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## ECONOMIC STRATEGY DEVELOPMENT FOR INDUSTRIAL ENTERPRISES UNDER INSTABILITY (THE EASTERN KAZAKHSTAN CASE)

*Organizational framework of economic strategy development for industrial enterprises under instability on the materials of Eastern Kazakhstan are considered in this article. The analysis of basic industrial products in the region and its largest industrial companies is carried out. The model of strategic development of industrial enterprise is proposed.*

*Keywords:* strategy; industrial enterprise; competitiveness; instability; Eastern Kazakhstan.

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## РОЗРОБКА ЕКОНОМІЧНОЇ СТРАТЕГІЇ ДЛЯ ПРОМИСЛОВИХ ПІДПРИЄМСТВ В УМОВАХ НЕСТАБІЛЬНОСТІ (НА МАТЕРІАЛАХ СХІДНОГО КАЗАХСТАНУ)

*У статті розглянуто організаційні особливості організації економічної стратегії для промислових підприємств в умовах нестабільності на матеріалах Східного Казахстану. Здійснено аналіз виробництва найважливіших видів промислової продукції в регіоні та його найбільших промислових підприємств. Запропоновано модель стратегічного розвитку промислового підприємства.*

*Ключові слова:* стратегія; промислове підприємство; конкурентоспроможність; нестабільність; Східний Казахстан.

*Табл. 2. Рис. 3. Літ. 12.*

Акмарал Казыкешова

## РАЗРАБОТКА ЭКОНОМИЧЕСКОЙ СТРАТЕГИИ ДЛЯ ПРОМЫШЛЕННЫХ ПРЕДПРИЯТИЙ В УСЛОВИЯХ НЕСТАБИЛЬНОСТИ (НА МАТЕРИАЛАХ ВОСТОЧНОГО КАЗАХСТАНА)

*В статье рассмотрены организационные особенности разработки экономической стратегии промышленных предприятий в условиях нестабильности на материалах Восточного Казахстана. Осуществлен анализ производства важнейших видов промышленной продукции в регионе и его крупнейших промышленных предприятий. Предложена модель стратегического развития промышленного предприятия.*

*Ключевые слова:* стратегия; промышленное предприятие; конкурентоспособность; нестабильность; Восточный Казахстан.

**Problem statement.** The development of economic strategies for industrial enterprises of East Kazakhstan is conditioned by the need to apply innovation technologies and provide competitive products that require active investments, introduction of new technologies and training, upgrading facilities, increase production efficiency and environmental performance, as well as competitiveness at domestic markets.

**Recent publications analysis.** The following scholars contributed to the research of the efficacy of modernization and replacement of fixed production assets at industrial enterprises: V.L. Inozemtsev (2000), M. Crassus (2009), R.M. Nureyev (2008). Among the scholars who paid attention to the issues of industrial upgrade in terms of

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innovative development of Kazakhstan are: T.A. Ashymbaev (1976), M.B. Kenzhehuzin et al. (2001), O. Sabden et al. (2007) and others.

**Research objectives.** The objectives of the study is to highlight the features of development and deliver the proposals on the economic strategy development at industrial enterprises of East Kazakhstan, including engineering industry and nonferrous metallurgy, under the conditions of instability.

**Key research findings.** The development of industrial enterprises in Kazakhstan, East Kazakhstan in particular, is conditioned by large reserves of natural resources, namely minerals and raw materials. Development strategies of such enterprises are possible at the condition of their innovative structural and technological upgrade.

Nonferrous metallurgy and engineering are the basic industries of the region under study. Industrial production of East Kazakhstan for the period 2003–2012 is shown in Table 1. The dynamics of industrial output volume in Eastern Kazakhstan during 2003–2012 is positive (from 186,725 mln KZT in 2003 to 943,229 mln KZT in 2012), see Figure 1.

However, there are negative trends in the industry, in particular, the decreasing profitability of industrial production in East Kazakhstan (from 36.7% in 2007 to 17.4% in 2011), see Figure 2.

