate governance and risk management strategies.

### ***Statement of the problem***

Many studies have been conducted on exploring the consequences of CSR on corporate performance. The evolution, historical development, relationship and influence of CSR on risk elimination and corporation growth was studied from late 1930 by different economic schools ((Moura-Leite RC, Padgett RC, 2011). Nevertheless, there is still lack of research on how CSR can improve moral capital and ethical perception of the corporation. According to Godfrey, 2005,

greater CSR contribute to moral capital, which in turn improves reputation among shareholders. The full structure is prescribed in the below graph:



*Figure 1. Three assertions of relationship between CSR and risk management/wealth prosperity (Godfrey, 2005)*

Wayne, 2015 states that management of corporations in CIS and Asian countries does not fully reflect the importance of CSR. According to interviews of Russian corporations, 56% respondents reflected their opinion that CSR does not solve air pollution, poverty, medical and infrastructure problems, but in fact firms continue to have a harmful effect on the environment (ACCA, 2009). Despite lack of understanding of the need of strategic CSR, the outcomes of CSR are not fully realized. This is due the lack of empirical research on relationship of CSR and corporation performance (Blagov 2011), and lots of contradictions in theoretical understanding of CSR (Blowfield and Murray, 2008).

To summarize, there is a need to provide an empirical research of how CSR can add value to financial wealth of the corporation. Moreover, there is a need to provide a broad literature review on how CSR eliminate risks that may arise.

## **II Literature Review**

### ***Overview of literature review***

This part of the thesis conveys literature review related to the topic of the present study by revealing theory, previous findings and background of CSR. Starting from reviewing routes of concept of corporate philanthropy, various theoretical definitions will be covered. Historical development of this topic in CIS countries (such as Russian Federation, Kazakhstan, Belarus, Ukraine, Uzbekistan, Kyrgyzstan etc.) will be outlined. Then, this part continues with systematic literature review on previous studies about the relationship of corporate social responsibility and risk management. After, it justifies the appropriateness of chosen factors through discussion of prior research papers and their relationship with financial performance.

### ***Theoretical Rationale***

This section analyzes the various contents of definition of CSR in general, its historical development and evolution of investigation, before discussion of CSR in risk management and the importance of CSR. It's necessary to point that there was a lot of uncertainty and contraventions in understanding the concept of CSR.

### **The definition of Corporate Social Responsibility**

According to Porter M. and Kramer M. (2002), development and evolution of the corporate social responsibility concept can be splitted by two stages: 1) stage of *appearance* of the concept (1950-1970), and 2) stage of *development* of the concept (1970 - by now). The following stages

differ from each other by core principles and understandings, methodology and concept. The first stage was mostly the beginning of the studies made upon the concept, as Howard R. Bowen in his book "Social Responsibilities of the Businessman" 1953 introduced the concept social responsibility. According to him, *there exist a set of principles for which businessmen should pursue, as their actions affect shareholders, customers and other third parties, who in their turn affect values and determinants of social principles* (p. 120). However, this was mostly profit-related concept (Kabatova 2008). In contrast, R. Bowen raised the social questions in corporate management (Carroll, 1999). As a result, the concept started to be portrayed as a normative that described moral principles of business. Bowen popularized the research on defining the concept and how businesses should interact with society. This led to the beginning of studying concept as a social need. As an example, Ells (1956) in his book "Corporate donations in a Free Society" stated that U.S. largest corporations did not support society during the inflation crisis. During 1960, the discussions on "corporate altruism" and "corporate philanthropy" arose after the paper of Theodore Levitt (1958), where he cautioned about CSR as an instrument of avoiding risks and attacks from stakeholders by donating occasionally with no clear strategy. Expansion of investigations on understanding what is CSR and what is the importance of social sustainability was continued by Davis. In his paper (1970) he proposed a model of CSR that consisted of 5 main points describing why businesses should protect and contribute to the welfare of society:

- *Social power creates social responsibility;*
- *Government should create conditions for businesses to be socially responsible;*
- *Businesses should act as a two-way open system (taking into account the influence of its actions on society, and to be open to the public in its operations);*
- *Social costs should be carefully calculated and considered from the point of view of the legality;*
- *Social expenses, which are allocated for each product, are ultimately paid by the consumer;*

Davis (1970) stated that businesses operating especially in poor countries, can become more powerful and influential than the state itself. Its activities directly and indirectly affect the socio-economic situation in the country, respectively, being the cause of all these changes; the corporation must be responsible for the consequences. This theory was then developed by Steiner (1972) Donaldson (1982) and Fredrick et al. (1988) by stating that corporations are assumed to be "moral agents" that create ethical principles in strategic management.

According to Blagov (2011), the first stage was characterized by the fact that scientists could not agree on the accepted understanding of the CSR. This pushed further investigation related to corporate social responsibility concept development.

The second stage of CSR concept development was mostly criticized by Friedman-school (Moskowitz, 1972; Parket & Eibert, 1975), but it started to be associated with sustainability principles, described below.

Ackerman (1976) stated that the idea of CSR started to form as the convergence of the economic, legal, ethical and discretionary expectations of society from the corporation. This approach was formulated by A. Carroll in more details, who describing it as the "Carroll pyramid" (see Appendix A). According to Carroll, CSR is a multi-level system consisting of four components: economic, legal, ethical and philanthropic responsibility of the corporation. His theory states that a socially responsible corporation should strive to fulfill its corporate citizenship role. Freeman (1980) contradicted to Carroll's concept, as in his research contributed to the scope of the definition of the "stakeholder theory" that became part of CSR model. His idea was to represent the firm's external and internal environment as a set of stakeholders in its activities, the interests and requirements of which the firm's managers must take into account and satisfy as well.



Wood (1991) restructured the whole concept of CSR and described it as “*the system of social responsibility’s principles, processes of social responsiveness, programs and policies that contribute to the CSR strategy and outcomes that relate to the firm’s social interactions*”. Wood described CSR in set of principles:

- *Principle of legitimacy: Society grants businesses with legitimacy and empowers it with power. In the long term, this power is lost by those businesses who do not use this power with full responsibility.*
- *Public Responsibility Organizational Principle: Organizations are responsible for results of their activities that affect society.*
- *Principle of freedom of managerial choice: managers are moral agents. They must use their freedom of choice to achieve socially responsible results.*

However, the approach of Wood is becoming outdated as it does not involve occurred risks that were related to the digital transformation. Elkington (1994) research contradicts to other investigations made by Bowen and Wood, as he designed the expression “triple bottom line” that reflected social responsibility in three areas: *economic, social and environmental*. That principle underlies the modern system of non-financial reporting standards, as GRI (Global Reporting Initiative). Elkington (1994), Logsdon (2002), Marreviyk (2003) and Steuer (2005) stated that the achievement of goals in any of the above areas is impossible without the achievement of success in another area. This led to the appearance of the meaning of corporate sustainable development as an inevitable part of CSR (Belov, 2011).

Groshev (2010) defined that the tactical and strategic actions carried out should be aligned in a single direction and reinforce the general course towards the formation of the company's social reputation. In this paper he defined the right structure of socially responsible company. Top management develops a CSR strategy, decisions on key issues of strategic CSR management, taking into account the interests of all participants in social relations. Services and divisions of the middle management level are actively involved in coordinating the CSR strategy. They ensure the comprehensive implementation of CSR management functions, control and coordinate the actions of various departments and services in the field of social initiatives. Belov (2011) noticed that socially oriented companies are transforming traditional management structures into more flexible and agile ones using a cross-functional approach. It should be remembered that corporate culture change is an extremely complex problem. Therefore, even at the stage of determining the CSR strategy, it is necessary to take into account what difficulties may arise with a change in corporate culture.

According to Freeman and Evan (1990), the concept “responsibility to key stakeholders” avoids two major misconceptions of CSR better than the concept of “corporate social responsibility”: it is not clear to which specific persons responsibility is formed and the category of responsibility is universal and implies any format of entrepreneurial activity - from small businesses to large corporations.

All investigations and interpretations analyzed above are various definitions of CSR. Therefore, this research paper, based upon prior research and literature review, adopts the following definition of CSR: “*Corporate social responsibility is a complex model where firms integrate social and environmental needs and problems in business strategy and operations*”.

### **III Methodology**

#### ***Introduction***

The Chapter III refers to explaining research methodology, methodology strategy and research design. It starts with describing where the study took place, what timeline and who the participants of the current study are. The description of type of the current study is provided with the discussion of disadvantages and advantages of each type of research design. Tests and instruments that were used to collect the data will be justified, described in detail. By choosing the data analysis instrument, its validity and reliability will be described in line with consideration of how it was created, collected and tested. Discussion of steps and procedures that were used to carry out the research as well as translation of how data was collected (from primary or secondary sources) will be provided. Its then continues with data analysis of either quantitative or qualitative method with description of results. It ends up with analysis of methodological drawbacks and limitations.

The reiteration of the aims and purpose of the study are employed to get a clear view of used methodology and research design. The current study's purpose is to understand the prime factors that can be affected by the level of CSR amongst publicly listed corporations in CIS. The research questions that the current study addresses are:

1. What are the main factors affected by the level of CSR?
2. Is there a significant relationship between chosen factors and level CSR?
3. What are the main differences in results between two models?

#### **Chapter IV Results**

This part presents the results of the quantitative study more precisely regression and correlation analysis in line with hypothesis testing. The data was analyzed by means of ANOVA Excel, and the outcomes of analysis are divided in different parts. Firstly, the reiteration of the aims and purpose of the study are employed to get a clear view of used methodology and research design. The current study's purpose is to understand the prime factors that can be affected by the level of CSR amongst publicly listed corporations in CIS.

#### ***Limitations***

One of the major limitations was the use of small data-sets (sample size for 2 models is 20 corporations each, totaled 40 companies) which gave a risk to make wrong conclusions. It was also explained by the shortage of the time for conducting a research, which was limiting the ability to collect substantial amount of data for further analysis and drawing conclusion. However, this data-set that was used by the researcher was obtained from open sources and no additional data gathering was conducted, including interviews, questionnaires or focus groups. Moreover, the sample of developing countries model was consisted mainly by Russian and Kazakhstan's corporations.

A lot of scholars are criticizing the use of econometric tools saying that real science needs human judgment rather than equating science with just mathematical calculations and statistical analysis as in this research. They say that mathematics and are just replacing the real science. As in any other empirical analysis there is always some kind of variable is not present that can significantly change the final results (Sylls, 2018).

Despite statistical significance, the results are controversial: for developing model RQ and GDP factors in developing countries model. This might be the imperfections in data gathering process, as some corporations might close or overvalue their financial performance.

### ***Recommendations***

The current study can give additional information for studying CSR policies in developing countries, especially in CIS. The results can prove that financial performance can be significantly improved by larger amount of CSR donations, either charitable or political.

Future research implications would help Kazakhstan corporations to identify the importance of CSR and impose reasons for reduction of an unsystematic approach to the formation of CSR policy. As the results showed that Regulatory Quality harms the whole CSR of the corporations no matter of their size it is recommended for Kazakhstan's authorities to improve regulations on CSR. The differences in ROE signs in two models reflect the idea that CSR reduces long-term debt of corporations and increases share capital. This can affect the whole financial performance of companies.

The current research recommends changing the decision-making processes so that the state refuses to play the main role, and companies and local communities actively participate in these processes. In addition, it is emphasized that CSR must necessarily relate to the core business of the company, and CSR projects must be treated with the same importance and appropriate reporting.

### ***Future research***

Future research can be made more deeply on Kazakhstan's corporations in more time length and with more factors that can affect the level of CSR. It is necessary to analyze how regulatory support can affect CSR strategy of corporations. This study used only quantitative research method, so for future studies qualitative approach as well as mixed can be implemented in order to collect survey's and expert opinions on CSR. Since this study analyzed how financial performance is affected by CSR levels, the future studies might be done on analyzing how CSR can diminish cost of debt. A comparative and deeper study of Kazakhstan and other developed country might bring more insights in the problem.

Further research can be provided on how CSR strategies mitigate risks occurrence due to reduction of environmental and social risks. With increasing complexity of risk management and new risks emerging CIS countries, companies could increasingly aligning corporate social responsibility with their risk management strategies. Another study can be made deeply by sector division: oil and gas, finance, medicine, engineering fields where CSR strategies vary from each other. More corporations in Kazakhstan can be involved in future researches by lining in base the current research and its results. Another implication of the current study can be found in reflecting the need of government authorities to support corporations by lowering tax shields as United Kingdom does.

### ***Conclusions***

This research has investigated the effect of financial performance by the level of CSR. The study assumes that there is a categorization by country, stating that CSR level is different by country development. In this study two modelling hypothesis testing was applied in order to analyze how corporations can improve CSR level and see how larger sums invested in CSR level improve financial wealth of company described through ROA, ROE and D/E. It was defined that hypothesis H1 is rejected for model 1, and hypothesis 3 is rejected in model 2. The results are in line with results of Liu et al. (2019), Tsoutsoura (2004), Khan et al. (2017), Choi et al. (2010), where financial performance directly influence the level of CSR. The findings are controversial for developing countries model; partly it is described by previous studies, partly by researcher's assumptions and partly as regression analysis results.

Another point is that the current study provided a systematic literature review on the relationship between risk management and CSR which became important topic due to latest socio-economical crisis (COVID-19). Therefore it was necessary to focus on risk management topic as the study analyzed financial performance of companies.

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# The Growing Impact of Artificial Intelligence on the Banking Industry

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## Abstract:

Since AI is widely used, this research will focus on the influence of AI on the financial services, more precisely will describe how AI is transforming the current Banking industry. The technology revolution already impacted the Banking sector by creating new products and services, such as mobile banking, online credit screening etc. This research used primary and secondary data. Primary data has been collected from retail business representatives. The results of the primary research show that there is a room for development of AI in the banking sector. Also data shows how important to implement AI applications for banks at the competitors' level. Many business representatives think financial institutions should pay attention and invest heavily in AI development.

*Keywords: artificial intelligence, financial services, banks, AI applications.*

## I. Introduction

The term Artificial intelligence (AI) is widely used in many areas of our lives in recent years. Rich & Knight in their research on artificial intelligence stated that AI is the study of how to make computers and machines do the work, which human-beings do better now. These descriptions say that AI is a notion and it will happen sometimes in the future. But in reality AI is already existing in a weak form. The most simple examples of AI in our lives: “when we google certain products, then that type of product appears in every social media platform we enter”, “virtual assistance, such as apple’s siri, yandex’s Alisa”.

Aim of the research is to help to understand the importance of AI in the Banking Industry by providing figures and examples of successful AI use in the Banking Industry in Kazakhstan and worldwide. One of the best examples of the study in Kazakhstan is the Kaspi.kz case, which caused the interest of Harvard Business School researchers. Kaspi.kz is a successful example of how a traditional commercial bank transformed into a fintech company, which offers services on its unique online platform and furthermore keeps creating a digital ecosystem for its customers. Another successful example of AI in financial services is Tinkoff Bank in Russia. These examples will show how investment in AI creates value for the business and builds strong competitive advantage in the industry.

The on and off going quarantine periods due to Covid-19 showed that most of the Banks are not ready to close their branches and provide services online. Therefore we can see, there is a huge gap in AI use in the Banking industry in Kazakhstan.

On the other hand, this research will describe how AI could build a monopolist player in the market and its impact on businesses. The case will be once again about kaspi.kz, but from a different perspective, from the perspective of businesses and competitors.

## II. Literature Review

According to McKinsey's survey on financial life during the Covid-19 (Euart et al., 2020), the use of online banking dramatically increased 20 to 50 percent worldwide. Why AI is important in the Banking Industry explained in the McKinsey report by following arguments: customer expectations in technology development is increasing, leaders of the market already use AI, developing digital ecosystems offers online payments, big tech companies are entering the finance market. These are the trends and triggers for Commercial Banks to understand the importance of AI in financial services. By using AI Banks could achieve next objectives: maximize their profit, competitive advantage, high automation of services etc.

European Banking Federation (2019) have done research on AI in the Banking Industry, where EBF considered opportunities and challenges of AI in the Banking sector. According to EBF, AI provides prosperity and growth opportunities for the banking sector by personalizing customer service, automating financial services, protecting from cyberattacks etc.

There has been a global survey on the topic "AI in Financial services" conducted by the world economic forum and Cambridge University (2020), where 151 financial organizations from 33 countries took part. The result of the survey shows that 85% of interviewed financial services already use AI in their business, while 64% are expected to increase the use of AI in two years. Also 50% of respondents see the threat of competition from fintech companies, therefore other half are already implementing AI processes in their business. According to the survey findings, lack of investment in AI has existed, especially in the banking Industry. Financial institutions' top managers and shareholders are not ready to invest in AI, if they will not see the best cases with high return on investment coefficients. The other impact of AI in financial services is, apart from automating services, the use of data. The database generated by AI is a main competitive advantage for the financial services organizations. By using this generated data, organizations can adapt the product by the customer preferences and use it in market analysis. The data generated from operation are the most highly used information for almost 50% of financial institutions, while the second highly used source is customer generated data.

Since the routine work will be automated by AI, 20% of non-routine strategic work will be accomplished effectively by humans and it will create more value for the Banks than the traditional process- highlighted by accenture in the "Redefine banking with AI" research (2018).

Moreover the automated process will be always reviewed and optimized. This automation will not only bring huge cost reduction, but also will transform the banks by the generated data. The potential savings in figures are 20-25% cost reduction in operational expenses. Accenture's vision in implementation of AI in the banking sector consisted from four potential uses: low, medium, high and very high. The very high AI potential areas are contact centers, branches, fraud protection, customer insights and enquiry resolution. High AI potential areas are mobile banking, customer segmentation, adopted products and services, pricing strategy, sales strategy, HR, risk management, account management etc. Medium AI potential areas are relationship manager, middle office, corporate and operating strategies etc. And asset liability management is the single unit with low AI potential.

The crucial need of AI in the developing countries described in EMCompass publication on AI Innovation in financial services (Biallas & O'Neill, 2020) . Most of the businesses and individuals in the developing world lack credit histories, collateral to issue credit. But data analysis made by AI through other sources of data could help to define the creditworthiness of those individuals or businesses. These potential new customers could help to generate more profit for financial institutions in developing countries.

### III. Research methodology

The secondary data has been used to demonstrate the level of use of AI in financial services worldwide. The Economist journal has conducted a survey on AI and the future of financial services by interviewing 200 CEO’s of financial institutions such as investment banks, retail banks and insurance companies. The result of the survey shows the types of AI are widely used, benefits of AI use, the expected changes after the use of AI, success metrics, holding barriers and general risks.

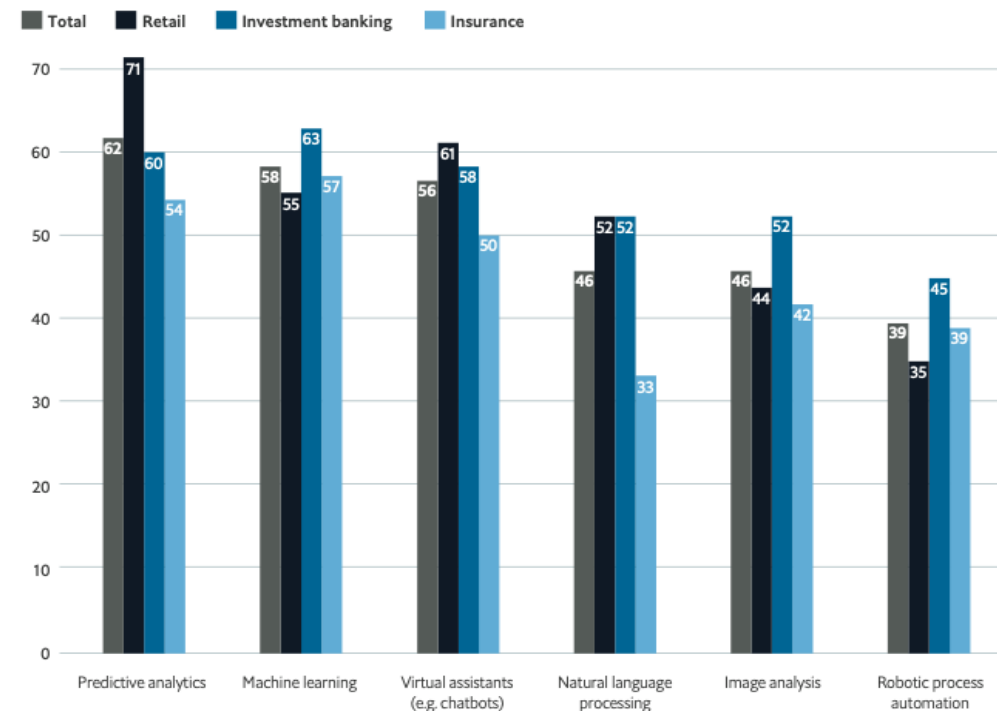
This research uses a survey, which has been conducted on 20 retail business representatives in the Kazakhstani market. All of the respondents are either chief financial officers or work for financial departments of their companies, therefore they are aware of the banking services they use. All the companies work in retail business in Kazakhstan, since retail business are widespread and use digital banking more than other industries. The survey has been conducted online. The data from the survey has been tabulated and analyzed by the author.

### IV. Results

The results of the secondary data show that a wide range of services offered by the financial institutions already supported by AI (Economist Intelligence Unit Study, 2020). Moreover retail banks are more likely to use AI for predictive analytics purposes, while investment banks use it for machine learning purposes (figure 1).

Figure 1.

What AI applications are used by your organisation at present?  
(% of respondents)\*



Source: Economist Intelligence Unit Study, The Road Ahead: Artificial Intelligence And The Future Of Financial Services, 2020.

The larger the organizations the greater the implementation of AI in the organization, due to the high costs. In terms of geographical location, Asian Pacific countries (APAC) are way more ahead in AI use, 61% of the organizations of APAC use AI in more than 50% of the work.

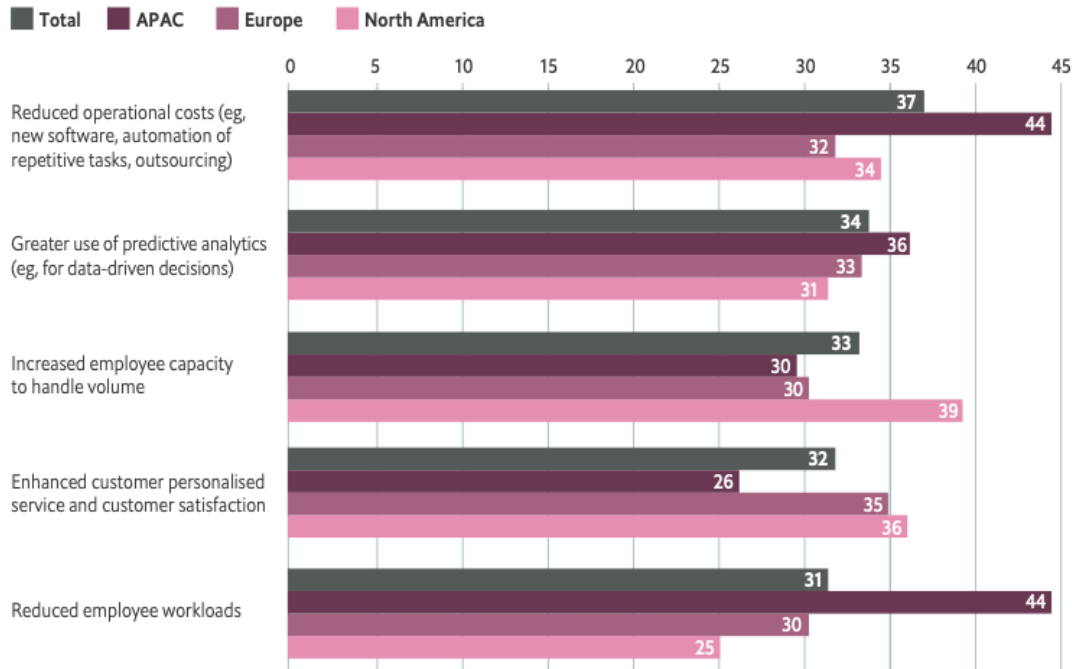


Furthermore the survey shows that these APAC countries experience a great reduction of the costs and the employee workload due to the AI implementation in the organization (figure 2).

Figure 2.

Which of the following are the most significant benefits that your organisation has experienced or expects to experience as a result of the adoption and use of AI? Select up to three.

(% of respondents)\*



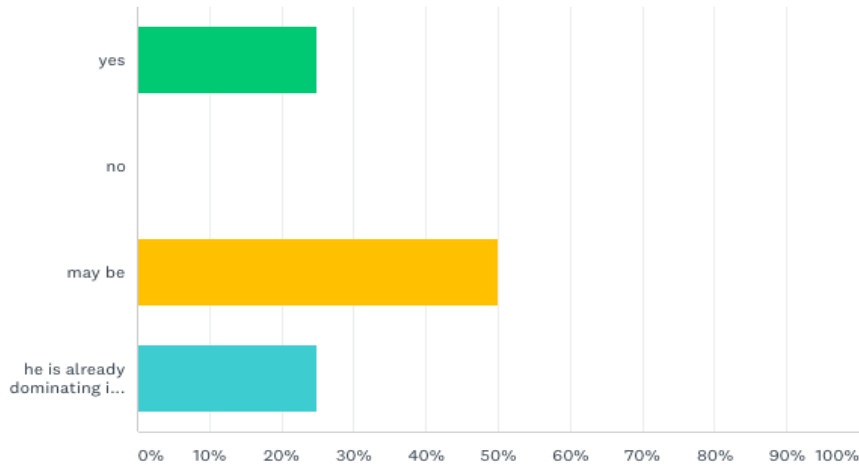
Source: Economist Intelligence Unit Study, The Road Ahead: Artificial Intelligence And The Future Of Financial Services, 2020.

Key findings of the primary research are: 100% of the respondents think positive about the use of AI in the Banking sector, so businesses trust AI applications in the financial services. Also the respondents think AI is used at a low and medium level in the banking sector of Kazakhstan.

The most digitalized bank in Kazakhstan for retail business is Kaspi. Due to the high market share of Kaspi users, despite the high tariffs businesses prefer to use Kaspi products. And every single representative of the retail business is sure that Kaspi is a monopolist player in the retail market (figure 3).

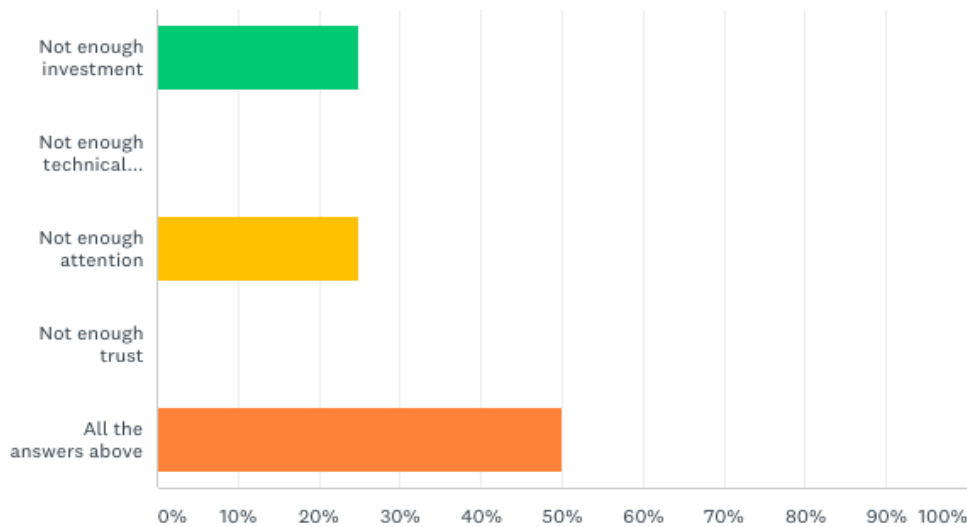
Figure 3.

Is Kaspi going to be a monopolist player in the market for retail business?



In terms of business perspectives, companies prefer to not have a monopolist player in the market and highly recommend other Banks to follow up Kaspi and invest more in artificial intelligence. Also respondents emphasized following limitations in AI implementation (figure 4). Figure 4.

Limitations of artificial intelligence in the banking Industry.



## V. General Discussion

This paper examines the impact of AI on the banking sector and why it is important to develop it. There is secondary data on this issue, which shows the importance of AI in the financial sector. Additionally the author examined the local retail business's opinion on the importance of AI in the banking sector.

Based on the confirmed hypotheses of authors in the literature review part, we can see the issue of the topic is actual for not only developed countries but for developing countries too. According to secondary data there are some challenges to face to develop AI in the banking sector. The main challenges are: asymmetric regulation, which means the existing current rules do not sufficiently support the development of AI; lack of specialists such as data scientists, mathematicians; huge amounts of investment are needed.

The main findings of the primary data: if other commercial banks will not follow up kaspi.kz in the technology development, then kaspi.kz will be a monopolist in the industry with its own ecosystem. There is a certain risk for retail businesses, which work with kaspi.kz to be manipulated by its power in the market. This perspective of the successful case could make other commercial banks think investing heavily in AI in order to keep the competition on a certain level.

Although the research raises the relevant issue in the banking industry, the primary data used by the author is limited in quantity. The sample size is small and taken from the specific area of the industry. In order to make it more complete it would be better to expand the sample size and take different industry representatives.

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# **An Empirical Analysis of Overconfidence Behavior in Russian Stock Market**

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## **Abstract:**

In traditional finance, investment decisions made by investors have been found rational and unbiased, however, a modern empirical analysis shows an opposite result towards the rationality of investors. Therefore, this investigation observes a cognitive error of investors statistically and develops an empirical analysis regarding the overconfidence of investors in the Russian stock market, indicating how such bias stimulates the stock returns and stock market turnover. To conduct the study, we used quarterly data of trading volume, opening and closing prices of stocks listed in the MOEX blue-chip index, over the seven years from 2013 to 2020. The analysis conducts specific time-series analyses based on the Vector autoregression model, Granger causality tests. The results of empirical analysis have found that there is a strong lead-lagging effect between stock return and market turnover, which is facilitated by the overconfidence bias of investors about stock value.

**Keywords:** overconfidence bias, stock market, MOEX (Moscow Exchange), VAR, Granger causality, Unit root test.

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*

# Determinants of NPL: Evidence from Russia and Kazakhstan

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## **ABSTRACT**

Nowadays all countries in the world are experiencing unprecedented consequences of the COVID-19 pandemic, including Kazakhstan and Russia. Besides the future economic and financial growth the economic situation in these countries is causing more and more fears. One of the main indicators of the financial stability of the banking sector is credit risk, which is defined by the level of Non-Performing Loans. Furthermore, the purpose of this article is to identify factors influencing Non-Performing Loans (NPL) in the economies of Kazakhstan and Russia from 2014 to 2020. We study which indicators have the main impact on the level of NPL by focusing on both macro-variables (Exchange Rate, Unemployment Rate and Gross Domestic Product) and micro-variables (Net Interest Margin, Return On Asset, and Return On Equity). We're looking at quarterly data including the COVID-19 pandemic. In this article, the Ordinary Least Square (OLS) method was used to analyze the quarterly data for the variables we mentioned above. Our results show that NPL and GDP are negatively correlated with each other, on the other hand, NIM has a positive dynamic with NPL. We believe that nonperforming loans are at a level that is suitable for banks as long as the economy is stable and banks are profitable.

*Keywords: COVID-19, Non-Performing Loans (NPL), Exchange Rate (EXCH), Unemployment rate (UNEMP), Gross Domestic Product (GDP), Net Interest Margin (NIM), Ordinary Least Square (OLS)*

## **Introduction**

Nowadays all countries in the world are experiencing unprecedented consequences of the COVID-19 pandemic, including Kazakhstan and Russia. Financial organisations and institutions, as central banks, are having a challenging time to ensure further economic stability. One of the main indicators of the financial stability of the banking sector is credit risk, which is defined by the level of Non-Performing Loans (NPL's). Typically, the loan is considered as a non-performing loan if it has not made any scheduled payments for more than 90 days overdue, under the loan agreement. Once a loan is listed as non-performing, it must stay in that category, before principal payments are received or written off. The quality of problem loans is a widely discussed topic because it is always associated with bank failures. We are also willing to make a research for this topic but in terms of our project scope.

The purpose of this article is to identify factors influencing Non-Performing Loans in the economies of Kazakhstan and Russia from 2014 to 2020. Furthermore we examine which indicators have the main impact on the level of NPL by focusing on both macro-variables (Exchange Rate, Unemployment Rate and Gross Domestic Product) and micro-variables (Net

Interest Margin, Return On Asset, and Return On Equity). We're looking at quarterly data including the COVID-19 pandemic. In this article, the Ordinary Least Square (OLS) method was used to analyze the quarterly data for the variables we mentioned above. Our results show that NPL and GDP are negatively correlated with each other, on the other hand, NIM has a positive dynamic with NPL. We believe that nonperforming loans are at a level that is suitable for banks as long as the economy is stable and banks are profitable.

### **Background of the banking sectors, especially in Kazakhstan and Russia**

The main problem with NPLs is that impaired assets, affecting the vulnerability of the banking sector, increased as a result of the COVID-19. This problem debt affects the entire banking industry and becomes a major obstacle to its further development. This is due to the fact that the accumulation of problem loans can lead to the banking crisis. Thus, it is important to control the total volume of non-performing loans in the economy, as the banking sector could weaken due to a lower ability to lend, which may soon affect the country's economic and financial stability. In this aspect, bank management and financial authorities strive to keep the number of NPLs low in order to create a stable financial system.

The banking sector of Kazakhstan and Russia is constructed as a two-tier system, the first is the central bank, the second is commercial banks. The central bank acts as a supporting and regulatory body for monetary policy. In addition, the central bank controls the activities of credit institutions, also issues and revokes their licenses for banking operation. However, in most countries central banks act as the main regulator of the entire financial machine, the National Bank of Kazakhstan in 2019 announced amendments to the legislation that creates a separate autonomous regulatory body to oversee capital markets, in connection with which the National Bank focuses on monetary policy and inflation management. And the second tier consists of 442 commercial banks in Russia, as well as 28 commercial banks in Kazakhstan, according to the central banks of both countries.

According to information provided by the central banks of these countries, the banking sector of Kazakhstan began to accumulate problem loans from the first quarter of 2014, and the peak of problem loans in the banking sector of Kazakhstan was in the second quarter of 2014. For some time Kazakhstan was among the leaders in the world in terms of the volume of non-performing loans to the economy. In comparison with Russia, where the NPL ratio is floating in the range not more than 10%. Finally, to solve the problem with problem loans, the NBK set a limit for problem loans at 10%.

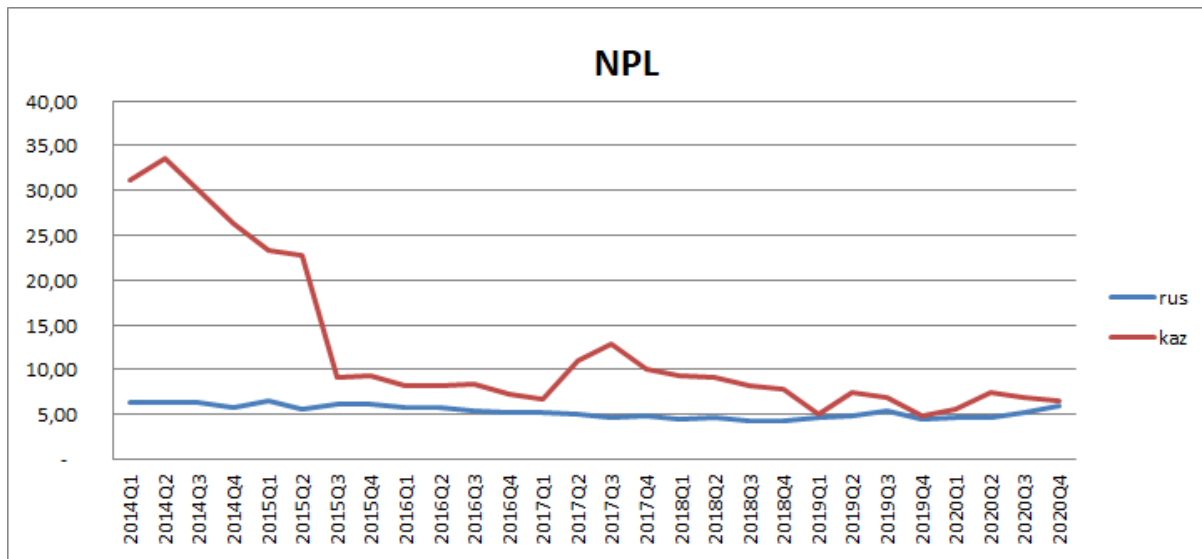


Figure 1. Dynamics of the non-performing loans in the banking sector of Kazakhstan and Russia; Source: Author's calculations based on the data from the central banks.

In addition, we can notice a tendency for interest rate decline from the beginning of the year, but not all countries followed that trend. As you can see from Figure 2, most of the leading countries are declining their interest rates, except Kazakhstan.

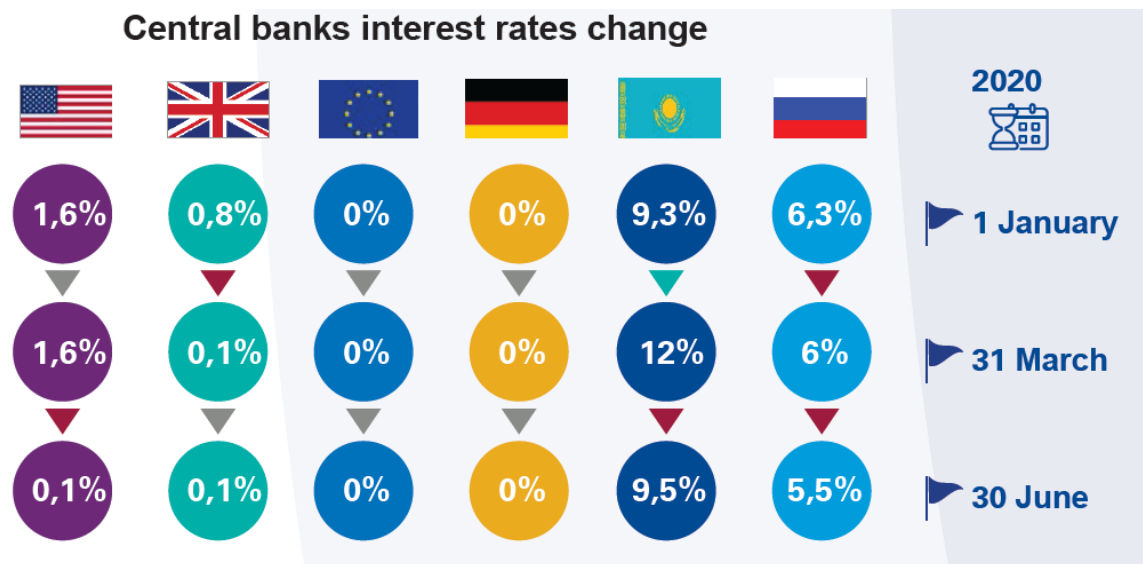


Figure 2. Change of interest rates across the world leading economies. Source: KPMG report.

Furthermore, in the Figure 3 and Figure 4, provided by the Committee of Statistics, the Ministry of National Economy of Kazakhstan and International Labour Organization(ILO), in Kazakhstan 4.6 million people lost their jobs during the pandemic and also in Russia there are 4 million people became unemployed during the COVID-19. The governments of those countries have introduced some anti-crisis measures, such as the extension of preferential lending schemes, tax and credit holidays, and the payment of social benefits to help residents.

The sharp drop in demand has hurt both small and large businesses, potentially heralding further bankruptcies and an increase in bank problem loans.



Figure 3. Unemployed Population in Russia from 2008 to 2020. Source: International Labour Organization(ILO)

The research is divided into four chapters, the purpose of which is to provide answers to the research questions and the research objectives outlined above. The second chapter provides a literature review, which provides an overview of various works in interest rate spreads and non-performing loans. The third chapter describes the research method used in the research and describes the model specification along with the data description. After the data has been analyzed, you will receive a detailed report and a detailed discussion of the research results. The fourth chapter summarizes the main findings of the document and suggests further extensions for future work.

