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## **Strategic Management in the Quasi-Public Sector: Evidence from Kazakhstan**

**Kernebaev Aydin SAPAROVICH**

Karaganda Economic University of Kazpotreboyz, Karaganda, Prikanalnaya, 19 Street, Apt.375, 100000, Kazakhstan. [Tel:+77781088696](tel:+77781088696); E-mail: [ainuraphd@mail.ru](mailto:ainuraphd@mail.ru)

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### **ABSTRACT**

Reforming the economic system in Kazakhstan has led to significant changes in the management of municipal public enterprises and joint stock companies with state capital. The reduction of the effective management of problems of the transformation of ownership, the underestimation of the regulatory functions of the state became the basis of the crisis in this area. The analysis of the economic activity of municipal unitary enterprises of the Republic of Kazakhstan is a basis for the development of proposals for the transfer of certain municipal unitary enterprises in the municipal state-owned enterprises or their liquidation, restructuring or privatization due to their excessive number and inefficient economic activity. In addition, the consideration of the use of certain modern methods of management on the example of a particular company reflects their actual operation and effectiveness in terms of Kazakhstan's economy.

JEL Classification: H11; H76.

Keywords: Strategic Management; Quasi-Public Sector; Capital; Budget; State Enterprise.

### **1. INTRODUCTION**

Reforming the economy of the Republic of Kazakhstan was preceded by discussions on a number of conceptual provisions relating to the economic environment in which opportunity to actively regulating the activities of the state; the advantages of a highly specialized production and the need to preserve part of the large enterprises owned by the state; socio-economic importance of the state regulation of prices; stimulating opportunities in the distribution of profits, operational and economic independence of enterprises, including the use of profits (De Alessi, 2002).

The State Property Management of the concept should reflect the state tasks in the field of business management, fully or partially state-owned, including state and municipal state-owned enterprises and joint-stock companies with state capital, as well as the objects of state property, including those located abroad. Thus, the following reasons which led to the current crisis: inefficient use of unitary enterprises of real estate transferred to the economic management of the public authorities; the excess part of the unitary enterprises that are managed by the state is reduced to the appointment of the head of the company and control of real estate transactions; lack of responsibility of the director to the state authorities, monitoring of the financial flows of the unitary enterprises and unified accounting system of the state property, as an accounting object, or specified public property assigned to state-owned enterprise or the enterprise as a property complex; as well as the practice of transfer of state shares in trust; lower the income from dividends on state shareholdings (Eichhorn, 2001).

Solving the problem of effective functioning of the municipal state-owned enterprises and joint-stock companies with state capital is achievable with adequate changing methods of government data by enterprises and governments.

The objective of this study is to provide theoretical analysis and justification of methods for the long-term planning of the country's strategic management development of quasi-public sector entities in the context of integration.

### **2. WHY STRATEGIC MANAGEMENT IN THE PUBLIC SECTOR?**

Financial activities of the state enterprise are at the expense of revenues from product sales, while their lack of enterprise allocated the budget. Unused enterprise during the year funds to be returned to the budget. Profits from sales are directed to the industrial and social needs of the plant according to the standards established by an

authorized body every year, and its free balance is withdrawn in the budget. In general, the legal status of state-owned enterprises recalls the legal status of the socialist planning and unprofitable enterprises. Therefore, the enterprise in question, are in fact government organizations, is fully controlled by the state, even though they act as the independent property turnover participants. State-owned enterprises can hardly claim to be sufficiently high economic efficiency and the costs of their content are a powerful part of the state budget (Grossman, 2000).

Logically, state-owned enterprises are the organizational and legal form, which allows businesses to function, the activity of which in these circumstances may not be profitable, but it must meet the needs of society. In addition to natural monopolies, the number of such enterprises can be classified as manufacturing, products or technology that requires the state to its security. In some cases (but not in large numbers), conversion to a state-owned enterprise can serve as an alternative to bankruptcy. With regard to the State-owned enterprise management system, this executive authority, which approves their statutes, exercises the rights of branch management body in the formation of the production program, finance, pricing, financial incentives for staff (Mallon, 2003).

Municipal unitary state (based on the right of business) enterprises independently decide on the use of material and labor resources, carry out self-financing, oriented to making a profit. However, it remained an unresolved issue of obtaining the supervision of an independent enterprise. It should be noted that the number of companies under consideration will be gradually reduced to the extent of privatization (corporatization) and converting them into state. In the meantime, they make up a relatively large group, which neglect the creation of management, at least, unwise.

For a while oversight functions were divided between the bodies of self-government of the labor collective, central and local authorities. Then it was self-liquidated production with a significant weakening of the subordinate enterprises of state agencies. State unitary enterprises fall into a legal vacuum that was filled by private broad powers assigned to the director's body. However, many companies under the leadership of nomenclature were unable to respond to market signals as the responding actors of the market economy, and ended up in the plight. For financing the municipal enterprises, in addition to the actual municipal resources, it is necessary to attract funds from other investors by deliberate municipal financial and economic policy (Polovinkin, 2000).