The greatest share of industrial production by types of economic activity for the period 2009–2012 is taken by manufacturing (71.1–77%), and in its structure the processing industry dominates, metallurgy accounts to 48.0% and machinery accounts to 24649.6 bln KZT (Agency of Statistics of the Republic of Kazakhstan, Industry in Kazakhstan and its regions, 2007–2011).

Today the unstable environment of the industry is caused by the decrease in profitability, lack of innovations and investments, varying trends in supply and demand at the market.

Analyzing the problematic trends of non-ferrous metallurgy of East Kazakhstan, it's worth noting that production of lead-zinc ore dominates in this industry amounting to 5960.8 ths tons in 2011, copper concentrates amount to 746.2 ths tons, zinc ore constitute 332.1 ths tons. The production of lead-zinc ore in the region is 81.8% of the total country production (Agency of Statistics of the Republic of Kazakhstan, Regions of Kazakhstan in 2012).

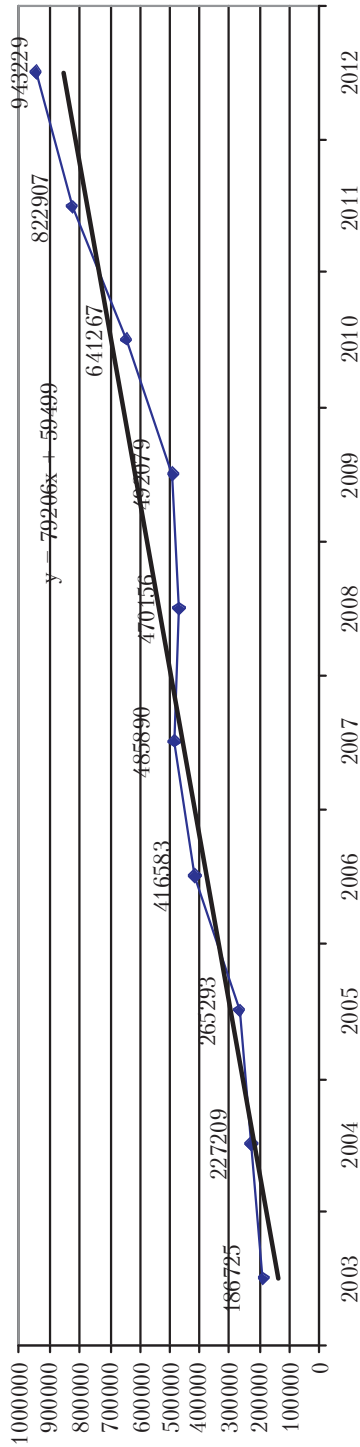
Thus, metallurgy enterprises are the following: Ust-Kamenogorsk Titanium-Magnesium Plant, Ulbinsky Metallurgical Plant, a branch of East Kazmed, Kazakhmys Corporation and "Kazzink", producing more than 70% of the commodity production in the industry with the annual production amount to about 100 ths tons of lead, 280 ths tons of zinc, 7–8 tons of gold, 200 tons of silver, as well as small amounts of rare metals (Agency of Statistics of the Republic of Kazakhstan, Basic indicators for 2003–2012, Industrial outputs in a range of regions of the Republic Kazakhstan).

Analysis of "Kazzink" activities shows the negative trends of physical and functional depreciation of equipment, a high level of receivables. The problems of the development of non-ferrous metals industry in East Kazakhstan are the rapid depletion of resources in targeting companies in high yield, insufficient investment in mining and metallurgical complex, causing a lag behind foreign companies, environmental degradation in the region and the lack of budget funds to address the environmental issues, the problems in adjustment of high-tech production.

