

# **Reform and Development in a Transitioning Economy: Assessing Conditions in the Operating Environment of the Small Business Sector in Kazakhstan**

**Paul J Davis**  
**Kazakh British Technical University**

*This paper examines the emergence of entrepreneurship in Kazakhstan with a view to explore the sector's sustainability. The paper looks at reforms which have enabled the dramatic increase in entrepreneurial activity in the country and discusses the barriers and challenges to further small business growth. A self-administered survey instrument in the form of a questionnaire was completed by 60 small business owners in Almaty. The study found that Kazakhstan has proactively sought to develop entrepreneurial activity through a wide range of initiatives and reforms and has indirectly helped entrepreneurs through market reforms. However, numerous barriers still exist that frustrate and hinder small business activity and more must be done to address the needs of entrepreneurs if they are to realize their full potential. The research was limited in sample size; geographical reach and data sought. As Kazakhstan continues its aggressive economic development towards a market economy and builds its small business sector, there are implications for policy makers in the small business arena and implications for aspiring entrepreneurs. There is a scarcity of research on the topic of small business in Kazakhstan. This paper is of value to government agencies charged with improving the operating conditions for small business in Kazakhstan.*

## **INTRODUCTION**

If, as Knorr (2011) observed, entrepreneurship is one of the most reliable indicators of a country's economic success, then Kazakhstan is positioning itself to continue its rapid rise to regional economic superiority. Today, Kazakhstan is one of the fastest growing economies in the world (Das *et al.*, 2010). Within six years of achieving independence in 1991, the percentage of the population that is self-employed grew from 4.3 per cent to 24 per cent, more than double the number of entrepreneurs in Russia at the same time (Verme, 2000). Since this time entrepreneurship has continued to grow exponentially. For example; in 2005 there were approximately 70,000 small businesses in Kazakhstan; by 2010 this figure had doubled (Teal *et al.*, 2011). Indeed; the number of registered small business in Kazakhstan grew by 22.7 per cent in 2006 alone (Toxanova, 2007). Most of these businesses remain indigenous, often informal microenterprises (Verme, 2000) but franchising is now also beginning to emerge as a choice within the self-employed sector. It will provide new opportunities for local people to realize entrepreneurship and will further diversify the base of small business in the country. KFC, Pizza Hut, Gloria Jeans and Baskin Robbins are some of the foreign franchise chains that today have a presence in Kazakhstani cities.

Despite the dramatic rise of small business in Kazakhstan; international acclaim for Kazakhstani government reforms to develop the small business sector and the critical role small business plays in

economic development, there has been scant academic research directed at the topic. Indeed, there is a paucity of published scholarly research on Kazakhstan in general. This paper sets out to redress this gap in the literature.

The first section of this paper will explore the importance of small business to economic growth and development, particularly in relation to emerging and transitioning economies. The attention will then turn to the experience of Kazakhstan and will examine the evolution of entrepreneurship in the country. Following this, a discussion of the reforms implemented by the Kazakhstani Government to nurture small business will be presented along with an exploration of continuing problems and opportunities for further reform. Finally, the paper will present the research findings of a study recently concluded on the experiences and views of Kazakhstani entrepreneurs and will comment on these findings in light of the reforms instituted.

## LITERATURE REVIEW

The importance of the small business sector to a country cannot be over-stated. Yu (2011), for example, champions entrepreneurs as reformers because they build momentum for ongoing reform through their activities. Small businesses play a crucial role in wealth generation too; they stimulate innovation and creativity, they foster competition and even contribute to societal harmony political constancy (Sarri and Trihopoulou, 2005). Or, more specifically; small businesses create jobs and this aids economic growth (Langowitz and Minniti, 2007). It is pertinent to this paper that researchers have noted that small business activity is especially significant to the economies of developing and emerging countries. It seems that small business is the backbone of economic activity in developing and emerging economies where big business is in its infancy and the economic infrastructure itself is still developing.

It has been observed that there is a correlation between high levels of self-employment and low economic development (Jamali, 2009). Further; as countries develop their economies so self-employment rates decrease (Baugh *et al.*, 2006). The implication is that small business is critical to economies like Kazakhstan that are transitioning, modernizing and developing. Once big businesses have established themselves there are increased employment opportunities for people and, perhaps, diminished incentive to start one's own business. Certainly, people are less compelled to become entrepreneurs to survive. Malach-Pines *et al.*, 2010 call this the shift from necessity to opportunity. However, before large industries become the norm, entrepreneurship must fill an economic void and must stimulate the economic activity that will eventually create the conditions for bigger business to establish itself.

