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FOREWORD

The Faculty of Informatics and Management, University of Hradec Králové, The Department of Economics organised on 4. - 5. 2. 2014 12th international conference Hradecké ekonomické dny 2014 (Hradec Economic Days, HED 2014).

The aim and intention of the conference are to present the results of scientific research activities in the fields of economics, business economics and management, creating a platform for regular encounters of experts of related fields, strengthening relationships and research, establishing personal contacts so important for submission of joint research projects and creation of space for presentation and publication of young teachers. The HED 2014 conference meets all these requirements.

Five parts of the reviewed HED 2014 conference proceedings include 184 papers in Czech, Slovak and Polish, another part of the proceedings presents 116 papers in English. Most papers were registered in the section of Business economics and management and of Economy and Management of Enterprises and Regions.

The papers were divided thematically and discussed in eight sections.

1. Latest issues in the banking and financial markets
2. Regional development macroeconomic context
3. Tourism economics
4. Business economics and management
5. Economy and management of enterprises and regions
6. Ekonomia i zarządzanie regionów i przedsiębiorstw
7. Mathematical models in economics
8. Modern trends in management

I would like to thank all those who contributed to the preparation of the conference, members of the scientific, organisational and programme committee. Many thanks go to the reviewers and editor for the preparation and publication of the proceedings.

I believe that the Hradec Economic Days conference contributed to the exchange of professional knowledge, establishing and strengthening collegial relationships.

Significant achievement and appreciation for the Department of Economics, Department of management and the entire team was the inclusion of the Hradecké ekonomické dny conference proceedings of the years 2005-2011 **in the CPCI database** (Conference Proceedings Citation Index) on the Web of Science. We will also strive to implement the HED 2014 conference proceedings in this database.

Hradec Králové of 13. 1. 2014
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INTEGRATION PROCESSES IN THE CONDITIONS OF EXPANDING ECONOMY OF KAZAKHSTAN

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Key words:

corporate management – mergers – acquisitions – antitrust policy – economic integration

Abstract:

This paper summarizes the best practices in corporate management, law and integration management based on merger and acquisition transactions. The analysis of modern integration policy of the Republic of Kazakhstan from the perspective of expanding economic ties with Europe has been carried out. A retrospective and contemporary assessment of integration processes in the most attractive sectors of Kazakhstani economy has been given. The recommendations on the formation of process-oriented concept of the company's growth based on merger and acquisition transactions have been developed.

Introduction

Globalization of world economy is related to integration processes, which are manifested in the formation of economic alliances between states, strengthening the role of transnational corporations, the growth of investment activity of public and private companies through transactions with and without partners' capital.

The global crisis has strengthened measures to consolidate the joint actions of the Republic of Kazakhstan with the European Union, the Eurasian Economic Community, Shanghai Cooperation Organization and the Commonwealth of Independent States. The ultimate goal of integration processes is the creation of a competitive industrial and technological base of innovative type.

Due to the modernization of production and export of raw materials over the past three years, Kazakhstan's economy has provided a high rate of economic growth. According

to the Information of Joint Stock Company Regional Financial Center of Almaty (JSC RFCA, 2011), the international agency Standard & Poor's estimated the position of the Republic of Kazakhstan as follows: long-term foreign currency sovereign rating of Kazakhstan upped from “BBB” to “BBB +”, the outlook – “stable”. Short-term sovereign credit rating of the country rose from “A-3” to “A-2.” National scale rating – “KzAAA”- the agency confirmed. Long-and short-term local currency rating were affirmed at the level of “BBB +” and “A-2”, respectively¹. It is emphasized that the external financial position and budget of Kazakhstan improved significantly as a result of budget surpluses, sustained economic growth, prudent fiscal policy and foreign investment inflows. The agency also took into account that increased oil production almost doubled over the next decade, and the fact that the net inflow of direct investment is on average 4% of GDP, and GDP growth in 2011-2014 will make up average 6%.