Table 1. Industrial production of East Kazakhstan during 2003–2012

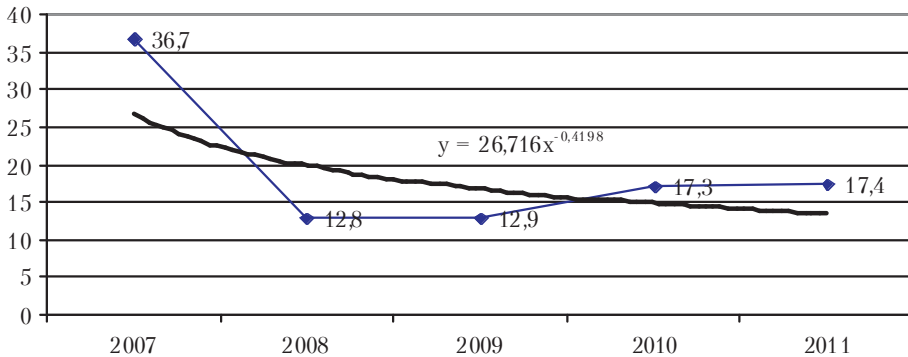
	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012
Volumes of industrial production, mln KZT	186725	227209	265293	416583	485890	470156	492079	641267	822907	943229
Mining, mln KZT	30782	35084	42886	76630	83594	85918	92016	115945	114542	82004
Processing industries, mln KZT	129734	164206	195024	309543	364777	335104	349722	463239	633466	791760
Physical volume of industrial production, % to previous year	102.3	120.1	86.6	105.9	107.0	103.6	93.6	107.3	110.4	118.4

Composed by the author on the basis of (Agency of Statistics of the Republic of Kazakhstan, the official statistical information for 2003–2012).



Source: Composed and summarized by the author on the basis of (Agency of Statistics of the Republic of Kazakhstan, the official statistical information for 2003–2012).

Figure 1. Dynamics of industrial output volume in Eastern Kazakhstan, 2003–2012, mln KZT



Source: Composed and summarized by the author on the basis of (Agency of Statistics of the Republic of Kazakhstan, the official statistical information for 2007–2011).

**Figure 2. Dynamics of Industry Profitability of Eastern Kazakhstan, 2007–2011, %**

Accordingly, the priorities of economic strategy of metallurgical companies are: the modernization of fixed assets, introduction of energy-saving technologies, improving quality and competitiveness of products. Therefore, companies need to build a clear innovation strategy that will make it possible to keep competitive positions at markets. The situation in mechanical engineering is similar to that of non-ferrous metallurgy. In engineering of Eastern Kazakhstan the most advanced is automotive car engineering – 7326 units in 2011 on the basis of JSC "Asia-Auto" (Statistical compilations, basic indicators for 2003–2012, Industrial outputs in a range of regions of the Republic Kazakhstan). A share of passenger cars produced in Eastern Kazakhstan is 89.4% of the country's total, see Table 2.

**Table 2. Dynamics of cars production in the Republic of Kazakhstan during 2007–2011, units**

Territory	2007	2008	2009	2010	2011
Republic of Kazakhstan, total	6311	3271	745	3176	8195
Kostanay				77	869
East Kazakhstan region	6311	3271	745	3099	7326

Summarized by the author on the basis of (Agency of Statistics of the Republic of Kazakhstan, the official statistical information for 2007–2011).

According to 2012 performance, "Asia Auto" produced goods for 50.0 bln KZT, or 16 ths cars. The coefficient of depreciation of fixed assets in the sector was 48%. Investment in engineering of vehicles was insignificant, that is 5,596 mln KZT in 2011, representing 0.21% of the total investments in the industry (Agency of Statistics of the Republic of Kazakhstan, Industry in Kazakhstan and its regions, 2007–2011).