Poland provides as a good example of the importance of entrepreneurship to emerging economies. Bliss and Garratt (2001) argue that entrepreneurship played a pivotal role in Poland's successful transition to a market economy. They cite that during the critical transition years 1990-1997 the number of self-employed Poles rose from 800,000 to 2.1 million. Similarly, small business has been acknowledged as playing a critical role in Russia's emergence from a centrally planned economy to a free market economy (Tovstiga *et al.*, 2004). A further example is Kazakhstan itself. The period immediately following independence, 1990-1996, witnessed a near economic collapse for the new country. Gross Domestic Product (GDP) declined by 40 per cent and state sector employment declined from 88.6 per cent in 1990 to 34.6 per cent in 1996 (Verme, 2000). During the same period, as noted in the introduction, self-employment grew by more than 500 per cent. While accepting that for many people at this time self-employment was born of necessity, it was small business that not only rescued the Kazakhstani economy from collapse but saved Kazakhstan itself. As Can (2003) has noted; microenterprises such as those that dominate Kazakhstan elevate people from poverty and suppress unemployment.

Entrepreneurship *per se* is not new to Kazakhstan. Kazakhstan has been a region dominated by small traders for centuries, situated as it is along the Silk Road. This tradition continues today as small business is dominated by street vendors, market stall holders, kiosks and bazaars. It is estimated, for example, that 25 per cent of the retail market is accounted for by kiosks (Das *et al.*, 2010). Verme (2000) explains that entrepreneurship in Kazakhstan has traditionally been informal and hidden whereby only a few pay taxes. What is new in Kazakhstan is overt, legalized, organized, formal small business activity. Hisrich and

Drnovsek (2002) explain that entrepreneurship as it is understood in western countries is a new phenomenon for post-Soviet societies. It has its roots in underground economic activities that flourished for the seven decades that Kazakhstan was part of the Soviet Union. In this sense it can be said that entrepreneurial activity is not new to Kazakhstan but the modern entrepreneurial mindset is.

That Kazakhstan does not have a culture of entrepreneurship as it is commonly characterized is an important point. Scholarly research on entrepreneurship has become a construct dominated by a western paradigm. McElwee and Al-Riyami (2003) argue that the entrepreneur is typically portrayed in the west as a celebrated maverick that is both popular hero and non-conformist anti-hero. Richard Branson, for example, can be said to be of this variety. Yet this is an unhelpful and erroneous lens through which to investigate entrepreneurship in Asian societies such as Kazakhstan. Asian societies tend to be collectivist rather than individualistic where, often, religious observance and social conformity are expected and more important than a desire to rebel or engage in eccentricities. Therefore, the researcher must take caution when drawing conclusions about entrepreneurs in Asian or African societies in comparison with those in, say, Europe or the United States.

As a new country emerging from the long shadow cast by the Soviet Union, Kazakhstan was poorly positioned to embrace modern iterations of entrepreneurship. Kazakhstan underwent the greatest degree of Russianization of any region of the Soviet Union and prior to independence, life in Kazakhstan was indistinguishable from that in Russia (Low, 2007). Therefore, Kazakhstan's inheritance from communism was the same as Russia's: a corrupt and inefficient bureaucracy, a central planning philosophy and underdevelopment of infrastructure (Tovstiga et al., 2004).

The first experience Kazakhstan had of formal entrepreneurship was in 1987 when private business was legalized in the Soviet Union by Gorbachev under the *Perestroika* reforms. Prior to this, according to Izyumov and Razumnova (2000), terms such as private business and private property were used in a negative context only. Entrepreneurship prior to 1987 came with the risk of criminal prosecution. Much has changed since then, including Kazakhstan's economic fortunes. From the deep recession and difficult transition of the 1990s, Kazakhstan experienced a quick and profound economic turnaround. Economic growth for 2001-02 was over ten per cent and an average of 8 per cent during 2002-7. Much of this was due to the effective exploitation of natural resources including oil, gas and minerals (Lee et al., 2010).