This information is confirmed by the static data of the Agency of the Republic of Kazakhstan on Statistics (2012), Table 1.

TAB. 1: Main Macroeconomic Indicators of Republic of Kazakhstan (as % of the previous year)

Indicator	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011
Gross domestic product	113,5	109,8	109,3	109,6	109,7	110,7	108,9	103,3	101,2	107,3	107,5
Industrial production	114	110	109	110	105	107	105	102	103	110	103,5
Capital investments	145	111	117	123	134	111	114	105	103	97	102,4

Source: Agency of the Republic of Kazakhstan on statistics.

Kazakhstan's economy is referred to a type of economy of developing countries, and the dynamics to the openness and security for private investment is clearly observed. This is supported by the international community. In 2012 at the 152nd session of the General

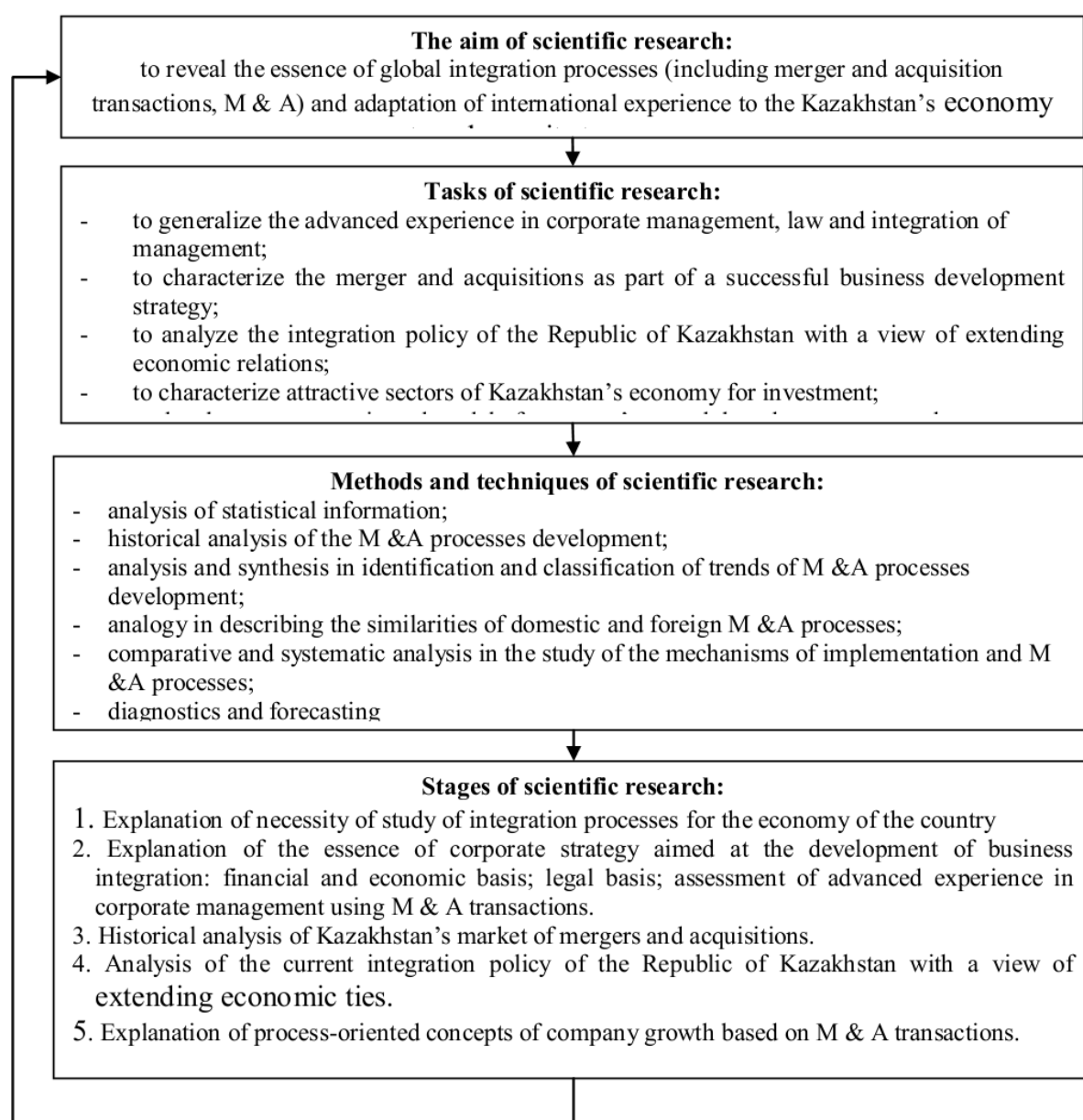
¹ Database of Joint Stock Company Regional Financial Center of Almaty (JSC RFCA, 2011): “Standard & Poor's raises Kazakhstan's sovereign rating 08/11/2011”. Available at: <http://www.rfca.kz/en/news/1001741>.