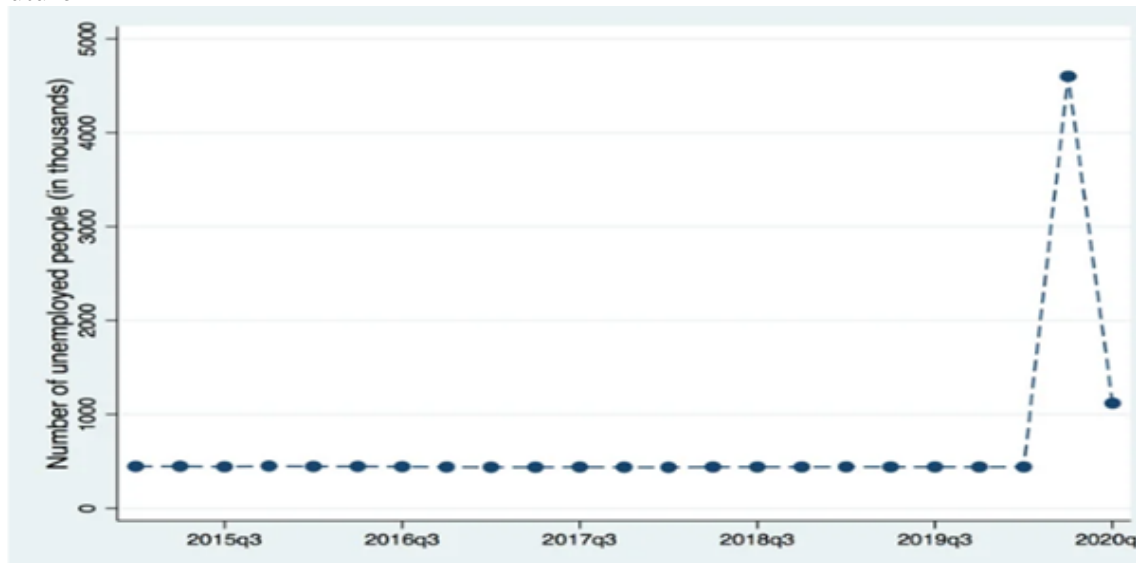


Figure 4. Unemployed Population in Kazakhstan from 2015 to 2020. Source: Committee of Statistics, the Ministry of National Economy of Kazakhstan



The main problem with NPL's is that impaired assets, affecting the vulnerability of the banking sector, increased as a result of the COVID-19. This problem debt affects the entire banking industry and becomes a major obstacle to its further development. This is due to the fact that the accumulation of problem loans can lead to the banking crisis. Thus, it is important to control the total volume of non-performing loans in the economy, as the banking sector could weaken due to a lower ability to lend, which may soon affect the country's economic and financial stability. In this aspect, bank management and financial authorities strive to keep the number of NPLs low in order to create a stable financial system.

### ***Literature Review***

The problem of non-performing loans is relevant for any country, depending on the level of economic development. There are essentially two types of broadly cited determinants of NPLs in the literature - macroeconomic and microeconomic. Macroeconomic factors are typically associated with economic activity. Additionally to economic activity, macroeconomic variables provide monetary measures such as lending and exchange rates. Microeconomic variables commonly include financial indicators and ratios. This chapter will review the theoretical and empirical literature on research concepts. The chapter is organized in the following order. Subsection 2.1 - macroeconomic variables. Subsection 2.2 is bank-specific variables, Subsection 2.3 is both bank-specific and macroeconomic variables.

### **Macroeconomic variables**

When assessing the sensitivity of NPLs to macroeconomic variables, Nkusu (2011) investigates the determinants of non-performing loans in 26 developing countries from 1998 to 2009. Also, complementary methods are used to explain the relationship between problem loans and macroeconomic variables. Initially, they start by looking at the macroeconomic causes of bad loans using regressions, and they come to the conclusion that negative macroeconomic patterns are related to increasing NPL. Furthermore, they use a PVAR approach to examine the responses between Bad loans and its macro - economic variables. They conclude that decline in macroeconomic variables such as economic growth and unemployment has resulted in a rise in non-performing loans. Also Messai and Jouini (2013) examined the determinants of non-performing loans for 85 banks in three countries Italy, Greece, and Spain from 2004 to 2008. They discovered that GDP growth rates are negatively linked to NPLs, while bank profitability and unemployment rates are positively related. In addition, Škarica (2014) identified the factors that influence non-performing loan (NPL) improvements in seven Central and Eastern European countries. Inflation and unemployment rates had a significant impact on NPLs, however real GDP growth had a negative impact in such countries, according to the study.

### **Both macroeconomic and bank-specific variables**

The second part of the literature review focused on macroeconomic and bank specific determinants of NPLs. In their study of the Greek banking system, Dimitrios Louzis, Angelos Vouldis, and Vasilios Metaxas (2011) used macro - economic and bank-specific variables to explain different types of non-performing loans. They use GDP growth, unemployment and real interest rate as a macroeconomic variable, as well as for specific bank variables such as return on equity and asset size. They assume that strong bank management success leads to less NPL.

Particularly, they observed that highly leveraged banks have more non-performing loans based on their size. Also, Vardar and Özgüler (2015) in their study of non-performing loans of Turkish banking sector between 2007 and 2013. The analysis was supported by the fact that a variety of macro - economic and bank-specific variables influence credit efficiency. They found that there is a strong and long-term relationship between problem loans, macroeconomic variables and factors specific to the bank. At the same time, short-term significant correlations are few and far between, and where they occur, they are mostly indirect. In addition, Salas and Saurina (2002) explored how macroeconomic and bank-specific variables affect the volume of non-performing loans in their analysis of the Spanish banking system from 1985 to 1997. They use variables such as, GDP growth rate, size, portfolio composition, net interest margin, and capital ratio to explain credit risk. They found that the size of the banks has a negative effect on the amount of non-performing loans.

### **Bank-specific variables**

The third part of literature on the determinants of non-performing loans includes studies that analyze the determinants of banking using the same model. Allen Berger and Robert DeYoung (1997) examined the relationship between the bank capital, cost efficiency and credit quality are tested by using the Granger-causality approach. They showed, in particular, that low cost productivity is correlated positively with the amount of NPLs. They conclude that the growth in non-performing loans is the result of low capitalization. Their findings are mixed on whether researchers can account for problem loans when predicting production. In addition, in her analysis of non-performing loans in the Chinese banking industry, Zheng (2012) used optimal control theory to construct a model based on previous research. She discovered that the theory of optimal control cost of bank loans is calculated by microeconomic factors but affected by macroeconomic factors. Also, Fofack (2005) examined the factors of nonperforming loans in African countries. He mentioned that exchange rates, actual interest rates, net interest margin, and inter-bank loans all play a role in understanding variation in NPLs in Sub-Saharan Africa

### **Research Methodology and Data**

As it was mentioned in previous chapters the aim of this study is to define what factors are making impact on NPL accumulation. How this research was conducted and what kind of data was gathered we are going to describe in the following part.

### **Methodology**

This project is focused on Ordinary Least Squares (OLS) regression analysis method. OLS type of analysis is widely used in econometric studies. This technique also helps to estimate the correlation effect between multiple independent variables and dependent variable and to determine uncertainty in the variables. Once the variables are exogenous, the OLS estimator is stable and the errors are homoscedastic and serially uncorrelated, it is optimal in the category of linear unbiased estimators, according to the Gauss–Markov theorem. OLS approach is based on the additional premise of the natural distribution of errors. If the errors have finite variance, the OLS method gives an unbiased mean with minimal variance in these scenarios. Since we have multiple explanatory variables, we use multivariate OLS regression, while bivariate OLS regression has only one independent and one dependent variable.

In this article, we utilize a statistical method called panel data analysis, which assists to analyze data using two-dimensional panel data (usually time and cross-sections). The regression analysis for these two dimensions can then be easily performed. There is one dependent variable (y) and multiple independent variables in the common panel data regression analysis (x). While there are hypotheses in econometrics whether the element is randomly chosen or not, it is important to use the error expression. In this scenario, the data differ stochastically, so we use a random effect model. There are many benefits to using panel data. One of them can be used to visualize specific predictions and associations within factors. At the time of this release, we have quarterly data on the determinants of NPLs, so panel data is a suitable predictive approach over time. There is a contrast between cross-sectional data and time-series data, so longitudinal data can detect shifts in variables over time. In addition, panel data analysis is helpful to reduce econometric problems such as multicollinearity and heteroscedasticity.

## **Data**

We looked for sources with historical performance of key factors used in our regression model. Governmental statistical agency sources were used to gather most of macro-economic variables. For example: for Kazakhstan – Finreg.kz, nbk.kz and Stat.gov.kz; for Russia – Rosstat.gov.ru and International Labor Organisation. Bank specific variables were gathered from Bloomberg sources.

In the beginning of the research we tried to focus on more variables, but could not build a proper model with appropriate level of confidence. After all, we have chosen quarterly data for Kazakhstan and Russia countries for following variables:

**LNPL** - Non-Performing Loans to gross loans (%) - Credit risk

**NIM** - Net Interest Margin - Net interest margin/total assets

**EXCH** - Real Effective Exchange Rates Based on Manufacturing Consumer Price Index

**LGDP** - Logarithmic value of growth of Gross Domestic Product

## **Results**

In this part of our project we are going to explore the main objective of the research.

Thus, to perform the aim of this project we are going to look into the results of the regression analysis. It's vital to perform statistical checks: is it in accordance with all assumptions, is there any errors, deviations

## **Correlation coefficient**

The correlation coefficient is an econometric measure of how strong a linear relationship is between two variables. The correlation coefficient is calculated by dividing the covariance of two variables by the product of standard deviations. The range of the values is between -1.0 to 1.0. and the numbers which are greater or less than this interval means that there is an error in the calculation of the correlation coefficient. A correlation coefficient which is approximately 0.0 means that there is no correlation between two variables. In the table below we have a symmetric correlation coefficient  $\text{corr}(X,Y) = \text{corr}(Y,X)$ . The number, which is close to 1 implies that there is a perfect positive relationship between two variables

```
. correl LNPL NIM EXCH LGDP
(obs=56)
```

	LNPL	NIM	EXCH	LGDP
LNPL	<b>1.0000</b>			
NIM	<b>0.6765</b>	<b>1.0000</b>		
EXCH	<b>0.3631</b>	<b>0.8238</b>	<b>1.0000</b>	
LGDP	<b>0.3613</b>	<b>0.3248</b>	<b>0.3441</b>	<b>1.0000</b>

```
. estat vif
```

Variable	VIF	1/VIF
EXCH	<b>3.18</b>	<b>0.314733</b>
NIM	<b>3.13</b>	<b>0.319344</b>
LGDP	<b>1.14</b>	<b>0.876283</b>
Mean VIF	<b>2.48</b>	

The results of the correlation coefficient study are shown in the table above. As we can notice from the table, the result shows that exchange rate is positively correlated with net interest margin and equals 0.8238. Furthermore in the above table, the correlation between LNPL and net interest margin is 0.6765 which means there is a positive weak relationship between these two variables. The rest of the variables have a less correlation effect with each other.

## Regression analysis

```
. regress LNPL NIM EXCH LGDP
```

Source	SS	df	MS	Number of obs	=	56
Model	<b>1.78681186</b>	<b>3</b>	<b>.595603952</b>	F(3, 52)	=	<b>27.72</b>
Residual	<b>1.11720067</b>	<b>52</b>	<b>.021484628</b>	Prob > F	=	<b>0.0000</b>
Total	<b>2.90401253</b>	<b>55</b>	<b>.052800228</b>	R-squared	=	<b>0.6153</b>
				Adj R-squared	=	<b>0.5931</b>
				Root MSE	=	<b>.14658</b>

LNPL	Coef.	Std. Err.	t	P> t	[95% Conf. Interval]
NIM	<b>.2295416</b>	<b>.0304627</b>	<b>7.54</b>	<b>0.000</b>	<b>.1684138 .2906694</b>
EXCH	<b>-.0088942</b>	<b>.0020802</b>	<b>-4.28</b>	<b>0.000</b>	<b>-.0130684 -.00472</b>
LGDP	<b>-4.370395</b>	<b>1.873141</b>	<b>-2.33</b>	<b>0.024</b>	<b>-8.129127 -.6116634</b>
_cons	<b>-8.714139</b>	<b>3.743651</b>	<b>-2.33</b>	<b>0.024</b>	<b>-16.22632 -1.201953</b>

$$LnNPL_{it} = -8.7141 + 0.2295NIM_{it} - 0.00889EXCH_{it} - 4.3703LGDP_{it}$$

The parameter equations inform us the relationship among independent variables and dependent variables. This parameter analysis shows that decreasing the independent variables by one leads to a decrease in the LNPL score. In the regression analysis, the sign of the coefficient shows us the direction of the dependent variables. The minus sign in the independent variable means that the decrease in the independent variable. Furthermore, p-values show us the statistically significance of each variable in the sample and these results are also applicable in larger populations. Parameter estimates show us the relationship between the independent variables and the dependent variable. As can be seen from the table above, the p-values of these parameters are less than 5% of the significance level. Hence, the parameters are statistically significant.

## **Conclusion and Recommendations**

### **Conclusion**

Our project study observed the results of key factors influencing NPL in Russia and Kazakhstan. And the results we have received show us that most of variables are behaving according to expectations: exchange rate and GDP has negative relationship with NPL. Except NIM, it is behaving positively in line with NPL. Our understanding makes us to assume that even when the NPL amount is accumulating in banks, they are performing with profit. We assume that it can be explained by following factor: that in countries of this study the limitations set by central banks for NPL amount are low, so they are forced to write-off or create the provisions for those loans. It avoids of accumulating the NPL in banks.

### **Recommendations**

The study approach was not perfect as we met a lot of obstacles in building appropriate regression model. The recommendations for further researchers are next:

Before choosing the variables obtain the time horizon for your study. We took quarterly data to look not only for previous year of Covid-19 pandemic. We assume that further researches will be conducted later, and you still can choose quarterly data covering the Covid-19 crisis. We hope that later research will give more wide-ranged vision for this issue.

Be careful in choosing variables as they may reflect each other. For example: through correlation. In this study we noticed that GDP is very wide ranged variable and is more useful on large scale of time horizon. On the other hand this was a key indicator for these countries to look overall on economy.

Be prepared that macroeconomic may create some troubles while conducting statistical tests.

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# **The impact of fintech innovations and financial standards on bank performance in Kazakhstan**

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## **Abstract:**

This research paper aims to analyze and find the impact and influence of implementation of financial technologies and financial innovations into the banking system in Kazakhstan. Confirmation of hypothesis test is expected. As it follows, the world is now experiencing a quickly developing era of technologies. For that reason, business and banking sectors of all countries can observe new invention called “financial technologies”. Kazakhstan is also one of the countries that has implemented this tool. These innovations might lead to the country’s growth and help to separate strong and weak institutions, such as banks. This paper is about to determine the data related to online banking system users and the influence of it on the work of usual banks in Kazakhstan. Next, the main research method is search of data on official statistical web pages of Kazakhstan. Additionally, due to lack of the necessary information there will be conducted an online survey among Kazakhstani online banking users. Based on this data, hypothesis will be tested. Overall, this research might serve as a rich source of information for those who wants to know about the implementation of fintech in Kazakhstani banks and its influence.

Keywords: fintech, financial technologies, financial innovations, business sector, banking sector.

## **I. Introduction**

Nowadays people are experiencing a new era of technologies, including financial technologies (fintech) in the banking sector and capital market.

Fintech is a tool of inventive data and mechanization technology in financial aspects. For instance, the invention of ability to pay almost everything via mobile applications, smartphones, smartwatches and so on. It might bring more cost-effective products to financial and banking sectors. But fintech might also have enough strength to destroy the financial intermediaries (Vives, 2017).

In Kazakhstan, fintech grown more strongly than in other countries of Central Asia. For Kazakhstan, the e-commerce market is \$2143.4 million, while it is only \$643.9 million in Uzbekistan, \$162.8 million in Kyrgyzstan and \$54.7 million in Tajikistan (KPMG, 2020).

Kazakhstan may become a financial center for the Commonwealth of Independent States (CIS) in the long term (Kobadilov, 2020). Kazakhstan’s economy is preparing for the new wave of innovation.

This paper will study the influence and possible outcomes of using financial technologies in Kazakhstani banks.

The research objectives are to study existing financial technologies in Kazakhstani banks; to identify whether fintech is an opportunity or a threat; and, last but not least, to recommend policies for bank industry.

This research project is valuable because the implementation of financial innovations and technologies have a strong relationship with the banking industry.

## **II. Literature Review**

Nowadays the world is experiencing quickly developing era of technologies. This can be related to almost every field, and banks are not an exception. Business and banking sectors of all countries can observe new invention called “financial technologies”. Kazakhstan is also one of the countries that has implemented this tool. These innovations might lead to the country’s growth and help to separate strong and weak institutions, such as banks. Hence, all along this research paper there is a term “fintech”, nonetheless there is not a clear definition for this term. Despite the fact, it can be represented as a new method where technology can be converted into new financial services (Thakor, 2020). Furthermore, at the end of the XXI century, the transformation of the financial services market began. This has been underpinned by the emergence and development of new ways of delivering products and services and the creation of new financial institutions that remotely offer customized financial services using digital technology. By applying a new business model to the activities of financial companies, the "approach" to the supply of financial products is called "fintech" and is a combination of two words: "financial technology" (Golikava, 2020).

As Iskandar (2019) described, FinTech is not a banking service provider, but it is a new business model that is very helpful for people's needs these days. The services offered by fintech companies generally help the community conduct financial transactions without having to have an account like a bank. As a result, communities don't have to use their personal identities for financial transactions. FinTech is not a financial institution like a bank but is regulated by a central bank to protect consumers and the public. Therefore, fintech companies need to register with the central bank or the Financial Services Authority. Fintech organizers are based in this country and can be used by the community.

Since the 2008 financial crisis, the dynamics of the global the economy was characterized by weak growth, a decrease in investment and global trade, falling commodity prices, unconventional central bank monetary policies and growing uncertainty political perspectives. Kazakhstan being a small open economy with high dollarization was influenced by global economic trends. In this regard, the analysis of aggravated competition in international capital markets and banking capital in particular.

Moving forward, Kazakhstan is a country located in Central Asia. In this way, it could serve as a connecting state between China and Europe, the two largest economies in the world (Kubadilov, 2020). In addition, Kazakhstan has large areas, low population density, and traditional banking services (Shostova and Blagoev, 2018). Considering the Kazakh economy, we can see that these are all fundamental and important conditions that contribute to the growth and development of the FinTech market. According to Lygina (2017), in May 2017 there were 33 banks with a total book value of 1.24901 trillion KZT. In this context, Kazakhstan is a gateway to less developed regional markets such as Eastern Europe and Central Asia, many of which do not have bank accounts.

The fintech market in Kazakhstan has great potential. According to ranking.kz the current population with an internet connection is 98%. This is a high and cheap level of technical development. For comparison: worldwide this mark averages 55%.

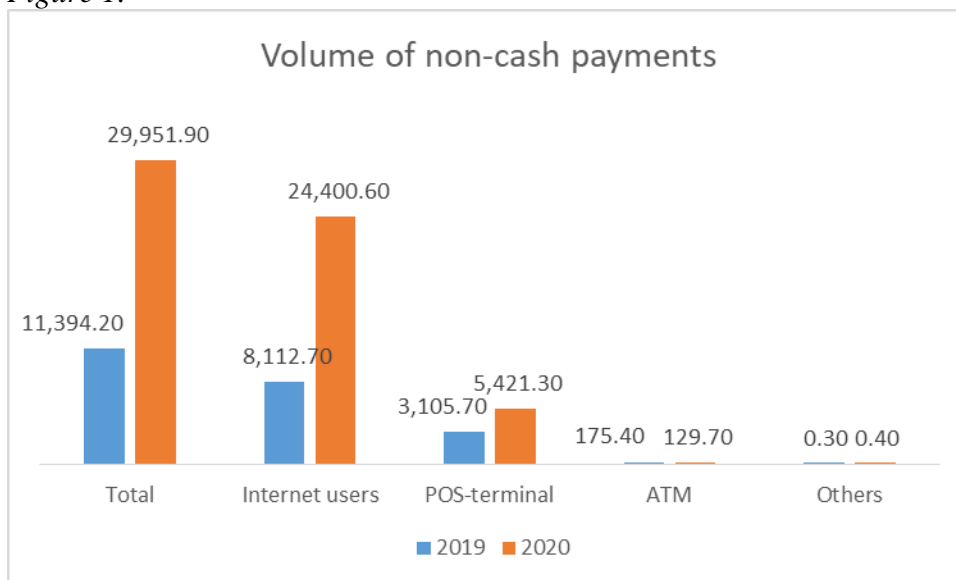
Significant strides have been made in the development of the FinTech market in recent years, and the COVID-19 pandemic has accelerated this process. Today Kazakhstan is a leader in developing financial technology markets in Central Asian countries. According to ranking.kz the number of debit cards in circulation is 46.8 million units, an increase of 46.7% over the past five years. Today, every active Kazakh citizen has an average of 5 bank cards.



In addition, the development of electronic commerce and lending has resulted in a significant increase in domestic non-financial transactions. As ranking.kz mentions the number of cashless payments in the first eleven months of 2020 reached 30 trillion. This is more than 2.5 times the same period in 2019. At the same time, 81.5% of cash transactions were not reported as cash settlements. I did it online. Today, almost all banks in Kazakhstan offer remote services, and the number of Internet banking users has increased to 27 million (18 million years ago), an increase of 51.6% over the previous year.

Digitization brings financial services directly to consumers in terms of greater inclusion, better access to services, lower costs and shorter trading hours. The introduction of a digital interface increases the opportunities for interaction between financial service providers and consumers and increases competition in the financial markets.

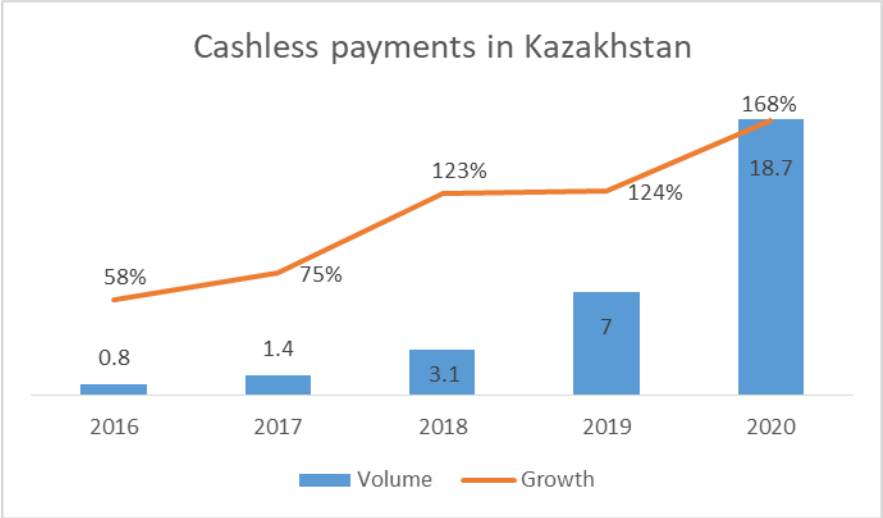
Figure 1.



According to ranking.kz

As it follows, according to businessmir.kz, internet and mobile transactions in Kazakhstan have risen for more than 80% compared to usual card payments. For instance, in Almaty and Nur-Sultan there are 77 and 72 tenge of cashless payments out of 100 tenge of card payments. Furthermore, from January to August 2020, the amount of cashless debit card payments in the territory of the Republic of Kazakhstan was \$ 18.7 trillion, 2.7 times more than it was the same period last year. Moreover, the proportion of non-cash payments rose from 40.1% to 64.2% during the year.

Figure 2.



Based on data of National Bank of Kazakhstan

Moving forward, according to data presented by KPMG in 2020 there are huge amounts of investments in financial technologies all over the world. This data can be seen in the Figure 3 below.

Figure 3. Total global investment activity (Venture Capitalist, Private Equity, Merger and Acquisition) in Fintech, 2017-2020 years



Moving forward, as Kaparov (2018) notes, the Kazakhstani government is improving banks' access to innovations in cash payments and expanding their network infrastructure. Serious barriers to accessing poor financial infrastructure and services include restrictions in Kazakhstan, expensive financial services, poor financial infrastructure, and low trust in financial institutions. According to a 2014 study, around 40% of adults who do not have a bank account in Kazakhstan cite distrust of the bank as one of the main obstacles to opening an account. DemirgüçKunt (2018) adds that in other parts of the world the lack of money to open an account has been cited as the main reason for not having a bank account. The use of financial technology has made banks an excellent tool for making it easier for small and medium-sized businesses to access finance.

Furthermore, today the financial markets experience such innovative banking products and services as “fully digital payments” (mobile and online payments, local and cross-border), digital wallets that help optimize the cost of transactions for customers, automate sales and create new products, seamless multichannel increase loyalty, financial planning and so on. Additionally,

there are some operations that are in progress: money transfers from one card to another; commercial products for banks, including migration to the cloud for an accounting of borrowers and issued loans; innovative programs for managing deposits and loans; innovative programs for managing trading accounts for the Forex market, brokerage companies and so on.

The development of the financial technologies in the country can be viewed and judged only on real life examples. For instance, this year in Kazakhstan, Home Credit Bank JSC launched a program for issuing online loans without visiting a bank. SB Sberbank JSC is developing the SberCredo crowdfunding platform in test mode. Product marketplaces are actively integrated into the mobile applications of Kaspi Bank JSC and ForteBank JSC, which allow making purchases remotely. JSC "Kaspi Bank" introduced Kaspi-automat - an innovative device that will allow you to purchase a personal Kaspi Gold card and a monochrome version of this card in a few minutes without involving bank managers (Margatskaya, 2020).

Furthermore, on April 23, 2020, the Kazakhstani Center for Interbank Settlement (KISC) of the National Bank of the Republic of Kazakhstan launched the IDC (Identity Exchange Center) service, which enables remote identification of a person using the biometric method in a test mode (Margatskaya, 2020). With this service, secondary banks can carry out personal identification in order to issue various services such as payment cards, grant loans, open a bank account and make deposits to ensure the completeness of customer data. The Kazakhstani Center for Interbank Settlement has official access to photos from the Kazakh face database and is currently the only provider of biometric identification. This helps reduce the risk of fraud in financial transactions.

Additionally, as it was described by Margatskaya (2020), the main regulators of financial markets in Kazakhstan are the Financial Markets Supervisory Authority and the National Bank of Kazakhstan. Most of the licensed participants in the financial markets are covered. At the same time, a network of various stakeholders is built into the market architecture, whose activities determine the spread and development of new digital financial technologies.

However, the advent of financial technology could have a negative impact on the banking sector. According to Bakulina (2018), the main risks arising from the impact of financial technologies are divided into strategic, operational, outsourcing, cyber and compliance risks.

In this regard, the strategic risk increases: potential risk to income and capital due to wrong management decisions and improper implementation of decisions made, the risk of a reduction in the profitability of individual banks. Existing financial institutions lose a significant portion of their market share or profit as new providers innovate more efficiently and offer cheaper services that better meet customer expectations. Current conditions of declining profitability due to the loss of profitable customers or decreased profitability can reduce the ability of operational organizations to predict future business cycles.

Likewise, cyber risks: risks of data and financial theft - means that new technologies and business models can increase cyber risks if controls are not keeping pace with technology changes (Bakulina, 2018). Increased connectivity market participants can create benefits for banks and consumers while increasing their risks. Stronger dependence on the programming interface, cloud computing, and other technologies that enhance interoperability market participants can make the banking system more vulnerable to cyber threats and expose danger large volumes of confidential data. This confirms the need for banks and fintech companies to use the latest developments in building their business in the field of mobile payments, online lending, digital instant transfers and other breakthrough technologies, to promote effective management and control of cyber risks.

What is more, liquidity and source volatility risk financing: the risk that the company, considered solvent, does not have sufficient financial resources, - the use of new technology allows customers to switch from one savings account to another for greater benefit, thereby increasing volatility deposits, which may lead to increased risk liquidity for banks.

In addition, with the development of financial technologies there is a possibility of unemployment growth. Thus, rising unemployment will lead to a reduction in households' ability to consume and accumulate the wealth. Therefore, the gap in the level of income between highly and low-skilled workers will cause a further increase in property inequality, create new challenges for the social protection systems of states, and increase the burden on the state budget in terms of spending on social policy.

As there are existing some problems related to unfaithful possibility of use of personal data caused by financial technologies, this led to creation of some solutions. Thus, in order to reduce the existing risks in banking sphere, there were created some solutions, such as use of an integrated identification system, check the reliability of the bank's customers and then enter the biometric parameters. Moreover, Russian IT-specialists have invented the project called "Finnet". This project has been launched to develop remote processing and individual storage technologies to reduce the number of intermediaries involved in developing and selling financial products and services (Allenykh, 2020). In other words, the world is fighting cyberattacks under certain conditions in the banking sector.

Moving forward, some authors point out the advantages and disadvantages of the invention and implementation of Fintech that the following trends in the development of the financial industry are not yet clear. Fintech companies offer many innovations, including innovative financial products, but the traditional banking position remains very stable. There are many reasons for that. First, financial technology companies, banks, and other traditional financial institutions that lack financial literacy and offer low-risk products can offer their customers a wider variety of products. When a bank loses FinTech due to flexibility, FinTech is inferior to the bank in terms of service. Traditional banks are still important, fintech structures also have operational areas, and perhaps the most common business model is the integration of traditional and fintech-oriented business models (Nikonov, 2018).

According to the author Iskandar (2019) who has conducted the research study and shared the results of his study. The results of this study suggest that the experience is influenced by social attitudes towards the use of fintech systems. Thus, social attitudes towards the use of financial technology (fintech) include attitudes, interests, perceptions, motivations and expectations. Leveraging society's attitudes towards fintech will benefit fintech innovation in Indonesia. It is very beneficial to the public and the public interest in using fintech has been shown as a result of the interview. Ten respondents are interested in using it. The use of fintech is more efficient and effective than other financial services. Hence, the public understands the benefits and uses of fintech, and people are encouraged to use fintech. And the common people hope that the fintech community owners will simplify and facilitate socialization and service and that they will be available to those who do not understand the technology.

Overall, FinTech is changing the entire banking industry. This method changes the time and place where financial goods and services are offered and creates new conditions for the interaction between banks and FinTech companies and customers. As a result of FinTech development, not only market participants but also observers and observers ensure network stability and security, financial stability and protection. It causes problems for consumers. By

eliminating FinTech risk from banks, a new financial industry will be created in which FinTech will be considered.

To sum up, many of the authors provide the definition of the “financial technologies” term. Moreover, they name positive and negative sides of the use of fintech by banking sectors all over the world. Despite, there was no information particularly related to Kazakhstani case. Thus, there is no data about how exactly does the fintech affects the bank performance in Kazakhstan. Moreover, there has to be provided the correlation between use of financial technologies and the level of economy (either growth or decline).

In other words, this research paper is about to study the affection and correlation of financial technologies to banking sector and the economy of Kazakhstan.

### III. Research methodology

To begin with it is important to list once again the research objectives of this paper. This paper aims to study the influence and possible outcomes of using financial technologies in Kazakhstani banks. The research objectives are following:

1. to study existing financial technologies in Kazakhstani banks;
2. to identify whether fintech is an opportunity or a threat;
3. last but not least, to recommend policies for bank industry.

Finally, this section – Research Methods – will provide the details of the research strategy adopted to address the research issues identified above.

The purpose of this research is to set up a Hypothesis and to test it empirically. Hence, the hypothesis is following:

H0: There is no significant impact of Fintech innovations on Kazakhstani banks.

H1: There is significant impact of Fintech innovations on Kazakhstani banks.

Moving forward, as there is a need to determine the impact of fintech and online banking tools implementation into banking system of Kazakhstan. Thus, it can be analyzed the impact of financial innovations and technologies on their profitability performance by using the following panel data model:

$$Z_{it} = \alpha_{it} + \gamma Z_{it} + \beta_1 Hold_{it} + \beta_2 POS_{it} + \beta_3 ATM_{it} + \beta_4 OnlB_{it} + \varepsilon_{it},$$

Where:

$Z_{it}$  - banking system ROA (return on Assets) or ROE (returns on Equity) of Kazakhstan in terms of profitability,

$Hold_{it}$  – the number of people that hold bank cards in the country,

$POS_{it}$  – the number of POS terminals in the country,

$ATM_{it}$  – the number of ATMs in the country,

$OnlB_{it}$  – the number of people that use online banking system in Kazakhstan,

$\alpha_{it}$  – equation constant,

$\gamma$  – persistency coefficient,

$\varepsilon_{it}$  – error term.

All in all, the necessary data is going to be taken from official web pages of Kazakhstan such as: [www.statgov.kz](http://www.statgov.kz) and statistics from National bank. Nonetheless, due to lack of the necessary data about online banking users there is a need to conduct an online survey to fulfill the gaps in this field. The data collection process is going to be conducted in one stage and last for more than one month. I am going to manage online survey with 200 participants. Each questionnaire contains 10 open-ended and multiple choice questions. The survey took less than 5 minutes to answer the questions.

This chapter has provided the rationale and operational details of the research methods and strategy used in the paper. It has also addressed the limitations of this research and illustrated the approaches used to minimize potential criticisms.

## V. General Discussion

Nowadays the banking sectors all over the world experiencing the new era of technologies – especially financial technologies. Shortly it is called FinTech. As the involvement of fintech into banks is growing there is a necessity to find out its impact on the banking systems. As well, it is crucial to see if it has some positive influence on banks in Kazakhstan. Nonetheless, there are some issues caused with the implementation of the financial innovations and technologies, such as: cyber-attacks, data theft, errors in the mobile applications and online banking systems and so on. On the other hand, the positive affection of fintech on banking sector is the possibility of growth of all types of legal businesses in the country. Moreover, this innovation allows people to save their own time and do not go to the banks in order to get necessary information. This is because nowadays people can simply use online banking systems. Next, this paper contains data of conducted studies of other researchers from all over the world.

This will help readers to compare the situation in the bank sphere in Kazakhstan and in other countries. Moving forward, the hypothesis test. It is crucial to find out if the research objective of this paper is positively tested or not, Hence, the hypothesis of this paper is following: is there significant impact of implementation of fintech on Kazakhstani banks or not. For that reason, all the necessary data is about to be collected. Overall, it is crucial to see if the hypothesis test is confirmed or not.

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## **Determinants of Political Stability-The Empirical Study of Foreign Aid to the Former USSR states-Regression Analysis**

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### **Abstract:**

This study is an empirical analysis of different socio-economic and political variables influencing, or not influencing, political stability in countries. The major focus will be on receiving foreign aid from donor governments. The dataset has 198 observations on 12 nations over 10 years (1996-2016).

Key words: foreign aid, political stability, donor, government, assistance.

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*



# **IMPACT OF AIR POLLUTION ON INBOUND TOURISM IN KAZAKHSTAN: CASE STUDY OF ALMATY**

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According to World Health Organization (WHO), approximately 7 million people die every year from exposure to polluted air and around 90% of the world's population live in places where air quality levels exceed WHO limits. One of these places is Almaty. One does not have to be an expert to tell that there is a problem with air pollution in Almaty. Smog that arises every day is visible, smellable and even tangible when polluted particles land on fresh white snow. The literature on air pollution in Almaty is limited to health consequences of air pollution. This paper would examine how air pollution in Almaty affects tourists' decision to visit Almaty and determine how much city of Almaty loses in terms of possible revenue due to those decisions. Why is it important? City administration turns blind eye on this issue. Opinions of experts, environmentalists and international organizations are ignored. Solving the problem of air pollution is expensive. But in a long term not solving it will cost more. More research on economic impact of air pollution must be done in an attempt to persuade city administration and bring positive policy changes. That is why my research is valuable.

## **Objectives and rationale**

Prior research has focused on how mass tourism affects environment. For instance, we have seen how tourism has been polluting once crystal-clear waters of Bali. However, little has been said about the impact of pollution on tourism. Does pollution affect tourists' decision to visit the place? If so, how much potential revenue is lost due to those decisions? In this sense, this research will be unique and is likely to bring fruitful results in terms of information regarding economic impact of air pollution on tourism. Not only this research contributes to current environmental literature, but also it encourages positive policy changes both on local and national levels.

The purpose of this research is to measure the economic impact of air pollution in Almaty on inbound tourism. Following research objectives would facilitate the achievement of this aim:

1. To determine economic revenue from inbound tourism in Almaty for the last 5 years
2. To determine low and high seasons of tourism in Almaty
3. To determine factors that affect decisions of tourists to visit Almaty
4. To determine the importance of air pollution factor in tourists' decision to visit Almaty
5. To measure potential lost tourism related revenue due to air pollution in Almaty

## **Research Problem**

In recent decades, increasing urbanization and haphazard urban planning has led to erosion of Almaty's otherwise green space, giving way to a proliferation of tall buildings that have disrupted natural ventilation patterns, thus trapping polluted emittances produced by the ever-growing number of vehicles and coal-fueled private residencies in the downtown. Between 2003 and 2018 population of Almaty city has increased by 50%, making it the most populated city in Kazakhstan with 1,800,000 inhabitants. During the same period number of registered vehicles showed a tenfold increase and now comprise of 530,000 city vehicles and 300,000 transit

vehicles<sup>1</sup>. Independent measurements of PM 2.5 - an air pollutant, which includes both solid microparticles and tiny droplets of liquids - during almost the whole of January 2020 (except for a few days when it was snowing in the city) recorded significant air pollution, exceeding the maximum allowable values set by WHO by several times, however city administration turns blind eye on this issue<sup>2</sup>. Air pollution incurs economic costs. Namely, the adverse effects of air pollution on tourism has received an increasing attention. Pollution disrupts the development of tourism by evoking negative psychological states in tourists, reducing aesthetics of destinations, harming the customer experience and eventually decreasing demand. Thus, this paper will examine the economic impact of air pollution on tourism in Almaty.

### **Theoretical framework**

This paper utilizes the theory of tourism demand. It is worth mentioning that there are two major approaches to analyze tourism demand. Tourism economists mainly consider an economic framework to measure demand. That is to say easily quantifiable factors such as income in country of origin, travel cost, substitute prices of alternative destination determine the demand. Consumer aims to maximize utility of the choice within the given budget constraint. Tourism demand then can be defined as a function of the direct price of a visit to Almaty, inflation rates in Almaty, income of tourists' home country, prices of competing tourist destinations and alternatives. By adapting this tourism demand theory, environmental factors such as air quality in Almaty could also affect price of visit to Almaty for incoming tourists and eventually having impact on demand. Even though various quantifiable variables have been thoroughly examined through different econometric models, some argue that traditional demand theory does not explain the social-psychological context of tourism decision making<sup>3</sup>. Adepts of this approach consider subjective factors such as tourist perception, emotion, context, motivation and involvement in choosing the next destination. However, the ultimate selection highly depends on economic factors, mainly on a budget constraint.<sup>4</sup> Stabler explain this as follow: "Though motivations and preferences, in which images are embodied, are acknowledged as being important, they tend to be ignored by 'main stream' economists, because they are either assumed to be relatively stable and therefore do not influence the model, or are considered too complex to cope with."

### **Methodology**

Multiple regression analysis - OLS regression and Poisson regression - will be used to examine the impact of the air pollution on the inbound tourism in Almaty. In previous studies the tourism demand was usually measured by the number of tourists. Independent variables included income and relative prices. Environmental factors – in our case its air quality – were regarded as disturbance factors and usually constitute as dummy variables. In our study, the total number of tourists entering Almaty each month is the dependent variable. Independent variables are an

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<sup>1</sup> Урбанизация Алматы в картинках. <https://vlast.kz/gorod/28110-urbanizacia-almaty-v-kartinkah.html>. Accessed February 25, 2020.

<sup>2</sup> Чем дышит Алматы. Январь 2020 - Аналитический интернет-журнал Власть. <https://vlast.kz/gorod/37051-cem-dysit-almaty-anvar-2020.html>. Accessed February 28, 2020.

<sup>3</sup> Sinclair, M.T. and M. Stabler (1997), *The Economics of Tourism*, Routledge, London.

<sup>4</sup> *The Roles of Perceived Inhibitors and Facilitators in Pleasure Travel Destination Decisions—Seoho Um, John L. Crompton, 1992.* (n.d.). Retrieved April 13, 2020, from <https://journals.sagepub.com/doi/abs/10.1177/004728759203000303>

average per capita income index of the top six tourists contributing countries to Almaty, an air pollution disturbance factor, a seasonality index, the monthly consumer price index of Almaty and a trend value. More information about variables are presented below:

- **Number of tourists to Almaty (TOURIST).** This variable refers to the people who entered Almaty for the purpose of touring or sightseeing.
- **Monthly Trend (TREND).** The trend variable is included to monitor any sustained downward or upward movement in tourism demand unrelated to the other independent variables.
- **Haze Period(HAZE).** This is a dummy variable that takes the value of 1 for the months of the haze-related air pollution and zero otherwise. The haze episode usually occur with the onset of cold weather in Almaty – from November to April.
- **Holiday Season (SEASON).** This variable refers to the holidays season in Almaty and other countries which are important sources of tourists to Almaty. The summer holiday season for countries in the Northern Hemisphere is July and August. So, the seasonality dummy variable takes a value of 1 for the months of July and August.
- **Average Per Capita Income of Major Sources of Tourists to Brunei (WGDP).** This variable refers to the weighted average per capita income measure in US dollars of the top six tourist contributing countries to Almaty.
- **INFLATION.** This variable refers to the monthly inflation rate in Almaty by the changes in monthly consumer price index is included as an independent variable to capture the effect of increase in domestic prices on tourism demand.