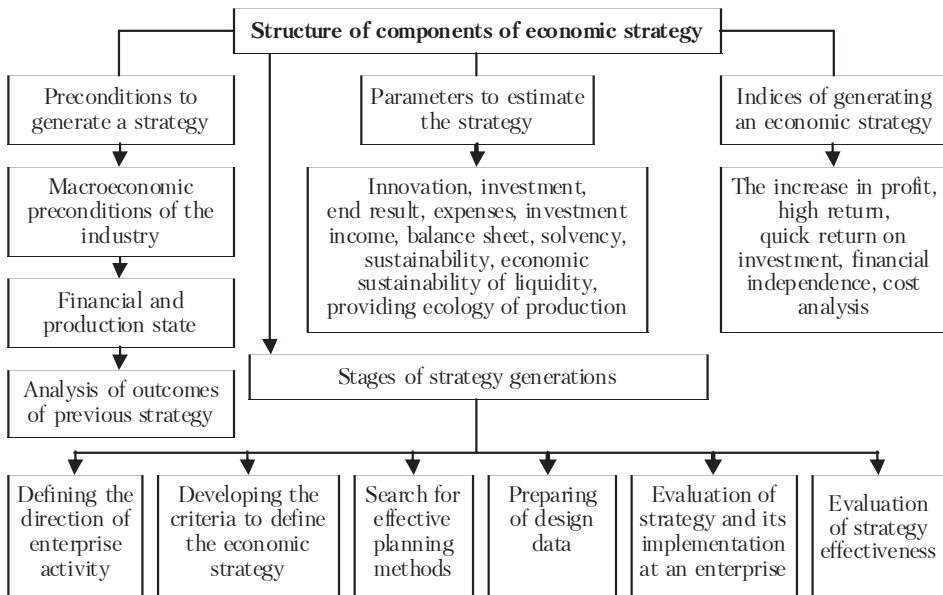
The problems of engineering development are: depreciation of fixed assets, insufficient production workload, lack of capacity for the designing car models, lack of qualified personnel, lack of funding. There are problems with recycling of old vehicles and VAT taxation for engineering products sold within Kazakhstan, significantly increasing the cost of domestic vehicles.

However, given the problematic trends in engineering and metallurgical enterprises, and since these industries are leading at the market, it is necessary to determine the innovative development as a priority. For metallurgy it means to improve the

quality of concentrates, develop automated continuous lines based on resource-saving and environmental technologies, expand the application of non-ferrous metals, use combined technologies. For engineering it is to build a large automobile cluster on the basis of enterprises, with the construction, service centers and trade networks. In addition, it is necessary to develop agricultural, metallurgical and petroleum engineering of the region.

Working out a strategy of innovative development, modern industrial enterprise should use an integrated approach based on two components (Trifilova, 2003): the market component, providing a comprehensive analysis of the external environment of an enterprise and consideration of macrofactors; being oriented to the market, the company is clearly targeted to the outlets for their products and finding new commercially attractive market segments; resource component, where the main success factor is the effective use of enterprise resources and assessment of its internal strengths and weaknesses.

Successful implementation of the economic strategy of industrial enterprises within an unstable environment is possible at the condition of applying the strategic model of development, shown in Figure 3.



**Figure 3. Model of Strategic Economic Development of Mechanical Engineering and Non-ferrous Metallurgy Enterprises of Eastern Kazakhstan in an Unstable Environment, developed by the author**

The strategy of engineering and metallurgical enterprises of East Kazakhstan in an unstable environment should focus on accelerated sustainable development, competition at the market, guaranteeing of solvency, sustainability and ecological compatibility. The innovative component of such a strategy is directed to global economic conditions changes and stable development of the company. Moreover, additional parameters of economic development of enterprises are: discharging of receivables,

production costs reduction, improving of labor productivity, replacing of fixed assets and introducing innovations.

Thus, the government should create certain conditions for the development of the industry through the following measures: increasing of funding for engineering and metallurgy; establishing innovation centers to boost innovations; providing training for personnel; creating conditions for leasing the equipment; tax benefits on R&D; promoting technology transfers.

**Conclusions.** Manufacturing in the Republic of Kazakhstan is operating on a steady increase of industrial production, with reduction of the resource production inventory, depreciation of fixed assets, low profitability of enterprises and insufficient investments in innovations and resources conservation.

Therefore, the strategy of economic growth for industrial enterprises in an unstable environment of Kazakhstan should be based on complexity and focus on the most important issues of ensuring sustainable competitiveness and innovative development with a glance to the application of internal and external resources allowing industries to overcome the shortcomings of the system and increase the efficiency of activities.

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Стаття надійшла до редакції 23.12.2013.