Assembly of the International Exhibitions Bureau the Republic of Kazakhstan won the right to host EXPO-2017. Despite the efforts there is an acute problem to overcome the negative trends, such as:

- weak economic diversification with the predominance of extractive industries;
- lack of high-tech equipment and manufacturing facilities with high added value;
- lack of transparency and predictability of business - environment;
- lack of foreign direct investment.

To overcome the structural deformation and enhance the innovative activity is possible

FIGURE 1: Structural and Logical Scheme of Scientific Research



Source: compiled by authors

using special financial - economic instruments, including the integration at the level of companies with mergers and acquisitions (merger and acquisition transactions, M & A), as well as forms of international cooperation without direct equity (Non-Equity Modes of International Production). Therefore, the aim of this study is to reveal the essence of global integration processes (including merger and acquisition transactions, M & A) and adaptation of international experience to the Kazakhstan's economy to enhance its transparency. The tasks which the study is based on, as well as methods of scientific research can be described as follows (Figure 1).

1. Essence of corporate strategy aimed at the development of business integration

An important role in the development and implementation of an effective business strategy by integrating is carried out by the scientific and research works of famous scientists and consulting firms.

Research in the field of mergers and acquisitions take into account the signs by which one can give an accurate assessment of what happened and is happening in the business - environment. The research methodology is a set of techniques and methods of scientific knowledge applicable to the study of integration processes (Table 2).

Scientific developments touch both historical analysis and forecasts of companies' development. So Richard Brealey, Stewart Myers [1] in their work "Principles of corporate finance" reveals the essence of mergers and acquisitions as an economic category. Along with this work, a professional interest is attracted by the statistics of M & A market of the United States of America, tracked over the 90-s. A special place in this study is given to the observation of trends and methods of cost estimating, the payment, sellers and buyers' motivation. Frank C. Evans, David M. Bishop [4] interpret the term "strategic synergism", appreciate objective and subjective factors of forecast of merger or acquisition synergy.

The scientists of the Commonwealth of Independent States are studying the European, American experience and adapt it to their own economic, legal conditions. The researcher Ignatishin, J. V. [9] gave a description of the sources, forms and methods of financing of M & A transactions in Russia. Gomcjan, S. V. (2010) in his monograph

presented findings based on a comparative legal analysis of the acquisition of joint stock companies in Russia and the European Union.

TAB. 2: Methods of Study of Mergers and Acquisitions processes (M&A)

Name of research methods	Methods description
Historical analysis of development M & A processes	Study of M & A processes business integration in chronological order.
Methods of analysis and synthesis in the identification and classification of trends in M & A process development	Review of M & A process from different angles (historical stages, territorial boundaries, transboundary or domestic nature of a transaction and other features).
Economic methods of M & A study: comparison; grouping; graphic.	Comparing and grouping of economic performance of enterprises (according to quantitative and qualitative criteria) before and after integration into a specific group of companies; Graphic representation of results of analysis.
Methods of statistical analysis	The use of average and relative values of the index method to develop a methodology for the analysis of investment attractiveness and protect companies from hostile takeover.
Methods of diagnosis and prediction	The use of extrapolation methods and expert assessments, economic analysis to develop a methodology for the analysis of investment attractiveness and protection of companies from hostile takeovers.
The method of analogy in describing the similarities of domestic and foreign M & A processes	Identification of general properties of M & A processes of domestic companies with foreign M & A processes.