### Data sources

This study encompasses the period from January 2010 to January 2018, since most of the data are available during this span. Data will be collected from the Ministry of National Economy of the Republic of Kazakhstan Statistics committee, Kazakh Tourism National Company JSC, Visit Almaty, City Administration of Almaty.

### Literature Review

This is a case study of Almaty, however since Google Scholar and other academic search engines show zero results about the impact of air quality on tourism or vice versa this literature review mainly focuses on international experience. However, there are scientific articles about air quality in Almaty. For instance, Kerimray et al. estimated that exposure to polluted particles in the major cities of Kazakhstan causes 101 139 premature deaths annually and per capita mortality rate due to air pollution is almost nine times higher than in Europe<sup>5</sup>. Unfortunately, there is a huge research gap regarding the air quality and its socio-economic implications and future papers should address it.

Tourism is no longer “a luxury good” and as a result many people are travelling as ever before. According to The United Nations World Tourism Organization (UNWTO), there were just 25 million tourist arrivals in 1950. More than half a century later this number rocketed to 1.4 billion

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<sup>5</sup> Aiyngul Kerimray, Bulat Kenessov & Ferhat Karaca (2019) Trends and health impacts of major urban air pollutants in Kazakhstan, *Journal of the Air & Waste Management Association*, 69:11, 1331-1347, DOI: [10.1080/10962247.2019.1668873](https://doi.org/10.1080/10962247.2019.1668873)

international annual arrivals<sup>6</sup>. Prior research has indicated the existence of a reverse causality relationship between air quality and tourism industry – while activities that arise from mass tourism (e.g. flights, cruising, food service) alter air quality in destinations, air quality affects inbound tourism<sup>7</sup>. Numerous studies have examined the impact of tourism on air pollution. For instance, in the case study of the Mallorca island Saenz-de-Miera and Rossello have examined the impact of tourism on concentration levels of PM<sub>10</sub>. As a result, they have established that 1% increase in tourist numbers can result in 0.45% increase in PM<sub>10</sub> levels<sup>8</sup>. Azam et. al analyzed the effect of tourism on three ASEAN countries: Malaysia, Singapore and Thailand between 1990-2014. The findings conclude that increasing number of tourists contribute to higher CO<sub>2</sub> emissions<sup>9</sup>. Similar findings were reported in many other countries. Lenzen et. al have found that tourism accounts for about 8% of global greenhouse gas emissions in 2013<sup>10</sup>.

Despite huge amount of research concerning the impacts of tourism, a limited number of studies analyze the impact of air quality on tourism. Seaton et al. provides medical evidence to demonstrate how exposure to polluted air cause health problems<sup>11</sup>. Poor air quality not only negatively affects health of tourists, but also disrupts aesthetic enjoyment, which is crucial to tourist experience and overall satisfaction<sup>12</sup>. These two factors can determine the attractiveness of a particular tourist destination. Eusebio et al. systematically reviewed the literature concerning the impact of air quality on tourism industry: 26 papers were selected and, most of them (88 per cent) have been published in the past decade and mainly focused on China and Southeast Asia<sup>13</sup>. Zhu examines how air pollution affects tourism in Beijing and travel choices of its residents. Results show that for most of dwellers, air quality has an impact on their decision to travel and transport type used – more than 80 per cent of the respondents are not satisfied with travelling during smog – younger people under the age of twenty being more reluctant to travel on hazy days<sup>14</sup>. Zhang et al. using questionnaires determined that air pollution affects tourists' choice of destinations, departure time and their decision to come back in future<sup>15</sup>. Hill et al. did similar research for White Mountain National Forest, NH (USA) and found that the visibility is indirectly proportional to the number of visitors. Bohm and Pfister analyzes tourists'

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<sup>6</sup> Roser, M. (2017). Tourism. *Our World in Data*. <https://ourworldindata.org/tourism>

<sup>7</sup> Dong, D., Xu, X., & Wong, Y. F. (2019). Estimating the Impact of Air Pollution on Inbound Tourism in China: An Analysis Based on Regression Discontinuity Design. *Sustainability*, 11(6), 1–18.

<sup>8</sup> Saenz-de-Miera, O., & Rosselló, J. (2014). Modeling tourism impacts on air pollution: The case study of PM<sub>10</sub> in Mallorca. *Tourism Management*, 40, 273–281. <https://doi.org/10.1016/j.tourman.2013.06.012>

<sup>9</sup> Azam, M., Alam, M.M., & Hafeez, M.H. (2018). Effect of Tourism on Environmental Pollution: Further Evidence from Malaysia, Singapore and Thailand, *Journal of Cleaner Production*, 190, 330-338.

<sup>10</sup> Lenzen, M., Sun, Y.-Y., Faturay, F., Ting, Y.-P., Geschke, A., & Malik, A. (2018). The carbon footprint of global tourism. *Nature Climate Change*, 8(6), 522–528. <https://doi.org/10.1038/s41558-018-0141-x>

<sup>11</sup> Seaton, A., Godden, D., MacNee, W. and Donaldson, K. (1995), “Particulate air pollution and acute health effects”, *Lancet* (London, England), Vol. 345 No. 8943, pp. 176-178

<sup>12</sup> Rizzi, L.I., De La Maza, C., Cifuentes, L.A. and Gomez, J. (2014), “Valuing air quality impacts using stated choice analysis: trading off visibility against morbidity effects”, *Journal of Environmental Management*, Vol. 146, pp. 470-480

<sup>13</sup> Eusebio, C., Carneiro, M. J., Madaleno, M., Robaina, M., Rodrigues, V., Russo, M., Relvas, H., Gama, C., Lopes, M., Seixas, V., Borrego, C., & Monteiro, A. (2020). The impact of air quality on tourism: A systematic literature review. *Journal of Tourism Futures, ahead-of-print*(ahead-of-print). <https://doi.org/10.1108/JTF-06-2019-0049>

<sup>14</sup> Zhu, R. (2018), “Analysis on the impact of haze on Beijing residents' traveling intention and Decision-Making”, *IOP Conference Series: Materials Science and Engineering*, Vol. 394.

<sup>15</sup> Zhang, A., Zhong, L., Xu, Y., Wang, H. and Dang, L. (2015), “Tourists' perception of haze pollution and the potential impacts on travel: reshaping the features of tourism seasonality in Beijing, China”, *Sustainability*, Vol. 7 No. 3, pp. 2397-2414.

environmental risk perception in Australia and Bangkok. Findings suggest that tourists often perceive lower risks than residents, and their decision to visit polluted destinations are attributed to travelers' anticipated emotional response<sup>16</sup>. Law and Cheung confirm previous findings with their analysis of foreigners' perception of air quality in Hong Kong. Their findings show that air pollution in Hong Kong is not considered a problem when outsider tourists choose this country as a destination, but after their visit the air quality in Hong Kong was considered worse than in their home countries<sup>17</sup>.

Wu et al. found that good air quality yields positive travel satisfaction for Chinese drive tourists<sup>18</sup>. Peng and Xiao found that perceived risks due to smog in Beijing can trigger travel dissatisfaction for domestic tourists and also can negatively affect Beijing's image.<sup>19</sup> Another study tried to analyze the correlation between hotel review scores posted by travelers in Hong Kong and Singapore in three online platforms – TripAdvisor.com, Agoda.com, and Expedia.com – and smog occurrences. Findings revealed that serious prevalence of haze has a negative impact on online reviews<sup>20</sup>. Some studies show that air pollution can hurt destination's image. For instance, Becken et al. found that affective risk perceptions of air quality among Americans and Australians contribute to negative image of China<sup>21</sup>.

On a macro level air pollution decreases the number of tourists. For example, according to Anaman and Looi's estimations poor air quality conditions in 1997-1998 in Brunei caused about 28.70 per cent decrease in the number of tourists and B\$8m loss to local tourism industry<sup>22</sup>. Yan et al. found that  $SO_2$  has the largest impact on tourism demand, then follows PM 2.5,  $NO_2$  and PM 10<sup>23</sup>. The effect of air quality might also vary across the population. Lie et al. found that in China international tourists are less sensitive than domestic tourists<sup>24</sup>. The possible explanation could be an imperfect information: that is outsiders may underestimate or misperceive the air quality in China or may have no information about it prior to visiting. Moreover, it has been estimated that the impact of air pollution is at least four times higher on residents rather than

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<sup>16</sup> Bohm, G. and Pfister, H.-R. (2011), "Tourism in the face of environmental risks: sunbathing under the ozone hole, and strolling through polluted air", *Scandinavian Journal of Hospitality and Tourism*, Vol. 11 No. 3, pp. 250-267.

<sup>17</sup> Law, R. and Cheung, C. (2009), "Air quality in Hong Kong: a study of the perception of international visitors", *Journal of Sustainable Tourism*, Vol. 15 No. 4, pp. 390-401.

<sup>18</sup> Wu, M.-Y., Pearce, P.L. and Li, Q. (2018), "Chinese behind the wheel: factors affecting their satisfaction with international self-drive holidays", *Journal of Destination Marketing & Management*, Vol. 9, pp. 12-19.

<sup>19</sup> Peng, J. and Xiao, H. (2018), "How does smog influence domestic tourism in China? A case study of Beijing", *Asia Pacific Journal of Tourism Research*, Vol. 23 No. 12, pp. 1115-1128.

<sup>20</sup> Agarwal, S., Wang, L. and Yang, Y. (2018), "Blessing in disguise? Environmental shocks and performance enhancement", *ShanghaiTech SEM Working Paper No. 2018-012*, November. available at: <http://ssrn.com/abstract=1330752> (accessed 24 January 2019).

<sup>21</sup> Becken, S., Jin, X., Zhang, C. and Gao, J. (2017), "Urban air pollution in China: destination image and risk perceptions", *Journal of Sustainable Tourism*, Vol. 25 No. 1, pp. 130-147.

<sup>22</sup> Anaman, K. A., & Looi, C. N. (2000). *Economic Impact of Haze-Related Air Pollution on the Tourism Industry in Brunei Darussalam*. This study was sponsored by the University of Brunei Darussalam (UBD). We thank Kevin Ford and John Odihi for their comments of an earlier draft of this paper and the Academy of Brunei Studies, UBD, for granting permission to publish this paper. *Economic Analysis and Policy*, 30(2), 133-143. [https://doi.org/10.1016/S0313-5926\(00\)50016-2](https://doi.org/10.1016/S0313-5926(00)50016-2)

<sup>23</sup> Yan, L., Duarte, F., Wand, D., Zheng, S. and Ratti, C. (2019), "Exploring the effect of air pollution on social activity in China using geotagged social media check-in data", *Cities*, Vol. 91, pp. 116-125.

<sup>24</sup> Liu, J., Pan, H. and Zheng, S. (2019), "Tourism development, environment and policies: differences between domestic and international tourists", *Sustainability*, Vol. 11 No. 5, pp. 1390-1405.

visitors. It is also worth mentioning that air quality can be significantly affected by the air pollution in nearby regions<sup>25</sup>.

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<sup>25</sup> Deng, T., Xin, L. and Mulan, M. (2017), "Evaluating impact of air pollution on China's inbound tourism industry: a spatial econometric approach", *Asia Pacific Journal of Tourism Research*, Vol. 22 No. 7, pp. 771-780.

# Multidimensional Poverty in Central Asia: Current State and Perspective

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## Abstract:

This paper highlights the necessity of multidimensional approach to measure the poverty, not only income based one. The objective of this paper is to identify the determinants of multidimensional poverty in Central Asian countries: Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan; apply the Capability Approach to prove the deprivations of the most vulnerable group, and provide possible policy recommendations to remedy the situation.

Keywords: poverty, extreme poverty, multidimensional poverty in Central Asia, MPI, capability approach

## I. Introduction

The phenomenon of poverty has always been of great interest among social scientists. Targeting at eliminating poverty is a very important issue in many countries<sup>1</sup>, and is a trigger for economic growth and development. The conception of poverty is stated by the United Nations and signed by heads of all the UN agencies in June, 1998:

“Fundamentally, poverty is a denial of choices and opportunities, a violation of human dignity. It means lack of basic capacity to participate effectively in society. It means not having enough to feed and cloth a family, not having a school or clinic to go to, not having the land on which to grow one’s food or a job to earn one’s living, not having access to credit. It means insecurity, powerlessness and exclusion of individuals, households and communities. It means susceptibility to violence, and it often implies living on marginal or fragile environments, without access to clean water or sanitation”.<sup>2</sup>

The World Bank Group concluded that roughly 767 million people worldwide still remained in extreme poverty from over 80% in 1800 to 10% by 2015<sup>3</sup>. Half of them are children

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<sup>1</sup> CHAKRAVARTY, SATYA, and DEUTSCH, JOSEPH, and SILBER, JACQUES (2008) “On the Watts Multidimensional Poverty Index and its Decomposition”, World Development Vol. 36, No. 6, pp. 1067-1077, p.1067

<sup>2</sup> Indicators of Poverty & Hunger, Expert Group Meeting on Youth Development Indicators, United Nations Headquarters, New York, December 12-14, 2005

<sup>3</sup> The World Bank, “Poverty and Shared Prosperity 2016: Taking on Inequality”, p.4

under eighteen who are the worst off of all because the deprivations they suffer affect the development of their bodies and their minds, as UNICEF declared.<sup>4</sup>

Specifying the focus of the research, the author, on the one hand, intends to concentrate on the multidimensional poverty, which considers different aspects, rather than measure poverty in only one dimension – income space, which is quite lopsided.<sup>5</sup> This is worthy to study because it gives more integral picture of human's freedom deprivation. One of the criticism to rely only on income-space measurement, is that income aspect of poverty cannot always fully represent the freedom deprivation in such aspects as the access to water, electricity, toilet, or the years of schooling for the child – these are just other dimensions that should also be taken into consideration to get broader picture of the concept of poverty.

On the other hand, the unique contribution of this work reflects in the intention of the author to fill the research gap in exploring the multidimensional poverty in four Central Asian countries: Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan<sup>6</sup>, as no such secondary surveys have been conducted before. Certainly, there have been some researches on the separate countries as one of Kudebayeva and Janbauova (2017) on the multidimensional poverty in Kazakhstan, but none on the Central Asia<sup>7</sup>. The obvious rationale of such kind of research is the possibility of inter-country comparative analysis: to identify which factors affect the probability to be multidimensionally poor in one country, and which – in another/others.

Followed by the research focus, the overall research aim of this dissertation is to identify the determinants of multidimensional poverty in Central Asian countries: Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan; and provide possible policy recommendations to remedy the situation.

More specifically, the following individual research objectives are of crucial importance to help to achieve the above-mentioned aim:

1. *Identify* the multidimensional approach of measuring the poverty;
2. *Assess* the representative compositions of such vulnerable groups in Central Asian countries, using appropriate data and econometric analysis as tools;
3. *Explore* the factors that increase or decrease the probability of being in a multidimensional poverty through logit and probit binary choice models;
4. *Formulate* recommendations to remedy the state of the poorest of the poor to improve the social welfare of the Central Asian countries.

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<sup>4</sup> The World Bank, from <http://www.worldbank.org/en/news/press-release/2016/10/03/nearly-385-million-children-living-extreme-poverty-joint-world-bank-group-unicef-study>

<sup>5</sup> Sabina Alkire, Maria Emma Santos, (2013) "A multidimensional Approach: Poverty Measurement & Beyond", Springer, Social Indicators Research, Vol. 112, No. 2, pp. 239

<sup>6</sup> except from Turkmenistan, which along with Egypt, Jordan, Morocco and Tunisia is not presented in the survey Life in Transition, iii (2016) by European Bank for Reconstruction and Development, p.7. This survey has been taken as a data basis for the econometric analysis which will be covered in the Methodology section of the work.

<sup>7</sup> Alma Kudebayeva, Ainur Janbauova (2017) "Multidimensional poverty: An application to Kazakhstan", Central Asia Business Journal, Vol. 8, No. 1, pp. 5-25



The value of the research is supported due to several reasons. Firstly, in the Literature Review section the author critically evaluates the attitudes towards multidimensional measurement of poverty: the defect of income-dimension measurement, the significance of multifaceted approach. Secondly, the empirical analysis which is presented in the methodology is fairly original. However, one of the limitations of the study is the secondary analysis – the usage of already conducted survey of households - Life in Transition iii survey (2016) by European Bank for reconstruction and Development (EBRD). Another limitation of the work lies in the fact that among five Central Asian countries, only four are presented in this survey - Kazakhstan, Kyrgyz Republic, Tajikistan and Uzbekistan – except from Turkmenistan, which along with Egypt, Jordan, Morocco and Tunisia is not presented in the survey.<sup>8</sup>

Reverting back to the research aim of the work in identifying the determinants of multidimensional poverty in four of Central Asian countries, two empirical research objectives should be performed. Thereupon, through the statistical software STATA, secondary data is going to be analyzed in this section to evaluate those who are multidimensionally poor in Central Asia (*objective 2*); such econometrics binary choice models as *logit* and *probit* will be used to give the interpretation of marginal effects of being multidimensionally poor in Central Asia relying on the estimated evaluation of that vulnerable group of people (*objective 3*).

Moreover, the potential benefit of this work is to fill the gap in the existing research on Central Asia, indicating the most vulnerable group within society – caught up in multidimensional poverty – and pay attention of the society to the great necessity to take steps towards the eradication of that problem. Thus, this section will take this research further in providing the possible recommendations to fix the issue, accomplishing the last, but most demanding objective of this work (*objective 4*).

Empirical and theoretical *methodology* of the thesis includes comparison, analysis, synthesis, logical method, induction, observation and generalization, which altogether comprise the means by which the overall research aim will be achieved.

The usage of econometric tools will elucidate the current state of multidimensional poverty in Central Asia, identifying the determinants of increasing and/or decreasing the probability of being multidimensionally poor.

## **II. Literature Review**

In answering the question of what is multidimensional poverty, it should be referred to some important background literature. There are two objectives that are to be covered in this section. The first is to critically evaluate the advantage of multidimensional measurement of poverty compared to income-space measurement, and the background of developing particular indices of the measurement. The second one is to consider the Capability Approach as a tool to prove harsh freedom deprivations resulting from being multidimensionally poor, on the basis of which some policy recommendations can be given.

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<sup>8</sup> supra note p.2

However, it is quite demanding to give integrated, universally accepted definition of poverty. The interesting notion pointed out by Laderchi, Saith and Stewart (2003) in their joint article is that though *there is worldwide agreement on poverty reduction as an overriding goal of development policy, there is little agreement on the definition of poverty.*<sup>9</sup> The authors emphasize the absence of uniformity in given the definition of poverty due to diverse spheres it seizes – there is no much consensus of poverty being confined either only to material aspect of life, or to social, yet more to cultural or political. Indeed, poverty is a multidimensional phenomenon, which should not be conceived only as income inequality distribution among the population. In that case should an aggregate index covering the conglomerate of dimensions be developed, or could we simply use the monetary approach (measuring by income) as a proxy for measuring other dimensions?

Sen (1976) claims that there are two main problems one faces while measuring the poverty: identifying the poor among total population, and constructing an index of poverty using the available information on the poor.<sup>10</sup>

In the literature, the first problem has primarily been solved by using monetary method – identifying the poverty line and counting those who have the income (or consumption, or expenditures) less than determined poverty line – in that case they are classified as being poor. Until the 1970s, the poor were statistically identified solely on the basis of household income, adjusted to family size, relative to a specified income poverty line.<sup>11</sup> That meant giving a monetary value to the “minimum necessities for the maintenance of merely physical efficiency” (food, rent, clothing, fuel, light, etc.).<sup>12</sup> “Basic needs” approach has been developing, positioning that not only physical, but psychological needs are to be satisfied. Thus, Sen (1981) drew the attention of the “direct method” of poverty identification – the list of basic needs and minimum level of satisfaction. Thus, the human deprivation has been regarded in terms of shortfalls from minimum levels of basic needs *per se*, instead of using income as an intermediary of basic needs satisfaction.<sup>13</sup> It was eventually concluded that *income cannot be a proxy for non-monetary deprivations* while identifying poor.

Moreover, since the seminal work of Amartya Sen (1979, 1985, 1987), it is common to assert that poverty is a multi-dimensional phenomenon, a proposition that most economists accept in theory; yet in practice, the vast majority of empirical work on poverty uses a one-dimensional yardstick to judge a person's well-being, usually expenditures or income per capita or per adult equivalent.<sup>14</sup> The critique in paper of Duclos, Sahn, and Younger goes to the well-

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<sup>9</sup> Laderchi, Caterina, and Saith, Rudi, and Stewart, Frances (2003), “Does it matter that we don’t agree on the definition of poverty? A comparison of four approaches” Working Paper Number 107, University of Oxford, pp.41, p1

<sup>10</sup> Amartya Sen (1976) “Poverty: an ordinal Approach to Measurement”, *Econometrica*, No. 2, Vol. 44, p. 219

<sup>11</sup> UN, Development Strategy and Policy Analysis Unit, Department of Economics and Social Affairs (2015), “Multidimensional Poverty”, *Development Issue No. 3*, pp. 1-2

<sup>12</sup> Alkire, Foster, Seth, Santos, Roche, Ballon (2015), “Multidimensional Poverty Measurement and Analysis”, Oxford University Press

<sup>13</sup> UN, Development Strategy and Policy Analysis Unit, Department of Economics and Social Affairs (2015), “Multidimensional Poverty”, *Development Issue No. 3*, pp. 1-2

<sup>14</sup> Duclos, Jean-Yves, and Sahn, David, and Younger, Stephen “Robust multidimensional poverty comparisons”, *The Economic Journal* 116, pp. 943-968, p. 943

known Human Development Index (HDI) of the UNDP (1990), which uses *the weighted average of life expectancy, literacy and GDP per capita* – any such index requires a specific aggregation rule to sum up the components of the index which is arbitrary. Thus, as authors claim, two valid rules of aggregating may lead to two contradictory results of which group is caught up in higher multidimensional poverty. And to avoid this, authors apply multidimensional poverty comparisons to check whether the aggregation procedure is robust.

Tsui (2002) also highlights the advantage of multidimensional measurement compared to income approach, as well as Sen's critique of the headcount and poverty-gap indices of poverty.<sup>15</sup>

While many authors have agreed on the necessity to define poverty as multidimensional concept, there exist several (few) approaches in the literature to its measurement. For instance, Bourguignon and Chakravarty suggest that as an alternative way to measure multidimensionality of poverty is to specify a poverty line for *each* dimension of poverty and to consider that a person is poor if he falls below *at least one of* these various lines, and explore how to combine these various poverty lines into multidimensional poverty measures.<sup>16</sup>

We truly support the idea of Chakravarty, Deutsch and Silber (2008) which is directly followed from Bourguignon and Chakravarty (2003):

"However, the well-being of a population and hence its poverty, which is a manifestation of insufficient well-being, is a multidimensional phenomenon, income being only one of the many attributes on which the well-being depends".<sup>17</sup> Among these attributes well-nutrition, access to water, access to education, provision of public goods, and many other factors can be found. It is indisputable that due to high income many of such attributes become accessible, but not all, as in the case of public goods. Examples are flood control program and malaria prevention program in an underdeveloped country. (See Bourguignon & Chakravarty, 2003; Ravallion, 1996; Tsui, 2002).<sup>18</sup> Thus, it becomes evident that measuring poverty based only on one dimension – income space – becomes insufficient.

Thus, we have argued that poverty is to be regarded as multidimensional phenomenon, which follows from Sen's philosophic judgments of the application of capabilities and functionings, as well as from the fact that person's well-being has such dimensions that merely cannot be purchased despite the level of income he possesses.

One recently developed counting method, the Alkire-Foster methodology was adopted by the UNDP in 2010. Assisted by the Oxford Poverty and Human Development Initiative

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<sup>15</sup> Tsui, Kai-yuen (2002) "Multidimensional poverty indices", *Social Choice and Welfare*, Vol. 19, No. 1 (2002), pp. 69-93

<sup>16</sup> Bourguignon, Francois, and Chakravarty, Satya (2003), "The measurement of multidimensional poverty", *Journal of Economic Inequality* 1, pp. 25-49, p. 25

<sup>17</sup> CHAKRAVARTY, SATYA, and DEUTSCH, JOSEPH, and SILBER, JACQUES (2008) "On the Watts Multidimensional Poverty Index and its Decomposition", *World Development* Vol. 36, No. 6, pp. 1067-1077, p. 1068

<sup>18</sup> *Supra* note, p. 1068

(OPHI), UNDP used the approach to develop the global Multidimensional Poverty Index (MPI), which substituted its Human Poverty Index (in use since 1997).<sup>19</sup>

In the context of objectives of the work, the *Multidimensional Poverty Index* is to be used. It was introduced by Alkire and Santos for 104 developing countries. It was the first time that multidimensional poverty was estimated using household survey in a large number of countries, covering 78% of the world's population.<sup>20</sup> It is composed of ten indicators, classified according to the three following dimensions: health, education, and standard of living. Thus, MPI reflects deprivations in very rudimentary services and core human functionings.<sup>21</sup>

The MPI is as follows:

1. *Health* (each indicator weighted equally at 1/6)

- Child Mortality: If any child has died in the family
- Nutrition: If any adult or child in the family is malnourished

2. *Education* (each indicator weighted equally at 1/6 )

- Years of Schooling If no household member has completed 5 years of schooling
- Child School Attendance If any school-aged child is out of school in years 1 to 8

3. *Standard of Living* (each of the six indicators weighted equally at 1/18)

- Electricity If household does not have electricity
- Drinking water If does not meet MDG definitions, or is more than 30 mins walk
- Sanitation If does not meet MDG definitions, or the toilet is shared
- Flooring If the floor is dirt, sand, or dung
- Cooking Fuel If they cook with wood, charcoal, or dung
- Assets If do not own more than one of: radio, tv, telephone, bike, motorbike or refrigerator and do not own a car or truck.<sup>22</sup>

The formula for MPI is:  $MPI = H * A$ , where H standing for *the percentage of people who are MPI poor*, (i.e. deprived in at least one third of the dimensions) as well as the number of deprivations faced by the poor - A standing for *the average intensity of MPI*. Thus it reveals the incidence and intensity of poverty in a given region in a given time.<sup>23</sup>

Proceeding to the *Capability Approach* review, Sen, in his work "*Development as Freedom*", argues that development should not be regarded in view of GDP growth, of income evaluation, but in terms of *freedoms* people possess – human freedom is regarded as the objective, and economic measures – merely as the means to this objective.<sup>24</sup> Besides, he introduces the notion of development as the realization of freedom through abolishment of

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<sup>19</sup> UN, Development Strategy and Policy Analysis Unit, Department of Economics and Social Affairs (2015), "Multidimensional Poverty", Development Issue No. 3, pp. 1-2

<sup>20</sup> Sabina Alkire, Maria Emma Santos, (2010) "Acute multidimensional Poverty: A New Index for Developing Countries", OPHI Working Paper No. 38, Proceedings of the German Development Economics Conference, Berlin 2011, No. 3, pp. 139, p.1

<sup>21</sup> Supra note, p. 7

<sup>22</sup> Supra note, p.

<sup>23</sup> UN, Development Strategy and Policy Analysis Unit, Department of Economics and Social Affairs (2015), "Multidimensional Poverty", Development Issue No. 3, pp. 1-2

<sup>24</sup> Terjesen, Siri (2004) "Amartya Sen's Development as Freedom", Graduate Journal of Socil Science, Vol. 1, Issue 2, p. 344

“unfreedoms” (poverty, famine etc.)<sup>25</sup> The Capability Approach rejects monetary approach to measure the well-being, and defines poverty as the deprivation in the space of Capability Approach, or *failure to achieve certain minimal or basic capabilities*, where ‘basic capabilities’ are ‘the ability to satisfy certain crucially important functionings up to certain minimally adequate levels’.

In the light of the research aim of the work, at the end of the thesis some possible policy recommendations are to be generated. To perform this, let us consider Capability Approach as a tool to expand the capability sets of those who are in the multidimensional poverty.

This approach assessing the well-being in terms of the functionings a person possesses, that was firstly articulated by Amartya Sen, the Nobel Prize holder for the contribution to the social choice theory, in 1980s. In the context of the Capability Approach, the poverty should be treated as deprivation of the freedom of having a good life one values. Thus, the eradication of such deprivation should be regarded as the expansion of capabilities.

The core idea of that approach is that it focuses on the functionings of an individual – the so-called “beings and doings”.<sup>26</sup> Sen states that while evaluating the well-being, the emphasis must be taken on what they are able to be and capable of doing. “Beings” reflect in being clothed, being nourished, being educated, being a criminal etc. “Doings” can be presented as going to school, giving birth to children, killing animals, voting etc. Thus, the functionings (in form of “beings” and “doings”) formulate the capability sets (functionings that are available for a person to be chosen from).

The interesting idea which Sen promotes is that the fact that people possess the opportunity to achieve their functionings is of crucial importance, whether or not this opportunity has actually been used. Let us consider one example. Imagine there are two persons. The first has insufficient access to food, thus he is starving. The second, due to some religious factors, voluntary decides to take no meal within three days. Note that the result is the same in both cases – they do not eat. However, the first person did not choose to starve whilst another deliberately chose to fast. The process aspect of freedom matters – by what means did you get to the result. Therefore, both achievements (“functionings”) and freedom (capability to choose) should be considered.

Besides, one should note that such resources as books, or bicycles, or other goods are perceived as inputs and their value by themselves equals to zero. However, they do value if they are converted by an individual into functionings (being able to read, riding a bicycle etc.). Also, while using one’s functionings, some level of utility will be achieved.

But which functionings are essential, which do matter for achieving a good life – this question is still to be answered.

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<sup>25</sup> Supra note p.345

<sup>26</sup> Sen, Amartya “The idea of Justice” (2009), The Belknap Press of Harvard University Press, Cambridge, Massachusetts, pp. 468

Thus, in this work the author intends to use the MPI to evaluate the well-being of a particular group of people – Central Asian countries. This is reasoned by the Sen’s description of poverty as “capability deprivation” that does not allow individuals to achieve their functionings<sup>27</sup>.

The next stage of this work will be implementing Alkire-Foster approach, the MPI will be constructed by the author to measure the probability of being multidimensionally poor in four Central Asian countries. Even more, under the Capability Approach functioning vectors will be constructed to illustrate which are the deprivations of the most vulnerable, in the context of this work, group – multidimensional poor.

### III. Research Methodology

Reverting back to the research aim of the work in identifying the determinants of multidimensional poverty in four of Central Asian countries, two empirical research objectives should be performed. Thereupon, through the statistical software STATA, secondary data is going to be analyzed in this section to evaluate those who are multidimensionally poor in Central Asia (*objective 2*); such econometrics binary choice models as *logit* and *probit* will be used to give the interpretation of marginal effects of being multidimensionally poor in Central Asia relying on the estimated evaluation of that vulnerable group of people (*objective 3*).

This data is represented by Life in Transition iii survey (2016) conducted by European Bank for Reconstruction and Development (EBRD) in collaboration with the World Bank. It consists of the overview of 51,000 households in 34 countries which are mainly “transitional”. Besides, two prosperous countries German and Italy have also been included in the survey to draw the comparison between them and countries with transitory economy. LiTS iii, taking as a database to analyze multidimensional poverty, represents the third round where EBRD, among other things and with the reference to our research aim, intends to understand how transition affects the daily lives of people in the regions, as well as their satisfaction with life.<sup>28</sup> It is a combined household and attitudinal survey that collects information on the socio-economic status of respondents and includes perception-based questions on various economic, political and social topics<sup>29</sup>. In the third round of the LiTS the majority of “transition region” countries was observed to understand how transition is affecting daily lives of people in the region and how it shapes their views on issues such as democracy and the market economy, as well as their satisfaction with life and their hopes for the future<sup>30</sup>.

For the purpose and convenience of this work, four Central Asian countries have been chosen among 34 countries as the countries of observation. In STATA software all other countries were dropped manually. Questionnaire was downloaded to understand some significant independent variables that would have been chosen among the great variety of those presented in

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<sup>27</sup> Supra note p.346

<sup>28</sup> European Bank for Reconstruction and Development (2016), Life in Transition, iii, p.1

<sup>29</sup> European Bank for Reconstruction and Development (2016), Life in Transition, iii, p.7

<sup>30</sup> supra note p.1

the survey used simple sampling method. In the survey, in all households composed of at least two adult members of opposite genders, a primary and a secondary respondent were selected at random by the software<sup>31</sup>. In this project binary choice models logit and probit analyses, composed of dependent dummy variable (categorical) on the left side of the equations, as well as dummies (categorical) and continuous variables as independent ones on the right side of the equations, were used, in particular in comparison with each other, to estimate the probability of being multidimensionally poor.

The usage of econometric tools will elucidate the current state of multidimensional poverty in Central Asia, identifying the determinants of increasing and/or decreasing the probability of being multidimensionally poor.

The first step is to calculate the composition of vulnerable group that suffers from the deprivation of freedom in three main dimensions: health, education and living standards. Each of these dimensions consists of several components (or indicators), ten ones altogether.

### ***Data Description:***

Number of observations = 6,021 (Kazakhstan, Kyrgyz Republic, Tajikistan, Uzbekistan);<sup>32</sup>

Country	Freq.	Percent	Cum.
Kazakhstan	1,505	25.00	25.00
Kyrgyz Rep.	1,500	24.91	49.91
Tajikistan	1,510	25.08	74.99
Uzbekistan	1,506	25.01	100.00
Total	6,021	100.00	

Let us consider some essential basic human needs which were partly included in the composition of MPI applying to the selected group of investigation (four Central Asian countries):

Out of 6,021 households, 4,532 households do not have *access to central or district heating* (which is 75%):

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<sup>31</sup> supra note, p.7

<sup>32</sup> For the additional information, the author has earlier conducted another research named “*Determinants of poverty in Central Asia: econometric analysis*” with the supervision of prof. Alma Kudebayeva, where the same data has been taken as a basis. The distinct feature of that research is the limitation of the work - it has been presented in one-dimensional identification of poverty – income space, rather than taking two or more dimensions. However the striking results should also be mentioned here: out of 5,069 observations of the same four Central Asian countries, 694 households live under the poverty line set for each of these countries by the World Bank.

Access in the dwelling to central heating or district heating	Freq.	Percent	Cum.
-98	47	0.78	0.78
Yes	1,442	23.95	24.73
No	4,532	75.27	100.00
Total	6,021	100.00	

3,843 households do not have *access to pipeline gas* (which is 64%):

Access in the dwelling to pipeline gas	Freq.	Percent	Cum.
-98	38	0.63	0.63
Yes	2,140	35.54	36.17
No	3,843	63.83	100.00
Total	6,021	100.00	

2,114 do not have *access in the dwelling to the tap water* (which is 35%):

Access in the dwelling to tap water	Freq.	Percent	Cum.
Not Applicable	18	0.30	0.30
Yes	3,889	64.59	64.89
No	2,114	35.11	100.00
Total	6,021	100.00	

This table represents that 1,736 households are deprived *both of the tap water and the pipeline gas* in the dwelling:

```
. tab TAPWATER if PIPELINEGAS==1
```

TAPWATER	Freq.	Percent	Cum.
0	2,107	54.83	54.83
1	1,736	45.17	100.00
Total	3,843	100.00	

In turn, the following table represents that 2,028 households are deprived *both of the tap water and the heating* in the dwelling:

```
. tab TAPWATER if HEATING==1
```

TAPWATER	Freq.	Percent	Cum.
0	2,504	55.25	55.25
1	2,028	44.75	100.00
Total	4,532	100.00	

Finally, the last table indicates the group of 1,714 people that is deprived of *three aspects simultaneously: no access to tap water, to pipeline gas, and to the heating* in the dwelling:



```
. tab TAPPIPELINE if HEATING==1
```

TAPPIPELINE	Freq.	Percent	Cum.
0	2,818	62.18	62.18
1	1,714	37.82	100.00
Total	4,532	100.00	

### ***Running regressions***

The first failed attempt was to use the linear probability model. The problem of using this model is heteroscedasticity. Besides, the model was tested for the normality - disturbance term is not normally distributed. That results in the invalidity of the standard errors and test statistics – thus, in the invalidity of the whole model.

The first step will be to construct the dependant variable *MULTIPOOR* standing for “being multidimensionally poor”.

Moving on, we will run two non-linear binary choice model – *logit* and *probit*. We will regress the probability of being multidimensionally poor on the following independent dummy variables: marital status, urbanity status, gender, ethnicity; including the following independent categorical variables: education, age and household size to strengthen the fit of the whole model.

After running two regressions, the interpretation will be given not based on the coefficients, but on the marginal effects. Therefore, the significant determinants of being multidimensionally poor will be identified.

### **V. General Discussion**

It is evident that being multidimensionally poor affects every aspect of that people’s life consequently: depreciation in the minimum standards of living alone prevents from getting the decent level of life one values.

Besides, later in Methodology by introducing the *Capability Approach*, the author will provide some possible policy recommendations to expand the opportunity sets of the considered households to direct towards the enhancement of the welfare of that society.

Evidently, we are not capable of removing all the injustices in the world – and being in extreme poverty or, even worse, in a multidimensional poverty is an undeniable injustice – the willingness to achieve the perfectly just world is merely a utopia. However, what is in our hands is to detect at least one remediable injustice and, with reasoned scrutiny, suggest the possible way or ways of its removal. That would already be a valuable contribution, and that is what this paper, among other things, aims to – to concentrate on the unjust suffering of one particular group of people – four Central Asian countries – and, using a *Capability Approach*, to evaluate the well-being of that group. The next logical step is to give recommendations to expand their capabilities – the very set of alternatives to choose from for that vulnerable group of people – the well-being of a Central Asian society can be enhanced.

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# The Effects of Anorexia on Physical and Psychological Health

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## **Abstract**

The problem of anorexia nervosa has become increasingly important in recent years due to the increasing number of cases among children and adolescents. The aim of the study is to examine the current state of the problem of anorexia nervosa, its prevalence, possible consequences, and the impact of social networks themselves. Surveys and interviews were conducted for a more detailed study. It emerged that many people were concerned about their weight. Moreover, the longer the condition persists, the higher the risk of death for the patient. The main causes of death in anorexia are organ failure. Therefore, treatment depends on diagnosing the disease and its complications, motivating the patient and their relatives to pursue therapy and recovery. Anorexia is a serious, difficult-to-treat illness that requires the involvement of specialists and the support of parents and relatives.

**Key words:** Anorexia, Anorexia Nervosa, Cachexia.

## **Introduction**

“If you don't have a healthy relationship with food, eating can cause discomfort, guilt, conflicts with others, and even self-hatred”- was said once by Stephanie Watson, a writer who studies eating disorder. Therefore, there is a commonly held misconception that eating disorders are a lifestyle choice. That is far from true; eating disorders are severe and often fatal illnesses. I found that “Anorexia Nervosa has the highest mortality rate of any mental illness” (Arcelus, Mitchel, Wales & Nelson, 2011). Moreover, patients do not want to admit the presence of this disease, they are not aware of it and consider it a quite normal way of life. Since my acquaintance was anorexic and I saw it for myself, I want to research this topic. According to eating disorder statistics anorexia is a distributed problem that is killing more and more people an early age. The potential readers of the research paper are people who are familiar with this disease, people who are interested in this topic, students and adults.

In fact, people suffering from this disease exhaust their bodies by restricting food, which results in severe consequences for the psyche and physiology of the person. The majority (97%) of people who have been hospitalized for this pathology have multiple psychological and physical illnesses. For instance: mood swings, major depression, followed by anxiety disorders, obsessive-compulsive disorder, post-traumatic stress disorder, and substance use disorder (Eating Disorders: Journal of Treatment and Prevention, 2014). According to eating disorder statistics due to complications such as: organ failure, poor lung function, inability to fight infections 5-20% of patients die. Lindsay (2015) states Anorexics who are specifically induced to vomit usually suffer from bleeding, ulcers, and gastritis. This action also leads to swelling of the esophagus, which puts a strain on the stomach. The sufferer can be fatal if immediate medical attention is not given. In addition, Monica (2015) identifies that they are very often suffer from illnesses such as: amenorrhea (means the cessation of menstruation in women), anemia, ketosis (when the body digests body fat reserves), kidney damage/malfunction (most often due to dehydration), pronounced sensitivity to light and sound, yellow skin etc.