The prevailing economic climate in Kazakhstan over the past decade has been conducive to the development and growth of small business. Kazakhstan will soon be in the top 10 oil producing nations in the world (Teal et al., 2011) and is currently the fifth largest exporter of grain. President Nazarbayev had long ago set the objective that Kazakhstan will be one of the World's top 50 economies by 2020 (Teal et al., 2011) and this objective was achieved several years ago. However Strauss (2016) has observed that Kazakhstan fell from 34th place on the list in 2015 to 47th place in 2016; the greatest decline of any country in the top 50. Strauss notes that this is due to Kazakhstan's economy being so heavily reliant on oil exports at a time of very low oil prices. Clearly Kazakhstan must do much more to diversify its economy and the poor performance of big oil companies undoubtedly impacts the fortunes of small business in an overall economy becoming less globally competitive.

Small business development has benefited from some indirect changes in Kazakhstan such as the sidelining of the previously omnipresent workers unions (Kamen, 2005) and new regional trade alliances such as the Customs Union with Russia and Belarus. Public sector reforms such as decentralization of power, enforcement of codes of ethics and e-governance (Bhuiyan and Amagoh, 2011) and Kazakhstan's political stability and geographic location also serve to foster a positive business climate. The national government has also established an organization, DAMU Entrepreneurship fund, in 2007, which lends money and provides training, conferences, information and a range of other services to aspiring and existing small business owners (DAMU, 2016). Furthermore; since independence Kazakhstan has attracted over \$40 billion in direct foreign investment (Teal et al., 2011) indicating the confidence foreign companies have in the country. In addition, the proliferation of commercial banks in Kazakhstan – there are 35 different banks for a country of approximately 16 million – has generated strong competition. This has undoubtedly worked to the advantage of small businesses seeking financing and, according to Teal et al., (2011), interest rates on small business loans have been declining for several years.

However, it has been the dedicated reform agenda to help small business specifically on the part of the Kazakhstan Government which has been most significant. According to the World Bank (2016) Kazakhstan is now the World's 41<sup>st</sup> most small business friendly environment ('ease of doing business') out of 183 nations. This is a significant improvement even on last year's ranking of 53<sup>rd</sup> and continues a positive trend from 2010 when Kazakhstan ranked 74<sup>th</sup> on the World Bank listing. This is strongly indicative of the concerted efforts of the Government to assist and develop the small business sector in Kazakhstan. Further evidence of continuous and significant improvement can be evidenced by the individual measures that comprise the overall ranking. For example; in 2015 Kazakhstan was the 21<sup>st</sup> best place in the world for starting a new business (World Bank, 2016) which represents a dramatic improvement from 47<sup>th</sup> place in 2010 and 85<sup>th</sup> world's best environment in 2009 (World Bank, 2011). Most remarkable of all, Kazakhstan ranked 10<sup>th</sup> of 183 countries for doing the most to make it easier to for small business to operate in the five year period 2005-10 and topped the world in 1<sup>st</sup> place from 183 countries as the country that did most to make it easier to run a small business in 2010 (World Bank, 2011). The trend continues to the present as the latest rankings (World Bank, 2016) show that today Kazakhstan ranks 9<sup>th</sup> best in the world for enforcing contracts; 18<sup>th</sup> for paying taxes; 19<sup>th</sup> for registering property and 25<sup>th</sup> for protecting minority investors. There are, however, areas in which Kazakhstan performs poorly such as dealing with construction permits (92<sup>nd</sup>) and trading across borders (122<sup>nd</sup>). Notwithstanding these poor outcomes, Kazakhstan has for the past decade performed consistently well to develop itself into a good place to start and run a small business.

To put Kazakhstan's achievement of 41<sup>st</sup> best place in the world for ease of doing business into context, a look at the performance of its neighbors is revealing: Belarus (44<sup>th</sup>); Russia (51<sup>st</sup>); Moldova (52<sup>nd</sup>); Azerbaijan (63<sup>rd</sup>); Kyrgyzstan (67<sup>th</sup>); Ukraine (83<sup>rd</sup>); Uzbekistan (87<sup>th</sup>); Tajikistan (132<sup>nd</sup>). Kazakhstan is better, often much better, at creating the conditions conducive for small business to thrive than its closest neighbors. However, the Baltic States as well as Georgia and Armenia consistently have a better ranking than Kazakhstan.

Some of the reforms that the Government has introduced include streamlining the start-up processes for small businesses and reducing the capital required to start a business to just 100 Tenge (75 cents). It is also now easier to obtain a range of permits and small business owners can also submit many forms online. For those small businesses importing and exporting the Government has automated many processes pertaining to customs which is gradually reducing costs and times (World Bank, 2011). Many public service reforms have also been designed with small business in mind. Efforts have been made to lower costs, promote entrepreneurship and reduce bureaucracy (Bhuiyan and Amagoh, 2011). In 2005 revisions to the codes of conduct of the civil service raised professional standards, enforced disciplinary processes for abuses of position and introduced stronger penalties (Bhuiyan and Amagoh, 2011).