Source: compiled by authors

For the scientists, concerned with the assessment of sustainable development and investment attraction, the works of Novikov, A. V. [10], Endovitsky, D. A., Soboleva, V. E. (2010), Gvardin, S. V. (2006), Kurbangaleeva, O. A. (2004) are of great interest. These scholars have focused on the study of the investment characteristics of the M & A processes.

Defining the essence of business integration processes through mergers and acquisitions can be summarized as Table 3. In our opinion, in defining the nature of mergers and

TAB. 3: Classification of Approaches to the Revealing the Essence of Integration Processes through M&A Transactions

Essence and mechanisms of M&A		Purpose of M&A	Source
merger	acquisition		
Business Combination (Assets and Liabilities) (p.898)		Increasing the value of a merged company (p.898)	Brigham Ju., Gapenski L. (1999)
Mergers and acquisitions - response to the changing market situation. The transformations that can radically change the organizational structure or the external business environment of the company (p.55).		M & A as part of a global development strategy is considered in management of change (p.55).	Timoti Dzh. Galpin, Mark Hendon (2005)
Merger - a kind of purchase (p.924).		Acquisition provides companies with a shortcut to achieve strategic objectives (p. 923).	Damodaran A (2006)
Combination of two companies in which one of them survives, and the other ceases to exist (p. 21).		The term "takeover" is more uncertain, may refer to "friendly and hostile takeovers" (p.22)	M & A serve companies growth Gokhan Patric A (2004)
Merger of organizational forms - the process of reorganization, which results in formation of a new company on the basis of merging companies (p.31).		Acquisition is the process of acquiring the rights of corporate control unilaterally and within the existing organizational - legal forms (p.29).	M & A is the goal of integration management. Ignatishin JV (2005)
Merger – combination on certain terms of assets and management functions of several companies under one corporate merger or under its auspices (p.11).		Acquisition is equated to merger. Types: "Friendly takeovers", "Hostile takeover" (p.12).	Mergers and acquisitions - economic categories. Mechanisms for implementation: - purchase of votes; - direct purchase of shares; - reorganization in the form of merger or affiliation; - assets acquisition (p. 14). Gomicjan SV (2010)

Source: compiled by authors

acquisitions as a form of business integration it is important to focus on the economic and legal bases of these processes.

The definition of the M & A process within the legal legislation is in the Law of the Republic of Kazakhstan “On joint stock companies” (2003)². The merger of companies is recognized as the emergence of a new company through the transfer of the entire property, rights and obligations under the merger agreement and in accordance with the transfer acts of two or more companies to cease their activity. At the same time the charter capital of a company formed by the merger of companies, is the sum of the equity of the reorganized companies.

According to international practice regulated by the International Financial Reporting Standard (IFRS) 3 (2008) “Business Combination”, a business combination is defined as a transaction or event in the result of which an acquirer obtains control over one or more types of businesses³. Business is defined as an interrelated set of activities and assets managed in order to provide investors or other owners with income. As the basic mechanisms of business combination reflected in the standards there are four types presented in Figure 2.