Consequently, the purpose of this research topic will be to write in as much detail as possible about the effects of anorexia on physical and psychological health. For example, how

they feel, what problems they face, feeling all these bad influences why they don't want to cure themselves, etc. Therefore, to clearly distribute the writing my following questions will help me would be: “1) Why do people between the ages of 12 and 25 fall ill with anorexia? 2) What are the consequences of this insidious pathology that manifests itself precisely in its later stages? 3) What psychological impact does anorexia have In the first dysmorphomaniac stage? 4)What are the physiological consequences of anorexia nervosa Phobia of external unattractiveness due to the presence of imaginary excess weight? 5) What should relatives do who notice the anorexic's strange behavior to prevent further aggravation of this disease?”

My friends and acquaintances who have dealt with this problem will participate in the study. As well as academic and medical articles, which will aid me to convey in more detail the seriousness of this disease. Moreover, I will use my personal connections, as my own aunt works in a hospital in a similar field. I assume that I would also do well to review all the movies on the subject. Besides, for writing this research topic, I will read books from anorexics themselves who have overcome this disease.

### **Literature review**

Anorexia is a illness characterized by an eating disorder. It affects psychological health and the normal functioning of the body as a whole. Even 30 years ago, anorexia nervosa affects about 2 - 3% of the world's population (Hoek, 2006;Johnston & Logan, 2008). However, according to eating disorder statistics (2016) already in 10 years the number of cases of anorexia has doubled. A rapidly spreading disease with a high rate of disease growth and severe consequences, requiring timely detection and treatment. Therefore, one of the main solutions to this problem will be the formation of effective systems of prevention and prevention of its signs at an early stage of manifestation. In addition, psychological and medical monitoring in post-rehabilitation period, help not only to the patient, but also his family. The causes of this disorder include biological, social and psychological aspects. By biological, we mean genetic predisposition. By the psychological aspects include internal conflicts and family influence. The social refers to the influence of the environment: imitation, society's expectations, fashion.

#### *Why do people between the ages of 12 and 25 fall ill with anorexia?*

Anorexia has become fashionable. Modern studies and statistics show a continuous increase in the number of patients with eating disorders, primarily anorexia nervosa and bulimia nervosa, which are based on fear of weight gain (Perre & Baumann, 2002). In the United States, between 2000 and 2006, the number of people hospitalized with eating disorders increased by 18% (Averett & Terrizzi,2013); by 2011, the total number of people suffering from eating disorders in the US was almost 30 million (Hudson, 2011). However, researchers talk about the conventionality of the data, because many cases go undetected, presumably only one in ten people who fall ill seek medical help (Averett & Terrizzi,2013). It is clear that people experience enormous pressure from society: advertising, fashion, the press, the opinion of people around them and doctors' recommendations make them strive to be thin. In itself, the desire to lose weight is not pathological: for the formed personality, losing weight is a means to expand the circle of its possibilities, namely to improve health, the desire to conform to their profession, fashion, their ideal. This goal can be achieved by adequate methods - a complete rational diet, sports, leading a healthy lifestyle, health and beauty procedures, active recreation. Nonetheless, it is at this age the psyche is not yet strong enough. Constant social pressure, imposing standards of appearance as an indispensable condition for success in life, affects them quickly and effectively. Many young people find it easiest to take the path of least resistance to success - that is, to lose

weight. Popular artists share their "super trendy" diets, the effect of which on the body is unknown. The first mentions of cases of voluntary refusal of food are in the writings of Avicenna. Following by, this phenomenon received eloquent names: the "disease of the century", "Twiggy syndrome". That was the name of the legendary British model of the sixties, who conquered the world by her fragility and introduced the universal fashion for thinness. Millions of girls rushed to adjust their sizes to her standards. Nevertheless, unfortunately, not many people know: what killed Twiggy was what once brought her worldwide fame. According to Jeannette (2019) , editor of the Social Science Encyclopedia Britannica she died at a young age from exhaustion. She also states that in 1988, this disease was called anorexia nervosa. In my opinion, the main risk factors for anorexia can be the following: lack of motivation to lead a healthy lifestyle, overweight, excessive emotional reaction to the information imposed by mass media, incompetence in matters of good nutrition.

*What are the consequences of this insidious pathology that manifests itself precisely in its later stages?*

This disorder has a huge impact on the human body. On the mental side, consequences may include depression, obsessive-compulsive disorders, suicidal tendencies, and impaired thought processes. Physiological complications seem to be more serious, since many of them are irreversible. These include, first of all, hormonal changes. Thus, according to the DSM-5 (2018) , patients with anorexia have the following problems such as anorexia affects the production of sex hormones - estrogen and dehydroepiandrosterone. Moreover, estrogen has a great influence on the health of the cardiovascular system (heart, blood vessels, capillaries) and the musculoskeletal system (bones, cartilage, etc.). Following by, dehydroepiandrosterone in turn plays an important role in the regulation of the cycle, the normal course of pregnancy, and inhibits the aging process in the body. There is no doubt that Anorexia has a negative effect on the production of thyroid hormones, which regulate metabolic processes in the body and are largely responsible for tissue and organ growth and repair. Moreover, heart disease is the most common cause of death in people with severe anorexia nervosa. From 80 to 90% of women with anorexia encounter such disorders as osteopenia - a loss of calcium in the bones, and 40% develop osteoporosis (loss of bone density). With anorexia, develops a mass of disorders of the gastrointestinal tract (cramping pain in the stomach, disorders of the normal activity of all organs of the digestive system, etc.), separately to understand each organ and its disorders in this article makes no sense, as it is the subject of more than one article. Therefore, we can say that, in general, there is a process of development of multiple organ failure (dystrophy of internal organs) and in the late and neglected stage of anorexia recovery of organs and tissues is practically impossible (Lindsey & Monica, 2013).

*What should relatives do who notice the anorexic's strange behavior to prevent further aggravation of this disease?*

When a person has feelings for a loved one suffering from an eating disorder, they feel sad, angry, and guilty before them and before themselves. Hence, is not to be trapped by these all-consuming emotions, lest they take away your last strength and plunge you into hysteria or anger and helplessness. Every person, who faced with such issue need to accept them and realize that everyone is entitled to these feelings. Live through them for a few minutes or hours, but then breathe out and start to move on to your loved one's support and help. Here some tips according to United Kingdom National Health Service (2021) what to do in this occasion:

1. It is necessary to observe the eating regimen. If your child is already hungry or does not want to eat, you need to be sensitive to this.

2. It is desirable to feed a child with eating problems in small portions. If a child does not finish the proposed portion, then you should not make a tragedy of this. Do not force your child to eat.
3. Remove any desserts from the table while your child is eating the main course. Total feeding time should not exceed 30 minutes.
4. Do not scold your child for throwing up at the table. Stop feeding immediately and switch to another activity.
5. Be careful with snacks: crackers, chips. In general, it is better to avoid these products, as it is not only chips that can spoil the appetite, but also juices, milk, fruit, which some parents give to children between meals.

In conclusion, Anorexia nervosa can be based on a variety of psycho-pathological phenomena. These include a morbid belief in obesity and dissatisfaction with one's appearance, pathological cravings such as an attraction to thinness. In an effort to "improve" their bodies they come to the point of absurdity: they develop "right eating" schemes with complete elimination of vital foods from their diet, eat on a special schedule. All this quickly leads to exhaustion up to cachexia and the development of pathological processes affecting a number of organs and body systems. Consequently, the desire to lose weight may be based on sociophobia and ideas of attitude, when patients feel that everyone in social networks is perfect except for themselves. Moreover, in the age of technological enlightenment, the new Z generation has been given access to a lot of information. Hence, young people are not always able to use it correctly, which may lead to tragic consequences. At all times information has brought both benefit and destruction to society. To level out the negative effects of information, it is necessary to bring it to young people in a form that is accessible to all. Therefore, in the fight against anorexia nervosa we can use the absentee warning, early identification and literacy about the problem. In addition, significant in solving this problem will be psychological support from relatives, and all kinds of help for those who are ill.

## **Data Collection Methods**

### *Introduction*

The main purpose of this questionnaire is to identify the characteristics of social networks as one of the factors of anorexia. In addition, I have correlated the process of anorexia formation in a person with the process of mediating the influence of social media. Consequently, to carry out research on the subject and draw conclusions. Also, I explain in detail the choice of research participants and present the data collection methods and their process.

### *Participants*

In this study, I interviewed a first-year student of KIMEP University, who is currently 18 years old. Moreover, a survey which was conducted online. This survey is open to anyone who wants to take part. There are no specific selection criteria, except for adequate thinking and sobriety. As for the interview, the same criteria, as this is the 21st century and we are all faced with the impact of social media on our self-esteem and how it can lead to anorexia. Only not many people realize this and it is very interesting to know their views without considering any other age or any other restrictions.

### *Data collections methods*

In general, two methods of data collection will be used: an interview and an online survey. I have chosen the interview to find out people's positions or to get their input on an issue that will be useful to me. The interview will be face to face. Essentially, the interviews will help me to identify people's beliefs about anorexia and their influences in general, which is part of the

purpose of my research. No doubt there will be a certain amount of freedom for the conversation as well as confidentiality in the event that false answers are avoided. In addition, during the interview if a topic of interest to me comes up that can help me to collect data, I can ask it right away, rather than in an online survey where you can't do this.

The second data collection tool would be an online survey. The purpose of a survey is to obtain data using the survey method - convincing and informative, expressive and evidentiary. Hence, the direct purpose of getting information on anorexia.

#### *Data collection procedure*

In the first stage, I plan to conduct an online survey in which all regretful social media users can participate, which would amount to a total of about 30-50 people. In order to avoid long and tedious questions and to save the respondent's time the survey consists of precise and clear questions. Hence, the survey will take 3 minutes to complete. After that, in the second stage, I will conduct an interview to develop and find out more about a person's self-esteem about weight and anorexia. In total, I plan to conduct two data collections, which will take about one week to review.

#### **Appendices:** Survey questions

Letter of Consent: Aruzhan Abishova



[Aruzhan.Abishova@kimep.kz](mailto:Aruzhan.Abishova@kimep.kz)

1. What is your age?  12-16;       17-21;     22-26;     27-31;     32-36;     37-41;
2. What is your gender?  male       female       other
3. What social media do you often use?
  - Facebook
  - Skype
  - Twitter
  - Instagram
  - Other
4. Do you think that frequent use of social media can cause weight-related complexes in people?  
(4-point Semantic Differential Scale)

*totally yes* \_\_\_:\_\_\_:\_\_\_:\_\_\_ *absolutely no*

5. Have you encountered complexes due to the propaganda of thinness in social networks?
  - Yes
  - No
6. If yes, what were the consequences?
  - Refrain from eating when you are hungry
  - Always counting calories
  - Feel guilty after eating
  - When you exercise, you think about the calories you've burned

○ **Hate your reflection**

○ **Other**

7. Do you try to avoid negatively affecting the perception of social media weight?

○ **Yes**

○ **No**

8. If yes, what are the ways?

(Category Scale)

\_\_\_\_\_ **motivate myself to appreciate what is real and unedited**

\_\_\_\_\_ **try to notice what I like about myself**

\_\_\_\_\_ **try not to go on social networks**

\_\_\_\_\_ **convince myself that inner beauty is more important**

\_\_\_\_\_ **Other**

## Results and Analysis

### *Introduction*

Anorexia is a rapidly spreading disease with a high growth rate and severe consequences, requiring timely detection and treatment. Therefore, these surveys and interviews were carried out to find out the main solutions to this problem, the causes, the signs at an early stage of manifestation. In addition, to find out the psychological and physical condition of young people today. as I mentioned earlier The causes of this disorder can be different. such as biological, social and psychological aspects. but mostly through this survey and learn how and why social influences of the environment: imitation, society's expectations, fashion lead to irreversible consequences.

### *Findings*

#### *Survey*

SurveyMonkey online survey design software was used to develop the survey for this study. Of all respondents to the survey, 35 completed all items and 3 respondents skipped some questions. Out of the total cohort almost all the students were freshmen, namely 30 of them, the remaining 5 were sophomores. All respondents were full-time students.

After the questions: "What is your age?" and "What is your gender?", the third question in this research was "What social media do you use often?" It was clear that the majority of respondents use social media like Instagram and tiktok. Specifically, absolutely all of the students who took part in the survey are users of social media platforms. However, 5% of respondents use Twitter, 68% of students use Instagram, 25% are frequent users of tiktok and the rest use watsap.

The next question - "Do you think frequent use of social media can cause weight-related complexes?" - was asked in order to get their views on this. It was found that 77.27% of students agreed with this, 18.18% were neutral and the remaining 4.55% disagreed completely.

Consequently, the next question - "Have you encountered complexes due to the promotion of thinness in social media?" - was asked in order to find out the impact of social media. It was clear that 57.14% of people have experienced it, while the remaining respondents have not.



The sixth question was "If yes, what was The Consequences?". Figure 1 clearly shows that the majority of respondents feel guilty after a meal and that's 32% of people. Another 27% of people hate their reflection in the mirror, followed by 20% who restrict their eating. The other 13% and 4% of people have not experienced this problem and often count calories. which is one of the signs of Anorexia.

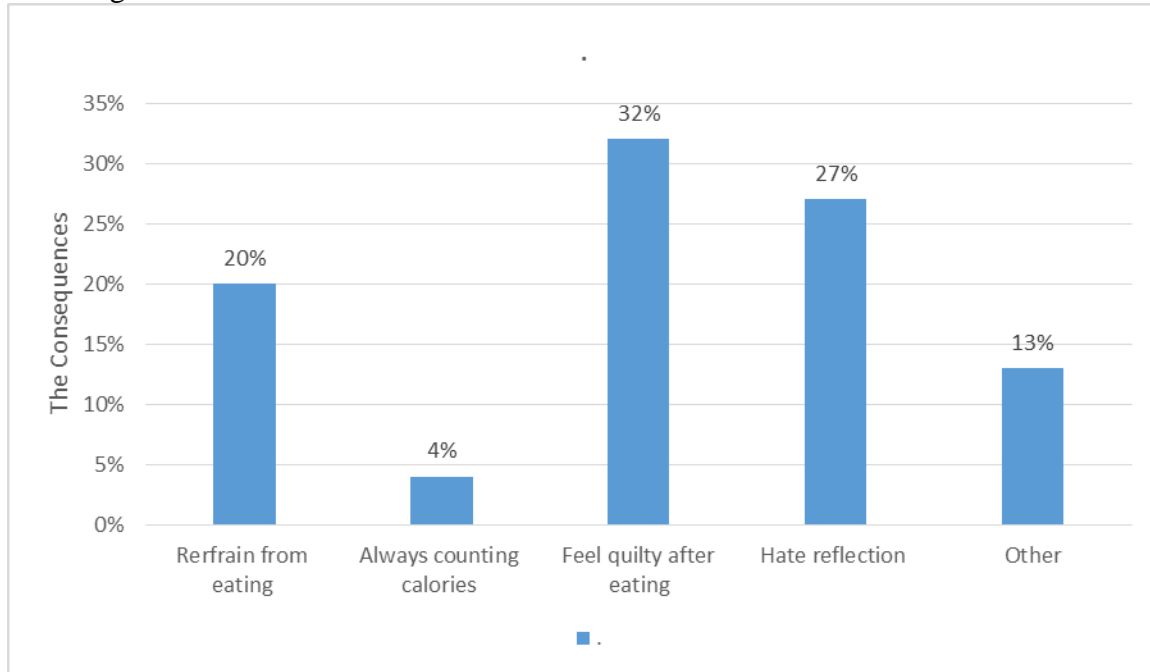


Figure 1. How the people surveyed feel after the meal in 2021.

The seventh question was "Do you try to avoid the negative effects of social media on weight perception?". 86.36% of people clearly struggle with this, when the rest answered no.

The final eighth question was "If yes, what are the ways?". 40% of People persuade and motivate themselves to appreciate what is real and not photoshopped, while the remaining 20% try to notice what they like about themselves. After that, 10% of people believe that inner beauty is more important than appearance, while 5% of students try not to use social platforms. Considering 25% of respondents who use but avoid toxic pages.

### ***Interview***

I interviewed Aruzhan Abisheva, a 1st year student. I thought it would be a good decision to interview her, as she is one of the minority of people who have faced some problems. As everyone knows looking at perfect bodies on Instagram more often than not one starts comparing themselves to them and stops eating. Hence, they become sad and may refuse to eat, or lead to completely different equally unfortunate consequences. Moreover, Aruzhan A. commented that "She has been deleting accounts from various social platforms for some time to avoid its influence". She also noted in an interview that "I think so, because sometimes a person just watches a video or photo that doesn't have a specific message related to weight, but without realizing it, a person may think too much about their weight by comparing it to the person in the photo". In addition, I already knew that social media actively promotes thinness. Consequently, this leads to a desire to lose weight immediately, instead of eating right, and leads to anorexia. But what surprised me the most was the information that there are various groups on social media for weight loss. As she described, "These people share their parameters, namely height

and weight. After which other people are known to find similar people and sit together on various unhealthy diets, which only has a negative impact". It has been hypothesized that the quarantine has also affected on self-esteem about weight, as it does for many people. She said that "Recently because of quarantine I gained weight and when I see pictures of skinny girls, I feel sad that I don't have that figure".

### *Conclusion*

The aim of the survey and interviews was to find out people's attitudes to the disease, how often it occurs, what causes and consequences anorexia has. The survey was conducted to find out how people view their weight and how they feel about the promotion of thinness on social media. Of all the respondents to the survey, 35 completed all the items. All respondents were full-time students. The data generally shows that most people agree that social media has a good and subtle influence on self-esteem on weight and face the same problem. For example, very often comparing themselves to ideal people on the internet and most often with dietary restrictions. However, some people do not agree with this viewpoint.

My some important research questions for this study are:

1. Do you think that frequent use of social media can cause weight-related complexes in people?
2. Have you encountered complexes due to the propaganda of thinness in social networks?
3. Does the thought of gaining weight scare you?
4. Do you refrain from eating when you are hungry(er)?
5. Do you have bouts of uncontrollable binge eating during which you cannot stop yourself?

Thanks to these questions I gathered all the information I needed for my research paper and they helped me without a doubt. Of course, there were some respondents who did not answer all the questions or just skipped some questions. I also asked the same questions in the interview, where Aruzhan gave good answers and even talked about her life story.

### **Conclusion**

The problem of anorexia nervosa has become increasingly important in recent years due to the increasing number of cases among children and adolescents. The aim of the study is to examine the current state of the problem of anorexia nervosa, its prevalence, possible consequences, and the impact of social networks themselves. Surveys and interviews were conducted for a more detailed study. It emerged that many people were concerned about their weight. Also, the longer the condition persists, the higher the risk of death for the patient. The main causes of death in anorexia are organ failure. Treatment depends on diagnosing the disease and its complications, motivating the patient and their relatives to pursue therapy and recovery. Anorexia is a serious, difficult-to-treat illness that requires the involvement of specialists and the support of parents and relatives.

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# Deconstructing a Role of Gender: Feminism in the International Relations

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## **Abstract:**

Gender and security have been studied separately under the influence of a predominant realism approach. However, after the Cold War, the value of military power and state individualism began decreasing due to the emergence of the Critical Security Studies, gender studies, the Copenhagen school and feminist movements. Consequently, this paper focuses on the importance of integrating the concepts of gender and security and of exploring them together. Moreover, the paper as well concentrates on the creation of the “weak gender” and “protection” myths and their influence on current world politics. Thus the paper is based on the secondary data, informative in type and raises thought-provoking arguments.

Keywords: gender studies, myth of protection, security and gender, feminism in IR

## ***I. Introduction***

For centuries, the role of women in international relations has been underestimated. In fact, according to Caroline Kennedy (2013), gender and security have been studied separately, in which security was highly concentrated on male protection, while women and gender questions were dismissed (p. 118). Gender studies were as well overlooked in the discussions about the state protection, wars and terrorism (Cohen, 2013 and Tickner, 2014). Nevertheless, with the emergence of the Copenhagen School<sup>1</sup> (Emmers, 2013) and after the Toronto Conference of 1994<sup>2</sup> (Mutimer, 2013), critical approaches prevailed in the theories of international relations, and gender studies along with feminism discipline became one of the predominant approaches in the Critical Security Studies (David, 2013; & Kennedy, 2013). Feminist and non feminist scholars of the Western world, thus, started focusing on the role of gender in the international affairs and peacemaking, in domestic politics and national economy (Kennedy, 2013).

Regardless, as argues Kennedy (2013) in the other parts of the world, women’s roles were mostly associated with nurses rather than with soldiers, as those who need protection rather than those who provide protection in war times and as victims rather than as bullies in peace times (p. 125-126). Thus, traditionally and historically, women were associated with weakness, in need for protection and were alienated from high politics, such as state, wars and security. Consequently, terms “gender” and “security” need to be re-explored and re-taught not only in the

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<sup>1</sup> Copenhagen School is a model presented by Barry Buzan, Ole Waever and Jaap de Wilde in the 1980s with the purpose of rethinking security, securitization and desecuritization concepts in theory and in practice.

<sup>2</sup> Toronto Conference was held at York University, Canada, in May 1994, under the title of *Strategies in Conflict: Critical Approaches to Security Studies* with the purpose of re-exploring security questions regarding state sovereignty and other possible referent objects and threats to them. The leading experts of the conference were Keith Krause and Michael Williams who proposed a book, *Critical Security Studies: Concepts and Cases* (1997b) and changed the worldview on security and threat concepts.

Western countries, but worldwide as well in order to break the common misconception of gender, women and security (Kennedy, 2013, p. 128). Moreover, due to the fact that gender and security are interconnected, the role of women in state security, wars and terrorism should be re-focused for better understanding of their nature, causes and consequences of security and gender (Cohen, 2013, Tickner, 2014, Bjarnegård, Melander, Bardall, Brouneus, Forsberg, Johansson, Sellstrom and Olsson, 2013). Consequently, in this paper, I will define what is understood by the concepts of “gender” and “security”, and I will focus on the emergence of feminism as a discipline in international relations. Thereupon, the purpose of the paper is understanding the interconnectedness of the concepts and their reexploration, which can be applied in the participation of women in low and high politics. Furthermore, I will demonstrate countries that used to be mainly patriarchal and their shift in gender roles, and its impacts on security as a whole. Lastly, I will conclude with the findings from the case studies and literature reviews, and recommendations for the less gender neutral countries given by feminist and non - feminist critical security scholars.

## **II. Literature Review**

In order to understand and accept the interconnectedness of security and gender studies, it is essential to be able to interpret and apply the concepts to current world politics. Hence in this section, security, gender and feminism in international relations as a discipline of study will be defined.

### **A. Security, gender and feminism in International Relations**

Definition of security is circumstantial, for instance, before the twenty-first century the main objective in international relations was the protection of state by the means of military power (Glaser, 2013). However, in the first decade of the century, the security dilemma was shifted to societal protection due to the rising intra-state conflicts, e.g. ethnic conflicts, and to more modern security dilemmas, such as environmental or cyber security (Glaser, 2013). Moreover, security is defined differently depending on the scholar, for instance, Collins Alan in his *Contemporary Security Studies* 2013 defines it as “a matter of high politics, central to governmental debates and pivotal to the priorities they establish” (p. 1), followed by Bellamy Alex (1981: 102 as cited in Collins, 2013: 3) who sees security as a freedom from war. Unlike to Collins and similar to Bellamy, Tickner (2004) defines security as an absence of any type of violence, including rape, gender inequality, environmental and economic damages in her work *Feminist response to international security studies*. Hence, regardless there is no universal definition of security, the scholars of different views agree upon the fact that security is a survival of any actors, it is an absence of not only imminent but also short and long term effective threats ranging from pandemics to terrorism (Collins, 2013: 2).

The modification of the concept of security is associated with human security. According to Pauline Kerr (2013), human security was first introduced in the reports of the United Nations Development Programme (UNDP) in 1994 (p. 105) as a result of rising intra-state conflicts and humanitarian interventions to prevent the conflicts. Hence the purpose of the introduction of human security was to minimize the numbers of victims and to maximize the aid from the international community, while the political objective of human security was to eliminate financial and human resources from conventional support for the army and allocate them towards the victimized societies (Kerr, 2013: 105). Although the existence of arguments within the realm

of human security is present, its overall purposes have a common ground. That is, human security argues that underdevelopment, such as poor governance, corruption, social cleavages, and political violence, such as dictatorship and autocracy, yield human insecurity (Kerr, 2013: 109), and this particular objective has motivated the establishment of gender security, since gender security lays within human security (Kennedy, 2013: 118).

A concept of gender as well has many unsettling contradictions regarding its definition and application (Kennedy, 2013). For instance, gender and security have been studied separately, security being mostly associated with masculinity and gender being dismissed. Yet, gender in international relations is more than about biological differences among two sexes, it is about cultural norms and use of languages in a given society and its role in the domestic and international politics during war and peace times (Maylon, 2013; Kennedy, 2013). More importantly, as feminist scholars claim, gender needs to be included to the issues of security as gender equality and women's participation create less gender biased society, equal opportunities and predisposition towards less violence (Bjarnegård et al., 2013, p. 101).

Regardless gender's significance in international relations, it was not until the late 1990s that "gender" as a concept was introduced in the system as a result of rising feminist discipline in international relations (Etten, 2014). According to Smith (2018), feminist discipline was based on the fact that gender negligence yields a limited understanding of the "security" concept. In other words, underrepresentation of women in the decision making structure and in high politics creates challenges not only for women, but also for men. For instance, existence of gender inequality targets women in daily lives, while men once they become victims of sexual violence and war rape (Etten, 2014). Consequently, for feminist scholars, gender needs to be studied as security studies and has significant implications on the security as a whole, thus, the concepts of gender and security need to be redefined (Smith, 2018 & Maylon, 2013).

## **B. Deconstruction of myths and redefinition of gender and security**

Historically and traditionally wars are considered to be fought to protect the vulnerable people, along with the state, women, children and elderly (Maylon, 2013). However, women, children and elderly are not necessarily the vulnerable people to be protected during wartimes (see section 2, para. 2). Thus, men protecting women is a mere "myth of protection" to practice structural violence (Maylon, 2013, para. 6).

Caprioli (2005, as cited in Maylon, 2013) defines structural violence as an exploitation in unfair labor division, a purposeful penetration to oppress, a compartmentalization and marginalization of women from men in order to prevent women from becoming independent, taking part in military actions and participating in politics so that women will feel the need to be protected by men (para. 7). As a result, women are kept from acting at their full capabilities and monopoly of men is legitimized with the myth of protection. Furthermore, women being a victim is disproven by the studies of Skjelsbæk (2001) in the cases of the Yugoslavia War, El Salvador Revolution and Vietnam War. She explores the concept of women being more inclined to peace and men to violence from the perspectives of essentialism and constructivism<sup>3</sup> and demonstrates that considering femininity to have peaceful nature is fallacious (Skjelsbæk, 2001). In the case of the Yugoslavia war, women were mostly victimized and mass raped once the male family

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<sup>3</sup> Essentialism defines gender as two sexes with biological differences given upon the birth of a person, while constructivism dismisses the idea being naturally given

members left to fight against the Serbians. This pattern emerged as a result of the myth of protection that forced men to leave and women to stay (Skjelsbæk, 2001, p. 53). However, in the case of the El Salvador Revolution, women were able to break the glass ceiling, since the majority of participants were women and the “conflict experiences” were shared by both Salvadorian men and women ( p. 55). As a result, Salvadorian women’s participation in the revolution yielded less machismo culture and liberated femininity (Skjelsbæk, 2001, p. 55). In Vietnam, South and North Vietnamese women had different experiences, that is, in the South women were not part of military activities, while in the North, 40% of regimental commanders were made up of women (Skjelsbæk, 2001). According to the author, for the Northern Vietnamese women participating in wars was simply completing your obligations and responsibilities before family and nation, hence “fighting was an extended conservative femininity” (Skjelsbæk, 2001, pp. 56-58).

Consequently, women do not necessarily need male protection, while femininity or motherhood itself is not all about peace and nurturement opposed to the views of essentialism perspective (Skjelsbæk, 2001, pp. 60-61). Moreover, peace scholars have proven that motherhood is also inclined to war and violence in such way that mothers, wives and women in general subconsciously encourage their men to fight and men who do not fight “embarrass” their women (Boulding, 1976; Elshtain, 1987; Ruddick 1989a, as cited in Skjelsbæk, 2001). Therefore, the essentialistic approach to consider men and women as biologically different and naturally predetermined is irrelevant, and inclination of men and women towards peace and violence is more likely to be socially constructed rather than naturally given (Skjelsbæk, 2001).

### ***III. Research methodology***

For the completion of this work an existing literature was used, hence it is a theoretical paper, exploratory in structure and based on the secondary data. Data collection was gathered from the reports of the UN and UN Women, World Bank and OECD about the case countries and overall situation regarding gender equality. Furthermore, scholarly articles and an academic book by Collins Alan (2013) on the topics of gender, security, their relations and impacts were used to collect data. Collected data was analyzed by thorough analysis and comparison of cases.

### ***IV. Results***

Gender is a key in promoting security and preventing conflict regardless of classical realists’ disbelief, as above-mentioned. Hence in this section, the findings from the case studies that have undergone gender shift will be provided. Shifts in gender roles in given case studies of Albania, Rwanda and Kazakhstan demonstrate the importance of women’s participation in national parliaments and international affairs for national and international security promotion.

#### **A. Case of Albania**

Albania is a male dominated European country with progressive legislative and political policies that attempt to involve both genders equally and impartially. Hence under the UN monitoring, the Government of Albania’s National Strategy for Gender Equality and Reduction of Gender Based Violence 2016-20, The Business and Investment Strategy 2014-20, the National Action Plan for Women’s Entrepreneurship 2014-20 and the National Strategy for Development and Integration 2013-20 were established to promote women in parliament and

politics (*UN Women: Albania*). As a result, the percentage of overall female employers has been increasing slowly, yet steadily. In 2000, the percentage of both male and female employers accounted for 3.51% out of national employment, and female employers barely made a half of one percent (*World Bank: Albania*). However, with the introduction of programs to support women in the workplace, female employers accounted for 1.07% out of 3.07% as of 2019 (*World Bank: Albania*). Although there is a place for improvement, 29.51% of the national parliament is represented by women as of 2020, compared to 5.2% in 2000 and 16.43% in 2010 (*World Bank: Albania*). Moreover, establishment of new empowerment programs will educate and benefit women in Albania in their daily lives, since one in two women have experience sexual violence in their lifetime as of 2019 (*UN Women: Albania*), while 65.8% experienced violence during dating, 47% - domestic violence, and one in two married women believe that domestic violence is a “private matter” (*UN Women: Albania*). Consequently, women inclined projects will benefit Albania to reach national gender equality, while Albanian women - domestic security.

## **B. Rwanda**

Rwanda was a death pole during the Genocide of the Tutsi population, however decades later, Rwanda shows one of the highest progresses not only in African region but worldwide (*UN Women: Rwanda*). Rwanda’s parliament is made up of 62% female politicians, and the tragedy of genocide in fact pushed the trend (Abouzeid, 2019). Men, who used to govern the nation, were either dead or imprisoned after the massacre, hence women, “a surviving 80% of population” took the leadership to remake Rwanda’s national and international affairs. Consequently, 61% of Chambers of Deputies, 50% of the national parliament, 38% of the Senate, 43% of the local councillors are female representatives (*UN Women: Rwanda*). Rwanda’s advancement in gender equality yielded a peaceful country and a key partner of the UN in gender knowledge and expertise that promotes equal opportunities for both males and females.

## **C. Kazakhstan**

Kazakhstan is a post-Soviet patriarchal state that holds 52nd place out of 144 in the Global Gender Gap Index of 2017 (*UN Women: Kazakhstan*). As a result, for the republic, establishment of empowerment programs is necessary. Although protection against gender based violence is guaranteed under the Law on Equal Rights and Opportunities for Men and Women, 17% of all women partnered with men have experienced physical violence, while 21% - psychological damages (*UN Women: Kazakhstan*). Furthermore, the wage gap among men and women is prevalent in the labor market, so that as of 2016, men earn 31.4% more than women. Nevertheless, with the development of better partnership with the UN, OSCE as well as the West, the proportion of seats held by women in the parliament increased: In 2000, women accounted for 10.39% only, in 2010 representation rose to 17.76% and currently women representation in the national parliament is 27.1% (*World Bank: Kazakhstan*). Regardless of drawbacks, Kazakhstan has the second highest women participation in the national parliament after the Republic of Uzbekistan (32%), followed by Turkmenistan (25%), Tajikistan (23.81%), and lowest - the Kyrgyz Republic (19.16%). Furthermore, with the UN Women partnership, Kazakhstan has established the Women’s Economic Empowerment, Ending Violence against Women and National Planning and Budgeting projects to promote equal rights and opportunities for women (*UN Women: Kazakhstan*). Lastly, recent first feminist march held in Almaty, Kazakhstan, demonstrate country’s successful attempts to advance women’s rights and political participation at all levels (Kim, 2021).



#### **D. Women in politics**

Western states have been successful in including women in high and low politics (Kennedy, 2013). For instance, the former UN Secretary General Ban Ki-moon has established the “UNiTE” campaign in order to reduce and eliminate violence against women all over the world, since seven out of ten women experience violence almost everyday, while 600 million other women in the countries in which sexual and domestic violence have not been criminalized yet are exposed to gruesome sexual abuses (Smith, 2018). As a result, feminist scholarship’s contributions in international relations are to make women more visible in the politics and in peacemaking in order to avoid any kind of gender inequality and violence (Smith, 2018).

Gender equality in the majority of the workplaces has been progressive, except in politics, wrote Gurirab (2010), the former President of the Inter-Parliamentary Union (IPU), and women’s underrepresentation in decision making structure has been shifting slowly since the First World Conference on Women of 1975. Gurirab (2010) argued that within a decade the representation of women in parliamentary positions rose only by one percent, that is, in 1975, women accounted for 10.9% and in 1985 - 11.9% (para. 1). Hence, the IPU established two projects - a support for men and women in delivering their roles in the parliaments and a mobilization of parliaments to eliminate gender inequality - to promote a just representation of both males and females (Gurirab, 2010). Consequently, women representation started increasing more steadily, yet still at a lower pace, from 17.8% in 2007 to 23.6% in 2017, and with 0.6% annual growth, women account for 25.205% in worldwide national parliaments as of October 1, 2020 (*World Bank, 2021*). Although women participation in low and high politics is growing and impactful, for traditional international relations perspectives, they are just numbers (Smith, 2018). Classical realists dismiss the importance of gender equality in parliaments and believe that whether represented by men or women a state will remain as a referent object and gender will have little impact on its security. On the contrary to realists, critical studies believe that the nature of war and peace is indeed dependent on gender (Bjarnegård et al., 2013). Bjarnegård et al. (2013) wrote that participation of females and death of males in armed conflicts are usually underestimated due to its gendered nature (p. 102), since traditionally women participate in conflicts as “capacities”, cooks, spies, nurses (p. 103). The research on civilian victimization of Balkan wars during the 1992 and 1995 demonstrated that civilian men were in fact more vulnerable to die from armed attacks than civilian women and children. This data shows a fallacy of a socially constructed view of men being strong protectors and women being weak victims. As a result, the gendered nature of wars dismisses not only the importance of women’s roles, but the lives of men as well (Bjarnegård et al., 2013).

#### **E. Women in peacemaking**

As Bjarnegård et al. (2013) claim, gender equality is pivotal for peacemaking at all three levels, “individual, organizational and state” (p. 105). Although American based researches have found that men are more inclined to violence than women and parliament represented by either sex will be reflected, other studies have proven the opposite (Bjarnegård et al., 2013). Therefore, being violent is not attributable to one’s sex, but depends on the socially constructed environment, and gender equal parliaments are prone to be less violent regardless of the sex of the Head of State or government. Furthermore, studies on Middle East conflicts have as well provided similar findings and emphasized on the significant impact of gender equality and not on “feminization” (p. 108) of a parliament (Bjarnegård et al., 2013). That is, more gender equal organizations or parliaments that had respect to both biological sexes were more likely to choose peaceful and

democratic strategies rather than being in armed conflicts, and their choice of strategies was independent of whether or not a woman was a leader (Bjarnegård et al., 2013, p. 106). Furthermore, gender equal governments were connected with less international conflicts and armed civil conflicts, lower chance for abuse of human rights due to the overall understanding, acceptance and respect to the role of gender (Caprioli, 2000, as cited in Bjarnegård et al., 2013). Thus, acknowledgement of women's role in politics has pushed the governments to collaborate and establish projects, such as the UN women and women in peacekeeping, to promote gender equality and security as a whole.

## V. *General Discussion (Summary, conclusion and recommendations)*

Inspired by Nicolo Machiavelli and followed by John Mearshiemer, realism has held the “throne” in the system of international relations (Noott, 2019). It claims that the states are the sole rational actors in the anarchic international system threatened by alike egoistic states. Hence, for realists security is provided by the military and states are driven by survival and competition (Glaser, 2013 & Noott, 2019). As a result, realism has scarcely focused on gender issues, neither on other possibilities than military for security protection nor on threats from gender inequality, cyber development and environmental issues. Yet, Critical Security Studies, predominantly gender studies and feminism (along with liberalism) claim the irrelevance of realism perspective in the interconnected and globalized 21st century and provide their views on security and threat in international relations (Noott, 2019). By applying gender security, state actors are able to consider and tackle cyber and environmental, economic and demographic dilemmas. One of the most important advancements of applying a new perspective in international relations is a discovery of gender's importance and impacts. Consequently, as demonstrated in the paper, considering a state as “gender-neutral” and dismissing gender's significance in politics and peacemaking is “misleading” (Noott, 2019, para. 8), since the more gender equal, the less inclined to violence and conflict a state is (Bjarnegård et al., 2015).

Therefore, Western scholars and peacemakers claim that change takes place on individual, communal, statal, regional and international levels upon which every individual as well as policymakers can have an influence (*UN Women*, 2020). For instance, within the Organization for Economic Co-operation and Development (OECD) members, female share of unpaid domestic work is higher than those of males - 263.4 to 136.5 minutes per day, respectively. Denmark has the lowest gap, men spending 186.1 and women spending 242.8 minutes, while Turkey has the highest gap of men spending 67.6 to women spending 305.0 minutes per day on unpaid work (*OECD data*). Therefore, from sharing the household chores equally to calling upon the sexual harassment, demanding equal pay at the workplace to exercising one's political rights are trivial yet pivotal methods for elimination of gender based violence and provision of gender equal states (*UN Women*, 2020).

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## **The Role of Social Media in the Image formation of Kazakhstan**

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### **Abstract:**

Social media become an integral part of our modernity. Moreover the role of social media is actively developing in international relations, policy and image formation of the government. The image of countries is becoming more important under the conditions of a globalized world and modern media societies. The Republic of Kazakhstan moves to a qualitatively new level of development of Kazakhstani government, which necessitated transformation in the image formation system of the Republic of Kazakhstan. While earlier the image of a country used to form unilaterally through the traditional media, now it forms bilaterally due to social media. In this regard, this research will be focused on the influence of the social media in the image formation of the country. Also it will explore how best to use social media to promote brand and image of Kazakhstan abroad.

Keywords: Social media, country image, country brand, promotion

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*

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# The Promotion of Educational Centres in Kazakhstan

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## **Abstract:**

This study was conducted to research which media tools are the most effective in promoting educational centers in Kazakhstan and analyses how Kazakhstan educational centers productively communicate with their audience. To obtain the most accurate and up-to-date results several interviews with the CEO and head of the marketing department of educational centers were conducted. The main goal of the paper is to determine which PR, SMM, and integrated marketing communications have proven to be the most effective long-term communication strategies for educational centers. It appeals to Kazakhstani educational centers to efficiently communicate with their audience their PR strategies.

Keywords: *promotion, public relations, educational centres*

## **I. Introduction**

### **The education in Kazakhstan**

The economic history of independent Kazakhstan after the split of the Soviet Union officially starts on December 31, 1991. Upon Independence, Kazakhstan had faced a massive economic collapse, which was the consequence of Gorbachev's monetary policy. The new government had to find a way to transform Kazakhstan's entire economy, which was planned to build a sovereign nation. However, keeping close economic ties with Russia was necessary as well. Privatisation and liberalisation processes were forced immediately in Kazakhstan following the Russian internal policy. During this period in Kazakhstani history, the government had notably shifted its focus to the oil and gas sector. Hence, the natural resources that were starting to be used as the primary economic sector in Kazakhstan and remain one day.

Kazakhstan's education has a similar structure to most countries, a part of the Commonwealth of Independent States. The kindergartens under the Republic of Kazakhstan's Constitution are accessible, and children enter these pre-school institutions at five. Kazakh and Russian languages are the main languages of instruction (World TVET Database Kazakhstan, 2012). However, the number of kindergartens, which also teach English, is steadily increasing. Children usually enter primary school at the age of seven, starting from the first grade until the fourth one, and after this stage of education, students enter secondary school. All primary and secondary schools are free to attend, and most of them are state-owned, whereas the Ministry of Education designs the curriculum. Higher secondary schools, which cover tenth and eleventh grades, are either public secondary schools, initial training schools, lyceums, or colleges (World TVET Database Kazakhstan, 2012). The national foreign language education in Kazakhstan had adopted a trilingual policy: Kazakh, Russian and English.