The Government has also encouraged and partnered with other organizations to support small business development. The Kazakhstan Small Business Development (KSBD) Project which is an initiative of the United States Agency for International Development (USAID) is a notable example. KSBD has partnered with ExxonMobil and the President's Gender Commission to train Kazakhstani businesswomen (USAID, 2008). This is a significant strategy as women entrepreneurs play a very important role in economic development in emerging and developing countries (McClelland et al., 2005). USAID has also organized study tours for small businesses in Kazakhstan and organizations that support them such as financial lenders to learn from international best practice (USAID, 2008).

Although significant effort has been made to foster entrepreneurship and support small business development in Kazakhstan, there remain several barriers to doing business that frustrate further progress. The challenge for the Government is to continue to address the problems that hinder small business owners. Luthans and Ibrayeva (2006) believe that the fundamental problem facing small business is resistance to change from powerful elites. They claim that key religious, governmental, business and social institutions have resisted change that would empower small business owners. They add that poor infrastructure, ageing public transport, antiquated taxation system and under-developed legal and financial institutions also inhibit small business development. Since Luthans' and Ibrayeva's article there have been noticeable improvements in transportation and the financial sector and, as noted earlier, The

World Bank (2016) ranks Kazakhstan very well on the ease of paying taxes for small business. However, it remains true that more needs to be done. There is, for example, according to the World Bank (2016) still a great deal of bureaucracy around licensing and permits for small businesses in Kazakhstan in regards to the number required and the time it takes to process the relevant documents. Other examples are getting electricity connected and exporting goods, both of which take much longer in Kazakhstan than the best performing countries such as Korea, Singapore and New Zealand.

Corruption has been a perennial problem for Kazakhstan and is part of the legacy inherited from the Soviet Union. Bhuiyan and Amagoh (2011) describe it as endemic but they also note that President Nazarabayev has taken a personal lead on fighting corruption. In 2005 he signed a decree *on measures to set up the fight against corruption* to enforce and tighten discipline among state bodies. Part of the problem is that many small businesses still operate informally and so pay bribes to authorities to avoid being reported (Can, 2003). If the tax system were to be reformed as discussed earlier then the cost of doing business legitimately would encourage more businesses to register. Similarly, if the bureaucracy connected with running a business were further reduced and simplified then again more businesses would have an incentive to operate legally and many of the bribes now paid would disappear. It has been the case that prosecuting those who solicit bribes has been very difficult because the victim must make a formal complaint at the time of extortion (Can, 2003) which is self-evidently problematic.

However, the evidence suggests that efforts are being made to combat corruption and that progress is being made. Transparency International (2015), which monitors corruption and publishes a Corruption Perceptions Index (CPI), shows that Kazakhstan is getting better at dealing with corruption. In 2007 Kazakhstan rated 150<sup>th</sup> out of 179 countries on the CPI. It improved to 145<sup>th</sup> from 180 countries in 2008 and 120<sup>th</sup> in 2009. In 2015 Kazakhstan had slipped slightly to 123rd place. It should be noted, of course, that this is not necessarily an indication that Kazakhstan is doing worse at dealing with corruption than before; it could be that other countries have just been dealing with corruption better than they had previously. Generally, this indicates a gradual improvement in the right direction but Kazakhstan still has a great deal more to do to combat what remains a real problem for small business in the country.

A further critical challenge for small business in Kazakhstan is the shortage of highly skilled employees and well trained, modern managers (Lee *et al.*, 2010; Safavi, 1997). This would seem to be a problem common to many transitioning economies (Zhang, 2000). Lituchy and Reavley (2004) found a similar challenge for small businesses in Poland and the Czech Republic while Tovstiga *et al.*, (2004) have noted that a lack of good business skills has been a barrier to small business expansion in Russia. Countries like Kazakhstan have had to redefine the very nature of employee-employer relations as they have moved towards a market economy. In a competitive labor market there is a need to focus more on employee needs, aspirations and motivations than under the previous communist model of 'full employment'.

It could be that having to negotiate, compromise and accommodate when managing today's employees has been a significant challenge for new entrepreneurs and that they are still adjusting to the dynamics of a freer marketplace. Indeed, a study by Ardichvili and Gasparishvili (2001) found corporate managers in Kazakhstan employed transactional management techniques rather than transformational techniques. Further, Kazakhstani managers in a survey rated poorly on concern for the individual and charisma which are considered critical competencies for leading employees in today's organizations (Northouse, 2010; Nahavandi, 2009).