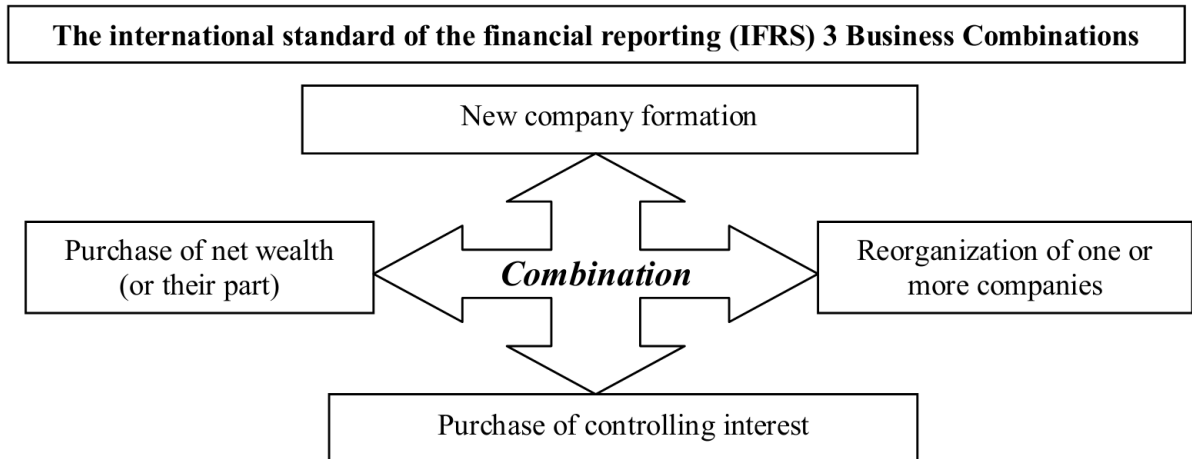
It historically developed that any corporation that wishes to increase its value through integration, bases on growth strategy, including M & A transactions (Figure 3). The aim to increase the value is the starting point for choosing strategic alternatives, as M & A transactions have meaning only if they provide the value growth of the company [6].

Recent economic studies show that now multinational companies make extensive use of models of development based on contracting industrial and agricultural manufacturing, transfer of services to outsourcing (outsourcing), franchise and licensing.

² Law of the Republic of Kazakhstan of 13 May 2003 N 415 On joint-stock company (2003)// *Register of Parliament of the Republic of Kazakhstan, 2003., N 10, article 55; Newspaper “Kazakhstan’s truth” of 16 May 2003 N 141-142.* Available at: <http://www.ordacapital.kz/files/laws/ao2007.pdf>.

³ The international standard of the financial reporting (IFRS) 3 Business Combinations (2008). Available at: http://static.bdo.uk.com/imported/2010/3/IFRS_3_Business_Combinations.pdf.

