



An Exploratory Study of Factors That Promote and Hinder Development of Small and Medium Sized Enterprises in Kazakhstan

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Abstract

Entrepreneurship is a key element of the economy, determining the prospects for economic and industrial growth of the state and social stability in society. As demonstrated by the successful experience of developed countries, small and medium-sized enterprises contribute to the growth of competitiveness and diversification of the economy. Many factors affect SME development, negative factors (competition, low paying capacity of population, devaluation of national currency, high taxes, etc.) and positive ones (including personal qualities, location of the company, reduction of administrative barriers). The main aim of this paper is to identify the most influential factors of Kazakhstan's SMEs development and to make recommendations for reduction of the effect of negative factors and strengthening of the factors encouraging the development of the SMEs.

Keywords: SMEs; Kazakhstan; Entrepreneurship; Factors negatively influencing entrepreneurship; Factors encouraging the SME development.

1. Introduction

Entrepreneurship as a phenomenon and as a type of activity, occupies an important position in economic theory and practice. It is a key driver of economic growth (Fairlie and Chatterji, 2013; Klapper and Love, 2011; Marcotte, 2012; Sheriff and Muffatto, 2015). Entrepreneurship creates value for shareholders and contributes to society as it serves to reduce poverty (Hahn, 2009); plays the role of an economic and social tension fluctuation damper (Baltar and de Coulon, 2014); creates new technologies (Hisrich *et al.*, 2013). Produces goods and services, helps to fund relevant social institutions (Litwin and Phan, 2013) and creates jobs. Entrepreneurs also impact on the growth of the economy by improving competitiveness, amplifying innovation and accelerating structural change (Fritsch, 2013). Researchers further emphasize the benefits of entrepreneurship development such as an increase in the number of owners; growth of the economically active population; selection of the most active, capable individuals for whom small-sized business becomes a way to realise their potential; performance of the function of employer when using a workforce of those within the socially vulnerable sector (women, immigrants, and incapacitated) (Topsahalova and Kirilenko, 2009).

The opportunities provided by entrepreneurial activities are particularly important for developing countries given the problems they face and which include high levels of unemployment, rent economy, product market imperfection, the prevalence of state-owned companies, poverty, etc. (Ratten, 2014). It is crucial for developing countries to have a class of people who can "solve practical technical and social problems" (Homer-Dixon, 2000). For Kazakhstan, which is a developing country (The Bertelsmann Stiftung's Transformation Index, 2014), entrepreneurship is of particular importance. According to expert opinion, it is considered that the country is not attractive for big investments from larger developers (Doskenov, 2014), and therefore it is more important to develop entrepreneurship into an economic sector that can accumulate and attract internal resources. The internal potential of investments, i.e. the capital of domestic business, is an important source of funding for social programmes and objectives, yet the SME sector in Kazakhstan is still not a dynamically developed one to be able to contribute significantly to economic growth. To date, its contribution to the country's GDP is insignificant (according to different evaluations it amounts to 15-20%) (G-Global forum, 2013; Singh *et al.*, 2012). Initially, government-led programmes implemented to support SMEs during the period of crisis (2007-2009) witnessed a rise in entrepreneurial activity with start-ups increasing by 20% annually (Doskenov, 2014) However, this rise was short-lived as successive years saw a decline in the number of new businesses, thus suggesting that these support programmes are no longer effective.

Dubious entrepreneurship is one of the indicators of the problems that exist and hinder the development of entrepreneurship. To date, 50% of the country's businesses operate in the shade (Batalov, 2007). The uneven distribution of SMEs in regions also indicates a development problem. In Kazakhstan, SMEs are located unevenly and there are very few in some regions, although some research shows that economic barriers for start-ups are fewer

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in small towns and the countryside (GEM, 2007). This is testimony to the fact that there are unresolved problems which are faced by Kazakhstan's entrepreneurs in their activity. In many respects entrepreneurship may solve the above mentioned problems. Therefore, a study of the factors which restrain the development of entrepreneurship in the country is essential.

It has to be acknowledged, however, that despite obstacles hindering the development of SMEs, there are also some factors that encourage entrepreneurial activities in Kazakhstan. During the 20-year long period of independence entrepreneurship has been developing rapidly. The small business sector of the total number of market participants amounts to 93%, which is comparable to the level of developed countries. The number of SMEs has dramatically grown from 19,000 in 1993 to 67,000 in 2000 and to 675,200 active SME units in 2011 (Alshanov, 2011). Employment in this realm has risen from 132,400 people in 1997 to 2.5 million. In general, entrepreneurial activities have created more than 6.2 million jobs for the people.

Reynolds (2005), have pointed out that the lower the GDP the less effective is entrepreneurship (entrepreneurship's contribution to the economic growth is lower). According to WOC and IMF forecasts, Kazakhstan's GDP will remain at the level of 4.3 – 4.4%, which is a good indicator, especially against the GDP decline in developed countries. GDP growth, considering purchasing power balance in CIS countries, including Kazakhstan, has reached the level of \$12,600 per capita which experts consider a breakthrough. Hence, entrepreneurship in Kazakhstan has opportunities to grow. In this regard, the authors will focus on factors facilitating SME development. Identification of factors that propel small and medium-size businesses forward will create a comprehensive picture of the present conditions for entrepreneurship in the country.

From this position, the aim of this paper is to study the country-level factors that influence the development of small and medium enterprises in Kazakhstan. The following research questions are formulated to guide this study:

RQ1 - What country-level factors influence the development of SMEs in Kazakhstan? **RQ2** - How can these country-level factors be changed in order to improve the development of SMEs in Kazakhstan?

2. Literature Review

This section provides a review of literature of the key definitions of this study, as follows: notion of entrepreneurship and the SME; entrepreneurship development; factors negatively influencing the development of entrepreneurship; factors encouraging the development of entrepreneurship.