The tendency of constantly increasing demand for learning more languages has led to the establishment of many language schools and educational centres all over Kazakhstan, which

particularly emphasises the English language learning among the Kazakhstani population and considers as alternative language teaching providers. Even though primary, secondary schools do include three-language learning in the curriculum, many Kazakhstani people seek additional help to gain qualifications, enhance their career prospective, and increase their chances for employment in well-paid positions. Therefore, language centres have become highly profitable and demanded businesses in Kazakhstan. Moving more closely to language teaching providers in Almaty; hence, the educational centres, types, types of language services, and products vary, if not significantly, but according to different purposes people seek to achieve.

#### **Formal education providers**

Kazakhstan is prominent for its extensive and rapid reforms in education. Since the Independence announcement, the Kazakhstani government made it clear that the education market should become highly advanced (Supporthere.com, 2017). A child begins traditional education in Kazakhstan with pre-school education in kindergartens. On average, in kindergartens, a child is 3-6 years old. Secondary education in Kazakhstan is compulsory and includes general, primary vocational and secondary vocational education. In the first grade, children are accepted from 6-7 years old. Secondary public education of Kazakhstan contains three levels of primary (grades 1-4), basic (grades 5-9), and senior (grades 10-11). Educational programs have been developed and implemented in ordinary schools for talented children to develop specially gifted students' potential capabilities fully. Higher education in Kazakhstan is acquired based on secondary education. For admission to universities, school graduates pass final and entrance exams in single national testing (UNT) or complex testing. Upon graduation, a graduate receives a bachelor's degree (4 years), specialist (5 years) or master's degree (6 years). The second higher education in Kazakhstan is received only on a paid basis with an accelerated term of study (2-3 years).

#### **Alternative education providers**

In the state policy of Kazakhstan, the linguistic aspect occupies a vital place. Since Independence, language processes have become the subject of sharp controversy in all spheres of life. The Ministry of Education and Science of Kazakhstan developed the “Roadmap for the development of trilingual education for 2015–2020”. The program's purpose is to introduce trilingual education at all levels of education in the Republic of Kazakhstan. In this regard, schoolchildren, students master knowledge in Kazakh, Russian and English. Many parents resort to an alternative method. As tutors, educational centres and study abroad.

Moreover, slowly, we move to alternative education. Many modern parents are unhappy with the existing education system. The main reasons: low quality and development of complexes in children. Therefore, alternative education has gained some popularity. Nevertheless, it also brings undeniable advantages. Alternative education is an educational institution with an unconventional curriculum and methods. The legal basis for such an education depends on the state and defines any obligation to comply with standard tests and assessments(4brain.ru,2018). Such schools offer a wide range of learning strategies. Many educational alternatives are characterised by small class sizes and close relationships between students and teachers. There are several alternative schools, including local alternatives to public schools and schools for students with special needs and independent private schools.

#### **Education centres in Almaty**

The rapid development of business in the segment of educational and educational centres is a general trend. The concept of lifelong learning makes people use training centres' services throughout their lives - from pre-school education to retirement age. Each corner of Almaty is

full of centres prepared to supply great information that shifts up to 10 or more spheres such as languages, medicine, special planning for future air-service labourers, science, etc. At present, there are over 200 educational centres in the city of Almaty. They are divided into types such as foreign language courses, professional courses, interest courses, and training courses

Currently, there are two primary forms of organisation of the educational process. It is online and offline training. The organisation and principles of functioning largely depend on this form's choice, or rather, on which format will prevail in the training centre's activities. Online training (in English online or e-learning) is distance learning. The training is conducted using the Internet in real-time using conference programs, or the listener views the already recorded video material. Offline training is a classic type of training when a student is studying in a classroom, usually as part of a group. The trainer or teacher directly interacts with the students. The modern learning process can be both group and individual. It should also be noted that the training centres have already become not just additional education, but a constant companion of any professional. The rapid development of scientific and technological progress and knowledge accumulation worldwide do not allow a professional to keep abreast of all modern trends. On the other hand, contemporary life does not leave time for independent development. It is much easier to take short-term training courses and get the best set of knowledge by the profession that professional teachers have already chosen based on world experience the best practices used.

#### **Methods of promoting the educational centre**

In addition to traditional promotion methods (advertising, public relations and personal sales), educational institutions also use non-standard methods of attracting consumers. Suppose the choice of a school or kindergarten is mainly based on recommendations. In that case, reviews of acquaintances and friends or location (close to home or work) require much attention to promote higher education institutions and various courses. The most popular methods of promoting educational services are advertising, printed and souvenir products, special events, and social media marketing. Special attention is paid to public relations in the system of promoting educational services. Educational centres need to build a positive image and reputation. There are many opportunities for the effective promotion of educational services. An actual and modern method is promotion through the Internet. The use of Internet marketing technologies allows educational institutions to position themselves among competitors and attract many students. The target audience is mainly young people aged 18-35 who are active users of the Internet. The main ways to promote educational services in the Internet environment are website or portal, social networks, and email marketing.

When choosing a particular educational institution, applicants turn to search engines and look for relevant information. One can get up-to-date and relevant information about training, opportunities, and feedback from other students' educational organisation pages. One needs to ask questions and get quick answers. Electronic mailing of letters is targeted in nature, but it can also be a regular mailing of letters about open new courses and training programs. Practice shows that the diligent work of the site and social networks allows for a successful solution of many problems in promoting educational services, supporting the image of the institution, communications, improving the comfort of the educational process, as well as developing the relationship between the education market and the labour market. It is quite natural that for practical communication goals, each academic centre is looking for ways to apply public relations. PR is a strategic promotion tool used by the company to form and maintain harmony between its concept and its products (services) with the positioning of both on the consumer market in particular and society.



### **Statement of the Problem**

In this part, I will talk about what problems small businesses face in Kazakhstan. Currently, in the context of the global crisis, more and more attention is being paid to such areas of the economy as small and medium-sized businesses. As stated in the strategy "Kazakhstan-2050", developed small and medium-sized businesses are the key to improving most of the Republic population's welfare, the key to strengthening and developing the national economy. However, small businesses as educational centres face many challenges on the way to becoming. For example:

- Lack of financial resources for diverse promotion mix activities. We all know that advertising is the engine of trade. Advertising services, online advertising, and promotion in social networks require constant improvement and financial resources. For a business to be available to everyone on Instagram, one needs to balance their balance constantly. New advertising, human resources, banking details, site improvement-all require constant investment. Therefore, small businesses are always looking for investors.

- Not qualified/low-qualified marketing expert. The lack of competent specialists slows down the work in the online space and reduces advertising quality. It turns out that Internet marketers are viral in the modern labour market. One cannot do without them in almost any company that is present on the Internet. The Internet market is just beginning to make conscious demands on specialists' knowledge, and accordingly, the niche of training in Internet marketing is only developing. Ideally, an Internet marketer should combine both a humanitarian background and technical expertise and creative skills. Also, knowledge of languages can improve the quality of incoming information. That is why the most important thing now is not "crust", but a working head.

- Attitudes toward ECs quality education. First of all, educational centres should think about the quality of the knowledge they provide. These are highly qualified teachers, high-quality material, and a transparent methodology because the final result can significantly affect an educational centre's image.

### **Purpose of the Study**

The research is focused on enlightening the tool and techniques behind successful and competitive education centres, taking into consideration short and long-term goals. Both primary and secondary types of research will be conducted to answer the research questions. The best and most efficient strategies and methods will be concluded based on comparing several success and failure cases. The most proper communication and PR tools will be found throughout the project to implement them in the nearest future. The following information should be taken into consideration. Forming and developing market relations in the Republic of Kazakhstan is accompanied by increased competition between economic entities, a constant change in the external and internal marketing environment. Which requires improvement entrepreneurial and marketing activities to create, distribute and consume goods and services. Therefore, interest in marketing as a philosophy and tools of entrepreneurship has increased significantly. It also required the country's exit from the economic crisis and high rates of economic growth. As evidenced by world practice, marketing is a critical element of any business, a tool for developing the modern market, which creates an environment of equilibrium and stable relations between all market players. Currently, Kazakhstan has developed and implemented industrial and innovation policies and set goals to achieve its sustainable economic and social progress. It included the development of various sectors of the economy, its infrastructure, increased real incomes, reforms in governance, science, education, health care, and other industries and fields.

Their implementation depends on developing the theory and practice of marketing activities at all levels of the market management hierarchy, which necessitates marketing development in our country.

In this way, all these circles said over are being influenced by the tall developing marketing administrations. As education is one of the foremost requested rings in Almaty, there is a bounty of examples to show the demeanour of, especially, educational centres toward PR as promoting strategy. The educational centres' requests are clarified as the capable information's necessities have expanded in the past two decades. That is why people with an adequate level of information exchange with others seeking openings to extend or broaden their abilities. In this case, the more requests drop for Educational Centers, the more competitive they gotten to be. Each corner of Almaty is full of centres prepared to supply great information that shifts up to 10 or more spheres such as languages, medicine, special planning for future air-service labourers, science. According to nearly all Educational Centers in Almaty, advertisement is an essential aspect of effective development. Advertisements may vary within each other in the way they are represented.

## **II. Literature Review**

One of the critical factors of writing reliable and innovative research work is analysing and collecting data. In other words, secondary research is a crucial part of any in-depth study. Therefore, this chapter will provide and cite several different tasks in similar fields and analyse and evaluate their impact and reliability on the author's research in particular. All of the materials mentioned below were chosen via the provided resources and selected to enlighten the topic.

### **Tools and techniques that are used for an outstanding one centre from another**

Let us look at the first given article. The authors describe the importance of the uniqueness of language schools. The article's main idea is the competitiveness of language schools in Irkutsk (Zavalko, 2011). The conclusion is drawn on the need for an in-depth study of each of the elements of competitiveness. It is proposed to use the uniqueness of the service as the basis for a competitive advantage. The "Importance-Execution" method was chosen to clarify the service's unique characteristics from the consumer's perspective. They also talk about the importance of a freelance marketer whose responsibilities would include analysing the market, forecasting supply and demand, conducting research of various kinds. The strengths and weaknesses of different language schools, such as online schools, franchises, local schools, point courses, and distance schools, are also provided. Moreover, many tables with different language schools' prices have been made, and a questionnaire is also attached. The strong side of this survey is that the author described important aspects in large language schools, but the weak side is that the study took place outside of Kazakhstan. This article helps the thesis use the questionnaire as a pillar for interviews with the founders of language schools, which language schools do respondents trust more outside of Kazakhstan.

The next one was considered helpful in terms of Internet usage and the application of modern marketing tools. This article discusses Internet promotion and the image of language schools on websites. The authors are focused on promoting educational services on the Internet. In contrast to the standard promotion, whose advertising messages are depersonalising, organisations offer personalised offers to consumers on the Internet and social networks, focusing on their needs and interests. It is due to several advantages of the Internet compared to other promotion channels (Vokovtseva, Savkin, 2018). Still inclusive, the image on the network

affects the perception of the consumer. Today corporate identity is not a passive element, which was necessary to identify the organisation. Messages, images, dreams and emotions are invested in it. Some experts call this a visual identity. This article's omission has much theory but little evidence; it has no practical part or illustrative examples. It is relevant to the thesis because the thesis topic describes the communication of educational centres. And of course, the image of the site and various promotions have an essential role

The following article was then relatively helpful, mainly by providing information about design's general function in developing an educational centre. In this article, the authors describe the importance of an educational institution site (Skorodumova, Polyakova, 2017). The main idea of the article - this site is the "face" of higher education. Authors say the university website will take first place in the ranking. The web departments' employees optimise the site, create a modern design, assign the right content, and configure navigation and communication.

Moreover, site developers can use not only the local but also the global academic community. Many years of practical experience shows that an actively working site allows for solving many essential issues. They talk about 14 steps that can take any location to the next level. This system is divided into two blocks planning a unique site, suitable website promotion, and an advanced site is an "existing organism." The key points of website promotion are content and advertising: website traffic and profit for each other. The site has 24 hours a day, seven days a week—institute positions in the world community. A site must be oriented not only locally but also to foreign consumers to succeed. This article strength is that the authors described how they could create a website that will work for customers step by step. The thesis noted that sites have an essential role to play and now need to assess Kazakhstan's level sites.

According to K.V. Kondrashova (2008), a facility needs to stay competitive in a market. It is vital to develop it and promote it in the right direction, using the most effective tools. Modern times show themselves as information demanding and with high standards. It can also be implemented in Almaty since the city has a similar environment. Considering that education has become a significant part of the economy, evaluating the most efficient tools is crucial for a brand's success. The purpose of the research is to characterise the Russian market of educational services and identify critical features of services' promotion. The target audience is students of universities in Russia, as well as pre-university students. It is essential to mention that the study's situation can be roughly applied in Kazakhstan, Almaty due to significant similarities and general dependence of Kazakhstan on Russia. The research has the following results: education is a significant part of Russia's modern times economy. Therefore, paying enough attention to its development is crucial. While promoting the service, all the segments of the target audience should be taken into consideration. Creating a pleasant environment and providing necessary conditions is essential to a brand's success.

### **The perspectives from which the customers are viewed**

According to Zavalko (2011), looking at potential clients as "alumni" shows the concept and explains why such a strategy might help. 'Alumni' as a particular project on the market, governmental control over educational services and the need to adapt the system towards the market economy are discussed in the research work. The article aims to give new views on the marketing communication structure being employed (Zavalko, 2011). The research was conducted at Omsk pedagogical university. Then, it was published in its internal magazine. The author mostly observes alumni as potential employees in the future, targeting their competitiveness and higher qualifications due to consuming educational services. Zavalko faced several challenges while obtaining the data: changes in the general outlook of youth and not

fitting conditions for new, young, more competitive, and more creative employees. The research was conducted based on official governmental papers and statistics of the current educational market situation. Official reports such as declaration and law constitution were used most of the times due to research's focus on observing and analysing the market environment and its fitting in modern conditions.

After the current situation was mainly analysed, the author highlights the case's leading issues and things to consider before giving any conclusions and building a strategy. He focuses on four main aspects: the government should moderate educational services, specifics of services should be taken into consideration while evaluating issues and challenges, the problem of organising and conducting marketing researches, promoting of educational services still stays unnoticed and neglected. Results include stating the general situation on a specific market. The author concludes that both government and service providers should consider more factors before building a relevant and efficient strategy and focus more on customers' needs and the current market situation.

Nowadays, education is becoming a part of the market economy (Vasilenok, Kurguzaova, 2015). The following article provides some of the features of educational services. Many various centres in the academic service market offer a wide range of educational services, leading to competition. The study aims to emphasise the importance of considering the market economy while building a strategy for an educational centre. The study was created in Saint-Petersburg's university of low-temperature and gastronomy technologies. The research focuses on already working employees in spheres of educational services and market economy specialists. The authors' challenges were not the perfect environment to conduct the study (considering that the only market economy does not exist in practice, having some interventions from the government). Therefore, the results cannot be accurate and should be carefully analysed before being used in real-life situations. The critical points of the article are the following: it is essential to consider that the goal for the service providers not only the graduations of students but also the successful university enrollment (having a solid long-term plan), trying to become more competitive and to attract new customers the education centre can expand the range of provided services, which, later, can increase the profitability of the facility. The authors also pay extra attention to centres maintaining sustainability, which means providing the same high-quality services over the years, which can be achieved by employing well educated and creative workers. The results that can be mentioned are: it is essential to consider the geographical data of students and identify the 'perfect fit price for work done for students, and, depending, on specific features of regions and students themselves, pieces and quality of education may vary.

#### **The impact and effectiveness of social media on service development**

Next, let us look at the promotion of already existing schools. The article of Korchagova, Alakhvedova (2015) is dedicated to promoting educational services in universities. The most used communication tools by centres' promotion are press advertisements, television and radio commercials, billboards and printed advertisements, internet commercial, and exhibitions. In this article, all these tools are compared and rated based on their efficiency and profitability. The article aims to analyse different promotion methods and look at them in terms of 'promoting a specific product or service'. The research paper's target audience is probably PR managers and brand promoters, taking into account a detailed view of each promotion tool known today. The environment in which the research was conducted is not clarified, but assuming the style and the target audience, it can be said that it was created within the college walls.

The authors mostly pay attention to ATL and BTL. ATL includes traditional (classical) promotion tools, while BTL provides television and radio advertisements and internal and external commercials. They also emphasise the importance of customers' rational and emotional values and consider the regions' financial and social situation as a whole. The study results are the most critical factor, and the biggest target for PR managers is awareness of the brand or service among as many people as possible. People should be aware of the service's most vital features and its advantages over the closest competitors. Since the research views the university as an intermediate, it is essential to always keep in mind colleges' individual and specific characteristics, And, only then, build the methods and plans for future promotions.

The article from Nretina, Makarez (2013) substantiates the opportunities and limitations of using marketing in social media by Russian universities to promote educational services. The authors summarise the experience of its application. The target audience of the conducted research is, again, PR specialist and service managers. The provided study mainly targets Russian readers but can also be implemented in many post-Soviet Union countries, Kazakhstan. The research mainly focuses on social media as a tool of promotion and awareness increase. The study mentions that it is crucial to know exactly which social media will give the most profit since any organisation has limited resources and a budget. Therefore, sometimes, some social media websites might be more fitting in specific regions than in others. The authors claim that short text and vibrant images, in most cases, are more effective than video previews or pop-up advertisements. Again, specifics of the customer' and the service should be taken into account. *'The article deals with modern applied online marketing technologies in the field of educational services and analyses the online promotion of three Yekaterinburg universities'* (Glukhova, no date). The article aims to show the importance and different techniques of internet promotions. Mainly, the study mentions Online Reputation Management, SEO-promotion, context advertisement, SMM, and email promotion. According to the article's statistical data, the most effective way of promoting educational service is through search ads. Meaning, customers' direct questions are addressed, and they find the best fitting service for themselves. It is crucial to keep in mind that even though search ads are very effective, they increase competition since clients have unlimited access to all other websites. Therefore, it is essential to update the site to provide the best matches and goods for potential clients.

According to Glukhova (2017), the principles of promoting educational services on the region's educational portal are developed, and their characteristic is given. Instruments of internet marketing to promote educational services on the area's educational portal are systematised, and its advantages are defined. The system of indicators assessing the quality of the educational portal's functioning based on users and experts' opinion is offered. The directions of realisation of the marketing strategy of promoting educational services to achieve her purpose — attraction new and deduction of the available clients and increasing their knowledge about higher education institutions' activity in the education market are proved (Tarasova, Shein, 2017).

The following results are obtained: the websites need to be aesthetically pleasing and functional. That is why SMM manager should be experienced enough to do so. The whole website and all social media accounts should maintain the same style, colour scheme and mood. The portal's information should be as fulfilling as possible, decreasing the need to go somewhere else to find it. Quick feedback and technical functionality are also essential to a client's satisfaction.

As Gugnina E.V., Samsonova E.V., Samsonova M.V. (2011) mention, currently, it is safe to say that the market of educational services has developed and continues to evolve [11]. In this

regard, the professional and thought-over approach to positioning and promoting higher education institutions, the formation of comprehensive plans of marketing and communication activity, and the qualitative organisation of advertising activity are today factors and resources of successful educational institution development. The advance of the created values in general and educational services leans on a complex of marketing communications. It also uses all complexities of marketing communications also provides the efficiency of the advance of educational services. The active application of modern forms of advancement in higher education institutions promotes most educational institutions' competitiveness and benefits. The purposes are to enlighten Russia's current educational services situation and identify which techniques and technologies might bring the most profit. All modern means of communication that can be used to promote educational services can be classified as follows. ATL + Technologies - Direct Ways to Move Through Visual or Verbal reflection of information (television, radio, outdoor advertising). BTL technologies - promotion methods are conducted directly through sales of goods and services (sales promotion measures, merchandising, presentations, sponsorship events, advertising at points of sale).

The purpose of the study was the identification of *“theoretical approaches to the organisation of the marketing system of educational services and problems in Russian practice; definition of the categories of the marketing apparatus in the framework of educational services; Identification of the marketing problem arising in the education of Russia”* (O. V. Malkova. (no date). The research is based on the methods of the classical theory of marketing. Methods of economic and statistical analysis were used to perform the calculations. The results were the following: based on the current state of higher professional education in Russia and, in particular, the marketing activity of universities, a category marketing apparatus in the sphere of rendering educational services has been analysed, the elements of the marketing complex for university education have been disassembled. It is concluded that there are contradictions in modern professional education and the need to apply marketing methods for the successful work of the university in the market of both education and the labour market. To sum up, it was challenging to find relevant articles that would provide the exact needed information. It was because extracurricular secondary education is considerably new, and it is hard to adapt the data to Kazakhstani standards and environment. Therefore, it was decided to analyse what is present right now and to smooth out the edges, predict how that specific method would be applied in Almaty.

To sum up, it can be said that the current situation of educational services is very fragile and can be affected by many external and internal factors. Therefore, both government and employees should first focus on building a stable and relevant environment for clients and maintaining sustainability. Secondly, due to limited resources and finances, people should use the PR and communication tool wisely. Before buying the ads or rendering internet commercials, it is essential to consider the specific region's characteristics and emotional and rational need of potential customers. Lastly, sustainability is key to the brand's future success and competitiveness in terms of a long-term perspective. Therefore, most of the effort should be directed towards hiring well educated and creative staff (SMM, tutors, managers) for a brand to obtain its reputation and recommend itself as relevant on the market.

### **III. Research methodology**

Due to today's educational services' very competitive market, entrepreneurs seek new and creative expansion and development methods. Social media, the Internet of things, and television

advertisements play a significant role in building its image and finding the target audience. This chapter will try to find which marketing techniques are most appropriate and beneficial for Kazakhstan's population and how marketers, managers, administrators and teachers themselves build a pleasant environment. After considering many tools and approaches, it was decided that the interview will be the most effective way of gathering the information due to the following reasons:

- If the interviewed persona is competitive and educated enough, they may share several approachable and crucial ideas, leading to more precise conclusions and a well-built strategy.
- One of this work's goals is to show the most effective ways of developing a business in educational services. Considering the author's valuable personal experience, the environment in which they worked, and the opportunity to ask the business holder directly, the interview would be the best of the choices provided.
- Qualitative research is considered the most effective in providing practical knowledge and sharing the experience of both success and failure.

Therefore, the following research questions were obtained:

#### **Research Questions**

**RQ1:** What PR strategies educational centres use to promote themselves?

**RQ2:** What problems educational centres face when promoting themselves on social networks?

#### **Research strategy/methods**

In-depth interviews will be used to answer these research questions. Ten education centres will be compared. What methods do they use to promote the market? Which are more effective and which are not. For more critical information, interviews with the founders of education centres will be conducted.

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# **SPECIAL ECONOMIC ZONES BETWEEN KAZAKHSTAN AND CHINA: REGIONALISM OR REGIONALIZATION?**

**Malika Babayeva**

The creation of free economic zones is an effective direction for the development of the economy, focused, on the solution of specific economic problems, the implementation of strategic programs and projects. At the same time, the system of benefits established in free economic zones should be sufficiently individual and closely related to the programs implemented in its territories.

In the conditions of acquiring political and economic independence, an increase in the openness of the Kazakhstan's economy is an objective necessity, but it can be carried out gradually, taking into account real conditions and preserving economic security, it should not run free and should be held under state control. A significant role in this can be played by the creation of free economic zones, which is an effective tool for increasing the efficiency of the economy.

The relevance of the topic is justified by the need for the full development of new market forms of free enterprise in our country, international relations, participation of regions in the territorial division of labor, which existing and prospective free economic zones are designed to contribute, it is necessary to fully promote the use of such a tool as the free economic zones, explore meaning of free economic zones, is it regionalism and regionalization.

The purpose of the work is to determine the place and prospects of free economic zones of Kazakhstan and China development in the social, economic and political life of the country. This goal involves the solution of such questions as:

What are the theoretical and methodological foundations of the free economic zones?

What are the structure and management mechanism of the existing economic zone between Kazakhstan and China?

How can we improve the efficiency of free economic zone between Kazakhstan and China?

Special economic zone between Kazakhstan and China: regionalism or regionalization?

The modern development of the world economy, which is accompanied by the process of internationalization of national economies of countries, is characterized by the allocation of economic zones, compact territories and other territorial "points" of industrial and innovative development in many countries of the world.

According to the UN, there are currently several thousand special economic zones (SEZ) in the world, with a variety of benefits and preferences for attracting investment.

The International Convention on the Simplification and Harmonization of Customs Procedures (Kyoto, May 18, 1973) establishes the concept of a free zone ("Franco zone"), which

refers to the part of the country where goods are considered as objects outside the national customs territory, and therefore, they are not subject to customary customs control and taxation.

In scientific literature there is no settled concept of a free economic zone. "This circumstance is due to the diversity of the special economic zones, the goals of their creation, as well as their constant transformation and modification in the process of their historical development".

According to the domestic researcher, Professor Avdokushin, the SEZs are part of the national economic space with a special regime, which uses a system of benefits and incentives that are not used in other parts of the country.

It should be noted that free economic zones in international trade and economic relations have been used for several centuries, and the first FEZ Porto-Franco appeared on the Mediterranean coast as early as the end of the 16th century. In 1595 the Italian city of Genoa was one of the first in history to declare itself a free port, and later this status was obtained by Venice (1661), Marseille (1669), and in Russia - Odessa (1817). ), Vladivostok (1862), Batumi (1878). As the market monopolized and the protectionist policies of the states strengthened, "free ports" began to be largely abolished, and free trade and warehouse zones began to be created in their territories and in other shopping centers, where preparation of goods were for sale. This type of zone originally appeared in Gibraltare (1740), then in Bangkok (1782), Singapore (1819), hong kong (1842), and others. Among the oldest free trade zones are the German ones that emerged in the free cities of Hamburg and Bremen as early as the 19th century. However, the form of management, directly related to the creation of the SEZ, became widespread in world practice at the end of the 50s – beginning of the 60s. XX century.

Over time, the evolution of the SEZ developed from simple forms of activity (trade type of SEZ) to complex (production of mass and high-tech products, provision of services), from cheap options to more capital-intensive and expensive ones. All this was reflected in the types of zones created in different countries. It has historically been proven that the choice of the type of free economic zone depends largely on the economic structure and level of economic development of the country.

The first export-and-production SEZs based on cheap local labor resources were created in Ireland and Taiwan in the 1960s as a result of the transfer of industrial production between developed countries and from developed countries to developing ones. Since then, SEZs can be found in many developing countries, especially in those countries that have been exported.

Mang Guangwen, German professor at Ruprecht Karl University in Heidelberg, states the following: "The FEZ can be defined as follows. In order to realize certain economic and political goals, the FEZ is geographically defined as areas or zones within a country or in a cross-border area between several countries, where certain types of economic activity are especially allowed and free trade and other benefits and privileges are provided, other than those provided by the rest of the world. Parts of the country".

In connection with the signing by the President of Kazakhstan N. Nazarbayev on July 21, 2011 of the new Law of the Republic of Kazakhstan "On Special Economic Zones in the Republic of Kazakhstan", the research topic is focused on the current development of special economic zones (SEZ) in the context of globalization of the world economy and increasing international competition between the SEZ in various countries of the world. The main purpose of this law on free economic zones is to increase the efficiency of managing special economic zones in Kazakhstan, to ensure the stability of tax legislation for residents, to provide them with guarantees, to expand the list of activities allowed in free economic zones. The need for in-depth

study of this subject is confirmed by the fact of adopting the “Program for attracting investments, developing special economic zones and promoting exports in the Republic of Kazakhstan for 2010-2014”.

A special economic zone is a part of the territory of a country (or countries) created for the purpose of solving specific socio-economic, technological problems, having a special administrative management and a preferential mode of economic activity of investors.

According to the specialization of economic activity, in our opinion, the following zone models can be distinguished: trade and storage, industrial production, technology innovation, service, complex zones. Although it should be borne in mind that in practice combinations of various types of zones are possible.

What are the main results of the activities of many years of activity of the foreign free economic zones?

Analysis of the available foreign literature allows us to identify the main directions of the impact of the SEZ on the economy of the host country.

Export development. Data from international reports confirm that the free economic zones have played a positive role in increasing the volume of exports from countries, especially in the countries of the Middle East, North Africa and the countries of Southeast and East Asia. In addition, they contribute to the diversification of exports, stimulating the transition from the export of commodities to the export of finished industrial products, including high value-added goods (for example, Malaysia, Costa Rica, Tunisia, the Philippines). In fact, the adoption by many countries of export-oriented policies has led to a rapid increase in the number of SEZs on a global scale.

Creating jobs. Statistics from the free economic zones of foreign countries showed that the average impact of free economic zones on the host economy is insignificant, less than 1% of global employment. This figure is just over 1%, for example, in the countries of the Middle East and North Africa, and more than 2% in the countries of the Asia-Pacific region. The indirect effect of the SEZ on employment is much more tangible. According to foreign estimates, it is believed that 1 job created in the SEZ, additionally generates 2 jobs indirectly. It has also been observed that zones stimulate job creation largely in countries with a population of less than 5 million people (for example, in Jamaica, Mauritius, Seychelles), i.e. small countries. As for such numerous countries as the PRC, the Russian Federation, India, the SEZ are used mainly as a means for translating the latest technologies (including information) and related services.

Inflow of foreign direct investment (FDI). The SEZs play an important role in attracting foreign direct investment. Some available data confirm this. For example, in the Philippines, the share of FDI in the SEZ increased from 30% to 81% over the past 5 years, in Mexico it increased from 6% to 23%, while in the PRC the flow of FDI to the SEZ is 80% of all investments.

Translation of new technologies. One of the goals of the created export-industrial zones is the transfer of technologies from abroad. It should be noted that technology transfer through SEZ has a number of specific features. Foreign enterprises transfer technology to the SEZ as follows:

- \* through the purchase of local raw materials, components, semi-finished products, which improves (directly or indirectly) the technical skills of suppliers. Practice has shown that the quality and intensity of the development of such relations with national producers depends both on the strategy of the SEZ enterprises themselves and on the policies of the host country, which it implements through legislative acts. At the same time it is important that the industries in the SEZ correspond to the resources of domestic producers.

The situation with the SEZ in Kazakhstan

According to the new law adopted in Kazakhstan, special economic zones are created in order to accelerate the development of modern high-performance, competitive industries, attract investment, new technologies in industries and regions, as well as increase employment.

Currently, there are 9 special economic zones (SEZ) in Kazakhstan, as well as 2 industrial zones in Astana and Karaganda.

The first six successful zones include the SEZ: “Astana - New City”, “Morport Aktau”, “Information Technology Park”, “Ontustik”, “National Industrial Petrochemical Technopark”, “Burabai”.

According to official data, at the end of 2011, three new special economic zones with specific sectoral focus were created in Kazakhstan. The Saryarka SEZ was created in the Karaganda region - development of metallurgy and metalworking, the Khorgos - Eastern Gate SEZ in Almaty region - the development of transport and logistics potential, and the development of the chemical and petrochemical industries in the Pavlodar region.

Kazakhstan is located in the center of Eurasia, has a common border line with China, more than 1.78 thousand kilometers in length, China and Kazakhstan are neighboring countries, they are linked by strategic partnership relations. At the beginning of this year, the two countries jointly organized celebrations in the honor of the 25th anniversary of the establishment of the Chinese-Kazakh diplomatic relations.

Over the past 25 years, bilateral relations have passed an amazing development path. China and Kazakhstan became the first countries in the region of Central Asia, which completely and finally settled the border issues left by history; established a comprehensive strategic partnership, created a multi-stage structure of interaction between the heads of state, heads of government and departments of the two countries; signed the Program of Cooperation and Development of Adjacent Regions; created a mechanism of comprehensive exchanges and cooperation, covering central and local authorities.

On May 25 in Almaty, the first joint Kazakh-Chinese presentation of the project “Creating an International Center for Cross-Border Cooperation“ Khorgos ”to attract investments and trading partners” was held. The participants were full of optimism and there really is a reason for this. The importance and prospects of the project is beyond doubt, and the statistics on it is impressive. In 2012, the volume of foreign trade turnover at Khorgos control checkpoints exceeded 11 billion dollars. According to the customs service of the Xinjiang Uygur Autonomous Region, this is 55% more than in 2011. The import volume amounted to \$ 8.6 billion, and the export volume reached the level of \$ 2.4 billion. By 2018, more than 100 projects are planned to be implemented at the expense of entrepreneurs in the ICBC "Khorgos". As expected by the Chinese partners, by 2020 the volume of cargo through the Khorgos checkpoint will reach 20 million tons, by 2030 - 35 million tons.

This is the implementation of the integration of Kazakhstan's products into the global system of production and marketing, the creation of innovative, competitive domestic products in accordance with international standards; creating a favorable investment climate and attracting domestic and foreign investment for investment projects; accelerated development of the region to enhance the entry of the economy of the republic into the system of world economic relations. On the Chinese side, this facilitates the integration of products from the Chinese market in Kazakhstan.

Strengthening of large-scale and mutually beneficial trade and economic cooperation with the People's Republic of China is one of the main directions of the overall strategy for the development of foreign economic relations of the Republic of Kazakhstan. China today is one of

the key trade and economic partners of Kazakhstan. The development potential of the border areas of Kazakhstan is determined by the characteristics of the investment climate, the cost of production factors of the market being mastered and the transaction costs associated with crossing the state border, transport conditions, infrastructure of border crossings and customs posts.

The creation of the FEZ showed that our republic will be able to further develop economic and cultural ties with neighboring countries, and Kazakhstani products will be integrated into the global production and marketing system. According to the authors of the project, Kazakhstan will produce innovative, competitive domestic products in accordance with international standards. In addition, a favorable investment climate will be created, thanks to which domestic and foreign investors will be able to implement their projects, as well as new jobs will appear.

The project showed that, today, transport opportunities in Kazakhstan are considered by experts as new, after the oil and gas industry, a platform for economic recovery and growth. To do this, it is necessary to increase the attractiveness and creation of the most modern efficient transport and logistics system in Central Asia, which should include the widest range of services, competitive tariffs and improved corridors for transit cargo flows on an ongoing basis. It should be noted that this is still not a complete list of the tasks that need to be performed in order to make the most of the existing transit potential of Kazakhstan, which is capable of turning our republic into a leading regional transport power.

So, the People's Government of Xinjiang Uygur Autonomous Region of China is authorized to manage the Center for Cooperation from the Chinese side. The Chinese side considers the main function of the Chinese zone of the Center to conduct trade negotiations, exhibit and sell goods, store and transport them, develop hotel, trade and financial services, hold various international regional trade and economic conferences, etc. In order to promote the development of the Cooperation Center, the Chinese side founded the support zone within the Center is one kilometer from Khorgos Center. The area of this support zone is 9.73 sq. Km, its main functions are the facilitation of import-export, customs logistics, storage and transportation of goods. At present, the Chinese side has completed the creation of infrastructure and the inspection of construction projects, 23.3 billion yuan of investments have already been invested in 15 key facilities located on the Chinese side of the Cooperation Center.

Deepening cooperation with China is one of the priorities of Kazakhstan's foreign policy. There are several key factors that make our relationship special.

First, it is the diversity and effectiveness of the interaction formats. It includes not only direct bilateral cooperation.

All arising questions are solved within the framework of negotiations. The practice of holding regular consultations in the field of security, on key regional and international issues has been established.

Finally, regular contacts at the highest level play an important role, which is evidenced by the regular visits of the PRC Chairman.

Our relations have already "risen" to the stage when we agreed on strategic principles of cooperation and can work on specific projects.

It is necessary to note the diversity of our interaction. Kazakhstan and China strengthen the partnership in several dimensions at once - political, economic, social, cultural. In the economic sphere alone, joint projects cover a wide range of industries. All this makes our relationship harmonious and, therefore, more sustainable.

Finally, in recent years, another important aspect has begun to be clearly manifested - the expansion of Kazakhstan-China cooperation beyond the framework of not only two countries, but also the region of Central Asia. This is especially true of the transport sector, which is caused by objective factors.

It is believed by the authorities' claiming that investments bring the only benefits, but the experience of Kazakhstan and other countries indicates the presence of potential risks. Kazakhstani state government has no proper and functional methods of implementing the informational and explanatory works for the civil society. The Ministries that are responsible for reporting and informing people massively fail their duties. When it comes to China, officials most often focus on the potential profits of diversifying the economy and getting the profits, and trying to avoid the topics of possible threats. However, the current situation in Kazakhstan and outbreaks in the world shows that the fears of the population are not unfounded. Chinese investments to the country are sensitive subject for the civil society in the nearest future. At least, till the period proper works on informing population has been done. For the moment, China issue is a "proper soil" for negative public frustration in every region of the country. On the other hand, the root cause of the potential risks of cooperation is, to a greater extent, in Kazakhstan's internal principles and politics, rather than in the power and efforts of China to advance its interests. As a lack of transparency and presence of corruption create prerequisites for the implementation of revalued and economically inappropriate projects. No doubt, partnership of Kazakhstan with China should take place, but preferably without a debt burden and the primary selling of the strategic assets and agricultural land, while mutual trade and transit of goods may be the best model for coexistence.

The main research question is the Special Economic zone Khorgos is a manifestation of regionalism or regionalization?

The method for finding the answer to the question is based on a comparison between economic and political orientation. That is, to trace changes in the economic and political relations between Kazakhstan and China. The results of the task assigned to the SEZ Khorgos will also be described.

We will choose a certain period of time and conduct a search for news articles, reports of government agencies on the topic of the Khorgos special economic zone in the economic and political aspects, from Kazakh and Chinese sources. And then we analyze all the data and the data analysis will help us answer our main research question: are creating special economic zones regionalism or regionalization?

Thus, the relevance of the research topic is due to the extreme importance of deepening the interstate trade and economic relations of China and Kazakhstan, which are a factor and condition for the further development of national economies in the context of globalization of the world economy.

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## Trade and innovation: from TRIPS to industrial policy solutions for the EAEU countries

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**Abstract.** This paper discusses the relationship between trade and innovation and how it is regulated in the Eurasian Economic Union (EAEU) and its member states. In particular it aims to see how the Republic of Kazakhstan can be integrated into the global technological space on the example of the pharmaceutical industry.

The work uses a doctrinal approach and a comparative analysis method. The doctrinal approach, also known as “black-letter” method, examines primary legal sources such as regulations, cases, etc.

The paper describes the problems of industrial policies of the EAEU countries. It shows the need to adjust the traditional type of industrial policy of the EAEU member states, which focuses on the mining and manufacturing industries. Information technology, biotechnology, nanotechnology, pharmaceutical and other industries are considered as alternatives to traditional sectors. Particular attention is paid to the importance of developing a coordinated industrial policy of the EAEU countries.

The work suggests that in order to integrate into the global technological space, the Republic of Kazakhstan must adhere to an industrial policy based on a combination of its own scientific and technical resources and external sources of technology. Improvement of intellectual property law, competition law and tax law of the Republic of Kazakhstan is considered as one of the methods for attracting external sources of technology to the pharmaceutical industry of the country.

**Keywords:** trade, innovation, industrial policy, Eurasian Economic Union, pharmaceutical industry.

The relationship between trade and innovation has become the subject of growing attention by development experts and policy makers. Technological breakthroughs significantly expand the possibilities for solving the problems of economic development of countries and improving the welfare and quality of life of citizens. Strengthening national innovation capabilities, improves a country's ability to participate in and benefit from the international trading system. More and more countries want to develop innovative industries. The group of technological leaders, which previously included only developed countries, is beginning to include a number of developing countries. Transition countries are also striving to integrate into the global innovation space. This expands the geography of technological development and contributes to overcome the global technological inequality.

According to the Treaty on the Eurasian Economic Union, the organization was created for the economic development of the participating countries and increasing the competitiveness of these countries in the world market.<sup>1</sup> One of the ways to enhance competitiveness in the 21st

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<sup>1</sup> Treaty on the Eurasian Economic Union 2014.



century is to develop innovation. In the industrial policies of the EAEU member states, priority is given to such industries as metallurgy, oil refining, chemical industry, etc. That is, attention is still paid to traditional specializations based on the processing of raw materials. Almost all EAEU countries have an advantage over other countries due to the fact that there are raw materials on their territory. Therefore, it would be inappropriate to stop giving priority to the development of these industries. However, the EAEU countries need to start creating favorable conditions for all industries. The transition to this development model will help the EAEU member states to introduce new areas of activity. These areas can include information technology, biotechnology, nanotechnology, pharmaceutical and other industries that are closely related to innovation. In general, the EAEU is taking only the first steps towards innovative development. To accelerate this process, the EAEU countries need to develop coordinated innovation policies. It is currently being implemented independently from each other. A coordinated innovation policy will contribute to the creation of an interstate innovation space and the pooling of resources of national innovation systems. Thus, the EAEU will be able to create a common market for high-tech goods and services. This author thinks that a coordinated policy based on technological innovations developed both independently by each country and jointly could become the main strategy of the EAEU.