The property and its form of productive use constitute the fundamental basis of economic relations in the workplace. Their implementation and adequate reflection are the functions of management mechanism, which, under favorable circumstances can contribute to the development of production. Therefore, it is important to discover the essence of the relations arising in the public sector. The ratio of these companies with the state (municipality) due primarily to the fact that they are established at the initiative of the state (municipal) governments, determine their technical and economic parameters, the specialization, the production profile based on the needs of the public. Through the development of a uniform scientific-technical and socio-economic policy, social and regional programs, concrete centralized methods, orders and assignments regulate the activities, ensuring the coordination and consistency across the entire economy (Ponomarenko, 2000).

But this applies to the organizational phase of the creation of businesses and the general economic functions (except for institutions) state. They also linked the relations arising about the orders and contracts for the manufacture and supply of products for state needs, storage and use of budgetary funds, etc., common to all companies in the country. The decisive role in relations between governments, state and municipal state-owned enterprises constitute a relationship for the use of public property. They are grouped on the moral, property and management and, depending on the type of enterprise - state-owned, on the basis of economic management, trust (Trust), lease, and concession - have their own characteristics.

Non-property relations can be attributed to the right of the central and local authorities to set unitary enterprises certain conditions relating to the use of public property. At the conclusion of the agreement on the transfer of property in economic management, trust, and rent must meet certain requirements under the nomenclature and product (service) volume, the level of costs and prices, the supply of products to a specific market (the supplier to the local market, export), accounting and reporting, etc (Radigin, 2001). If unitary enterprise shall be used for a fee, it is important to consider the increase due to the state capital investments carried out after the agreement on the transfer of economic management, trust or rent. Of course, such an increase should be taken into account in the amount of fees and return of property. But by the last increment of additional capital, investment should not alter the contractual terms of use themselves, board and return. It is also important to determine the amount of the contract and, accordingly, the rate of depreciation when they are included in the fee for the property and confiscated by the state or municipal governments.

It requires consideration the total amount of fees for the use of the property. First of all, you must decide on the depreciation. It is not only in the choice of options, but also in the policy of public ownership of the reproduction. If depreciation remains with the company, the means of production are reproduced and stored as public property. When removing the depreciation for the normal functioning of the production of their retirement is forced to make up the company, the trustee or lessee is at its own expense. Therefore, economic rationale rent is necessary. It is determined by the stock market, and because this method is not used, you need time, but also reasonable methods of calculation. In order to eliminate the defects existing in rental practices, the following are appropriate:

- Proceed from the actual replacement cost of the means of production, rather than the conventional balance;
- Differentiate the fee depending on the duration of transfer of property, the degree of wear, the level of technology and equipment;
- Take into account the profitability of production and binding conditions on the transfer of the contract, limiting the independence of the company, the trustee or the tenant to use the property (Shirley, 2001).

From the above, we can draw the following conclusions:

The number of state-owned enterprises should be kept to a reasonable minimum, with respect to this category of enterprises special control system must be developed. It seems an obvious need for the development and adoption of a special law, which is keeping the administrative authority of the state enterprises, would be based on the following principles:

- A clear distribution of rights and responsibilities between the industry control and the state-owned factories;
- Collegiality in making important economic decisions highly competent individuals;
- The use of a competitive system of selection of managerial personnel;
- The use in some cases, peer review.

For the implementation of these principles, a series of measures should be taken. In particular, the strategic decisions on the management of state enterprise should be taken jointly by the parent body. This body should be appointed by the Minister and be responsible for the correctness of its decisions, in which the head of the company is guaranteed a certain degree of independence. Without this there cannot be shown an entrepreneurial activity manager. Along with that management in the organizational structure, it must be entered the body through which staff would be able to influence management decisions (Temoshenko, 2005).

### **3. CONCLUSION**

This study provides important conclusions for the public sectors. That is, the main tasks in the area of improving the management of state unitary enterprises should be:

- The creation of methods of state regulation of activity of the state unitary enterprises;
- State extracts income from property held by unitary enterprises;
- To create conditions for reducing the number of state unitary enterprises to the level necessary for the performance of the State's functions and tasks, as well as narrowing the scope of the right of economic management.

Income from the use of state property, which will remain in the economic management of the unitary enterprises, can be obtained in the form of:

- Payment for use of the property as a percentage of its value (the analog board for funds, rental interest, property tax). As a base, all the assets of the company can be taken either, or those that are used in the calculation of property tax. With this approach, the company should pay for the use of the property, regardless of how well it is used;

- Part of the net profit of the unitary enterprises. By analogy with companies here are two possible options for its establishment: pre, in absolute terms, based on the size of the expected profit, or a relative - as a percentage (an analogue of dividends on preferred shares of type A) or at the end of the reporting period based on the actual size profit (analogue of dividends on ordinary shares) (Yan, 2002).

In the stagnation of privatization processes in the country, in order to stimulate the demand, differentiated approach to the privatization of enterprises is appropriate, depending on their liquidity, including:

- 1) A sale at the competitive bidding less liquid companies at the lowest price;
- 2) Transfer of property complexes of unitary enterprises in rent with option to buy;
- 3) Conversion of unitary enterprises into joint-stock companies, 100% of the shares of which will be in the state ownership.

The second approach is now almost the only real opportunity to participate in the privatization of the enterprise workforce. The third can be considered as a preparatory phase to the sale of businesses as it gives opportunity to conduct direct negotiations with potential investors for the sale of existing shareholdings, including by installments under the bank guarantees, as well as the sale of shares on the stock exchange and OTC markets.

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