2.1. Definition of SME

The notion of small enterprise, notwithstanding its wide spread in social and economic research, still does not have one single universal definition (Lee-Ross and Lashley, 2008). SMEs' definition and the size of a firm is a subject of much research. Interest in the notion of SMEs is largely attracted by the questions of how the firm's size influences economic growth (Congregado *et al.*, 2014), success (Filipovic, 2012), innovation (Revilla and Fernández, 2013) and defence of intellectual assets (Olander *et al.*, 2009). At the same time, among the majority of approaches to determine the scale of an enterprise, the main criteria are: the number of employees, sales turnover and total assets.

Hence, in Great Britain the SME is a business unit that functions with between 9 (micro firm) and up to 249 (medium company) employees. In Australia the range is from at least 5 (micro) and up to 200 (medium company) employees, and in the USA – from 100 (small enterprise) and up to 500 (medium enterprise) (Lee-Ross and Lashley, 2008).

The Law "On Private Entrepreneurship in the Republic of Kazakhstan" 31 January 2006 (c.2) defines small enterprises as business units and individuals with average annual assets of up to 104 million KZT (about \$557,000 at the current exchange rate) and a number of workers of no more than 50 people. Medium enterprises are individual entrepreneurs (physical persons) with more than 50 employees and legal entities engaged in private enterprise, with the number of employees at more than 50 but no more than 250 and an average annual value of assets not exceeding 325,000 conventional units. Currently, the conventional unit is set at 1852 KZT i.e. the value of assets is less than 601.9 million KZT (approx. US\$ 3.2 M).

According to Gibson and van der Vaart (2008), the definition of SMEs varies depending on the economic performance of any single country, and it is "adjusted to something equivalent to gross national income per capita in subnational regions" (p.5). The authors applied the definition of SMEs provided in the Kazakhstan private entrepreneurship law as it is based on an analysis of the financial performance of SMEs and as such a company's scale will not be taken into consideration (probably, the factors will equally influence both medium and small enterprises). The authors also took into account the statistical data in accordance with which the number of medium sized enterprises in country is not too big and 96% of all SME belong to individual entrepreneurs, included in the group of small enterprises (Agency of statistics of the Republic of Kazakhstan, 2014).

2.2. Interrelationship of Entrepreneurship and SME

As this paper often refers to such terms as 'SME' and 'entrepreneurship' substituting for one another, it is also necessary to decide on the definition of 'entrepreneurship', to find out to what degree such substitution is correct.

Lee-Ross and Lashley (2008), state that the definition of an SME is equivalent to the term 'entrepreneurship', for the following reasons:

- firstly, both the SME and entrepreneurship have a common aim. They provide work places, contribute to economic development and economic transformation;

-secondly, they are impacted by the same factors (environment, culture, location, individual peculiarities, characteristics of a firm, etc.).

Agreeing with the above listed arguments, the authors opine that the definitions present in the literature and business environment are compatible and hence the substitution of both terms is quite fair. In the present paper, entrepreneurship and SME are thus used interchangeably.

2.3. Influence of the Factors that Hamper and Favour Entrepreneurship Development

The literature abounds on factors that are likely to influence entrepreneurship and entrepreneurial activities, among which innovation stands out conspicuously and so much so that these two notions are considered to be equivalent (Ionika and Razvan, 2010) Schumpeter, 1965 cited in Croitoru (2012); Lekovic (2013). Also present in the literature is the claim that entrepreneurship in developing and developed countries has significant differences, including for instance access to finance, such as limited personal and family savings, and an absence of financial innovation, such as venture capital funds and private equity funds (Kozan *et al.*, 2006); in opportunities (developing countries have, as the rule, undeveloped markets), education and quality of human resources (Lingelbach *et al.*, 2004), and the degree of productivity (Little, 1987). Differences also arise in the nature of intentions to carry out entrepreneurship: for example, it is the characteristic of many developing countries to be entrepreneurial out of necessity (Beck *et al.*, 2005). The notion of 'entrepreneurship' can also have different natures in different countries (Ács *et al.*, 2013) as for example, Santarelli and Vivarelli (2007) identified that entrepreneurs in some countries were not pure entrepreneurs, to the extent that they do not bring about innovations or reform depressed markets. Considering all these differing aspects, the researchers acknowledged that it is hard to understand entrepreneurship and that context is a very important factor: "[d]ocumenting, measuring and therefore *understanding* entrepreneurship is a difficult task because of the characteristics and dynamics involved" (Hoffmann, Larsen and Oxholin, 2006, p.10 cited in Desai (2009).

However, in general, these differences are kept in the underlying economies, in which entrepreneurs carry on their activity (Iakovleva *et al.*, 2011). Within this framework, Kazakhstan is a country in which entrepreneurship is established and has developed in an environment that has virtually no analogues. The country depends upon petroleum income (rent economy). At the same time, it cannot definitely be referred to as a developing country, as it has a number of distinctions, for example, an educated population, developed medicine (UNDP, 2008), and a relatively developed infrastructure (Saparova and Saparova, 2011). As a developing country, Kazakhstan also probably has its peculiarities determining the external and internal environment in which the SMEs function. The Global Entrepreneurship Monitor (GEM) does not include Kazakhstan in the list of countries where it conducts research on entrepreneurship and there is a felt scarcity of research on entrepreneurship in Kazakhstan that makes it necessary to tap official data that might distort the real performance since such data might not come from interviews with entrepreneurs (United Nations, 2008). This study helps to bridge this gap to some extent.

Considering the differences between developed and developing countries noted above, the literature review considered research into the entrepreneurship of developing countries. Demirbas (2011), conducted his research on the barriers for entrepreneurship in Turkey and surveyed 119 enterprises. The results revealed that barriers to entrepreneurship could be categorised into four groups: formal, informal, environmental and skills barriers. Among the formal barriers, one of them had a strong negative influence and that was related to the weak support of R&D measures by the state. The group of informal barriers that gave the strongest barrier was presented by the informal economy. The high value of innovations and lack of appropriate sources of finance became the most significant in the group of environmental barriers. The group of skills barriers with a strong negative influence was the lack of qualified staff.