Another problem, the solution of which will contribute to the more active development of innovations in the EAEU member states, is the development of human capital. In the EAEU countries, there is a decrease in the prestige of scientific activities and the insensitivity of industries to innovative technologies. The EAEU member states need to take measures to improve the quality of human capital. One of such measures may be the inclusion of more provisions on the development of human capital in the industrial policies of the EAEU countries. As mentioned earlier, in order to stabilize national economies and enter global markets, the EAEU countries can become promising and profitable partners pursuing an agreed scientific and technical policy. This author thinks that within the framework of this policy, the EAEU member states can also focus on improving the quality of human capital.

The COVID-19 pandemic has had a significant impact on retail. The isolation and social distancing measures that governments have taken to mitigate the impact of the COVID-19 pandemic have led to the rise in online shopping. In the first 9 months of 2020, the size of the retail e-commerce market in the Republic of Kazakhstan amounted to 382 billion tenge. This is almost 2 times as much as in the same period in 2019.<sup>2</sup> The Russian online FMCG market in 2020 amounted to 450 billion rubles against 210 billion rubles at the end of 2019.<sup>3</sup> That is, both in the Republic of Kazakhstan and in the Russian Federation, this market has doubled in relation to the previous year. A positive trend has also been observed in Belarus. Electronic sales in the Republic of Belarus increased by 40% in 2020.<sup>4</sup> In mid-2020, after the state of emergency in the Republic of Kazakhstan was lifted, the number of transactions and the average check in the retail

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<sup>2</sup> PwC Kazakhstan 'Analysis of the Retail E-commerce Market in the Republic of Kazakhstan' (*PwC Kazakhstan*, 2020) <<https://www.pwc.kz/en/assets/e-commerce.pdf>> accessed 13 April 2021.

<sup>3</sup> Finmarket, By the End of the Year, the Growth of the E-commerce Market in the Russian Federation Will Amount to 34% (2020) <<http://www.finmarket.ru/news/5343198#:~:text=По%20оценке%20Infoline%2C%20в%202020,до%202%2C3%20трлн%20рублей>> accessed 13 April 2021.

<sup>4</sup> BelRetail, How Did E-commerce Markets Grow in Different Countries in 2020? (2021) <<https://belretail.by/news/kak-v-godu-rosli-ryinki-e-commerce-v-raznyih-stranah>> accessed 23 March 2021.

e-commerce market continued to grow.<sup>5</sup> That is, despite the fact that buyers had the opportunity to return to offline stores, some of them continued to purchase goods on the Internet. According to statistics from Russian analysts, in 2025 the Russian online FMCG market will increase to 2.3 trillion rubles.<sup>6</sup> Hence, the development potential of this market is high. However, international and national trade rules, which were written to regulate traditional channels of trade, do not have a sufficient impact on the regulation of digital commerce. The WTO could become a platform for such work, but despite the fact that many scientists have repeatedly raised this issue, the WTO has not yet developed such an agreement. The absence of such an agreement poses certain problems for all countries including the EAEU member states. These issues include consumer protection, privacy issues, etc. The states are trying to solve these problems by concluding regional trade agreements (RTAs). The EAEU has such agreements with Vietnam and Serbia. Both of these agreements have provisions on electronic commerce. In the agreement with Serbia, digital trade is regulated by several articles. The RTA with Vietnam has a whole chapter regulating e-commerce. It also contains provisions on such basic concepts of digital trade as electronic authentication (electronic signature), privacy protection, etc. It follows that the adopted EAEU agreements have very limited provisions. While there is no unified agreement on electronic commerce in the world, the EAEU countries should regulate this issue through the relevant chapters in RTAs. Therefore, this author thinks that the provisions in the chapters should be detailed. The EAEU can follow the example of agreements of other countries and begin to include provisions that will govern the applicability of existing WTO rules in RTAs.<sup>7</sup> Also, the EAEU member states need to improve the provisions aimed at consumer and personal data protection. Moreover, the EAEU countries need to constantly update multilateral trade agreements taking into account the development of digital trade.

According to the industrial policies of the EAEU member states, each of them is interested in the development of innovations both within the Union and separately. The state programs of the EAEU countries that regulate industrial policy are similar in terms of goals, objectives, problematic issues of industrial development, mechanisms for implementing state policy, etc. However, despite the large number of similarities, there are differences in the industrial policies of the EAEU member states. For example, the Republic of Belarus leads among the majority of the EAEU countries in innovative development, while the industrial policy of the Republic of Kyrgyzstan does not contain a large number of provisions aimed at the development of innovations. In recent years, the Republic of Kazakhstan has begun to pay more attention to innovative development. This author thinks that the Republic of Kazakhstan can integrate into the global technological space through the development of the pharmaceutical industry.

The pharmaceutical market of the Republic of Kazakhstan is relatively young. Its formation began in the mid-90s. Until 1996, the provision of drugs to the population and state health care was carried out through the State Joint Stock Holding Company "Pharmacy", which

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<sup>5</sup> PwC Kazakhstan 'Analysis of the Retail E-commerce Market in the Republic of Kazakhstan' (PwC Kazakhstan, 2020) <<https://www.pwc.kz/en/assets/e-commerce.pdf>> accessed 13 April 2021.

<sup>6</sup> Finmarket, By the End of the Year, the Growth of the E-commerce Market in the Russian Federation Will Amount to 34% (2020) <<http://www.finmarket.ru/news/5343198#:~:text=По%20оценке%20Infoline%2C%20В%202020,до%202%2C3%20трлн%20рублей>> accessed 23 April 2021.

<sup>7</sup> U.S.-Panama Trade Promotion Agreement, art. 14.1.1. <<https://ustr.gov/trade-agreements/free-trade-agreements/panama-tpa/final-text>>.

owned 1,832 pharmacies. By mid-1996, all pharmacies were privatized.<sup>8</sup> This led to a complete change in the drug supply system. According to official data, since 2009, there has been an increase in the production of pharmaceutical products in the Republic of Kazakhstan.<sup>9</sup> Over the past 11 years, there was only one decline in 2015 by 3%. In general, the production volume increased 2.5 times in 2019 compared to 2013.<sup>10</sup> Due to the spread of COVID-19, the pharmaceutical market of the Republic of Kazakhstan is not only developing steadily, but also showing active growth. Production growth of the Republic of Kazakhstan in the first half of 2020 amounted to 38% compared to the same period in 2019.

In 2020, the Republic of Kazakhstan ranked 25th among 190 countries in the Doing Business ranking, overtaking all the EAEU member states, as well as countries such as Austria, Japan, Spain, etc. Due to the fact that the Republic of Kazakhstan is constantly improving legislation aimed at business development, since 2017 the country has risen by 10 positions in this rating.<sup>11</sup> In its 2020 report, the International Bank for Reconstruction and Development highlighted the benefits of doing business in Kazakhstan, such as simplified business start-up procedures, simplified procedure for obtaining building permits and strengthened access to credit. The fact that the pharmaceutical industry of Kazakhstan has a low concentration and a good business environment makes this market attractive to foreign investors. Based on these data, it can be concluded that the pharmaceutical industry of the Republic of Kazakhstan is attractive for foreign investors.

In the first half of 2020, the Republic of Kazakhstan exported around 26.8 million U.S. dollars worth of pharmaceutical products. The main consumers of pharmaceutical products from Kazakhstan are the member states of the Commonwealth of Independent States (CIS). The Republic of Kazakhstan exports its pharmaceutical products only to a few countries outside the former Soviet Union. To integrate into the global technological space, the Republic of Kazakhstan must adhere to an industrial policy on the basis of a combination of its own scientific and technical resources and external sources of technology. One of the opportunities that the Republic of Kazakhstan can use is R&D outsourcing. Outsourcing is a process when one company hires another company to perform a task or function.<sup>12</sup> Outsourcing is one of the most effective mechanisms for increasing the competitiveness of industrial enterprises. In recent decades, the global outsourcing market services are growing rapidly. More and more technology-oriented companies are outsourcing R&D. In the Republic of Kazakhstan, the R&D outsourcing market is in the stage of formation. Due to the fact that the pharmaceutical industry is actively developing in the Republic of Kazakhstan, this author thinks that there is a potential for the development of R&D outsourcing in the pharmaceutical industry in the country. However, in order to become a country in which R&D outsourcing is actively developing, the Republic of Kazakhstan needs to solve a number of problems. One of these problems is the quality of

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<sup>8</sup> Aequitas 'Pharmaceutical Market of Kazakhstan: History, Main Directions of Development and Current State' (Aequitas, 2015) <<http://aequitas.kz/upload/files/brochures/Обзор%20фармацевтического%20рынка%20Казахстана.pdf>> accessed 13 April 2021.

<sup>9</sup> Ibid.

<sup>10</sup> Center for Trade Policy Development, Export Opportunities of the Pharmaceutical Industry in Kazakhstan (2020) <<http://qaztrade.org.kz/rus/экспортные-возможности-фармацевтиче/>> accessed 12 March 2021.

<sup>11</sup> World Bank Group 'Doing Business 2017' (World Bank Forum, 2017) <<https://www.doingbusiness.org/content/dam/doingBusiness/media/Annual-Reports/English/DB17-Report.pdf>> accessed 14 April 2021.

<sup>12</sup> B Anikin & I Rudaya, *Outsourcing and Outstaffing: High Management Technologies* (2nd edn, Infra-M 2009) 7.

personnel training. The emphasis on this issue should be contained in the country's industrial policy. If the Republic of Kazakhstan has a large number of highly qualified scientists, they will be able not only to develop completely new pharmaceutical products, but also analogs of drugs. Problems associated with generics are among the main problems that exist in the pharmaceutical world today. After a new pharmaceutical product has entered the market, competitors are rapidly releasing a drug with a similar effect. In order to deprive competitors of the opportunity to release an analogue, the manufacturer of the original product can develop such an analogue itself. However, this practice has not yet become widespread. Large companies devote all their efforts to the development of completely new drugs and therefore do not have the ability to produce analogs. This author thinks that large companies can outsource the production of analogs of products to companies from countries such as the Republic of Kazakhstan. Thus, large pharmaceutical companies can develop new drugs themselves and outsource the development of analogs. This model of interaction can attract companies from Kazakhstan because it allows them to learn from the experience and developments of large pharmaceutical companies. Another model of interaction can be the refinement of research that large companies have. Sometimes companies start developing new drugs, but for some reason they cannot continue this process. In this case, they can transfer these developments to other companies on an outsourcing base. In addition, sometimes customer companies want to save money and outsource developments to countries with lower labor costs. Therefore, the Republic of Kazakhstan can look attractive in this interaction model as well.

Since the Republic of Kazakhstan gained independence, the country has been interested in receiving foreign investment. During this time, the country has tried various models of attracting investment. Many of them have proven their effectiveness. Therefore, this author thinks that they can help in attracting investment in the pharmaceutical industry. However, according to the legislation of the Republic of Kazakhstan, not all of these models can be applied to the pharmaceutical industry. Benefits and preferences in the Republic of Kazakhstan depend on whether the project is normal, strategic or priority. Investment projects in the pharmaceutical industry can only apply for benefits for normal projects and get exemption from customs duties and value added tax on imports.<sup>13</sup> An investment project in the pharmaceutical industry based on a contract that will be concluded in the future cannot be classified as strategic projects, because strategic projects are projects implemented on the basis of investment contracts concluded before January 1, 2015.<sup>14</sup> The Republic of Kazakhstan needs to include the pharmaceutical industry in the list of priority areas. In this case, it will be possible to apply benefits and preferences of priority projects to investment projects in the pharmaceutical industry. These measures include tax incentives (corporate income tax - 0%, land tax - 0%, property tax - 0%)<sup>15</sup> and guarantees of the stability of legislation in the areas of taxation and the attraction of foreign labor.<sup>16</sup> The guarantee of the stability of legislation is an attractive incentive for investors. Because the legal and judicial systems are the reasons why investors do not enter the market. The normal project

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<sup>13</sup> Kodeks Respubliki Kazakhstan ot 29 oktyabrya 2015 № 375-V “Predprinimatel’skii kodeks Respubliki Kazakhstan” [The Code of the Republic of Kazakhstan dated October 29, 2015 No 375-V ‘Entrepreneurial Code of the Republic of Kazakhstan’], article 283.2.

<sup>14</sup> Ibid, article 289.1.

<sup>15</sup> Kodeks Respubliki Kazakhstan ot 29 oktyabrya 2015 № 375-V “Predprinimatel’skii kodeks Respubliki Kazakhstan” [The Code of the Republic of Kazakhstan dated October 29, 2015 No 375-V ‘Entrepreneurial Code of the Republic of Kazakhstan’], article 290.2.

<sup>16</sup> Ibid, article 289.1.

does not provide such opportunities, so it may not attract much investor attention. In addition to the fact that foreign investors in the Republic of Kazakhstan are provided with a number of customs and tax benefits, there is a mechanism for granting benefits depending on the territory in which the company operates. A special economic zone is a part of the territory of the Republic of Kazakhstan with precisely defined borders, on which a special legal regime of a special economic zone (SEZ) operates for the implementation of priority activities.<sup>17</sup> There are 13 special economic zones in the Republic of Kazakhstan. Residents of a special economic zone on the territory of the Republic of Kazakhstan are provided with tax incentives. The tax incentives that are provided to residents of special economic zones include such benefits as the sale of goods at a zero VAT rate, exemption from VAT when importing goods as part of finished products produced in the territory of the SEZ, etc. This author thinks that residency in a special economic zone is a good opportunity for foreign investors in the pharmaceutical industry. However, in Kazakhstan there is a problem related to this. Each free economic zone has priority activities. If the company carries out an activity that is a priority in this SEZ, the amount of the calculated corporate income tax (CIT) is reduced by 100% in terms of income arising from the implementation of the activity. Of the 13 special economic zones, only the priority areas of 4 zones include the pharmaceutical industry. That is, only companies that are located in one of these 4 zones can count these benefits. If the Republic of Kazakhstan wants to develop the pharmaceutical industry, the list of priority areas of the SEZ that will be created in the future should include the production of pharmaceutical products.

In addition to improving tax legislation, the Republic of Kazakhstan needs to improve legislation in other areas of law. In addition to improving tax legislation, the Republic of Kazakhstan needs to improve legislation in other areas of law. These areas of law include competition law. One of the problems that can arise after new innovative companies enter the market are “killer acquisitions”. “Killer acquisitions” is the process whereby incumbent players acquire new companies and stop developing their products. According to statistics in the pharmaceutical sector, 6% of all new business acquisitions are murderous. It follows that about 50 “killer acquisitions” are made annually.<sup>18</sup> The anti-competitive nature of such transactions is clear. They hinder the innovative development of industries, strengthen the positions of dominant companies, increase economic concentration in the market and make it difficult for new independent players to enter the market. This author thinks that “killer acquisitions” can become dangerous for the innovative development of the Republic of Kazakhstan. There is a risk that in this case the country will be unable to implement either R&D outsourcing or other forms of integration into the global technological space, because the “killer acquisition” of one of the companies can occur at any moment. Therefore, the Republic of Kazakhstan needs to start improving legislation related to “killer acquisitions” in the near future. There are several possible solutions to this problem. One solution to this problem is to thoroughly investigate new firm acquisitions. Enhanced acquisition verification minimizes the risk of violation of law enforcement. Merging parties will be subject to more detailed requests for information and may need to provide more evidence to refute fears of potential anti-competitive consequences.

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<sup>17</sup> Zakon Respubliki Kazakhstan ot 3 aprelya 2019 № 242-VI “O special’nyh ekonomicheskikh I industrial’nyh zonah” [The Law of the Republic of Kazakhstan dated April 3, 2019 No 242-VI ‘On Special Economic and Industrial Zones’], article 1.

<sup>18</sup> Organization for Economic Co-operation and Development ‘Start-ups, Killer Acquisitions and Merger Control’ (*Organization for Economic Co-operation and Development*, 2020) <<http://www.oecd.org/daf/competition/start-ups-killer-acquisitions-and-merger-control-2020.pdf>> accessed 16 April 2021.

However, in order to begin to conduct an investigation, the Agency for protection and development competition needs to find out about the process of acquiring new firms. The Republic of Kazakhstan can follow the example of Germany. In 2017, Germany amended the Act against Restraints of Competition, which obliges companies to notify the agency about the merger.<sup>19</sup> This Act sets the size of the transaction threshold. This author thinks that if the Republic of Kazakhstan introduces such a norm in its legislation, it will help the Agency for the Protection and Development of Competition to initiate an investigation. Another way to solve this problem is to allow the Agency for protection and development to conduct investigations after the acquisition has been made. The legislation of the Republic of Kazakhstan must establish a period after the acquisition during which the agency will be able to conduct an investigation. In this investigation, the Agency for protection and development will determine whether the acquisition was a “killer acquisition” or not.

The conducted research allows the author to draw the following conclusions:

1. The EAEU countries are united by a common past and similar problems. In an effort to stabilize national economies and enter global markets, the EAEU member states can become promising and profitable partners pursuing an agreed industrial policy.

2. One of the main conditions for enhancing innovation is the presence of highly qualified specialists. Therefore, in the EAEU countries, it is necessary to create the most favorable conditions for the training of highly qualified personnel.

3. Over the past few years, digital trade has been actively developing all over the world. However, international and national trade rules, which were written to regulate traditional channels of trade, do not have a sufficient impact on the regulation of digital commerce. Therefore, the EAEU countries need to pay more attention to the provisions on digital trade in RTAs.

4. In modern conditions, the development of the pharmaceutical industry is one of the key conditions for economic growth and the transition of the domestic industry to an innovative development model. Therefore, the Republic of Kazakhstan needs to increase the innovative potential of the industry by improving the industrial policy and legislation of the country. Improving competition law is one of the key factor in the country's innovative development. In the Republic of Kazakhstan, the issue of regulating “killer acquisitions” is still unresolved. While this issue remains unresolved, there is a risk that the country will not be able to implement any form of integration into the global technological space, because the “killer acquisition” of one of the companies can occur at any moment.

6. The Republic Kazakhstan pays much attention to strengthening the existing scientific and technical potential. However, external factors are not sufficiently involved. In this regard, for the development of the pharmaceutical industry, this author proposes to use such external source as R&D outsourcing.

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<sup>19</sup> Ibid.

# **The concept of control under EU and KZ competition law for private equity investment**

**Botagoz Arystanbekova and Claudio Lombardi, Ph. D. (Supervisor)**

## **Abstract**

The possibility of allocating commercial risks and confidentiality of control on the part of the owners are two main features of the organization of the holding company that contribute to the widespread use of this form nowadays in private equity investment. A holding company is an organization that owns a controlling interest or share in the capital of other subsidiaries for the purpose of permanent control and management of their activities. Possession of controlling stakes (shares) allows the holding company (parent company) to pursue a unified economic, investment, management policy for all subsidiaries and monitor the observance of the interests of their owners as well as well proper controlling in private equity which is integral part of market economy. In such cases concept of control is considered by different legal doctrines from various perspectives. However, exactly Competition law requires a careful assessment of existing provisions and legal entities structures and control issues in private equity and careful attention to how competition policy will be implemented in relation to market entities.

Nowadays there is no singular interpretation of control in different competition laws. That is why quite often rises questions on what the control may constitute. This work analyzes from a comparative perspective the concept of control under EU and Kazakhstan competition law for private equity investment.

In the process of work, a analyze will be carried out on the basis of comparative method in relation to the law of the EU and existing Kazakh national system in competition law, relevant doctrinal sources and judicial practice, as well as law enforcement practice, including judicial, of the Eurasian Economic Commission. The issue becomes especially relevant from the prism of the parent company's responsibility for violation of the antimonopoly legislation by the subsidiary companies. Based on collected data and research will be made conclusions in terms of improving the law enforcement and practices regarding regulatory gaps, and key issues in competition law of Kazakhstan from the perspective of control in private equity investment.

**Keywords:** control, undertaking, group of persons, legal entity

## **1.1 Research outline**

The theoretical and practical significance of this research is that it attempts to define the concept of control in competition law based on the analysis of various approaches. Research materials can be used in the future in the development of the concept of control for the development of competition and corporate legislation. Conclusions and provisions contained in the paperwork, can be used in the educational process when teaching disciplines "Civil Law", "Business Law", "Competition law", serve as a basis for further theoretical research.

The practical significance of the work is associated with specific proposals and recommendations for improving the current legislation. Given the above, the purpose of this assessment is to analyze the concept of control in the provisions of the Law on Competition in Kazakhstan and European Union, and, compare the effectiveness of its implication for enforcement, review of experiences, define effective practices, and give some recommendations aimed to developing competition law regulations.

Within the framework of the study analyzed the experience of regulating concept of control in the legislation of the Kazakhstan and European Union. The research results can be used in deciding the question of the formation of an approach to understanding the concept of control in the legislation of the Kazakhstan. The findings can be perceived in practice, in including in the work of antimonopoly authorities.

Chapter one substantiates the relevance of the topic of the paperwork research, goals and objectives of research, methodological and theoretical foundations research, the degree of development of the research topic in the literature, scientific novelty, theoretical and practical significance of the work; the objectives are defined, the main provisions are formulated, submitted to the defense.

Chapter two elaborates on the main concepts used in the paper in more detail. Comparing general understanding of concept of control and notions related to concept for clarifying the understanding of the definition in two different competition legislation. The chapter contains different opinions of scholars on relevant theme of the thesis work which supports the reasons staying behind of such definitions.

Chapter three contains a comparative analysis and supporting schemes on the concept of control under EU and KZ competition law for private equity investment. The last chapter summarizes research findings and makes recommendations.

## **1.2 Background of the problem**

The word 'control' means exercising direction and command over things<sup>1</sup>. But this simple definition does not hold water in the complex and dynamic world of market relations from the perspective of competition law. Nowadays there is no singular interpretation of control in different competition laws. That is why quite often rises questions on what the control may constitute. This work analyzes from a comparative perspective the concept of control under EU and Kazakhstan competition law for private equity investment.

## **1.3 Objectives of the research**

The paper aims to study of the legal concept of control. Analysis control are assumed in the aspect of competition law. For achieving this goal in the work, the following main tasks can be distinguished:

- definition of the concept of "control" in legal aspects and the relationship of this concept with the concepts of "group of persons " and "single market entity" in the legislation of the Kazakhstan;
- study of the relationship between foreign and domestic legislation when qualifying a group of persons/persons;
- analysis of the legal nature of individual methods of establishing control in a group of persons;
- formulation and justification of proposals for developing.

## **1.5 Methodology**

The methodological basis of the thesis work is general scientific, in particular methods of system analysis, and synthesis, logical, comparative, descriptive, formal legal methods.

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<sup>1</sup> <https://www.dictionary.com/browse/control>



## **Chapter 2. Definition**

### **2.1. Concept of control in private equity of Kazakhstan and EU;**

I.S. Shitkina notes that in different legal systems different meanings are put into the term "corporate control": "if in continental law control is considered as supervision, verification of the activities of certain persons, then in common law, control is understood as domination over a corporation", and not simple influence on the activities of the corporation <sup>2</sup>.

According to article 169 paragraph 6 of Entrepreneurial Code of the Republic of Kazakhstan № 375-V dated 29 October 2015 (with amendments and additions as of 27.03.2021) control is understood as the ability of an individual or legal entity, directly or indirectly (through a legal entity or through several legal entities), to determine decisions made by another legal entity through one or more of the following actions:

- 1) disposal of more than fifty per cent of the voting shares (stakes in the authorized capital, shares) of a legal entity;
- 2) performing the functions of the executive body of a legal entity;
- 3) obtaining the right to determine the conditions for conducting entrepreneurial activities of market entities or to give these market entities mandatory instructions in accordance with a public-private partnership agreement, a complex entrepreneurial license (franchising), a license agreement or other agreement between the rightsholder (a person authorized by the rightsholder) and by market participants on the organization of the sale of goods under a trademark or other means of individualization of the copyright holder.

Definition to "control" is given for the purposes of excluding intra group agreements (within one group of persons) from anticompetitive agreements list breaching competition legislation of the Republic of Kazakhstan. Such exclusion requires compliance with the following two conditions:

- (1) Belongings of market entities to one group of persons which determined by the provisions of Article 165 Entrepreneurial Code of the Republic of Kazakhstan;
- (2) The existence of a control relationship between these market entities or between these market entities and a third party.

This appears to be an exception for intra-group agreements due to the fact that within the same group, being in relations of control, from the point of view of the market, such entities are actually perceived as a single economic entity pursuing one goal. Competition is impossible between such entities, therefore agreements between such entities are not subject to the relevant anti competition prohibitions. The paragraph 30 of the Methodology for analysis and assessment of the state of the competitive environment on the commodity market approved by the Order of the Minister of National Economy of the Republic of Kazakhstan dated November 30, 2015 №741 contains a similar provision and according to which the market entities, operating in the product market and constituting a group of persons are considered as one market entity.

Similarly, under EU legislation control is defined as the ability to exercise decisive influence on a company and this issue is resolved in EU legislation in the same way.

It is vital to note that the Entrepreneurial Code of the Republic of Kazakhstan does not contain an exact detailed definition of the concept of a group of persons, however contains an exhaustive list of characteristics, the presence of which is the subject for defining the group of persons for the purposes of regulating economic concentration under Section 4 of the

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<sup>2</sup> Shitkina I. Preimusestva i nedostatki v holdingovoi modeli organizacii biznesa / Hozyastvo i pravo. - Moskva 2005. - № 2. - p. 67-70

Entrepreneurial Code of the Republic of Kazakhstan. The importance of ascertaining of a group of persons is that, as indicated in Article 165 paragraph 2 of the Entrepreneurial Code of the Republic of Kazakhstan, a group of persons is considered as a single subject (market entity) of the market. It should be noted that this approach is applicable only for the purposes of regulating economic concentration. In other areas of legal regulation, persons, entities belonging to one group of persons according to the commented article are, as a rule, independent subjects (market entities). Thus mean “one company - one legal entity” approach. A “group of persons” is a set of individuals and (or) legal entities that meet one or more of the 9 characteristics specified in Article 165 of the PK RK.

Currently, in the definition of the term "group of persons" in Article 165 of the PK RK, the concept of control (economic interest) is not used, however, in accordance with Article 165 paragraph 8, clause 1 of the Entrepreneurial Code of the Republic of Kazakhstan, it is possible to establish groups of related persons who have common interests, and at the same time - several centers of control. It is very important to correctly define a group of persons in antimonopoly practice, first of all, when exercising state control over economic concentration and determining the dominant position of a market entity.

## **2.2 Concept of undertaking in EU competition law;**

Whereas in EU competition law the definition of a group of economic entities is indicated through an assessment that necessary and sufficient for the qualification of a group of persons/ persons. Established case law following Höfner<sup>3</sup> holds that the concept of an undertaking encompasses every entity engaged in an economic activity, regardless of the legal status of the entity and the way in which it is financed<sup>4</sup>.

Another common definition defines the concept of undertakings as a designated ‘economic unit’: ‘It is clear from settled case-law that, in competition law, the term ‘undertaking’ must be understood as designating an economic unit for the purpose of the subject-matter of the agreement in question even if in law that economic unit consists of several persons, natural or legal’<sup>5</sup>

Considering the features of the first criterion, it should be noted that an approximate list of grounds for classifying undertakings as persons is established in Art. 3 (1) Council Rules EC No. 139/2004 of January 20, 2004, Council Regulation EC No. 4064/89 of December 21, 1989<sup>6</sup>.

If we talk about the second criterion, then the subject of regulation of the antimonopoly legislation within the European Union is an «undertaking» as an economic unit. Moreover, the "undertaking" is interpreted in competition law as a single subject of regulation, regardless of whether it is registered as an independent organization (individual entrepreneur). At the same time, it is important consider the following: persons must act in a common economic interest and

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<sup>3</sup> Case C-41/90 Klaus Höfner and Fritz Elser v Macratron GmbH [1991] ECR I-1979, paragraph 21.

<sup>4</sup> Case C-41/90, Höfner and Elser v Macrotron [1991] ECR I-1979 paragraph 21, T-513/93 CNSD [2000] ECR II-01807 paragraph 36, T-314/01 Avebe [2006] ECR II-03085 paragraph 78, T-155/04 SELEX Sistemi Integrati SpA v Commission of the European Communities [2006] ECR II-04797 paragraph 55, T-217/03 French Beef [2006] ECR II-04987 paragraph 52, Case C-159/91 Poucet and Pistre v AGF and Cancava [1993] ECR I-00637 paragraph 17, Case C-244/94 Federation Française des Sociétés d'Assurance [1995] ECR I-4013, paragraph 14

<sup>5</sup> Case T-66/99 Minoan Lines [2003] ECR II-05515 paragraph 21, Case 170/83 Hydrotherm (1984) ECR 2999 paragraph 11, Case T-234/95 DSG v Commission (2000) ECR II-2603 paragraph 124

<sup>6</sup> Commission Notice on the concept of concentration under Council Regulation (EEC) No 4064/89 on the control of concentrations between undertakings // Official Journal of the European Communities, 1998, P. 66/5 // <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1998:066:0005:0013:EN:PDF>

control must be established between these persons. In regulatory practice questions arise in connection with how to interpret the establishment of control between persons and the fact of its existence at the time of the consideration of the case by the European Commission.<sup>7</sup>

In clarifications on the enforcement of antimonopoly legislation within the European Union, it is noted that the qualification of a group of persons considers the establishment of control on the basis of quantitative and qualitative criteria<sup>8</sup>. Thus, when analyzing the circumstances of the case within the framework of the European Union, the European Commission considers the establishment of control over de facto undertaking.

Under Kazakh legislation the main feature of all the attributes of a group of persons is the presence of control or influence of one person, entity in relation to another person, entity and (or) the activities of another person, entity. The first attribute is based on the existence of “shareholder” control. In these cases, control of one person, entity over another arises due to one person, entity having the right orders of more than 50% of voting shares (stakes in authorized capital, shares) of another one person, entity. As a rule, the number of votes corresponds to the number of shares (the size of the shares in the authorized capital), in respect of which there is the right to dispose. In other words, as a rule, a person has the right orders of more than 50 percent of the votes, if it has the right orders in respect of more than 50 percent of shares (shares of participation in authorized capital). However, in case of joint stock company we shall be carefully review not only common shares but also preference shares. It shall be effective to check the status of preference shares on the subject of the possibility of voting on all issues related to competence of the general meeting of shareholders. In the case of a limited liability partnership, as a general rule, size of a participant's participation interest when voting at a general meeting of participants determines the number of votes corresponding to his participation interest in the charter capital, except for cases when a different procedure for determining provided for by the legislation of the Republic of Kazakhstan (in particular, on the issue of choosing the chairman and secretary of the meeting) or the charter.

In the latter case, in view of the ambiguity of the law, there is position according to which the charter of a limited partnership responsibility may provide for a different procedure for determining the number of votes of a participant, regardless of the size of the his participation interest. Whereas in contrast, there is no specific shareholding or other threshold for control to be established in EU legislation from competition law perspective, and each case is decided on the facts. In law enforcement practice shown, that EU countries quite widely interpreted and linked the concept to the doctrine of parental liability. For example, in case of the Goldman Sachs Group versus Commission the General Court of the EU has confirmed a strict application of the parental liability rule to private equity investors. According to the doctrine of single economic entity, private equity funds can be found liable for the imposed competition fines on the basis of the presumption of actual exercise of control and decisive influence.

The second attribute is based on having effective control. According to article 165 paragraph 1 subparagraphs 2 of the Entrepreneurial Code of the Republic of Kazakhstan forms a group of persons with a market entity if the person carries out functions of the sole executive body of a market entity. It should be noted that the current legislation of the Republic Kazakhstan provides

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<sup>7</sup> Van Bael and Bellis. Competition law of the European Community. 2005. P. 37–38.

<sup>8</sup> Commission Notice on the concept of concentration under Council Regulation (EEC) No 4064/89 on the control of concentrations between undertakings // Official Journal of the European Communities, 1998. P. 66/5 // <http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:1998:066:0005:0013:EN:PDF>

for the possibility of performing functions of the executive body of a legal entity only by an individual. A legal entity cannot perform the functions of a sole proprietor the executive body of the Kazakhstan legal entity. In this way, a person performing the functions of an executive body of a market entity of Kazakhstan legal entity, and on this basis entering with it one group of persons, there can only be an individual. Unlike Kazakhstan, some jurisdictions allow engaging another legal entity to perform functions sole executive body (for example, a management company) market entity. EU countries can be example of that. For instance, France, the Netherlands. Accordingly, at determining the group of persons of a foreign company must be taken in attention to the possibility that not only an individual, but also a legal entity may act as an executive body of another legal entity. Civil Code of the Republic of Kazakhstan Article 94 paragraph 1 clearly stipulates subsidiary liability of main company which is example of parental liability implementation in Kazakhstan as well. Kazakh competition law also applies doctrine of single economic entity to the group of persons in competition legislation (Entrepreneur Code of the Republic of Kazakhstan Article 165 paragraph 2), however there is no law enforcement evidence based on suit cases which casts doubt on the application in practice in comparison with EU.

Corresponding control can also arise in case of financial dependence of undertakings or from family ties. Acquisition of indirect control in Germany refers to one of the forms of concentration. The law establishes such criteria as establishing control over an enterprise through another person (for example, if an enterprise fully controls another, and the controlled enterprise has control in another enterprise, then the “first” enterprise has indirect control in the third enterprise). According to EU Regulation No. 1360/2004 of January 20, 2004, indirect control is allowed when an enterprise has the appropriate control ability to use through another enterprise by using its rights in another enterprise (for example, trust management of property to a person who controls another person)<sup>9</sup>. Kazakh legislation in this matter proceeds from the criterion of legal certainty established in Article 165 Entrepreneurial Code of the Republic of Kazakhstan<sup>10</sup>.

### **Chapter 3. Conclusion**

Based on the above, we can conclude that when qualifying a group of persons in the legislation of EU, much attention is paid to the presence of indirect control and corporate control as the basis for the emergence of a group of persons. It seems that these fundamentals of control should be perceived in the legislation of the Kazakhstan when qualifying control in society. Besides EU competition law considers the control through the ancestral relationship, whereas Kazakh competition law no hint of establishing the concept of kinship control which is very actual and relevant for Kazakh mentality. It shall be noted that for individuals, control is determined only through participation in the executive body of the undertaking, while in the EU, it can be both legal entities and individuals.

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<sup>9</sup> EU Regulation No. 1360/2004 of January 20, 2004

<sup>10</sup> The Entrepreneur Code of the Republic of Kazakhstan dated October 29, 2015 No. 375-V ZRK.

# Application of Anticorruption Laws of the Republic of Kazakhstan in Public Procurement

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*“Corruption is not just an infringement. It undermines belief in the effectiveness of the state and represents a direct threat to national security”.*

*N. A. Nazarbayev, “Strategy “Kazakhstan-2050”,  
New Political Course of the Established State”*

## Abstract

Being an extremely sensitive issue, corruption has always been the most confounded area for common policies. Complications also resulted in evaluation methods of both corruption levels and impacts of anti-corruption policies, which are still based on perception surveys and re-evaluation of applied legislative acts.

According to the 2019 National Anticorruption Report of the Republic of Kazakhstan every sixth corruption incident of all corruption crimes, incurred within the public procurement sector. Common corruption schemes identified in public procurement procedures include but are not limited to the abuse of discretion and favoritism, as well as fraud and bribery risks.<sup>1</sup>

The Covid-19 pandemic has also highlighted corruption challenges of many countries, where Kazakhstan is not an exception. While everyone on the planet Earth has been watching with concern as the pandemic continued to spread throughout the world, citizens of countries with higher corruption risks were not able to receive proper health care services.<sup>2</sup>

Based on the Ministry of Finance data Kazakhstan spent 8.5% shares of the country’s total GDP on Public Procurement in 2020. This represents Public Procurement spend of US Dollars 13.9 billion vs. total GDP of US Dollars 163.2 billion.<sup>3</sup> Consecutively, being a US Dollars 13.9 billion business, Public Procurement has been proven to remain government’s most vulnerable to corruption activities.

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<sup>1</sup> National Report of the Republic of Kazakhstan on Anticorruption Measures for 2019, Nur-Sultan, 2020 <http://zkocontrol.kz/images/01/doc/2019ru.pdf>, accessed 19 Mar 2021.

<sup>2</sup> Jonathan Cushing, Vaccination against Corruption, (Transparency International, 13 Nov 2020)

[https://www.transparency.org/en/blog/vaccinating-against-corruption?utm\\_source=newsletter&utm\\_medium=email&utm\\_campaign=weekly-29-01-2021](https://www.transparency.org/en/blog/vaccinating-against-corruption?utm_source=newsletter&utm_medium=email&utm_campaign=weekly-29-01-2021), accessed 29 Jan 2021

<sup>3</sup> Report on public procurement of goods, works, services for 2020 (Public procurement web portal of the Republic of Kazakhstan, Mar 2021), <https://v3bl.goszakup.gov.kz/ru/rep/rep/m001/code/m001/act/rePCR>, accessed 21 Mar 2021

Corruption risks of public procurement sector are also exaggerated due to the complexity of the process, as well as multilevel interactions between public and government officials and businesses.

Law on Public Procurement requires pre-selection of potential suppliers before the main tender evaluation starts<sup>4</sup>. This has created unsubstantiated rejections of bid proposals. Hence, the aforementioned legal provision is also viewed as a loophole in the Law which jeopardizes other anticorruption measures taken in the Public Procurement process.

Moreover, uncertainties in bid application procedures established by the applicable laws within public and quasi-public procurement sectors, resulted in additional requirements set by public organizations during and post-tendering process. This maybe another result of officials' improper influence, leading to cancelations of competitive bids. According to the Ministry of Finance data, 65.9% of total "single sourced" procurement awards were awarded so due to *canceled* tenders.<sup>5</sup>

Improper influences of public officials due to bribes, "kickbacks" or other facts of conflicts of interest resulting in unjustified selection of suppliers in public procurement, often lead to loss of public funds in a particularly large scale.<sup>6</sup> Fraud or theft of public (state budget) funds *may* also be caused by the use of official position for self-benefits, including but not limited to creation of dummy corporations to hide awards.

Meanwhile, it's worth to highlight that Kazakhstan has taken a number of actions to positively impact on corruption perception of the country since it entered into the OECD Istanbul Anti-Corruption Action Plan in 2015 with other nine countries from Eastern Europe and Central Asia.<sup>7</sup> Anticorruption legislation acts of Kazakhstan have yet to be developed further and require improvements to ensure associated risks are mitigated.

Anticorruption laws of Kazakhstan have been modified since it was first introduced through implementing more rigorous punishment measures, as well as clarifications identifying individual roles and responsibilities. The thesis [research] will also provide analyses of current laws in connection with recent changes. Results of analyses also include downside of increased level of procedural requirements, which *may* potentially create its own corruption risks due to additional bureaucracy levels.

## **Part I – Introduction**

### **Corruption at the top: what doesn't work anyway?**

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<sup>4</sup> The Law on Public Procurement of the Republic of Kazakhstan dated December 4, 2015 No. 434-V, Article 13

<sup>5</sup> Report on public procurement of goods, works, services for 2020 (Public procurement web portal of the Republic of Kazakhstan, Mar 2021), <https://v3bl.goszakup.gov.kz/ru/rep/rep/m001/code/m001/act/reprcr>, accessed 21 Mar 2021

<sup>6</sup> National Report of the Republic of Kazakhstan on Anticorruption Measures for 2019, Nur-Sultan, 2020 <http://zkocontrol.kz/images/01/doc/2019ru.pdf>, accessed 19 Mar 2021.

<sup>7</sup> Anticorruption reforms in Kazakhstan (OECD, 2017) [www.oecd.org/corruption/acn/istanbulactionplan](http://www.oecd.org/corruption/acn/istanbulactionplan), accessed 19 Mar 2021

Money laundry, fraud, bribery scandals reported in social media during the pandemic exposed massive corruption crimes in 2020.<sup>8 9</sup>

Probably everyone has seen shocking headlines with the largest fine to date which has been imposed under the United States Foreign Corrupt Practices Act on the global investment bank Goldman Sachs for its involvement in the 1 Malaysia Development Berhad (1MDB) scandal.<sup>10</sup> As a result, Goldman Sachs' worldwide penalties to date, has reached a US Dollars 5 billion milestone.

Beginning of the story of a man who managed to “Fool Wall Street, Hollywood, and the World” was published in the “Billion Dollar Whale” book of 2018.<sup>11</sup> Almost every chapter of the book describes “red flags” which were identified and highlighted by bank's compliance function<sup>12</sup>. So, what did go wrong in the system?