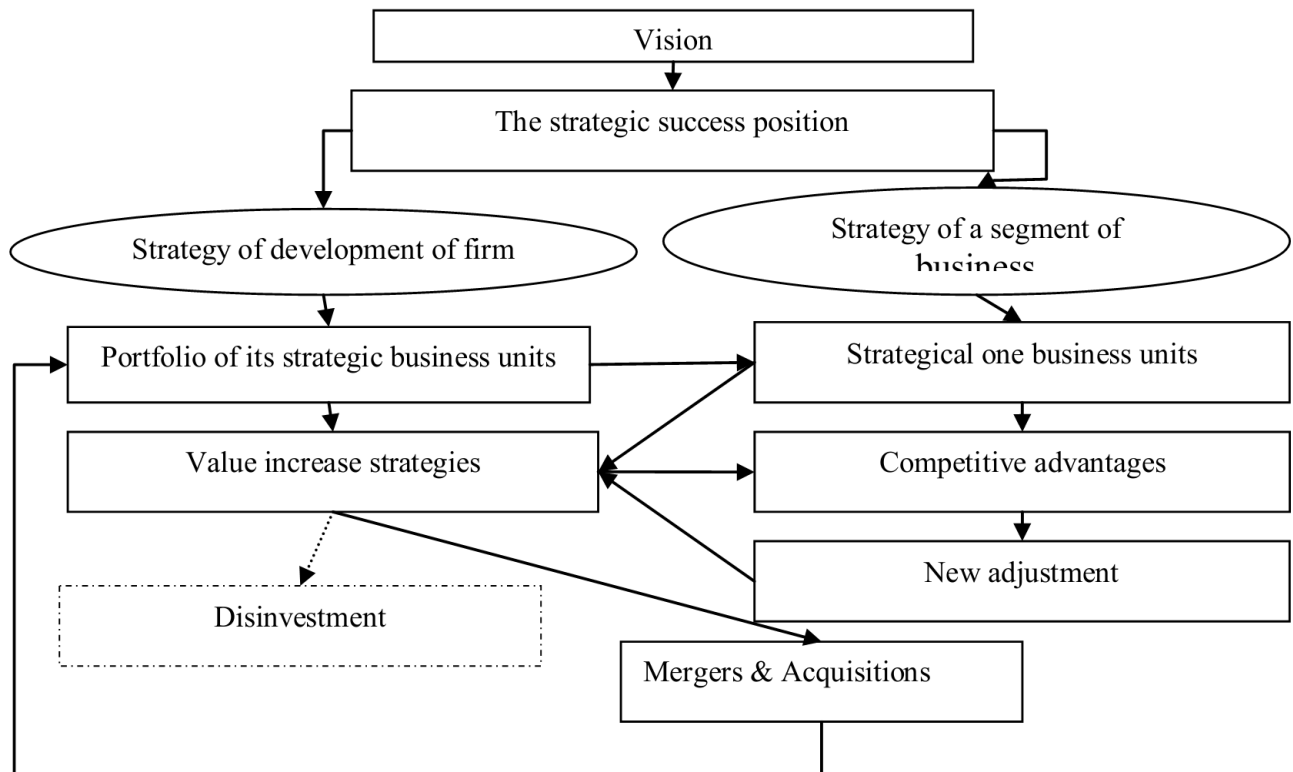
FIGURE 2: Business Combination Mechanisms According to (IFRS) 3 Business Combinations



Source: compiled by authors

However, the integration processes at the level of companies also involve direct participation in the capital of companies - partners, i.e. M & A transactions. Such transactions can be carried out both among small firms, and at the level of transnational corporations.

FIGURE 3: M&A Transactions and Strategic Management



Source: compiled by authors

Despite the fact that the growth of companies through M & A is more expensive than licensing, franchising, outsourcing, it is able to improve the economic, social responsibility of the newly formed company or the company - buyer to the employees of the acquired company. In the case of integration of companies without equity participation there is a high risk of refusal of the service company, under contractor's agreement with the main corporation, or the probability of termination of the contract before the expiration if there is a company - analogue.

2. The legal bases of integration processes regulation

Turning to the Kazakhstan's experience of regulation of operations on the integration of companies one can focus on important issues that relate to economic concentration and the participation of foreign companies. In 2009 the Republic of Kazakhstan introduced a new law "On Competition" (2008)⁴. The law "On Competition" was prepared in the period of the beginning of the economic recession, at the time of the burst of mergers and acquisitions. The processes of economic concentration led to fundamental changes in the fuel and energy complex, chemical industry, telecommunications and banking environment of the Republic of Kazakhstan.

The law of economic concentration, subject to preliminary agreement with the antitrust authority, admits:

- merger or acquisition of market entities;
- acquiring by a person 25% or more percent of shares of market entity;
- getting basic fixed production assets and (or) intangible assets of another entity of the market into the ownership;
- the acquisition by the market entity the rights enabling to determine the business activity in another market entity;
- participation of the same individuals in the administrative organs of two or more market entities provided the determination of business activity.

In connection with the expansion of the international borders the urgency of legal regulation of business combination involving foreign partners is growing. According to

⁴ Law of the Republic of Kazakhstan "On competition" of 25 December 2008 № 112-IV (2008). Available at: <http://www.azk.gov.kz/rus/ml/npbazza/cgtrnm/>.

the analytical report⁵ of the Department of Mergers and Acquisitions of Law firm “Sayat Zholshy & Partners” (2011), the share of foreign participation in authorized capital is limited in the Republic of Kazakhstan: air transport - 49%; mass media - 20%; telecommunications and the main lines of communication - 49%; financial sector: pension funds -25%.