Lekovic (2013), considered the influence of different barriers on innovativeness, which is seen as the basic activity of entrepreneurship. In his research, the author determined the influence of organisation, formal and informal barriers on the innovativeness of Serbian entrepreneurs. The results confirmed the hypothesis of the author, which was that all three groups of barriers equally exist in an entrepreneurial environment. Interviews of the respondents showed the potential barriers to innovation and divided them into two groups: those with a strong negative influence (such as lack of finance from own resources, high value of innovations, corruption), and those with lesser influence (such as innovation development for utilization on market, cooperation with universities and research centres, administering skills in "open innovations" and membership in clusters).

Along similar lines, Xie *et al.* (2013) carried out research into the influence of different factors on innovativeness of Chinese SMEs. In this case, an entrepreneur was regarded as an innovator Schumpeter, 1965 cited in Croitoru (2012). The authors examined the influence of 10 factors on entrepreneurial activity of the SMEs. Those factors were allocated depending upon the strength of the influence on the innovative activity of enterprises. The strongest factors were the innovation environment, technology capacity, management systems, R&D capacity and finance. As the research showed, intellectual property protection and government policies have the lowest influence on SME activity in China. In general, undeveloped technical infrastructure was considered to be an important factor restraining the innovative activity of the Chinese SMEs. The authors stated that the same obstacles can be found among other developing countries.

Irfayantia and Azis (2012), identified potential barriers for the SMEs of Indonesia. Interviews of 124 respondents determined that there were 10 potential barriers for the SMEs – "competition barriers; financial access; price of energy; technology; inefficient production cost; economic factors; management skill; process, limitations of sales; and raw materials" (p.3). Those barriers are positioned from highest to lowest. In this case, the authors identified that the country had peculiarities in a number of factors. Thus, for Indonesian SMEs there is a problem of the high value of manpower. This is not characteristic of developing countries, which, according to The Bertelsmann

Stiftung's Transformation Index (2014), include Indonesia. The difficulty of obtaining finance is characteristic of the SMEs of many countries, both the developed and the developing; however, in the case of this country access to funding is interconnected with the annual growth of prices for energy. This specific factor of Indonesian SMEs was considered to be significant as "the price of energy was responsible for their business survival" (p. 8).

Philip (2011), discussed the factors influencing the activity of Bangladeshi SMEs from a sample of 89 respondents in Bangladesh. The research concluded that the success of Bangladeshi SMEs was also influenced by the major factors, such as products and services, management know-how, the way of doing business and cooperation, and the external environment (social network, government support, and legality). In general, the author highlighted the importance of technologies and the influence of the external environment on the development and success of the SMEs, noting that the external environment can have both advantages and threats.

The influence of different factors on such aspects of activity as the export productivity of Thai SMEs was considered by Amornkitvikai *et al.* (2012). It should be noted that for Thai SMEs participation in export is important as the country conducts an export-oriented policy (De Lombaerde, 2008). Therefore, the determination of the influence of the external and internal environment on this aspect of activity of Thai SMEs is of current concern. As a result of research, the authors determined the significant influence of such factors as a firm's scale, a firm's age, workforce productivity, state assistance, foreign investments, location, research and development, and workforce qualification, on the participation of firms in export deals. Factors such as a cheap workforce also have a significant influence on the degree of participation of companies in export deals.

There is a scarcity of research devoted to the study of the barriers and influences of different factors on entrepreneurship and the SMEs of Kazakhstan. Many do not reflect the reality in which entrepreneurs work. For example, research by Suhir and Kovach (2003) analysed the influence of administrative barriers on entrepreneurship in Kazakhstan. The authors identified the major barriers – the regulatory and licensing barriers; excessive, complex, and arbitrary taxation, an inadequate banking system and poor banking practices, poor qualification of government, and a poor understanding of the importance of addressing entrepreneurs' problems.

Numerous studies in the field of entrepreneurship have also focused on specific factors influencing entrepreneurship development. Thus, Tayauova and Bektas (2014) examined the influence of networks (business networks and social networks) on development of entrepreneurship in Kazakhstan. The importance of networking for entrepreneurs is obvious, as it encourages required information to be acquired, decreases operational costs, and enables joint decisions to be made; it "enables people to get the right information, shrink operational expenditures by permitting the organization of actions and makes possible combined decision-making" (Grootaert and van Bastelaer, 2001 cited in Hunjra *et al.* (2011). Networks also help obtain finances and qualified employees (Hellmann and Puri, 2002). Thus, networks can be regarded as a factor encouraging development of entrepreneurship as it, besides the named types of assistance, can find vendors and purchasers, and in general, "overcoming problems which stem from external environment" (Tayauova and Bektas, 2014). The authors concluded that there was a positive relationship between network support and entrepreneurial success.

Teal *et al.* (2011), regard financial support and taxation as the factors that positively influence the SMEs' development. SME financing can be provided by three resources – second-tier banks, organisations which provide some type of banking service, and microcredit organisations. However, the authors did not determine to what degree these resources are available for the SMEs. According to the evaluation of the Central Bank of Kazakhstan, second-tier banks are reluctant to provide credit to small and medium enterprises functioning in the sphere of production (National Bank of the Republic of Kazakhstan, 2013). Simplified taxation has also been identified by the authors as being another main factor encouraging the development of entrepreneurship in Kazakhstan. Indeed, the owners of small businesses can pay taxes on the basis of a single-use card and are exempted from state registration and other taxes. However, penalties and sanctions are substantial (Republican Budget for 2014-2016 years, 2013). Moreover, these types of payments, according to entrepreneurs, are charged due to formal breaches even when there is no damage to the state; for example, due to inappropriate execution of invoices (SWF Samruk-Kazyna, 2011). In other words, by weakening the tax burden on entrepreneurs the state compensates for these 'losses' by imposing of penalties and sanctions, thus establishing barriers towards entrepreneurship development.