In brief, overall reason was in leadership and the culture: bank's senior and mid-level leadership failed to recognize and escalate concerns about bribery and other criminal conduct related to the 1MDB project, despite bank's established policy.<sup>13</sup>

There is one more high-profile corruption case of 2020 from another “possibly” corruption-free country. In early 2020 a global aircraft provider Airbus, settled to pay penalties of US Dollars 4 billion in the United States, France and the United Kingdom<sup>14</sup>. As a result of lengthy investigations held in various countries it was identified that Airbus bribed public officials of numerous countries through intermediaries to buy planes and satellites. It's worth to highlight that initial investigations began based on allegations of a whistleblower, who reported Airbus's bribery scheme. This proves how hotline allegations are important and how much attention should be paid by law enforcement organs to investigate alleged corruption accordingly.

Companies from relatively corruption-free countries may potentially bribe officials of countries with higher corruption perception, where these companies operate in. For instance, Goldman Sachs was alleged for wrongdoings such as bribery and money laundry mainly in Malaysia, whereas Airbus was claimed for bribing officials of China, Ghana, Taiwan, Malaysia and etc.

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<sup>8</sup> Katherine Ellena, Alexandra Brown, Chelsea Dreher, Preventing Government Corruption in Crises (International Foundation for Electoral Systems, Aug 2020) [https://www.ifes.org/sites/default/files/ifes\\_covid-19\\_briefing\\_series\\_preventing\\_government\\_corruption\\_in\\_crises\\_august\\_2020.pdf](https://www.ifes.org/sites/default/files/ifes_covid-19_briefing_series_preventing_government_corruption_in_crises_august_2020.pdf), accessed 1 Apr 2021

<sup>9</sup> The number of corruption cases increased by 11% in Kazakhstan (translated) (Kursiv, 24 Sep 2020) <https://kursiv.kz/news/obschestvo/2020-09/v-kazakhstane-kolichestvo-faktov-korupcii-uvelichilos-na-11>, accessed 1 Apr 2021

<sup>10</sup> Callum Burroughs and Yusuf Khan, The bizarre story of 1MDB, the Goldman Sachs-backed Malaysian fund that turned into one of the biggest scandals in financial history (Business Insider, 9 Aug 2019) <https://www.businessinsider.com/1mdb-timeline-the-goldman-sachs-backed-malaysian-wealth-fund-2018-12>, accessed 1 Apr 2021

<sup>11</sup> Tom Write and Bradley Hope, Billion Dollar Whale (Hachette Books, 2018),

<sup>12</sup> Tom Write and Bradley Hope, Billion Dollar Whale (Hachette Books, 2018),

<sup>13</sup> Matt Kelly, ‘Goldman Sachs’ Giant FCPA Deal (Radical Compliance, 22 Oct 2020)

<https://www.radicalcompliance.com/2020/10/22/goldman-sachs-giant-fcpa-deal/>, accessed 1 Apr 2021

<sup>14</sup> Liz Alderman, Airbus to Pay \$4 Billion to Settle Corruption Inquiry (New York Times, 31 Jan 2020) <https://www.nytimes.com/2020/01/31/business/airbus-corruption-settlement.html>, accessed 1 Apr 2021

Kazakhstan is a young country with numerous opportunities for foreign investors. In line with huge amounts invested in the country by foreign private entities, the government constantly looks for alternatives to reinvest such funds into different projects to develop country's infrastructure. This results in increased public procurement turnover of Kazakhstan. Therefore, public procurement sector of Kazakhstan becomes the most vulnerable area, where corruption is perceivable.

### ***A. Scope and objectives***

The objective of this thesis [research] paper is to evaluate the effectiveness of the measures adopted by Kazakhstan authorities to prevent corruption, including but not limited to corruption in public procurement sector.

This [research] paper contains analyses of local corruption cases which results made available to the public recently, and reflect efforts taken by law enforcement organs, as well as their achieved results.

The first chapter of this thesis' [research] main body will be focused on a legal case, involving the Ministry of Health of Kazakhstan in 2020. The alleged corruption within Ministry's public procurement activities resulted in wide public criticism during the pandemic. Through analyses of the case limitations and improvements of public procurement legislation, as well as anticorruption laws, will be described.

Further chapter will provide legal narratives, including analyses of anticorruption measures taken in Kazakhstan for the past four to five years i.e., since Kazakhstan joined the OECD Istanbul Anti-Corruption Action Plan in 2015 and began anticorruption reforms accordingly. Also, the chapter will focus on current changes in Kazakhstan's anti-bribery reformations through evaluating their benefits and downsides.

## **Part II – Main Body**

### ***A. Chapter I Case Study: Corruption risks in healthcare organization's public procurement activities.***

The COVID-19 pandemic has imposed unimaginable and unprecedented changes on our daily lives and community. In the meantime, it's been observed that the pandemic is not just a health and economic crisis but also a corruption crisis: citizens of countries with higher corruption risks were not able to receive proper health care services in 2020.<sup>15</sup> Kazakhstan

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<sup>15</sup> Jonathan Cushing, Vaccinating against corruption (Transparency International, 13 Nov 2020) <https://www.transparency.org/en/blog/vaccinating-against-corruption#> , accessed 29 Jan 2021



was not an exception, where citizens had to face with dramatic deficit of common medications and being unable to treat their other diseases.<sup>16</sup>

It has been reported that deficiency of medications in Kazakhstan during 2020 was allegedly caused by improper management of one organization only. Further investigations were conducted by the Anticorruption Agency of Kazakhstan in 2020 on the activities of the largest healthcare quasi-public organization of Kazakhstan, SK Pharmacy LLP.

Analyses of corruption risks have identified a number of violations of applicable laws. Violations included but not limited to abuse of anti-monopolistic requirements of the Entrepreneur Code of Kazakhstan and incompliance of SK Pharmacy's internal procurement activities with the Law on the Public Procurement of Kazakhstan. Both areas pointed out high corruption risks.<sup>17</sup>

While holding a specific title of Limited Liability Partnership, SK Pharmacy had exclusive rights to procure medicines and medical equipment in a competitive market environment for further realization of medical products in Kazakhstani market as a sole distributor<sup>18</sup>. Such activities contradict with requirements of economic activities established by the Entrepreneur Code of Kazakhstan. While being a sole distributor, SK Pharmacy had been undertaking monopolistic activities. Such monopolistic rights are, in fact, granted to state-owned enterprises in accordance with the Entrepreneur Code of Kazakhstan. Whereby, as a subject of state monopoly, SK Pharmacy had no legal rights to perform economic activities including supply and realization of medical products and equipment.

As a result of the healthcare scandal in May 2020, the Government of Kazakhstan clarified the status of SK Pharmacy in the economic markets of Kazakhstan through the Resolution No 468 in July 2020. The resolution had granted exceptional rights to conduct economic activities with 6% profit margin during the pandemic<sup>19</sup>. Following the term of exclusive rights, SK Pharmacy is still being a sole distributor as undertaking additional market activities, although SK Pharmacy has denied provision of distribution services to local pharmacies<sup>20</sup>.

In other words, the afore-mentioned statement assumes private pharmacies may compete in a pharmaceutical market environment with SK Pharmacy. By definition of the market environment, such arrangements cause both customer restrictions and potentially, resale price

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<sup>16</sup> Kulpash Konyrova, Coronavirus test (translation) (Inform Buro, 21 Aug 2020) <https://inbusiness.kz/ru/news/ispytanie-koronavirusom>, accessed 1 Apr 2021)

<sup>17</sup> Audit report with the results of an external analysis of corruption risks in the activities of SK-Pharmacy LLP, (Anti-Corruption Agency of the Republic of Kazakhstan, 13 Oct 2020) <https://www.gov.kz/memleket/entities/anticorruption/documents/details/75757?lang=ru>, accessed 19 Mar 2021

<sup>18</sup> Audit report with the results of an external analysis of corruption risks in the activities of SK-Pharmacy LLP, (Anti-Corruption Agency of the Republic of Kazakhstan, 13 Oct 2020) <https://www.gov.kz/memleket/entities/anticorruption/documents/details/75757?lang=ru>, accessed 19 Mar 2021

<sup>19</sup> Resolution of the Government of Kazakhstan No 468 dated 23 Jul 2020 "On some issues of the activities of the limited liability partnership "SK-Pharmacy", <http://adilet.zan.kz/rus/docs/P2000000468#z0>, accessed 2 Apr 2021

<sup>20</sup> SK-Pharmacy does not purchase medicines for private pharmacies, (SK Pharmacy Press Release, 16 Feb 2021) [https://sk-pharmacy.kz/rus/press-centr/smi\\_o\\_nas/«sk-farmacziya»-ne-zakupaet-medikamentyi-dlya-chastnyx-apték](https://sk-pharmacy.kz/rus/press-centr/smi_o_nas/«sk-farmacziya»-ne-zakupaet-medikamentyi-dlya-chastnyx-apték), accessed 2 Apr 2021

restrictions.<sup>21</sup> The range of customers of private pharmacies are restricted due to authorities granted by the Ministry of the Healthcare of Kazakhstan to SK Pharmacy as a sole distributor. With the rights of Ministry's sole distributor, SK Pharmacy may supply its products to all public and private healthcare organizations in Kazakhstan. Meanwhile, SK Pharmacy may benefit from lower administrative, transportation and other costs of sold products, which may potentially result in relatively low realization (resale) price. Often the government restricts sales prices of medical products, and moreover, may impose limits of profit margin of public and quasi-public organizations. Such limitations, de-facto, contradict competition laws, although it is been denied several times that SK Pharmacy undertakes any economic activities as private pharmacies are eligible to take purchase and sale activities on their own. However, any limitations imposed on one of market players cause restrictions in the entire market, in this case, resale price restrictions.

Nonetheless, given the pharmaceutical "buy-and-sell" environment is yet called a market environment, competitive forces in such marketplace and abilities to bargain between customers and suppliers, must be balanced. However, we see the example of one party forcing other parties to accept restrictive marketing arrangements. Such restrictive market arrangements evidentially create exposures of improper influences of major market players to support or eliminate particular members of such market arrangements.

Besides market relationship arrangements while distributing medical products and equipment, the report of the Anticorruption Agency also highlighted that corruption risks persist in public procurement activities of the entity. Due to exceptions entitled by the law on Public health and health care system (Code) of Kazakhstan, purchases in relation with the provision of the 'guaranteed free healthcare services' are regulated out of the scope of the Law of Kazakhstan on Public Procurement No 434-V3 dated 4 Dec 2015. Such exceptions were granted pursuant to the Government Resolution No 1729 dated 30 October 2009. Subsequently, methods of suppliers' award are confused between two methods. The most concerning factor among others, which has been reported in the detailed corruption analyses of subject entity, refers to the preference of sole sourced suppliers' award over other methods, such as competitive tender or auction. Moreover, the procedure provides for alternative methods through nominating sole distributor to procure goods and services on behalf of private and/or public healthcare entities, whereas sole distributor's process of selection does not require absolute transparency under such procedures of the Resolution.<sup>22</sup>

Neither the Law on Public Procurement of Kazakhstan nor procurement Procedures under the Government Resolution in connection with 'guaranteed free healthcare services' provide for clear bid evaluation procedures. Both legislative documents refer to internal policies which should be established and approved by a purchasing organization i.e., SK Pharmacy. As a result of such a loophole in the legislation, the corruption analyses of the organization have indicated that internal tender evaluation teams had taken some potentially inappropriate actions and had made conflicting decisions, including but not limited to rejections of bid

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<sup>21</sup> Lee E. Preston, Restrictive Distribution Arrangements: Economic Analysis and Public Policy Standards, Law and Contemporary Problems, p.507, Vol. 30, No. 3, 1965, Published by: Duke University School of Law.

<sup>22</sup> The Government Resolution No1729 dated 30 October 2009, the Procedures, Article 6

proposals, direct interaction with bidders during the evaluation process and etc.<sup>23</sup> Such documented actions of internal tender evaluation teams have allegedly led to improper influence on the tendering process, with increased corruption risks.

As another area of concern, the review results highlighted purchases from singled-sourced suppliers. Same issues exist in all public procurement areas of the Republic of Kazakhstan.

Based on the Ministry of Finance data Kazakhstan spent 8.5% shares of country's total GDP on Public Procurement in 2020. This represents Public Procurement spend of US Dollars 13.9 billion vs. total GDP of US Dollars 163.2 billion. One of concerning facts identified during the analyses of the Ministry of Finance data, was that only 20.1% of total procurement spend were awarded based on "open" competitive bid, whereas 63.3% of all awarded contracts were single sourced. The balance represents procurement of goods and services from existing suppliers, and some based on auction results.<sup>24</sup> Due to unavailability of historical data, methods of prior awards of existing public procurement suppliers in 2020, are questionable.

Moreover, due to requirements to support local economy, there is a significant pressure from the government to increase Kazakhstani content share within public procurement volumes. In line with unsubstantiated increase of single sourced awards of public contracts, as described above, the risk of potential theft of state budget funds *may* be increased through creation of dummy corporations to hide awards, otherwise receiving kickbacks entailing in increased prices of medications.

Lots of us still remember social media posts of Summer 2020, where individuals, diagnosed with COVID-19 were unable to go to hospitals, as health care centers were either full or no medications were available there. Such deficiencies were not limited by medications and/or capacity of hospitals but spread into personal protection products, including medical masks. To fight Covid crisis Kazakhstan received humanitarian aid from various countries and international organizations in total of over US Dollars 19 million in 2020.<sup>25</sup>

As a sole distributor of medical products and equipment in Kazakhstan, SK Pharmacy had an exclusive right to receive and allocate medical products supplied as part of such humanitarian aids during the pandemic. The process of humanitarian aid distribution is not regulated in any normative acts of Kazakhstan, hence this process required implicit approval i.e., decrees of the Government for each case individually. This potentially raises corruption risks associated with distribution of products received as part of the international humanitarian aid.

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<sup>23</sup> Information on the results of external analysis of corruption risks in the activities of "SK-Pharmacy" LLP" (Anti-corruption Agency of the Republic of Kazakhstan, 13 Oct 2020)

<https://www.gov.kz/memleket/entities/anticorruption/documents/details/75757?lang=en>, accessed on 24 Mar 2021.

<sup>24</sup> Report on public procurement of goods, works, services for 2020 (Public procurement web portal of the Republic of Kazakhstan, Mar 2021), <https://v3bl.goszakup.gov.kz/ru/rep/rep/m001/code/m001/act/repcr>, accessed 21 Mar 2021

<sup>25</sup> M. Dubovaya, China provided the largest volume of humanitarian aid to Kazakhstan in 2020 (translated title), (Informburo Kazakhstan, 10 Feb 2021), <https://informburo.kz/novosti/samyj-bolshoj-obuyom-gumanitarnoj-pomoshi-kazhstanu-v-2020-godu-napravil-kitaj>, accessed in 30 Mar 2021

Similarly, during the course of the review the Anticorruption Agency were not able to locate documents to prove utilization of sponsorship funds received in the period prior to pandemic in the amount of Kazakhstan Tenge 53 million out of total received of Kazakhstan Tenge 131 million in 2018-2019. Meantime, it was highlighted that administrative expenses of SK Pharmacy were extremely high in comparison with other public entities, receiving similar types of general and administrative services.<sup>26 27</sup>

The above is considered as one of Public Procurement corruption examples, which resulted in wide public criticism during the pandemic. Such often involve public officials, whose responsibilities are transferred from private individuals to them. As seen from the above case study, public corruption forms include bribes and any other improper influence, including various types of conflicts of interest, as well as abuse of established procedural rules.

It's been almost a year since the pandemic hit the most part of the world, including Kazakhstan. Now we have first vaccines available, which lead us to the most critical and threatening question of today if corruption will continue to jeopardize vaccine distribution as well.

## ***B. Chapter II Application of regulatory measures: Status of current anti-corruption regulations***

The progress of historical establishment of anticorruption laws with such developed culture, including the United States and the United Kingdom, is quite lengthy, taking its roots from The Public Bodies Corrupt Practices Act 1889 in the United Kingdom or Public Procurement regulations established in the United States since it was first issued by Congress in 1777.<sup>28</sup>

Despite such 'age difference' anticorruption laws of Kazakhstan have actively been developed since 2015, when the Law on the Prevention of Corruption was first developed. This Law is considered as the first complete legislative measures to fight corruption, although prior to its adoption, administrative procedures to improve organization of management activities, protection of state interests, and the exclusion of civil servants' use of their authority for unofficial purposes, were regulated by the Law on Administrative Procedures.

Theoretical part of [anti-]corruption principle focuses on three types of anticorruption measures, which include administrative, regulatory and social. Social measures are mostly based on human shame, which in modern life is delivered through publicizing facts of corruption through media sources.

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<sup>26</sup> Information on the results of external analysis of corruption risks in the activities of "SK-Pharmacy" LLP" (Anti-corruption Agency of the Republic of Kazakhstan, 13 Oct 2020)

<https://www.gov.kz/memleket/entities/anticorruption/documents/details/75757?lang=en>, accessed on 24 Mar 2021.

<sup>27</sup> Report on public procurement of goods, works, services for 2020 (Public procurement web portal of the Republic of Kazakhstan, Mar 2021), <https://v3bl.goszakup.gov.kz/ru/rep/rep/m001/code/m001/act/repcr>, accessed 21 Mar 2021

<sup>28</sup> Sope Williams-Elegbe, *Fighting Corruption in Public Procurement* (E-book, MPG Books Group 2012)

In 2017 revisions of the Law of Kazakhstan on Mass Media No. 451-I introduced changes in the Article 26 by expanding exemptions from the liability of dissemination of incorrect information. Certainly, this was one of the initial steps to avoid using defamation liability to restrict freedom of speech and report corruption. However, practices of recent years indicated that unsubstantiated allegations of journalists may create massive incidents of industrial relations. In addition, to unrestrained corruption reports or to address clarification requests of citizens a call-center functions were introduced which accept anonymous reports. Besides the call-center, as part of anti-corruption reforms, Kazakhstan launched a program named 'Open Government' to increase transparency of government activities.<sup>29</sup> In line with the existence of alternative methods of reporting, the government should take additional actions in order to regulate official media sources with the exception of 'yellow press', to avoid potentially offensive declarations.

In the meantime, it is quite difficult to find reliable sources of judicial decisions or court decisions in relation with confirmed corruption crimes, which should be regulated to strengthen social measures to prevent corruption in Kazakhstan.

The second type of anticorruption measures is administrative measures, which focus on procedural requirements which mostly depend on the completeness of compliance functions in organization or public sectors. The compliance function is important in order to monitor both financial and non-financial data by ensuring key controls are in place, including but not limited to requirements to obtain approvals before engaging in higher corruption risk transactions.

Such importance of administrative measures was considered in the recent changes in the Anticorruption Law of Kazakhstan. In October last year, a list of anti-corruption measures in the field of entrepreneurship was supplemented with paragraph 3 which now requires functions of anti-corruption compliance services in all subjects of the quasi-public sector and their structural units. The main task of such services is to ensure that organizations and their employees comply with the anticorruption legislation requirements of Kazakhstan. This revision also provides options to create anti-corruption compliance services in other business entities, not subject of the quasi-public sector.<sup>30</sup>

It will take more than a few years for Kazakhstani public sector, including quasi-public sector, to build required compliance culture and regulations required its services. Meanwhile, this was one of necessary steps to standardize applications of regulations and laws to combat corruption risks, mainly in public procurement sector.

It maybe worth to highlight that due diligence systems in Kazakhstan require improvement. One of major issues in Kazakhstan, is restriction of the information on private and public entities, including ownership details and connections. Certainly, compliance functions does not contain only due diligence reviews, however the last is the ultimate part of adequate compliance controls, without which further compliance events may not be complete. Data

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<sup>29</sup> Anticorruption reforms in Kazakhstan (OECD, 2017) [www.oecd.org/corruption/acn/istanbulactionplan](http://www.oecd.org/corruption/acn/istanbulactionplan), accessed 19 Mar 2021

<sup>30</sup> The Law of the Republic of Kazakhstan dated November 18, 2015 No. 410-V "On Combating Corruption" (with amendments and additions as of December 19, 2020), Article 16 (p3)

privacy regulations of Kazakhstan provides for certain requirements to collect and process personal data of citizens without their consent, as well as without person's legal representative due to the publication of personal data in accordance with the laws of Kazakhstan<sup>31</sup> Hence, due diligence systems of Kazakhstan may require additional legislative support to limit data leakage and help to increase transparency in anticorruption activities carried out by compliance law functions.

The last but the least type of anticorruption measures, is regulatory measures. Such measures list legal requirements for punishment up to criminal sanctions.

In Kazakhstan, penalties for corruption have been doubled in 2021, which are mainly implied on individuals who factually perform such corruption acts. The Criminal Code of Kazakhstan establishes minimum and maximum amounts of penalties, which can be increased up to 20 times (Art. 368 of the Criminal Code of Kazakhstan) based on [bribery] crime elements. However, such penalties are applied upon judges' decision, which may potentially lead to other corruption risks.

On interview Mr. O. Bektenov, the Deputy Chairman of the Anti-Corruption Agency mentioned that for the last two years, Kazakhstan courts issued penalties of over \$1.4MM as a result of over 1200 incidents.<sup>32</sup> The average penalty per case of a thousand US Dollars may not be indicative for Kazakhstan's anticorruption policy purposes. This may also demonstrate that bribers are mainly individuals, which may require further investigation. If there is a perception of such individuals acting on behalf of any company or group or companies committing passive corruption, they could be penalized accordingly. Hence, transparency of investigation progress and results *may* be increased.

In general, practices of countries with less corruption perception show that organizations either public or private, should be held responsible for corruption acts of their decision makers. This should encourage to do both to support internal compliance controls and to hold senior leadership liable for their further actions through ensuring ethicality of their decision every time.

### **Part III Conclusion**

As analyses in previous chapters provided government should address issues which are not covered by existing Laws on Public Procurement to minimize corruption exposures. Such areas mainly exist in national holdings, national organizations and organizations which are partially or fully owned or controlled by government, i.e., quasi-public organizations. Loopholes in public procurement process including adoptions of different procurement procedures by individual organizations, may require remedies and legislative updates.

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<sup>31</sup> The Law of the Republic of Kazakhstan On Personal Data and their Protection dated 21 May, 2013 No. 94V, Article 9

<sup>32</sup> Kazakhstanis are urged to refuse to resolve issues through bribes (Azzatyk Ruhy, 8 Jan 2021) <https://rus.azattyq-ruhy.kz/society/19545-kazakhstanstsev-prizyvaiut-otkazatsia-ot-resheniia-voprosov-putem-vziatok>, accessed on 30 Mar 2021

Corruption risks associated with the lack of single and customized approach to manage procurement activities of organizations partially or fully owned or controlled by the government depending on specifics of the industry, they operate in, also highlighted other corruption areas within the procurement sector, including large numbers of purchases from single sourced suppliers, as well as the lack of effective approach to review and substantiate tender evaluation decisions.

Practices of jurisdictions with longer history of anticorruption measures application in public procurement have specific approaches established outside of the law that among others include requirements to review procurement decisions of purchasers by external authorities, such as administrative or judicial.

Similar remedies are currently planned to be implemented in Kazakhstan as well. In mid-2020 the first draft of new legislation was prepared, which will regulate procurement process of subjects of the quasi-public sector effective 1 Jan 2022.<sup>33</sup> Although current draft was approved by Mazhilis in March 2021 it seems still have areas for further improvement, as well as requirements to clarify its 'questionable status of Law', which may further create confusions around applicable legislative norms by its subjects.

Secondly, the draft law is intended to reduce basis for quasi-public organizations to procure in non-competitive ways through increasing requirements to fulfill before purchasing from single sourced awards (suppliers). However, the draft law may not fully address this issue: procurement methods include sole-sourced awards similar to the Law on Public Procurement but expresses that options to revise competitive bids to sole-sourced methods are prohibited unless such changes are not provided for in applicable bid procedures of individual organizations. Moreover, the law doesn't regulate requirements for such individual procedures (Art. 1. 2 (13) of the draft Law). Such requirements may also include requirements for external approval procedures to implement any changes in tendering methods, as well as other changes involving tender evaluation teams and their decisions. Therefore, it appears that the draft law may require further revisions to clarify requirements for its subjects before it is adopted in 2022.

As highlighted above another remedy to reduce corruption risks in public procurement, should focus on limiting interactions between tender evaluation organizers and potential suppliers, i.e., bidders. In this regard, the draft law proposes preliminary discussions of draft tender documentation, including clarifications of technical specifications and etc. However, neither the existing law on Public procurement nor the draft law provides for requirements to create such bid clarification team members and controls over the process of clarification. Therefore, any interactions between tender evaluation group and potential suppliers should be limited and exceptions should be specified in accordance with regulatory acts.

Downside of such increased level of procedural requirements *may* potentially create its own corruption risks due to additional bureaucracy levels. Also, isolation of potential suppliers from the public organization – customers, may also potentially lead to development of collusions, i.e., horizontal agreements between either selected suppliers to fix prices (cartels) or potential

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<sup>33</sup> Draft Law of the Republic of Kazakhstan "On procurement of individual subjects of the quasi-public sector" (Paragraph, Dec 2020)

suppliers to coordinate bidding processes to ‘rig’ the price (bid rigging). Therefore, although there are sound competition regimes in Kazakhstan, similar to anticorruption law recommendations, it need to challenge more underlying causes rather than fixing prices. Therefore, the draft law should stay focused on anonymity of bid participants as one of remedies to prevent legal infringements partially.

Further anticorruption remedies in public procurement should be periodically reviewed and updated if necessary, by analyzing violations of procurement legislations. This may not necessarily require changes in legislative documents but requirements for procedures.

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## **Modern approach for regulation of blockchain technologies in Kazakhstan**

**Alexey Stepanov, LL.M**

Today people around the world can more often hear the term Blockchain from different sources be it with rumors on a topic of changing value of a Bitcoin or the official speeches of state bodies on mass media.

The younger generation does not need to explain what the Blockchain technology really is and how it works in the modern world, but to understand the magnitude of the scale of such popular technology, it is necessary to plunge into the history of the development of the blockchain and its formation in the form in which it now exists.

Business process improvement, trades, health information exchange, vehicle ownership, and voting are some of the use cases where blockchain has the ability to replace central banking systems.

In order to get a simple explanation of what Blockchain is, we need literally understand the term itself. Blockchain is a chain of separate blocks each of which contains a part of information that could be received. Once a block completed with the information it is added to the chain of same blocks on the network and is quite complicated to change the information in the block due to permanent instant updating and synchronization between blocks. This technology allows to avoid risks of stealing or deliberate substitution of information.

Those of us who don't know specification of using Blockchain Technology but who are familiar with a peer-to-peer technology by using torrent trackers for downloading or uploading different files from/to the Internet could roughly understand the main principle of execution operations in Blockchain.

The ideas behind the Blockchain technology are quite old, and trace back to a paper by Stuart Haber and W. Scott Stornetta in 1991. Their proposal was a method for secure timestamping of digital documents, rather than a digital money scheme. In that first scheme, there was a timestamping special service to which clients could send documents to timestamp. When the server receives a document, it signs the document together with the current time and as well as a link or a pointer to the previous document, and issues a "certificate" with this information.<sup>1</sup>

This procedure is slightly reminding current services using electronic signatures for the purpose of signing and sending electronic documents in Kazakhstan and also smart contracts scheme which used in some other states.

Sometime later, an unknown person or group of people called Satoshi Nakamoto went further with Blockchain technology and used a scheme of so called decentralized digital currency, without a regulation in a face of a central bank or any other single administrator. Satoshi Nakamoto named this digital currency Bitcoin, a technology which allows to send the information encrypted to cryptohash from user to user on the peer-to-peer Bitcoin network without the need for intermediaries.

New approach of using a Blockchain technology has started to become popular and useful since 2008. At that time a new technology required appropriate legal regulation of

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<sup>1</sup> Narayanan, Arvind; Bonneau, Joseph; Felten, Edward; Miller, Andrew; Goldfeder, Steven (2016). Bitcoin and cryptocurrency technologies: a comprehensive introduction. Princeton: Princeton University Press

cryptocurrencies and also for using modern technology in public relations. As far as we know the law among the world is always developing by the influence of modern reality so the world began to adopt Blockchain for the purpose of regulation public relations of new cryptocurrencies transactions.

From the legal perspective the transactions of changing goods for the cryptocurrency at least could be considered as a transaction under the purchase contract with the element of barter when the one side is going to change owned goods to the electronic, non-touchable thing of interest in the form of the value of this thing.

Nevertheless, the blockchain technology considers cryptocurrency only as one of the varieties of its use, since the possibility of using the technology allows it to be used in the fields of healthcare, finance, civil law relations, and even the choice of political power.

The excellent example of using Blockchain is Estonian experience. Estonia was the first country in the world that began to use Blockchain Technology for centralization and storing information in public health relationships. Prior to look at the system that stores the information about patients, we need to be noticed that Estonia reached a very big progress in a direction of developing the platform, created in 1997, by transforming government services from paper to electronic format especially with a help of a technology of using a Digital key as a secure tool for making certain transactions. In 2016 Estonia began to use Blockchain Technology for the public health purposes and established a service which provides the information of patients online 24/7.<sup>2</sup>

Another advantage of Estonia is as follows about implementation Blockchain into a bank system and an Estonian Investment Bank LHV became first bank to start real world experiment by issuing 100 000 EUR worth of cryptographically protected claims against bank into bitcoin blockchain. CUBER (Cryptographic Universal Blockchain Entered Receivables) is technically new kind of certificate of deposit and is meant to be a building block for various innovative financial products<sup>3</sup>.

According to official statement of Estonian government, nowadays Estonia is probably the only country in the world where 99% of the public services are available online 24/7. E-services are only impossible for marriages, divorces and real-estate transactions – you still have to get out of the house for those. As a result, Estonia got unprecedented level of transparency of governance which built broad trust for society and now Estonia saves over 844 years of working time annually<sup>4</sup>.

The trend of installation new, for the measures of 2016, technology was also set up by Estonia who used same technology as Bitcoin for simplifying public health and financial transactions, while other countries were in a process of fitting popular technology for making public life more convenient and open.

Another example of using Blockchain could be seen in USA where the new technology was also implemented for providing more insurance payment options for patients. In 2016 an American startup BitHealth began to use blockchain technology of bitcoin to store healthcare data and retrieve it from any node all over the world.

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<sup>2</sup> <https://www.coindesk.com/blockchain-startup-aims-to-secure-1-million-estonian-health-records>

<sup>3</sup> [http://www.cuber.ee/en\\_US/news/](http://www.cuber.ee/en_US/news/)

<sup>4</sup> <https://e-estonia.com/solutions/e-governance/>

Blockchain has excited all over the world with an open, transparent system that does not allow to interfere into it and in 2017 Russian Federation made a big step forward by signing a law on developing information technologies in health care<sup>5</sup>.

Some countries like Georgia, Sweden, Ghana and Honduras installed Blockchain cadastral registration proceedings and people of these countries can receive immediate actual information in a sphere of real estate and in some cases even could make deals with property by using smart contracts.

Coming back to the main topic we need to look at the history of informatization of Kazakhstan.

The history of using Blockchain in Kazakhstan actually begins in 2015, when Kazakhstan adopted a new Law “On informatization”. According to the conception the adoption of a new law was necessary to specify such basic norms as Information, Legal regime of information (including types of information and its defense) and some issues according to the Diversification of functions of state bodies. The main purpose of the development of the new was the regulatory legal support of issues related to information, as well as their protection.

In 2015 Kazakhstan we saw active developing of digital platforms of state bodies and since that period lawyers of Kazakhstan began use web platforms like EGOV.KZ, E-LICENSE and JUDICIAL OFFICE that now seems so familiar and some of semiskilled lawyers could hardly remember how did they work without mentioned platforms that makes work process of lawyers much easier.

Since 2015 people in Kazakhstan are able to get government services without visiting a specific state body but just with a computer and Internet with a help of special Digital key that could be issued personally for individuals and companies.

Actually, the electronic keys so well-known to Kazakhstanis today are directly related to the Blockchain Technology, since they have a double system of asymmetric encryption or as it is also called double encryption.

The use of Digital keys or tokens is rapidly replacing paper documents from our lives, which in particular is felt by the legal community of Kazakhstan in a scope of work with such public services, starting from obtaining simple reliable information from the state agency or filing a claim in court and ending with the participation of a person in public procurement with the signing of an appropriate electronic public procurement contract and confirmation of the rights of grain receipts.

Experienced lawyers in our country can easily remember the time when receiving of state extract of, for example, about absence of encumbrances on immovable property which is necessary in real estate transactions, took several days while in the present time it takes several minutes.

It should be noted in particular that the convenience of using the Blockchain is felt by lawyers litigators, who no longer have to spend time traveling to the court to submit or receive any documents on the case. Modern technology allows you to remotely interact with judicial authorities throughout Kazakhstan from anywhere in the world that is connected to the Internet.

An important fact is the simplification of the procedure for participation in public procurement in the territory of the Republic of Kazakhstan for entrepreneurs who in the recent past were forced to form their applications for participation in public procurement by submitting

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<sup>5</sup> A. Belyaev, I. Stilidi and others [Medicine and Society, DOI: 10.24411/2071-5315-2018-12008] Blockchain in healthcare: opportunities for use in clinical trials

them on paper with a large number of documents that must be notarized as it was explicitly defined by the relevant Law of the Republic of Kazakhstan "On Public Procurement". Therefore, potential participants in public procurement were forced to bear the costs even before receiving a firm public procurement contract.

Now entrepreneurs in Kazakhstan submit applications for participation in public procurement and sign contracts with state agencies in a matter of minutes without leaving their workplace.

Kazakhstan is actively developing to the informatization and digitalization in every sphere so we can see developing of Blockchain in such important for Kazakhstan sphere as agriculture and in particular on June 13, 2013 the Information and Accounting JSC<sup>6</sup> approved the Rules "For creating, storing and changing electronic records of rights to civil turnover objects and smart contracts with them on the Q-Chain blockchain platform based on blockchain technology"<sup>7</sup>

Another important worldwide using of Blockchain Technology is cryptocurrency. Financial tools called cryptocurrency became very popular among people and internet markets receiving cryptocurrency came into the being together with initiative persons who began mining such cryptocurrencies like Bitcoin, Litecoin, Ethereum etc.

As a practice shows us the laws appear and change based on the practice of changing existing reality and trend to use cryptocurrency instead of customary currency forced to adopt and implement necessary changes of laws in order to keep up with times.

Coming back to abovementioned countries which are using Blockchain, Estonia in 2017 created a law about money laundering and terrorist financing prevention act which provides a detailed term of virtual currency (means a value represented in the digital form, which is digitally transferable, preservable or tradable and which natural persons or legal persons accept as a payment instrument, but that is not the legal tender of any country or funds for the purposes of the European Parliament and of the Council on payment services in the internal market and amending Directives<sup>8</sup>). By adoption such law Estonia now is a country with legalized virtual currency which can be used as payment instrument.

Another example shows Sweden, a country which does not determines a virtual currency as a payment instrument but also does not prohibit using of such in scope of Directive of the European Parliament and of the Council of 30 May 2018 amending Directive on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing. The message of mentioned European Directive is that virtual currency should not be confused with electronic money and can frequently be used as a means of payment but not anonymously.

Kazakhstan unlike examples above stick to another approach issued amendments to the Law "On informatization" which imperatively determines that digital asset is a property created in electronic digital form using cryptography and computer calculations, which is not a financial instrument, as well as an electronic digital form of certification of property rights.

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<sup>6</sup> The Information and Accounting Center (IAC) was established by the Resolution of the Cabinet of Ministers of the Republic of Kazakhstan dated November 2, 1993 No. 1088 "On Financing of the Information and Accounting Center under the State Committee of the Republic of Kazakhstan on State Property" [<http://www.iuc.kz/history-creation.htm>]

<sup>7</sup> <https://grain.qoldau.kz/p/ru/gr-info/RegDocs/Files/Внутренние%20правила%20Регистратора%20по%20Q-Chain.htm>

<sup>8</sup> <https://www.riigiteataja.ee/en/eli/ee/509012020001/consolide/current>

In another words a digital asset could not be used for means of payment as it is said in article 33-1 of that was added to the Law “On informatization” by recent amendments from June 25, 2020.

Probably the Republic of Kazakhstan has chosen such straightforward approach for virtual currencies from the perspective of conservative approach for payments instruments. For now, we have just to wait and see how this approach will be changed in a modern global reality where countries are trying to control such a new financial technology tool instead of prohibition of using it.

Nevertheless, Kazakhstan is actively using Blockchain in government services which helps people to save time and get some necessary information instantly and without leaving a home or office and this fact is showing us that possible prospect of change the attitude to virtual currencies in our country.

The Ministry of Digital Development, Innovation, and Aerospace Industry of the Republic of Kazakhstan has developed the proposing of a Concept of Digital Lifestyle (DigitEL).<sup>9</sup>

The Concept of proposing "DigitEL" is being developed as Kazakhstan's response to the current challenges facing it. At the global level, digital transformation is seen as a tool for overcoming systemic challenges – social security, dialogue with the state, economic diversification, productivity improvement, and others.

The development of digitalization is identified by the government as a great opportunity. The Covid-19 pandemic has shown the need to improve the efficiency and improve the mechanisms of public administration of the Republic of Kazakhstan, including the decision-making processes, their justification and implementation stages.

The crisis, as described in the Concept, was a good lesson for understanding that it was the sphere of new technologies and digitalization that helped to adapt to the restrictive measures that affected almost everyone, whether it was online receiving services, providing remote work of the state apparatus, using educational platforms for distance learning, delivering food and goods to the house, devices for measuring temperature in public places - all these are the fruits of digital solutions. We have learned that digitalization is central to the decisions of companies and states.

The unprecedented acceleration in the pace of digitalization of all spheres of the economy and the life of the population is probably the most significant positive consequence of the COVID-19 pandemic.

The Kazakhstan is going to expand usage of modern technologies in different spheres, including tax payments and logistics, the main goal should be making a life of people more convenient in a relation between each other and the government.

The present time allows us use a pilot version of a Smart Contract that creates rights and obligations under the full legislation of Kazakhstan which we can see in labor relations on a special platform Electronic Labor Exchange.<sup>10</sup>

The proposed Concept involves the development of the use of Smart Contract technology in Kazakhstan, as well as the development of fintech tools including digital currency. At the same time, it becomes clear from the proposed Concept that the ban on the use of cryptocurrency as a payment instrument remains unchanged.

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<sup>9</sup> <https://legalacts.egov.kz/npa/view?id=7684159>

<sup>10</sup> <https://www.enbek.kz/ru>

Kazakhstan over the entire period of digitalization has shown and still shows good results and inspires great potential in the medium term, and our task remains to develop practical examples that will allow us to adjust the direction of the Republic of Kazakhstan in the field of digitalization and informatization and the applicable law.

## **Consumer protection rights in the transnational contracts.**

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### **Abstract**

The transnational contract with participation of the consumer is the most frequent and important construction in law. There is no need to emphasize the fact that the consumer is the most vulnerable party and needs legal protection more than the entrepreneurial side of this kind of legal relations. Inequality of the parties in civil law relations can be corrected by additional legal instruments. In the era of technology development, there is a need to improve consumer protection legislation. Nowadays, consumer rights in transnational contracts are not properly protected. The importance of the topic of consumer protection in cross-border agreements is explained by the fact that there is a risk of foreign jurisdiction in potential disputes. In my opinion and according to the research, the jurisdiction prescribed in the transnational contracts cannot restrict the consumer from applying to the court of the country of residence. In legal relations with the consumer, in the absence of a point regarding the jurisdiction, the jurisdiction of the country of residence should be applied. Growth indicators of market, cross-border trade generate interest in the topic regarding the consumer protection in the transnational contracts.

*Key words: Consumer protection, jurisdiction aspects, e-commerce, cross-border trade, European Union, internet transactions.*

*Note) This is the selected paper for the special issue in Central Asia Business Journal (CABJ). The full paper will be available at the summer issue of CABJ 2021.*



## **Domestic violence in Kazakhstan: legal perspective**

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### Abstract

Despite the fact that we live in a modern developed society, cases of domestic violence in families are very common. Domestic violence is considered by the international community to be one of the most widespread and gross violations of human rights and freedoms. Kazakhstani legislation, guided by international standards in the field of the legal status of a person, gives priority to individual rights and creates new mechanisms for their protection. Article 17 of the Constitution of the Republic of Kazakhstan regulates that human dignity is inviolable, everyone has the right to protect their honor and dignity, no one should be subjected to torture, violence and other cruel or degrading treatment or punishment.

Object and subject of research. The object of this study is the complex of social relations that determine the existence of violent crimes and the legal framework for combating violent crime in the family, as well as measures to prevent them.