International practice shows that the observance of legitimacy of transactions on business combinations is the basis for their future financial well-being.

2.1 Studies of advanced experience in corporate management of integration processes

A striking example of a corporate culture based on M & A transactions, is a corporation «Cisco» - hi-tech industry representative. The corporation “Cisco” has 25- year history, for the period of 1993-2009 the company acquired 129 companies and 85% of the employees of the acquired companies kept jobs in acquired structures⁶. “Cisco”, being the product of venture investment, controls the venture capital of more than two billion dollars. As the exchange of innovative experience one can focus on the following positions of integration policy “Cisco” (see Table 4).

The “Cisco” partnership programs are of great interest in IT industry. In late 2009 for the first time in CIS in Kazakhstan, the IP project - new generation network based on optical networking solutions of “Cisco” has been implemented. When implementing the project “Cisco Systems” actively cooperates with “Kazakhtelecom”.

The corporation “Cisco” uses financial mechanisms to maintain profitability of partners and companies entered the corporation. For example, the employees of the company

⁵ “Peculiarities of legislation of the Republic of Kazakhstan on the realization of transactions of mergers and acquisitions” (2011): Department of Mergers and Acquisitions of Law firm “Sayat Zholshy & Partners”, March, 2011. Available at: <http://www.zakon.kz/faq/kuplya-prodaga.html>.

⁶ Hilton Romanski “We paid special attention to the acquisition of companies which could bring 1,0 billion dollars a year”// Journal “Merger and Acquisition” №3(73) 2009

TAB. 4: Characteristic Features of Corporate Development Strategy of the Corporation “Cisco”

Element of corporate development strategy	Characteristic features of the element of corporate development strategy
Compliance with corporate strategy	To make the world more comfortable for work, study and rest.
Aims of corporate development strategy	<ul style="list-style-type: none"> • Using the market transition condition and holding the leading position of “Cisco” in the sector. • Ensuring the optimal level of investment, acquisitions, technology and partnership relations.
Structure of corporate development department: <ul style="list-style-type: none"> • subgroup of business development; • technology subgroup. 	Functions of subgroups of corporate development department: <ul style="list-style-type: none"> - assessment of the potential of new acquisitions and investments through the “matrix” approach, including both geographical and technological factors; - close cooperation with the subgroup of business development, from the earliest stages of assessing future acquisitions till supporting them after the completion of the transaction, providing smooth entry of a new company into the structure of “Cisco”; - assessment of potential acquisitions for the best technologies and products.
Principles of functioning the corporate development department	Performance of various functional responsibilities and close cooperation in the interest of maximizing growth of the strategic potential of each market initiative.
The quality criteria for a positive decision on the question of new acquisition	<ul style="list-style-type: none"> - the target company must have a solid business and share strategic views on business and technology “Cisco”; - the target company must have a solid business and share strategic views on business and technology “Cisco”.
The quantitative criteria of a positive decision on the question of new acquisition	<ul style="list-style-type: none"> - the prospect of getting the revenue from a newly acquired company of the amount of \$ 1 billion a year; - the resource-saving policy, preference to the companies operating in close proximity to areas of “Cisco” functioning.
The composition of the investment portfolio	<ul style="list-style-type: none"> - direct investment: China Communications Services (\$ 100 million), VMware (U.S. \$ 150 million), Nimbus Communications (\$ 20 million), Alibaba (17,5 million), and others; - venture capital funds: Softbank Asia Infrastructure Funds I, II and III, Bodhi (China and India), CoreOptics (Italy, India, USA), 3TS-Cisco Growth Fund III (Central and Eastern Europe), CXC (China), Almaz Capital Partners (Russia), etc.