Hubner (2000) and Kantarbayeva (2007) explored the external and internal barriers for entrepreneurs, they made no attempts to obtain the personal opinions of the entrepreneurs themselves about these barriers and factors determining the development of their enterprises.

One of the articles that provided an attempt to study restraining and stimulating factors was *A Review of Facilitators, Barriers and Gateways to Entrepreneurship: Directions for Future Research* by Jain and Ali (2013). In that research, the authors determined two types of factors influencing entrepreneurship: external factors and the intrinsic personal qualities of entrepreneurs. Considering the impact of those factors on entrepreneurs' productivity, the researchers determined that the aspect of activity of the SME was affected by such factors as opportunity to exercise initiative, need to achieve, self-determination, and risk taking. The authors also found that there was a positive relation between tolerance to uncertainty and entrepreneurial activity. Education of entrepreneurs is observed as being one of the main factors for increasing the productivity of entrepreneurs, directly and indirectly. Prior experience of entrepreneurs also preconditions the success of entrepreneurial practice. Entrepreneurs' activity in establishing relationships, both inside the company and beyond its borders, is one more factor that positively influences the productivity of entrepreneurs. Jain and Ali (2013), also identified the following factors as impediments to entrepreneurial activities:

- insufficient social network;
- insufficient support in funding (restraining factor for start-ups);
- psychological barriers;

- low level of confidence, insufficient or inadequate infrastructure and legislation.

Research offers a widely differing number of solutions to take care of barriers and strengthen entrepreneurship development. As a rule, these solutions are meant to be recommendations for the governments of countries for support of the SMEs' development (Amornkitvikai *et al.*, 2012) and proposals for the SMEs to change their market orientation behaviour (Tan and Liu, 2014). These propositions are justified to the extent that it is obvious that the government determines the rules of the game for entrepreneurship.

3. Research Methodology

This section presents the research design, including a brief summary of the research methods used, interview and questionnaires design, and the methods of data collection.

3.1. Using Combination of Quantitative and Qualitative Research Methods (Triangulation)

Questionnaires and interviews, as quantitative and qualitative research methods respectively, were triangulated to produce the entrepreneurs' attitudes and feelings about the entrepreneurship environment. Triangulation is a mixed method and is defined as "cross-checking the accuracy, validity, relevance and completeness of the information coming from the research against information from other sources" (Starr, 2014). It is spreading as a method of studying a subject or a phenomenon (Thamhain, 2014). Application of this method can be determined by the fact of "methodological pluralism or eclecticism enables researchers to increase both the scope and the level of possible analysis" (Johnson and Onwuegbuzie, 2004 cited in Muskat *et al.* (2012)). Some research even noted that triangulation occurs within any research which uses the mono methods approaches (Netanda, 2012).

Qualitative and quantitative methods have both advantages and disadvantages, which are compensated by the counter-balancing strengths of each other. As a qualitative research method the interview has evident strengths: flexibility, the acquisition of the maximum amount of information about the topical subject, the opportunity to explain the question formulation, to clarify a respondent's attitude, etc. It also has weaknesses. An interview is time consuming, it does not always positively influence the results of questioning, the collection of data is possible only if there is a sufficiently complete formulated and branched questioning network. Also, an interview cannot give anonymity of discussion, as this type of questioning provides a public lexical presentation of a respondent's attitude to an interviewer. This, in its turn, assumes a completely special approach to the search for respondents and the procedure of interviewing itself. These weaknesses can be compensated by mass questioning that, first of all, provides anonymity. Some research has shown that frequency of answers depends upon the anonymity/confidentiality policy of the research (Walonick, 2011).

A combination of the two approaches to research, or a triangulation, as one of the types of the mixed forms of research, unites the advantages of both methodologies, and therefore, provides more reliable data (Patton, 2002). In addition, researchers noted the necessity to combine qualitative and quantitative methods (Fakis *et al.*, 2014), and even mention a risk of non-application of the mixed research method (Wilk, 2001).

Triangulation is classified as data triangulation, investigator triangulation, methodological triangulation, theoretical triangulation, analytical triangulation, and multiple triangulations (Thurmond, 2001). This research was subject to methodological triangulation as "different combinations of research methods to address a research question" (Azulai and Rankin, 2012). It is the method recognised as more frequently used in research Azulai and Rankin (2012) and providing an application of various methods (qualitative and quantitative) in one research (Denzin, 1970; Duffy, 1987 cited in Azulai and Rankin (2012)). Efficiency of methodological triangulation was confirmed by a number of researchers. There are some advantages of methodological triangulation application:

- In the spheres for which intercrossing results were obtained, the individual qualitative data can be verified through the quantitative data
- External validity of empirically obtained data can be acquired as the result of interviewing or observing. Where there are these possible deviations, pilot studying can be applied, establishing the grounds for finding out the weaknesses and inadequate interpretations of respondents
- Clarification of uncertain and provocative answers of the interviewees can be obtained through re-verification in the field environment
- Quantitative data may present information about initial incorrectness in conceptual compositions of a researcher, not stipulated by him/her earlier
- Application of general quantitative data for all applicable aspects of research may require further adjustment of qualitative research to be conducted in a representative group of test persons (Duffy, 1987 cited in Yanchuk (2005).