The subject of the research is violent crime in the family as a legal phenomenon, causes and conditions conducive to the commission of these crimes; measures of a general social and criminological nature to prevent them.

The purpose of the study is to study the complex criminological characteristics of intrafamilial violence based on the materials of the Republic of Kazakhstan, to develop proposals to improve the effectiveness of measures to prevent it.

The research methodology and methods include a comparative legal analysis carried out on the basis of international legal documents, laws and by-laws of the Republic of Kazakhstan and its subjects concerning the problem under study.

The empirical base was compiled by the data of the Ministry of Internal Affairs of the Republic of Kazakhstan for the period 2016-2020, as well as data provided by the Committee on Statistics and Special Accounts of the General Prosecutor's Office of the Republic of Kazakhstan for the period from 2019-2020.

The theoretical basis of the research is represented by the works of leading experts in the field of criminal law, criminology, psychology and sociology and other sciences related to the subject of the research.

*Keywords: domestic violence, violation, victim, psychological state, fear.*

Domestic violence can be not only physical, but also can affect psychological state of a person, destroying a personality. Gradually, a person who constantly lives in fear of being subjected to violence decreases self-esteem, loses the ability to defend himself, and weakness, humility, depression, hopelessness comes instead. Victims of domestic violence are brought to such state when they do not attach value to their inviolability, and even to their lives. These qualities in the future can push the victim of violence to commit violent acts against others. This is especially noticeable in the actions of juvenile offenders. Violence in the family, taking place

in front of children, inflicts moral harm on them and affects their harmonious development. They involuntarily receive appropriate "lessons", learn about domestic violence and then become rapists themselves.<sup>1</sup>

In Kazakhstan, domestic violence has been out of the public interest zone for many years. However, over the past 10 years, human rights organizations have managed to draw the attention of the media, government bodies to it, showing the urgency and importance of this problem for the personal well-being of people, as well as for the democratization and modernization of the country.

After the introduction of quarantine in connection with the COVID-19 pandemic, cases of domestic violence against women have become more frequent. According to the UN, this situation is developing almost all over the world, especially in countries where strict quarantine has been introduced.

According to the statistics given on the infomburo.kz information platform, the situation with domestic violence has worsened in Kazakhstan. In only half of April 2020, more than 300 calls from victims of domestic violence were received on the hotline at the number "150".<sup>2</sup>

According to the service of the Committee on Statistics and Special Accounts of the State Enterprise of the Republic of Kazakhstan, in the first 5 months of 2020, only 418 offenses were registered in the family and household sphere. Of these, 401 are offenses and 17 are misdemeanors.<sup>3</sup>

It is worth noting that this is only known data, since many victims continue to remain silent.

The speaker of the Mazhilis Nurlan Nimatulin mentioned that out of 47 thousand cases of recorded domestic violence in 4.5 months of 2020, only 8 thousand were sent for consideration to the court.

The singling out of domestic violence against women as an independent problem is because this violence is widespread, difficult to eradicate and leads to catastrophic consequences. Violence against women is a serious violation of human rights. Most of the criminological and sociological studies of crimes indicate a stable predominance of female victims in the field of violent crimes committed in the family. This is also confirmed by the data of the World Health Organization on the global spread of violence, according to which "every third woman in the world (35%) experiences physical or sexual violence from an intimate partner during her life. Globally, 30% of women in relationships report that they have experienced any form of physical or sexual violence by their partner during their lifetime. Up to 38% of murders of women in the world are committed by their intimate male partners."<sup>4</sup>

An analysis of the situation in combating domestic violence in the Republic of Kazakhstan also indicates that this problem is relevant for our country as well. It should be noted that Kazakhstan is taking active steps to reduce the level of domestic violence, considering it as a

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<sup>1</sup> R. Yurchenko, 'APPLICATION BY COURTS OF THE LAW OF THE REPUBLIC OF KAZAKHSTAN "ON PREVENTION OF DOMESTIC VIOLENCE" - IPS "Adilet"' (Adilet.zan.kz)

<[http://adilet.zan.kz/rus/docs/T090000214\\_](http://adilet.zan.kz/rus/docs/T090000214_)> accessed 20 March 2021.

<sup>2</sup> In Kazakhstan, Domestic Violence Surges During Quarantine. Where to Complain About the Family Brawler (Infomburo.kz, 2020) <<https://infomburo.kz/stati/v-kazahstane-vsplesk-bytovogo-nasiliya-vo-vremya-karantina-kuda-zhalovatsya-na-semeynogo-deboshira.html>> accessed 20 March 2021.

<sup>3</sup> Aigerim Mekisheva and View & rarr ;, 'Domestic Violence In Kazakhstan And Statements Of Mazhilismen | Factcheck.Kz' (Factcheck.kz, 2021) <<https://factcheck.kz/claim-checking/verdict/bytovoe-nasilie-v-kazahstane-i-vyskazyvaniya-mazhilismenov/>> accessed 20 March 2021.

<sup>4</sup> World Health Organization. (2017). Violence against women. DOI: <https://www.who.int/ru/news-room/fact-sheets/detail/violence-against-women> accessed 23 March 2021.

serious crime against the individual. Kazakhstan joined the UN Convention "On the Elimination of All Forms of Discrimination against Women" back in 1998 and thus took obligations, which are being gradually implemented. In the Strategy "Kazakhstan - 2050" the First President of The Republic of Kazakhstan outlined one of the main tasks of Kazakhstani society, which is the protection of motherhood and childhood, he also stressed that violence against women and children should be suppressed extremely harshly.<sup>5</sup> In addition, he repeatedly noted that Kazakhstan should enter a new era without any hint of oppression based on gender, age, or any other characteristics.

The current President of the country Tokayev also stated about the need to overcome domestic violence in his Address to the people of Kazakhstan dated September 2, 2019.<sup>6</sup> In order to implement this Message, on September 10, 2019, the National Action Plan was approved. Clause 16 of the Plan provides for increased responsibility for domestic violence against women.<sup>7</sup>

To create an effective mechanism for the prevention and suppression of offenses in the sphere of family and domestic relations the Law of the Republic of Kazakhstan "On the prevention of domestic violence" was adopted in 2009. This Law lays down the legal basis for the prevention and suppression of domestic violence, ensuring the rights and freedoms in the field of family and domestic relations. It also identified the legal, social and organizational aspects of the activities of state bodies and citizens to organize the prevention of this negative social phenomenon. This law meets the main provisions of the Decree of the President of the Republic of Kazakhstan dated February 1, 2010 No. 922" On the Strategic Development Plan of the Republic of Kazakhstan until 2020 ", where one of the key directions of Kazakhstan's development by 2020 is to reduce the proportion of crimes committed against women in the field of family and domestic relations to 9.7%, as well as crimes against minors - to 2.2%.<sup>8</sup>

At the same time, despite the fact that the legislator establishes rather strict measures of suppression and prevention of domestic violence, today there are a number of problems associated with the effectiveness of their application. Another aspect that requires attention is the problem of high latency of offenses in the sphere of family and domestic relations. Official data on domestic violence are based on statistical data from the Committee on Legal Statistics and Special Accounting under the General Prosecutor's Office of the Republic of Kazakhstan. It

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<sup>5</sup> Message of the President of the Republic of Kazakhstan - Leader of the Nation Nazarbayev to the people of Kazakhstan dated December 14, 2012. "Strategy" Kazakhstan2050 ": a new political course of an established state". DOI: <http://kisi.kz/index.php/en/2013-year/1518-1-poslanie-prezidenta-respubliki-kazakhstan-lidera-natsii-n-a-nazarbaeva-narodu-kazakhstana-strategiya-kazakhstan-2050-novji-politicheskij-kurs-sostoyavshegosya-gosudarstva-astana-14-dekabrya-2012-g> accessed 23 March 2021.

<sup>6</sup> Message of the Head of State to the people of Kazakhstan "Constructive public dialogue is the basis of stability and prosperity of Kazakhstan" dated September 02, 2019. DOI: [https://www.akorda.kz/ru/addresses/addresses\\_of\\_president/poslanie-glavy-gosudarstva-kasym-zhomarta-tokaeva-narodu-kazahstana](https://www.akorda.kz/ru/addresses/addresses_of_president/poslanie-glavy-gosudarstva-kasym-zhomarta-tokaeva-narodu-kazahstana) accessed 23 March 2021.

<sup>7</sup> Decree of the President of the Republic of Kazakhstan "On measures to implement the Address of the Head of State to the people of Kazakhstan dated September 2, 2019" Constructive public dialogue is the basis of stability and prosperity in Kazakhstan "No. 152 dated September 10, 2019. DOI: [https://online.zakon.kz/m/Document/?doc\\_id=31779920](https://online.zakon.kz/m/Document/?doc_id=31779920) accessed 23 March 2021.

<sup>8</sup> Turlybek D.M. (2019). Analysis of the Law of the Republic of Kazakhstan "On the Prevention of Domestic Violence" and the practice of its application. DOI: [https://online.zakon.kz/Document/?doc\\_id=33966081](https://online.zakon.kz/Document/?doc_id=33966081) accessed 23 March 2021.

should be borne in mind that statistical data are compiled according to the official statements of potential victims, that is, they cover only a small part of all cases of domestic violence.

Violence in the field of family and domestic relations causes impressive damage to the well-being of our society. It leads to the disintegration of the family, has an adverse effect on minors, which, in turn, negatively affects their full-fledged positive development. Today, the problem of domestic violence against women in the Republic of Kazakhstan requires immediate resolution, and the real prerequisites for a significant reduction in the level of domestic crimes against women to a minimum have matured in society. The listed, as well as a number of other circumstances determine the relevance of the topic of this thesis. Based on the foregoing, I believe that it is necessary to conduct a comprehensive criminological study on the issues of combating domestic violence. The purpose of the study is to develop specific proposals for improving measures to prevent domestic violence against women based on the analysis of current legislation and law enforcement practice.

Measures to prevent family and domestic offenses as an organized purposeful activity should be carried out in a comprehensive manner and taking into account the specific target orientation and differences in the objects of preventive action, they can be of a socio-economic, organizational and managerial, legal and ideological and educational nature. Psychological and pedagogical measures of purposeful correlative influence on the personality of the family and household offender and the conflict situation have a specific preventive orientation.<sup>9</sup> An important role in the development and implementation of measures for the prevention of domestic offenses is played by the internal affairs bodies, the local police service, public organizations at the place of residence and work of the prophylactic.

Among the many negative factors that stimulate antisocial behavior of family and domestic offenders, first of all, one should point out alcoholism. Alcoholism disrupts normal family relations, exacerbates conflict situations, leads to the disintegration of the family and personality degradation. So, according to this study, 60% of murders in the family and household sphere against women were committed in a state of alcoholic intoxication, of which 54% during the joint drinking of alcoholic beverages with the victim. We believe that the main focus of prevention should be done at the stage of offense in the family and household sphere, paying special attention to “household drunks”, “family rowdy” and persons under administrative supervision or registered with preventive measures”. If the first signs of deviant behavior are found in offenders, it is necessary to promptly and urgently intervene competent subjects for the prevention of domestic violence in order to immediately eliminate sources of harmful influence, improve the situation, defuse the conflict situation and reorient the individual to socially useful activities. Psycho-pedagogical measures of purposeful correlative influence on the personality of the family and domestic offender and the conflict situation have a specific preventive orientation. In this aspect, the experience of the Republic of Belarus deserves attention, where family and domestic brawlers, whose immoral actions can turn into criminal acts, warn of possible responsibility and oblige to listen to a special course of lectures on legal topics to increase their legal awareness and stimulate law-abiding behavior.

Also, a complex of measures to strengthen the family, create a strong, spiritually and morally healthy family is of the most important preventive value. Statistical data on the number of divorces is an important indicator reflecting the exacerbation of domestic conflicts, since divorces most often occur due to the drunkenness of the spouse, accompanied by cruelty,

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<sup>9</sup> Lopushansky F.A. (1989). Prevention of family and domestic offenses. *Nauka*, p.46.

scandals, beatings, threats of murder and other antisocial actions. The same factors play a leading role in the determination of crimes committed on the basis of domestic conflicts. Consequently, the problem of divorce also has a criminological aspect. Thus, in Kazakhstan, 54.8 thousand divorces were registered in 2018, which is 0.3% more than in 2017.<sup>10</sup>

In order to preserve the family and reduce the number of divorces in the courts of our country, a pilot project "Family Court" has been introduced since 2018. During the implementation of this project, the judges came to the conclusion that domestic violence is one of the main causes of family breakdown. The result of the project was that in 2019, on the recommendation of the Specialized Interdistrict Administrative Court of Nur-Sultan, 1,232 people were consulted by a psychologist, 22 people were consulted by a lawyer, 196 people were sent to narcologists, 38 people were sent to the employment center for employment. Also, within the framework of the project, the court concluded a memorandum with 13 state institutions, public funds that provide free assistance to families.<sup>11</sup>

According to Lopushansky under the prevention (prevention) of crimes in criminology it is customary to understand the totality of state and public measures aimed at eliminating or neutralizing the causes and conditions conducive to the commission of crimes. A special aspect is the individual prevention of criminal behavior, which is a concretization of the relationship of various preventive measures applied to an individual or a group of persons, combining measures of persuasion, coercion and social assistance.<sup>12</sup>

Of no small importance for the prevention of offenses against the individual in the family and domestic sphere are educational measures in relation to persons committing domestic violence. "Since deeply personal, purely intimate circumstances of the relationship between spouses and other close people (jealousy, adultery, psychological incompatibility, etc.) play a significant role in the genesis of domestic criminal excesses, psychologists, teachers, neuropathologists should be involved in the prevention of these crimes and, if necessary sexologists, psychiatrists".<sup>13</sup> The result of measures taken by our state to reduce the level of domestic violence against women (the adoption of the Law "On the Prevention of Domestic Violence", "The Concept of Family and Gender Policy in the Republic of Kazakhstan until 2030", the Action Plan for its implementation and other steps) was that at the disposal of law enforcement agencies there are real levers of influence on offenders, allowing them to carry out substantive individual preventive work with them. Thus, in accordance with Article 17 of the Law: "measures of individual prevention of domestic violence are used for systematic targeted impact on the legal consciousness and behavior of a person who has committed domestic violence, in order to prevent the commission of new offenses on his part and to ensure the safety of the victim". According to Article 17 of the Law: "Measures of individual prevention of domestic violence are: 1) preventive conversation; 2) delivery of a person who has committed domestic violence to the internal affairs bodies for drawing up a protocol on an administrative offense or issuing a protective order; 3) a protective order; 4) administrative detention; 5) compulsory measures of a medical nature; 6) the establishment of special requirements for the behavior of the offender; 7) administrative penalty; 8) deprivation or restriction of parental

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<sup>10</sup> Committee on Statistics of the Ministry of National Economy of the Republic of Kazakhstan. (2017). Statistical collection "Sample survey on violence against women in Kazakh-stan", p.281.

<sup>11</sup> Kovaleva T. (2020). Named one of the main reasons for divorce in Kazakhstan. DOI: <https://www.zakon.kz/5007430-nazvana-odna-iz-glavnyh-prichin.html> accessed 3 April 2021.

<sup>12</sup> Lopushansky F.A. (1989). Prevention of family and domestic offenses. *Nauka*, p.20-21.

<sup>13</sup> Alaukhanov E.O. (2008). Criminology. General and Special parts: Textbook, p.376.

rights, cancellation of adoption of a child, release and removal of guardians and trustees from the performance of their duties, early termination of the agreement on the transfer of the child to foster care; 9) measures of procedural coercion and security measures for victims in criminal proceedings; 10) measures taken on the basis of a court verdict ”.<sup>14</sup>

The wide range of response measures provided for in this provision of the Law to the facts of domestic violence of varying severity is of significant practical and preventive importance both for the subjects of prevention and for potential offenders and victims. So, for the first time in Kazakhstan, special measures of influence were introduced - the issuance of a protective order and the establishment of special requirements for the behavior of the offender. The main purpose of a protective order is to immediately ensure the safety of the victim in the presence of a real threat of causing him physical or mental suffering. As the analysis of the state of affairs on the issue under consideration shows, annually, a protective order is issued against over 60 thousand persons who have committed domestic violence (73,541 protective orders were issued in 2019).

The establishment of special requirements for the behavior of the offender is also a measure of “impact on the legal consciousness and behavior of perpetrators of domestic violence,” and is applied along with the imposition of an administrative penalty. Every year, the court establishes special requirements for behavior against 6 thousand people (for 2019, the court established 7 712 special requirements).

At the same time, it should be noted that despite the establishment by the legislator of individual measures for the prevention of domestic violence, especially new measures such as "protective order" and "the establishment of special requirements for the behavior of the offender", today there are a number of problems with the effectiveness of their application. In accordance with Article 20 of the aforementioned Law “in order to ensure the safety of the victim and in the absence of grounds for the production of administrative detention in the manner prescribed by the Administrative Code of the Republic of Kazakhstan, or detention in the manner prescribed by Article 128 of the Code of Criminal Procedure of the Republic of Kazakhstan, the heads of the territorial police body, the local police service of the body of internal affairs, their deputies, district police inspectors, inspectors for minors and for the protection of women from violence “a protective order is issued, taking into account the opinion of the victim, which is handed for execution to a person who has committed domestic violence or who threatens to commit it, on receipt”. A protective order prohibits committing domestic violence against the will of the victim to seek, follow, visit, conduct oral, telephone conversations and enter into contacts with him in other ways, including minors and (or) disabled members of his family. "The period of validity of the protective order is thirty days from the moment of its delivery to the person in respect of whom it was issued." The inspection frequency is at least once every seven calendar days. "The person in respect of whom a protective order has been issued is put on a preventive record by the internal affairs bodies and preventive control is carried out over him." An analysis of the norm shows that a protective pre-writing is made taking into account the opinion of the victim, which allows law enforcement officers, in violation of the rights of the victim, not to notify them about this preventive measure.

This is confirmed by the data of a study conducted by the non-profit organization "Human Rights Watch" regarding the situation with domestic (family and domestic) violence in

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<sup>14</sup> Law of the Republic of Kazakhstan "On Prevention of Domestic Violence" No. 214-IV dated December 4, 2009. DOI: [https://online.zakon.kz/document/?doc\\_id=30525680](https://online.zakon.kz/document/?doc_id=30525680)

Kazakhstan. Thus, of the 16 female victims interviewed, none of them knew about the possibility of obtaining a protective order when they first went to the police. And in cases where the victim was nevertheless issued a protective order, this usually happened only after the latter applied to a crisis center, where she was helped to write a statement to the police and ask for a protective order.<sup>15</sup> In order to resolve this problem, I propose to exclude from Article 20 of the Law the provision on the need to issue a protective order, taking into account the opinion of the victim. This proposal will also comply with Article 18 of the Law, in which one of the grounds for taking measures for individual prevention of domestic violence provides for the direct detection by an employee of the internal affairs body of the fact of committing domestic violence or an attempt to commit it.

Currently, violence in family relations, remains an urgent problem that requires great attention and immediate solution. Based on the results of the study of the state of affairs in this area, normative parameters for the development of the institution of crime prevention in the field of family and domestic relations are proposed. Thus, according to paragraph 7 of Article 3 of the Law "On Prevention of Domestic Violence", one of the principles of prevention of domestic violence is "the priority of preventive measures of prevention of domestic violence over repressive ones." Among such measures should be highlighted: Order of protection; Establishment of special requirements for the behavior of the offender.

Analysis of the mechanism of application of individual measures for the prevention of domestic violence showed that today there are a number of problems with the effectiveness of their application. In this regard, I have substantiated and made proposals for improving the current legislation and the practice of its application in this area. In accordance with Article 20 of the Law "On Prevention of Domestic Violence" dated December 4, 2009, a protective order is issued taking into account the opinion of the victim, which allows law enforcement officers, in violation of the rights of victims, not to notify them about this preventive measure. In order to resolve this problem, I propose to exclude from Article 20 of the Law the provision on the need to issue a protective order, taking into account the opinion of the victim. This proposal will also comply with Article 18 of the Law, in which one of the grounds for taking measures for individual prevention of domestic violence provides for the direct detection by an employee of the internal affairs body of the fact of committing domestic violence or an attempt to commit it. With regard to such a measure as the establishment of special requirements for the behavior of the offender, we believe the following is necessary. In accordance with Article 22 of the Law "On the Prevention of Domestic Violence", in order to ensure the safety of the victim, the court establishes special requirements for his behavior against the person who has committed domestic violence, along with the imposition of an administrative penalty. In exceptional cases, for the protection of the victim and his family members, the court is also entitled to apply a measure of administrative and legal pressure in the form of a prohibition for a person who committed domestic violence to live in an individual house, apartment or other dwelling with the victim if this person has another dwelling. Unfortunately, this norm provides for one of the ineffective measures, which is practically not applied in practice. The reason is the lack of a mechanism for determining whether the offender has another home as a prerequisite for the application of this measure of administrative and legal influence (Article 22 of the Law and paragraph 2 of Article 54 of the Administrative Code). As the analysis of statistical data shows, in most cases, the

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<sup>15</sup> Kazakhstan: Insufficient Help for Domestic Violence Survivors, Research by Human Rights Watch. DOI: <https://www.hrw.org/ru/news/2019/10/17/334789> accessed 1 April 2021.

perpetrator of domestic violence does not have another place to live. In addition, the very formulation "other housing" requires clarification, a certain legal characteristic from the point of view of civil legislation. In this regard, I propose to exclude this mandatory condition, since the rights of the victim should be a priority.

In order to rehabilitate victims of domestic violence, crisis centers have been created in the Republic of Kazakhstan, where standards for the provision of appropriate assistance are implemented. But at the same time, unfortunately, in the arsenal of preventive measures against perpetrators of domestic violence, there are no special correction programs, which are an important element of an integrated and comprehensive approach to preventing and combating violence against women. In this regard, I propose to oblige persons who have committed domestic violence to undergo a course of a psycho-correctional program. I believe that without influencing the consciousness of participants in domestic conflict in order to correct male violent behavior and take responsibility for the violence committed, preventive work will be ineffective.

Domestic violence is currently a very urgent problem and must be singled out for independent research. The upward trend in this type of offense requires a scientific and legislative definition of the basic concepts. Today we can talk about insufficient knowledge of the person committing domestic violence, the lack of research in this area. Until now, Kazakhstani legislation does not provide an unambiguous definition of the concept (definition) of "domestic rapist" or "a person who has committed domestic violence". In this regard, I believe it is necessary to define the concept of "a person who has committed domestic violence", supplementing Article 1 of the Law with paragraphs 1-2 in the following wording: "a person who has committed domestic violence is an individual who has committed a deliberate unlawful act of a natural of a psychological, sexual nature in relation to another (other) person in the sphere of family and domestic relations."

The implementation of the above measures at the present stage will make it possible to more effectively apply preventive measures on persons who have committed domestic violence.



# **Imperialism**

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## **Abstract**

Yet the term of imperialism seems to be very usual and familiar to everyone, it becomes eventually evident that this term draws numerous concerns and doubts if one will consider its development through history. ‘Imperialism’, ‘empire’ and ‘colonialism’ are cohesive terms that can be pictured to the reader as some kind of historical map and etymological route of the definition. The interesting characteristic of imperialism as a term is that it is more dynamic from the historical perspective. In other words, in each considerable part of history, preceding terms consequently transform to something quite different from the previous one. Giving a broad variety of definitions and logical explanations of described phenomena, and how theoretical and political differences in concepts of imperialism are correlated to each other, this paper tries to picture how imperialism shaped throughout its history the international law, its institutions, politics and economics of the world.

Firstly, the definition of imperialism and its dynamic history was presented in the paper. The main concern of imperialism is the dynamic evolutionary nature of development throughout history will be shown in the second chapter. Chapter 2 concludes also the main phenomenon of imperialism’s contemporary presence and development that starts and continues along with the formation of global capitalism. The critical analysis of how the establishment of capitalism, international law leads by the principles of imperialism and mainly governed by the approach of empowering economic and political dominance through legal, political and even institutional formations also is discussed in the 2nd chapter. The third chapter gives a detailed analysis of 8 features of global imperialism and how it has been realized in international law and its institutions.

## **Definition of Imperialism throughout its history**

Even though the Empire emerged far long time ago, the theoretical definition and concept of it from the international law perspective was formed in the middle of the 19<sup>th</sup> century. According to Richard Koebner and Helmut Dan Schmidt, England was the first place where the term “imperialism” emerged and it was used to give a characteristic of Louis Napoleon’s Empire from the despotic and militaristic point of view. At that time, when British Empire eventually had come up with the definition of imperialism from their own perspective, governors suggested segregation of imperialism into two categories: good and bad ones. This categorization stands on

the principles that the imperialism examples like Caesarism, militarism, pursuit of total political control over the subject and enlargement of military force are considered as bad whereas good one is dedicated to service in a defined way prior to the British political traditions. These traditions are based on the practice of Anglo-Saxons to settle in the colonized countries with the only purpose: to keep peace, humanize and civilize.<sup>1</sup> However, further Richard Koebner and Helmut Dan Schmidt state that the definition of imperialism has changed at least 12 times since 1840. Nevertheless, to support the primary approach of the British Empire to the imperialism, Knox, Robert, 2014 argues that the statement “when we talk about imperialism we forget the real reason that we are in these countries – to help people” is the reflection of importance in understanding the nature of imperialism, despite the popular belief in imperialism as a tool of dominating the countries and taking the advantages of it. Simply saying, even if imperialism’s foremost defining feature is to appear as individualism, one can say that this definition lacks the historical examination which opens an image of imperialism from a humanitarian point of view.<sup>2</sup> On the contrary, Anghie concludes that the problem of conceptual basis of international law, the intention of which is to protect Third World people from authoritarian and sometimes genocidal state and more of that – to help them in advancement of their interest and development in international arena; is how actually it appears to be effective. On the contrary, this was invalidated eventually as most of the initiatives of international law such as the Mandate System, which were intended to be humanitarian and anti-colonial, had been discovered as a vehicle of imperialism.<sup>3</sup> This inconsistency in the interpretation of Imperialism can be reasoned by the changes in the global economic and political situation that will be discussed further in next chapter.

Moving to classical theories of Imperialism, Wolfgang J. Mommsen states that the first definition of imperialism was brought to the scholar sight by Heinrich Friedjung in his

work *‘Das Zeitalter des Imperialismus’*. He defines imperialism as not direct or indirect dominance of modern industrial and developed states over its colonies but personal absolute supremacy over a big number of territories. This definition gives a clue on the first core principles of Imperialism that implies domination of a particular nation and continued pursuit of conquering the new territories with the aim to establish an international system of states. In the latter part of the 19<sup>th</sup> century, imperialism was power politics driven by the strive to expand and develop the rule of the European great powers in all parts of the world. This strive was based on a pure political concept which was applied as a decisive agent of history, remaining nationalist way of thinking which was prevailing among ruling society as a secondary point.<sup>4</sup>

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<sup>1</sup>Koebner, Richard, and Richard Schmidt. *Imperialism: the Story and Significance of a Political Word*. Cambridge: University Press, 1964.

<sup>2</sup>Ibid.

<sup>3</sup>Anghie, Antony. “The Evolution of International Law: Colonial and Postcolonial Realities.” *Third World Quarterly* 27, no. 5 (2006): 739–53. <https://doi.org/10.1080/01436590600780011>.

<sup>4</sup>Campbell, John C., and Wolfgang J. Mommsen. “Theories of Imperialism.” *Foreign Affairs* 59, no. 4 (1981): 945

On the other side, Lenin defines imperialism as developed capitalism reaching its level to the monopolistic extent. This definition should also be expanded in two ways. First is most critical, where fund capital is the bank capital of a couple of exceptionally enormous monopolist banks, consolidated with the capital of the monopolist affiliations of industrialists. Second is the division of the world during the transition from a colonial environment, which has expanded without obstacle to domains unseized by any capitalist control, to a colonial approach of monopolist ownership of the territories which had been already divided up amongst the imperialists. He defines imperialism as a stage of developed monopolistic capitalism to such extent when all these, if to be precise, conditions are reached most part and well established.<sup>5</sup> Lenin's approach to define imperialism could be considered as modern, and to some extent proved itself as a visionary.

Contradictions and broadness of approach to define it and analyze its effects on international law makes it more and more difficult with time. As one can notice the evolution of Imperialism that started from conquests and seizures and developed in a complex system of political, economical system of domination.

But before moving to the dynamic changes in the definition, the one should consider J. Galtung's statement that imperialism is the specific form of the dominance system. To give more details on the definition of the dominance system, one should state that the Center and Periphery nations are forming our present world. All these nations have their own Center and Periphery. He suggests that the structural violence and its major forms are the consequence of inequality and the struggle on the resistance or, on the contrary, supporting this inequality. From this point of view, Imperialism theory in International Law could give a clue on how to control and possibly restrain the violence dictated by the dominance system.<sup>6</sup>

## **Chapter 2. History and evolution of Imperialism**

Anghie states that international law and relations were profoundly affected by the consequences of The First World War. The fact that the scholars and governors established legitimization of colonial exploitation was brought public and the international law of the colonization period in the 19<sup>th</sup> century had been criticized. From that time, the League of Nations started developing a

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<sup>5</sup>*Imperialism, the Highest Stage of Capitalism*. United States: Bi Classics, 2017.

<sup>6</sup>Galtung, Johan. "A Structural Theory of Imperialism." *Journal of Peace Research* 8, no. 2 (1971): 81–117.

new approach to the colonization problem. This approach was named as ‘backward territories’. However, Anghie concludes that the colonial relationships had not been eliminated with the end of colonialism, even though this played a significant role in the development of international law and relationships. He argues that the end of this period opened the way for the development of neo-colonialism. This argument is supported by the fact that while colonized countries gained their sovereignty the economic dependency on Western states was still present and, moreover, international law was formed in the way of ensuring this dependency.

Supporting the idea of neo-colonialism the one should also consider the classical economic theories of the 20<sup>th</sup> century which were tightly correlated to the question of imperialism as a tool to support economic growth. The necessity of developing civilization in the virgin territories was the key mission of the developed countries with no requirements of saving the sovereignty of the states where this civilization was to be established. On the other side, those who were supporting the idea of establishment of the new economic order which was to be based on international trade and export rise, were opposed to imperialism. The main argument of those was that firms that were allowed to secure their monopolistic interests using the community funds were interfering with economic growth in a negative way. This distortion of economic growth could have significant consequences. However, this did not last long, following the establishment of protective tariff policy liberal circles started to consider the acquisition of territories as favorable from the economic point of view. Nevertheless, general consent and firm opinion consisting of imperialism as a source of raw materials, an extension of market and investment opportunities was undeniable unconditionally of the fact whether imperialism itself was a desirable option or not. This acceptance of the fact that dependent colonies were essential for economies of the imperialist nations had been supported and lobbied by entrepreneurial groups that were directly interested in it.<sup>7</sup> To conclude, one can say that imperialism if not really identified and examined properly serves always in one way – to develop a system that can provide a good environment for nations to prosper from a political and economic point of view.

Brewer Anthony states that imperialism from the Marxist perspective is considered far more different from the classical definition. The meaning of imperialism for Marxists lies in the fight between leading capitalist states for territory expressed in the military, political and economic forms. This fight by their assumption will eventually lead to an inter-imperialist war. The rivalry between the imperialistic states and the dominance of stronger ones over weaker ones is the focus of the concept whereas the countries that are standing at the bottom of this hierarchy are considered as passive battlegrounds. It needs to be said that Marxists theory of imperialism is Eurocentric and it is completely fair as the period of its formation coincides with The First World War and after it. All these theories were quite different from the original Marxist understanding of capitalism as the capitalist theory has changed its form with the rise of monopoly. A monopoly in the Marxist theory as it is mentioned before is the main source of competition between majors. This competition leads to the rivalry between the majors. It is interesting to mention that this rivalry is much more different from the classical economic theory

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<sup>7</sup>Campbell, John C., and Wolfgang J. Mommsen. “Theories of Imperialism.” *Foreign Affairs* 59, no. 4 (1981): 945

of monopoly as it is obvious in the imperialism of a kind that is researched in a paper monopoly is divided by several major competitors.<sup>8</sup>

One should again refer to the neo-colonialism period but now as to a period of an attempt of the Third World countries to become independent from the Western capital. Kwame Nkrumah defined the next stage of imperialism as neo-colonialism in his work “Neo-Colonialism, the Last Stage of Imperialism”. In his work, the exploitation of post-colonial states by the foreign capital was examined in this stage of imperialism. From that time, international law has stepped in the major stage of the development from the TWAAIL (Third World Approach to International Law) perspective.<sup>9</sup> It is needless to say that old imperialism and colonialism played a significant role in the formation of international law. Now the question to be raised is how the International Law will be reshaped in the next stages of imperialism and post-colonial period. B.S. Chimni states that despite the effort of the Third World countries to achieve the transformation of the economic order by establishing international agreements, resolutions, which eventually collapsed, primary commodity and debt crises in 1980 forced developing countries to accept the programs created by international financial institutions. Moreover, the claim for the changes in the world economic order to the more beneficial way for the Third World was dismissed and exploitation of neo-colonial countries had eventually been institutionalized.<sup>10</sup>

The conclusion of the previous paragraph gives us a clue that the history of imperialism has not come to the logical end and gave birth to the new stage of global imperialism. B.S. Chimni has defined global imperialism as a next stage and stated that it is formed by new economic, legal and political structures. This stage has 8 eight principal characteristics: the dominance of international finance capital which transformed into hypermobile kind of capital with speculative features unbound from production; implementation of international law dedicated for the protection of international property rights; free trade doctrine establishment with prevailing growth of tariffs for developing countries using WTO institution; “accumulation by dispossession” new modus operandi for accumulation in a primitive way and through wasting the core rights of peoples; relaxation of labor rights and blurring international labour law; enforcement of barriers for voluntary and forced migration; establishment of international economic institutions that will rearrange the economic sovereignty of states and concentrate it in the hands of developing global state; establishment of international law in the way to cater the possibility to apply force with alignment to the interest of imperial agenda.<sup>11</sup> To conclude, the advanced capitalist countries developed and established a new economic and legal environment,

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<sup>8</sup>Brewer, Antony. *Marxist Theories of Imperialism: a Critical Survey*. London: Routledge and Kegan, 1980..

<sup>9</sup>Nkrumah, Kwame. *Neo-Colonialism: the Last Stage of Imperialism*. New York, 1976.

<sup>10</sup>Chimni, B. S. “Towards an Integrated Marxist Approach to International Law (IMAIL).” *International Law and World Order*, n.d., 440–550.

<sup>11</sup>*Ibid.*

based on imperialistic principles, with the help of a network of international institutions that serve as a tool to embody the interests of global imperialism.

## **8 characteristics of Global Imperialism**

The first is the international finance capital that is dominating in the mobile finance environment with more speculative characteristics rather than production linked one. This forms the possibility of extracting huge amounts of capital from one part of the world to another. Destabilization of financial markets as a means of domination and empowering the inequality in the world shape the policies of the sector in the same way, despite the emergence of the global financial crisis, Eurozone crisis, trillion dollars bailouts.<sup>12</sup>

The second is the international property rights that are protected by the laws adopted more internationally rather than by national laws and institutions. One of the examples is Trade-Related Intellectual Property Rights and WTO. The problem of enforcement of international property rights is laying upon the fact that they are shaped in the way to give an advantageous position to Transnational Capitalist Class rather than Transnational Oppressed Classes. The greatest example of that is the patent regime adopted that serves as a regime that benefits multinational pharmaceutical corporations disrupting the basic rights to the health of individuals.<sup>13</sup>

The third is the feature of global imperialism pictured by the growing principle of free trade that is governed by WTO as an international institution. Considering the effort of liberalization of international trade in developing countries, one should also take into account the fact of the industrialization of the developed behind the high tariff walls and the variety of measures to protect their interests. In addition, the lack of adjustment means in order to tackle troubling consequences of trade liberalization in developing countries led to disproof of the advantage of free trade doctrine for the Third World Countries.<sup>14</sup>

The fourth, the term of “accumulation by dispossession” became very actual for the global imperialism. The dynamics of global imperialism leads to the overcoming the crucial need of capitalism to cover non-capitalized spaces of the Third World. The main examples are privatization and commodification of water provision, health services and education as the main

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<sup>12</sup> “Capitalism, Imperialism, and International Law in the ...” Accessed April 29, 2020. <https://scholarsbank.uoregon.edu/xmlui/bitstream/handle/1794/12601/Chimni.pdf?sequence=1>.

<sup>13</sup>Ibid.

<sup>14</sup>Ibid.

public spheres of the Third World not mentioning the dispossession of land, resources and state interventions. These processes are enforced by the establishment of international investment laws such as BITS (Bilateral Investment Protection Treaties) that are disregarding the environmental and societal issues.<sup>15</sup>

The fifth, the establishment of ILO (International Labour Organization) declaration in 1998 on Fundamental Principles and Rights at Work that is disregarding the conventions and laws adopted by ILO itself. This has a profound effect on the way of allowing capitalists to exploit the labour in the Third World and maximize their profit disregarding the threat for millions of peoples being insecure, especially in times of economic crisis.<sup>16</sup>

The sixth feature is strong restriction that is imposed for voluntary and forced immigrants. Policies on tightening the borders in order to restrict people from migration are applied mostly to the people that are seeking asylum and economic migrants but are softened to those who are considered as highly skilled professionals. This policy is implemented through visa, non-entry regimes and carrier sanctions.<sup>17</sup>

The seventh is a transformation of the economic sovereignty of the individual state to the network of international institutions that are going to govern a global state. This restricts the possibility of the Third World countries to establish their policies for the advantages of the welfare of their people. These restrictions are represented by monetary, industrial, technological vulnerability and confinement in legislation for those countries that are on their way of economic development.<sup>18</sup>

The eighth feature is structured in the international law doctrines that are treating the use of force as a responsibility to protect which, in fact, serves the values of the global imperial agenda. In this way, the sovereignty of some states is somehow replaced by the legitimization of force that is used to enforce global human rights. The first victim of R2P (Responsibility to protect) approach was justified and legitimized by the United Nations Security Council (UNSC) Resolution 1973 of March 2011 in which intervention of NATO was considered as reasonable. Furthermore, one of the popular examples of justification for military intervention is “war on

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<sup>15</sup>Ibid.

<sup>16</sup>Ibid.

<sup>17</sup>Ibid.

<sup>18</sup>Ibid.

terror” in Afghanistan and Iraq.<sup>19</sup>

The new era of international law and international relations became present following the 9/11 attacks that followed with the discovery of a new threat to the international community. This new era involved the proposal of new theories dedicated to reformations in international laws including humanitarian, human rights and war legislations. Intention to address new realities by the USA on reformatting the international law and military enforcement order with the help of the UN Charter disregards destructive consequences that Third World countries are faced with. However, the nature of the “war on terrorism”, launched by the USA’s National Security Strategy as an approach to establish the peaceful democracy in the Middle Eastern countries through military aggression is resembling earlier imperialistic behavior. The arguments used by Bush in reasoning the invasion in Iraq were discouragingly similar to Vitoria’s rhetoric to excuse the conquering Indians by Spain. The main argument for the reconstruction of international law was barbaric and uncivilized as a prompt for changes. Thus, disregarding the irony of the modern reality we live in, international law has returned to its foremost elemental format of imposing the civilizing duty and as a consequence transformed its formulation into a new imperialistic one with the tag of “national security” and “self-defence”. Anghie argues that the phenomena of imperialism in international institutions began to become of much concern of scholars that were staying indifferent to this position. The scholars argued on the imperial management imposed by the USA to reborn. The imperialism itself that was imposed by international law and institutions in a regular way in terms of, for example, economic order was acceptable even though it was intended to suppress and subordinate the Third World countries. Moreover, it was also promoted by not only the USA but European states. Even though European states criticized the approach of establishing democracy in Iraq, they were also approaching the imperialistic order of the international system but in different ways. The sudden war on terrorism launched by the USA being phenomenal in the contemporary presence of imperialism reveals the true nature of international law and institutions that were always a part of it.

This proves the vision of the USA on providing their national security through enforcing the democracy in the states using military aggression.

## **Conclusion**

These perspectives give the inevitable demand in unity for the struggle against global imperialism. This unity as was suggested by Chimni requires sustained struggles of the Third World for the recovering the policy space for regulating the economic, political and trade arrangements in the manner of retrieving the right to decide and form their own order that will allow them to empower their freedom and possession of basic rights on resources, labour and their own democracy.<sup>20</sup>

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<sup>19</sup>Ibid.

<sup>20</sup> “Capitalism, Imperialism, and International Law in the ...” Accessed April 29, 2020. <https://scholarsbank.uoregon.edu/xmlui/bitstream/handle/1794/12601/Chimni.pdf?sequence=1>.



The paper has shown the evolution of the term from colonial to global form and discussed the legal, political and institutional tools for strengthening the positions of imperialism in the global world.

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