Source: Compiled by the authors

developed a financial program “Cisco Capital”, which allows purchasing the equipment “Cisco” on credit on reasonable terms. The users of the program are companies with high reputation, good credit history, expanding business with “Cisco”.

Harmonizing business relations can serve as a basis for conducting mutually beneficial transactions in the near future connected not only with the realization of assets but also the integration of corporate business - structures of new generation with participation of Kazakhstan’s firms.

Conclusion

Global changes in the world economy are a complex process that takes place under the influence of a set of socio-economic and political factors. In this case the main factor of economic growth of a single state may be called the investment attractiveness of sectors of its economy, i.e. quantitative and qualitative indicators of inflow and outflow of capital that contribute to the strengthening of its internal and external socio-economic policy.

Measures to increase the investment attractiveness are the formation of an effective integration policy development, implementation of specific government programs, overcoming of structural deformation, support of efficient and competitive enterprises, transformation of old ties, identification of specific investment and innovation priorities, continuous monitoring of the country’s economy.

The most important indicator of investment climate in any country in the world is M & A transactions. Their nature, qualitative and quantitative parameters, sectoral belonging carry an objective assessment of the state functioning from side of the strategic partners. Meanwhile the key indicator is the dynamics of foreign direct investment. Direct foreign investments are a means by which transnational corporations and groups realize the industrial migration from some countries and regions to the other ones, make mergers and acquisitions (M & A) of required assets.

The analysis of international practice shows that the transactions at M & A market are mainly international and carried out to enter a new country. Therefore, it is not surprising that the development of the market is held with a significant participation of foreign capital. Undisputed leaders in the level and dynamics of integration processes are the countries of the European Union. Among the CIS countries Russia and

Kazakhstan play a significant role in the transformation of bilateral economic relations. The crisis has brought its changes in all economic phenomena, including the processes of companies' combination: reduction in the number and value of transactions in 2007-2008, and a gradual increase in 2009-2011. Kazakhstan managed to reach a positive economic growth, which in 2011 made up 107, of 5%.

Ministry of Industry and Trade of the Republic of Kazakhstan offers to investors to take part in four key areas of industrialization of Kazakhstan's economy, namely:

- infrastructure development, which involves the implementation of investment projects in energy, transport and telecommunications;
- deep processing of raw materials;
- promotion of related industries related to the commodity sector and the development needs of the country (it seems promising to strengthen the oil and gas, transport, agricultural machinery industry, pharmaceuticals, service companies, providing high-tech services);
- technological development, which will be supported by innovation grants through the system of innovative development institutions to increase productivity and efficiency of enterprises.

These directions do not exclude the possibility of the appearance of new companies at the Kazakhstan market, both existing and formed in the process of mergers and acquisitions. M & A transactions are common in the world, but the problem of their effectiveness is the greatest during the crisis. Management of domestic companies must use innovative approaches in the formation of the integration policy of their companies. Newly reorganized companies will have support from the government in the form of tax incentives, favorable credit conditions.

To improve the quality of M & A transactions, partnerships are formed to attract financing to the global market. the example of such partnership is the Global M & A - one of international partnerships in the field of mergers and acquisitions. This system combines the professional market players, helps to expand the search for investors and partners for Russian companies and make it international. The Czech Republic with the support of the Ministry of Finance and the Agency CzechInvest has implemented the unique project CzechLink, designed to ease the Czech companies to establish contacts

with investors, to ensure the capital replenishment of business entities and raising the flow of foreign direct investment to the Czech Republic, Jenerálová Ivana [8].

The analysis of trends in mergers and acquisitions market in Kazakhstan showed that the country has innovation potential for the operation of such projects. It can be assumed that the gradual processes of mergers and acquisitions of Kazakhstan's companies will shift from the raw materials and financial sectors into the spheres proposed by the Ministry of Industry and Trade of the Republic of Kazakhstan as priority spheres for economic development. Soon these may be the representatives of real estate and construction, food processing, hotel, pharmaceutical business, consulting, education.

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