In respect of evaluation of the environment in which the entrepreneurs of Kazakhstan are occupied, the triangulation method allowed relatively straight evaluation of the factors influencing the SMEs' development and this method helped to avoid extremes in evaluation of the reality. Mixed methods research answers the question from a number perspectives and the majority of attitudes to the problem under consideration provide more precise interpretation of the results obtained (Patton, 2002 cited in Azulai and Rankin (2012)). In other words, the opinions of entrepreneurs collected through the questionnaire survey should be confirmed by one more information resource. Interviewing of the entrepreneurs can become such a resource, as one can obtain maximum information, undistorted by self-perception of the questions or incorrect perception of questions.

3.2. The Questionnaire Design

Questionnaires were issued to respondents who were permitted to complete them anonymously. The questionnaires consisted of 19 and 20 structured Likert scale questions. Questionnaires were completed by selecting reasons that were considered to be factors which hindered and/or stimulated SMEs' development. In the third questionnaire the authors offered 17 characteristics of business development which could be chosen by the respondents. Some of the factors were obtained after preliminary discussion with the entrepreneurs and the authors also added some other factors obtained from the literature review.

3.3. Data Collection Methods

Research was carried out among entrepreneurs, specifically in October and November 2014, with work experience in business. Start-ups were excluded from the interviewed range, as the aim of the work is to find the factors influencing the existing businesses. In comparison with the start-ups, existing businesses have difficulties in daily activity. The choice of small and medium enterprises was selected randomly across of two regions of Kazakhstan, Astana city, the capital of Kazakhstan and Karaganda region, the largest region of Kazakhstan. Despite the fact that Kazakhstan is a unitary state and there is a high probability that these two areas have similar conditions for business, there are still some differences. These include demographic features, such as density of population and in lifestyle, such as a client's purchasing power.

Data collection for quantitative research was carried out in two ways. The first was by preliminary agreement with the authorities of the regions (Entrepreneurship departments and Tax administrations). The Entrepreneurship department sent a hard-copy of the questionnaire to entrepreneurs or the tax administration questioned entrepreneurs at the moment of their delivery of the reports. In Astana, the Entrepreneurship department sent only the link to the online questionnaire. The questionnaire language was Russian, used in speech by all potential respondents; that is why assistance with filling out of questionnaires was not required.

The second method of data collection was an online survey. A web-based questionnaire was designed from scratch on the www.surveio.com site. The site also provided a link that would lead to the online version of survey. Invitations to complete online questionnaires were sent personally by the author and the named divisions of Akimat (the Mayor's office). The online questionnaire version placed at <https://www.surveio.com/survey/d/X9Q4Z8Z4T9K5A6D8E> for one month contained obligatory questions, so the questionnaire could not be completed without filling out all lines.

In addition, the activity level required to complete the online questionnaire version was noted. This was determined by the scope of the questionnaire that consisted of 5 pages in paper format. The completion of the online questionnaire, as data points demonstrated, took 5-6 minutes.

3.4. The Interview Design

The selection of participants should "fit the purpose of the study, the resources available, the questions being asked, and the constraints being faced" (Patton, 2002). Therefore, selections were made according to the named criteria. The knowledge and experience of the respondents was a phenomenon explored and their readiness to share them with a researcher was also regarded. Interviews were carried out until a sufficient quantity of information was obtained. Eventually, interviews were carried out among 10 respondents. Engaging new respondents was unreasonable, as they would not provide new information (Rodwell, 1998 cited in Clissett (2008)). Managers and employees had work experience of not less than 5 years and had wide knowledge in the sphere they occupied.

Since the opinions of managers and employees may differ, qualitative research was conducted in the form of semi-structured interviews (direct and telephone) with persons working in SMEs (5 owners and 5 employees). That form of interview allowed the researcher to ask open questions and obtain precise information on those factors and impacts which are imposed on entrepreneurs in their everyday activity and that influence the development of their enterprises.

3.5. Data Collection Method

Interviews were conducted both at work places and in the free time of the respondents. It was found that lack of time for entrepreneurs was more serious at work places, compared to meetings held at home or in a cafe. Interviews took between half an hour and one hour and were recorded on a dictaphone. Meetings were held once. Some of the entrepreneurs are acquaintances, friends and relatives of the authors who, in her opinion, provided (1) completeness of information, and (2) an open attitude. Entrepreneurs who did not fill out a questionnaire were selected for interview.

The questioning was anonymous and the respondents were assured of confidentiality during the process. Thus, entrepreneurs felt safe when answering the questions, and that, in its turn, provided their open attitude to the subject of questioning. It was found that the fact that the author did not belong to the group of entrepreneurs and, therefore, was not their competitor, influenced the extent of relaxation and safety of the respondents, and, consequently, the sincerity of their answers. Entrepreneurs' answers were used in the research with their assent. Eligibility for selection to complete the survey was that the respondent was the owner of a different sphere of business (transport, service, communication, trade, agriculture).

4. Findings and Discussions

From the 200 questionnaires administered 141 were returned, representing a response rate of 70.5% and out of which 59 were rejected, making a usable response rate of 58.2%. The reasons for excluding these responses were because of wrongly filling in the questionnaire and skipping some questions amongst others.

4.1. Characteristics of Respondents

4.1.1. Individual Demographics

Table 1 presents the demographic profiles of the respondents that included 47 women (58.77%) and 33 men (41.25%). These indicators correlate with statistical data (Agency of statistics of the Republic of Kazakhstan, 2014) according to which 66% of entrepreneurs in Kazakhstan are women. Respondent's age varied between 20 and 60+ years old. The majority of respondents were in the age range 31 to 40 years old (35%) and from 41 to 50 years old (25%), and just 2.5% were aged up to 20 years old, 11.25% were aged from 51 to 60 and 2.5% were aged over 60. Most respondents have a high level of education (46.25%). The vast majority had a college education (30%), of which 34.04% were women, and 24.24% have a graduate degree. Further analysis of data collected showed that 18.18% of men had studied in universities, while only 6.38% women had completed their higher education. Only 1.25% had a Master's degree. The majority of those questioned were in the regions (94.8%), the remaining number worked in the capital (2.56%), and some also had branches in the capital and the regions (2.56%).

Table-1. Individual characteristics of the participants

Age	Frequency	%
Up to and including 20	2	2.50%
21-30	19	23.75%
31-40	28	35.00%
41-50	20	25.00%
51-60	9	11.25%
60 and over	2	2.50%
Gender		
Male	33	41.25%
Female	47	58.75%
Level of education		
College	9	11.25%
Vocational secondary education	24	30.00%
Incomplete high education	9	11.25%
High education	37	46.25%
Master degree	1	1.25%

4.1.2. Professional Demographics

The demographic section of the survey also asked the respondents about their professional status, such as work experience in business, position (owner or employee), sphere their company is occupied in, and company form. With reference to the work experience in business, almost half of respondents had experience of between 1 and 5 years (48.75%), 30% had worked in business from 5 to 10 years, and work experience ranging from 10 up to 15 years was noted by 12.5% of respondents. Only 5% had work experience in business ranging from 15 up to 20 years, and 3.75% had been in business for more than 20 years. Table 2 shows that 33.33% entrepreneurs had business experience of more than 5 years. From the five categories of length of business experience, men and women have an equal business experience in three categories: 10-15 years, 16-20 years, and more than 20 years. In the category 1-5 years, women have more business experience than men, and in the category 6-10 years men have more experience than women.

Table-2. Entrepreneurial experience of participants

Years of entrepreneurial experience	Frequency	%
1-5	39	48.75%
6-10	24	30.00%
11-15	10	12.50%
16 -20	4	5.00%
21 and over	3	3.75%

As regards to business sphere, the majority of respondents worked in commerce (36.25%) or the services sphere (21.25%). Production was occupied by 8.75% of those asked, construction by 7.5%, and auto service, accommodation and food services, information and communication were occupied by 5%, 3.75% and 2.5% respectively. The column "Other" included 12.5% of respondents. The majority of participants were owners of enterprises (57.5%). Employees amounted to 42.5%. Questioning was participated in by 65% of individual entrepreneurs, 22.5% small enterprises, 11.25% medium enterprises and only 1.25% farm households. Table 3 details the professional characteristics of the respondents.

Table-3. Detailed professional characteristics of entrepreneurs

Sphere of business	Frequency	%
Trading industry	29	36.25
Manufacturing industry	7	8.75
Agriculture	2	2.50
Service industry	17	21.25
Building industry	6	7.50
Repair of motor vehicles	4	5.00
Services for accommodation and meals	3	3.75
Information and communication	2	2.50
Others	10	12.50
Position		
SME owner	46	57.50%
Employee	34	42.50%
Form of SME		
Sole proprietorship	52	65.00%
Small enterprise	18	22.50%
Middle enterprise	9	11.25%
Farm household	1	1.25%
Geographic location		
Capital	2	2.56%
Region	74	94.87%
Capital and region	2	2.56%

4.1.3. Factors Negatively Influencing SME Development

Factors negatively and positively influencing SME development were measured using a five-point Likert scale. For both factors variable 5 was “strongly agree”, 4 was “agree”, 3 was “not sure”, 2 was “disagree”, and 1 was “strongly disagree”. Factors sorted by the reasons in rank of weighted average. The average rating was calculated as follows:

$$x_1w_1 + x_2w_2 + x_3w_3 \dots x_nw_n$$

Total

where:

w = weight of answer choice

x = response count for answer choice

4.1.4. Factors Negatively Influencing Entrepreneurship

The results obtained from the survey demonstrated that competition has been named as the strongest factor negatively influencing business development. The second place is taken by the ability of the population to pay. These two factors are not given in the literature reviewed and can also be referred to as one of the specific factors that substantially impede development of business. Paying capacity plays a crucial role in the SMEs' development in the regions. A2, a businessman from the regions, has identified the role of this factor as follows:

“More often than not products are given on credit, on deferred terms. It decreases market outlets.

I have to get by thanks to another business”.

Here, it should be noted that owners of companies and employees thereof place different emphasis on the degree of influence of factors: owners of companies place competition in second place (80.43%), stating that the main factor impeding development of business is the poor ability of the population to pay (80.44%). This can be partially explained by the fact that subordinates and managers perceive other phenomena in a different manner (Hasson *et al.*, 2013). The second and the third factors chosen by the respondents were the geographic location of their city (64.2%) and expensive transportation (61.73%). These two factors, to all appearances, are related to each other, as a business location in dead-end city may also mean expensive transportation of goods and materials.

Devaluation of the national currency (61.73%), high cost of electric energy (58.03%) and high taxes (56.79%) have become serious problems for the respondents, who suppose that the finances is the factor that really made their businesses grow slowly.

Over half (58.03%) of those surveyed have agreed that low qualification of employees negatively influences the development of their business. Interviews have shown that this factor is one of the main issues impeding the SMEs' development. Problems with human resources are identified by the literature and the interviewees all identified human resource factors as influential. Demirbas (2011), argued that the lack of qualified staff is one of the main problems of SMEs. Irjayantia and Azis (2012), also noted the existence of problems with personnel at SMEs in developing countries. Interviewee A4 has commented on this problem as follows:

“I have to conduct training for all staff employed”.

Administrative barriers and the high cost of leasing premises are the final issues in the list of ten factors hindering business growth. 53.09% and 51.86% those asked have agreed with the influence of these latter factors. The relatively low influence of administrative barriers is consistent with the report of the National Chamber of

Entrepreneurs of Kazakhstan, according to which the list of requirements for business has decreased by 35% and work to decrease administrative barriers further is being carried out on a systematic basis (National Chamber of Entrepreneurs of Kazakhstan, 2014). As a matter of fact, the Ministry of National Economy annually manages the decrease of administrative barriers (Entrepreneurship Development Fund (Damu), 2014). The cost of renting, notwithstanding that it increases systematically, however, has no profound effect as, for example, the capacity of the population to pay or taxes.

Therefore, entrepreneurs suppose that the factors of lowest influence are poor infrastructure (53.08% of those asked), lack of assistance by the state (45.68%), lack of own knowledge in management sphere (44.44%), poor explanatory work by government regarding the opportunities that SMEs have (43.21%), inaccessible loans (37.04%), non-transparency of work of state authorities assisting small and medium business (28.39%) and imperfect laws (27.16%). Interviews proved that some of these factors can impede the SMEs' development. Hence, A3 has highlighted lack of transparency in the work of the state authority, saying:

"It is totally unclear how the decisions are made by akimat departments (city executive board). Allocation of land areas for entrepreneurs is not transparent".

During the interviews some additional factors negatively influencing the SMEs' development have been identified. Both the literature and interviews demonstrated that the influence of such factors as state assistance or state policy with regard to the SMEs may be influential. State influence on functioning and development of the SMEs is especially strong in POL sector. An enterprise can even function at a loss due to inappropriate actions of the government. The SME owner (A2) has illustrated this as follows,

"The State regulates the consumer price, not the wholesale price. This means that wholesale sellers are free to choose their prices, while retailers cannot increase a price even if a wholesale price is higher than a consumer one, as the consumer price is stipulated by the government".

Therefore, the state is an important agent in the market of Kazakhstan, affecting the rules under which the SME operate. Hence, this factor still remains very important in the development of Kazakhstan's SMEs.

Location of the company has been identified as a factor encouraging the development of business, therefore it will not be discussed in this section considering negative influences. In fact, this factor has been given in literature as a criterion of the success of an enterprise (Amornkitvikai et al., 2012). Although this factor can certainly influence the success of the SME, it may have a negative impact. Interviewees have mentioned it as a negative factor influencing business development. As A5 has mentioned,

"Low customer traffic is a factor that can make all the other positive features of my business worthless".

The literature and the survey do not mention seasonality. However, it can be referred to on the list of specific factors identified by the peculiarities of the economy (Iakovleva et al., 2011).

The interview results have also shown the presence of additional factors negatively influencing the SMEs' development. Among them are:

- **Neighbouring location with a store of bad reputation.** As A8 has stated,

"My boutique is located on the same floor as the supermarket. And if clients are not satisfied with this supermarket, they stop visiting my store and my business suffers due to this.

- **Changes in the behaviour of consumers.** As A7 has commented, time and the behaviour of people have changed:

"Previously people have given flowers and presents to each other more often. Now... people have become greedy. And this does not depend upon their incomes".

- **Price growth of products leading to decreasing demand for manufactured goods.** A1 has mentioned:

"My goods <underwear> is always in demand, but less are sold now after devaluation when the prices of products have increased".

- **National traditions (for example, meat purchase in large quantities for winter that decreases demand for other (non-product) commodities in winter period).** A2 has commented on this fact as follows:

"In the winter period one can particularly observe the decreasing demand for my goods – as, first of all, people purchase sogym (preparation of meat for winter)".

These additional factors, not provided in the questionnaire survey, influence to a greater degree than competition, devaluation of national currency, administrative barriers and rental cost as being the factors that take the tenth place among the dominant ones.

4.1.5. Factors Encouraging the SME Development

The first research question of the project also identified factors positively influencing the development of entrepreneurship. The respondents who participated in the survey have identified the enhancement of their own qualifications (90.12%) as the main factor encouraging the development of their enterprises. Here, the entrepreneurs agreed with the results of research showing that the level of education (qualification) of entrepreneurs directly influences the success of their business (Lin et al., 2013). The second factor in order of importance is advertising (88.99%). The positive influence of this factor does not require evidence. The personal features of enterprises (ability to take risk, tolerance, need for achievements, etc.) have taken the third place and scored 86.42% of the respondents' votes. Indeed, researchers have identified a direct interdependence between the personal qualities of an entrepreneur and business success (Geoghegan and Dulewicz, 2008; Nixon et al., 2012). Other factors facilitating business development were named as employees' qualifications (86.42%), taxes decreasing (81.48%), technology development (internet, mobile communication) (79.01%), company's location (75.31%), the moratoriums on

business inspections (75.31%), availability of additional financing (72.84%), and decreasing of administrative barriers (66.67%).

Interviews have shown that the four common factors for interview participants are: location, relationships with clients and competitors, personal qualities and decreasing of taxes. When comparing this data with data obtained in the questionnaire survey we can see that the same factors (except for “Relationships with clients and competitors”) were among those most frequently identified. In other words, it can be concluded that quantitative and qualitative data converge for some factors. As mentioned above, a company’s location is one of the factors contributing to the success of an enterprise (Amornkitvikai *et al.*, 2012). The literature and interviews have shown that influence of this factor is substantial. A7 has illustrated this as follows:

“I use the rule of three “Ps” - place, place and place again. This approach does not let me down”.

This factor encourages the SMEs’ development, thus it is understood by Kazakhstan entrepreneurs that the location of their enterprises primarily income increasing.

The literature and obtained data suggest that relationships with clients and competitors can determine the successful development of the SME (Tayauova and Bektas, 2014). Indeed, relationships with clients are the central core of business. Relationships (or networks) with the environment, including clients and competitors, provide businesses with information and resources and contribute to the strengthening of an enterprise’s competitive ability (Tayauova and Bektas, 2014). Relationships are established on the basis of confidence and, according to the author, are the main factors for the success and development of enterprises. Interviewees confirm these assumptions:

“When you compare yourself with competitors you can see yourself in another way, you can assess your opportunities” (A9)

“If directors have very strong relationships, if they have a reputation and good relations with directors of other companies, vendors, and plant, then they can solve very complicated problems just with one call.” (A3)

“These relationships can be converted into achievements or, otherwise, failure of a company”.
(A4)

Personal qualities of entrepreneurs. Functioning of an enterprise depends upon the opportunities of an entrepreneur, its psychological characteristics (risk-taking propensity, creative personality, internal locus of control, pro-activeness, economic motivation, self-efficacy, etc.), the impact of which is greater than that of the environment (Jain and Ali, 2013). Similarly, the interviewees highlight the importance of entrepreneurial characteristics of an SME’s owner as A9 states,

“Everything depends on me in my enterprise”

This statement reveals that the results are consistent with the literature in the sense that the personal characteristics of a business-owner are a crucial factor in SME development.

Decreasing taxes is one more common factor for interviewees, and according to them, it encourages business development. The impact of this factor can be explained by the fact that funds released from taxes can be used for business expansion, purchase of new equipment and raw materials. All interviewees have mentioned the significant policy of easing the tax burden on entrepreneurship. The distinctive statement has been as follows:

“The tax regime is supportive now and this releases me from the need to be worried”.

The literature also highlights the positive impact of this factor, stating that tax laws are aimed to support the SME (Teal *et al.*, 2011). In other words, there is a convergence between the literature and the opinion of the interviewees regarding the factors discussed.

Recommendations

The second research question of the study was to develop a set of guidelines suggesting *how country-level factors can be changed in order to improve the development of SMEs in Kazakhstan*. One of the possible ways to overcome the influence of these negative factors might be presented by the implementation of a simple system of notification of entrepreneurs about changes in tax laws. This information system, according to the researchers, is “one of the key factors to success of small and medium-sized enterprises which ensures their efficient operation” (Pivovarov, 2013). Regulation of the actions of tax officers can become a part of improving state services. Education, as a criterion for the SMEs’ success (Wiklund and Shepherd, 2003), should be not only a part of management of the SME’s human resources, but state policy too.

The study results have implications for those policymakers who focus on stimulating SME development. They should be aware of the factors encouraging the development of SMEs and stimulate strengthening the growth of these factors. In addition, awareness of what the entrepreneurs mean by the development of their business can also encourage the correct steps to be taken to support national SMEs.

Summary of Conclusions

1. The data obtained, in general, corresponds to the results of the literature review. In other words, entrepreneurs assess the notion of development differently. That is why, despite a number of definitions, for the development of entrepreneurship rests on the impact of the personal opinions of the entrepreneurs, the context or environment. And, to understand development as being a “movement upward” (Myrdal, 1974), any definition achieved in the process of this research can be considered as SME development. Progress can even be made through growth in the number of clients, qualification enhancement of employees at an enterprise, and entering other regions.

In general, the opinions obtained during the survey and interviews have coincided. The respondents completed a questionnaire and the interviewees, in the same manner, have highlighted the development criteria for their business as the expansion of the market and outlets for goods and services, entering other regions, qualification enhancement of their employees and development of other areas that are new for the current business.

2. The results of the qualitative and quantitative research have shown a convergence of views on the factors hindering the development of SMEs. The top ten most influential negative factors included:
 1. Competition
 2. Low paying capacity of population
 3. Geographic location (dead-end city, low density of population)
 4. Expensive transportation
 5. Devaluation of national currency, tenge
 6. High cost of electric energy
 7. Low qualification of employees (problems with staff)
 8. High taxes
 9. Administrative barriers (long-term execution and processing of documents)
 10. High rent

Qualitative research has found additional factors, including:

- “Unfavourable” neighboring businesses of other companies
- Changes in the behaviour of consumers
- Economic situation (growth of prices for food, leading to decreasing demand for manufactured goods)

3. The main factors contributing to the development of SMEs can be defined as follows:

1. Qualification of manager
2. Advertising
3. Personal qualities (optimism, ability to take risks, etc.)
4. Qualification of employees
5. Tax cuts
6. Development of technologies (internet, mobile communications)
7. Location of the company
8. The moratorium on business inspections
9. Additional funding (refinance loans, interest rate subsidies)
10. Reduction of administrative barriers

The results acquired partially coincide with the results of the literature review. Triangulation has demonstrated convergence in determination of the factors that most influence the SME development.

Identifying positive and negative factors has enabled the author to make some recommendations for business and government.

Weaknesses of the Research

There are some weaknesses in the methodology of this study. Firstly, the research used a small sample size that restricted the ability to make conclusions for the entire country based upon the data (White, 2000). Secondly, it is difficult to make generalisations because part of data is represented by the personal opinions of the respondents (McDaniel and Gates, 2007). Thirdly, the data applied was supported by the opinions of SME employees and heads of those enterprises, which had different opinions on some issues (Hasson *et al.*, 2013). Moreover, there is a difference in the factors influencing the SME for the various spheres (Amornkitvikai *et al.*, 2012).

Despite these weaknesses, the information collected and analysed was correct, as two methods were used to confirm the validity. Triangulation in the form of comparison of quantitative and qualitative data compensated for the disadvantages of both data types. Memos were also used.

Recommendations for Future Research

The first type of future research might be aimed at overcoming the weaknesses mentioned above. For example, one method could be to pursue the research that focused on the main disadvantages. This research should be conducted with regard to the difference in opinions between employees and managers of a company.

This research has revealed the main factors encouraging and impeding the SMEs' development. It would be interesting to complete these results and establish if the impact of the same factors is the same for all SMEs from various economic spheres. This research may be conducted using qualitative and quantitative data, and using a greater sample size.

Kazakhstan is unitary state, however, the regions have their peculiarities. Hence, it was proved in the Research Center SANGE (Kazakhstan) research (corruption, administrative barriers) that regions can differ in the degree of influence of administrative barriers and corruption on business development (Djandosova, 2007). That is why future research should be conducted with regard to the features of development of entrepreneurship in each region of Kazakhstan. Thus, the sample should be sufficiently large.

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