The bureaucracy, too, remains a hindrance to small business advancement in Kazakhstan. While it has been noted that public sector reform has taken root and positive changes have been implemented, the scale of the bureaucratic challenges for small business in Kazakhstan is considerable. Can (2003) highlights that there are regular formal and statutory intrusions that small businesses are subjected to by bureaucratic bodies. This frustrates the independence and efficacy of business to maximize its potential and is further evidence of the slow transition, in some respects, from a centrally planned to a market economy. Can (2003) goes on to describe the general unhelpfulness of officials who rarely take the initiative to disseminate important information to entrepreneurs and who have a penchant for discretionary decision making. The bureaucracy, Can says, is a burden on small business because it

operates so arbitrarily. Wilson *et al.*, (2002) contend that the bureaucracy is in need of training because officials do not have the knowledge, skills or mindset to support small businesses in the changed environment. They argue that public officials need to be helped to adopt market-centric approaches to doing their work and that this would also help fight public sector corruption.

Some good examples of the bureaucratic maze small business must negotiate in Kazakhstan are provided by the World Bank. Although, as discussed earlier, Kazakhstan has made good progress towards designing a business-friendly environment for entrepreneurs, there are still areas where Kazakhstan performs poorly in this regard. For example; Kazakhstan ranks 147<sup>th</sup> out of 183 countries on issuing construction permits and 181<sup>st</sup> from 183 countries on trading across borders (World Bank, 2011). Small businesses in Kazakhstan must execute 34 different procedures to get a construction permit and must wait, on average, 219 days for a permit to be issued. When it is issued it costs 119.8 per cent of income per capita (World Bank, 2011). For small businesses wishing to trade across borders it takes 81 days on average to export something and 61 days to import an item and there are 10 and 12 documents respectively which must be lodged (World Bank, 2011). These examples highlight the bureaucracy which the majority of other countries have already simplified that Kazakhstani small business must continue to endure as part of its daily operations. Clearly, much more can be done to assist small business.

In a report for the European Economic Commission, Toxanova (2007) clarified and summarized the major obstacles to the development of entrepreneurial activity in Kazakhstan. She identified the difficulty in obtaining financing from established lenders such as banks; high taxation rates and a complex taxation system and considerable bureaucracy in relation to licensing and registering small businesses as the three dominant challenges entrepreneurs face. The objective of the research project was to explore these and other identified challenges through a survey of local business owners in Almaty.

## **THE RESEARCH PROJECT**

The research project deliberately took the form of a 'straw poll' in that it was intended to be an exploratory look at the issues. Firstly; the literature review revealed that no similar study had been conducted and so there was no existing data on what entrepreneurs think about operating a small business in Kazakhstan. Secondly; Kazakhstan does not have a culture of field-based research as it was a Soviet territory. This means people in Kazakhstan are not used to and often not comfortable with strangers approaching them to question them about their opinions and experiences; typically one's opinions are kept private in Kazakhstan. Several small business owners declined, on a couple of occasions angrily, to being asked to participate in the study. Some others agreed to participate but then would not give any opinions. Some who were approached were baffled by why anyone would want to know the information being sought. Administering the survey required a great deal of explanation, reassurance and justification in order to overcome people's suspicions. Therefore; this research project should be viewed as a tentative first-step - even intrusion - into a new sphere.

Sixty small business owners in Almaty, Kazakhstan's center of trade and commerce completed a self-administered survey. The survey was translated from Russian into English and distributed on foot around the city. Those who agreed to complete the survey were re-visited a couple of days later to collect the completed forms. For reasons explained above, no personal data at all was sought. The survey sought information on the respondents' experiences, perceptions and challenges as entrepreneurs. The survey sought to identify the extent to which entrepreneurs felt the Government's small business reforms had improved the ease of doing business. The survey was designed to reveal in which areas entrepreneurs were still facing problems in doing business and which of the government's reforms appeared to be working.

32 men and 28 women small business owners completed the survey. The businesses surveyed were diverse and included: construction firms; hairdressing salons; various types of small retailers and businesses in hospitality. Precisely 50 per cent of all businesses were microbusinesses with ten or fewer employees. 40.3 per cent of businesses had between 11 and 99 employees and 6.7 per cent had between 100 and 120 employees. The age of the businesses ranged from less than 1 year (10 per cent) through to

more than 16 years (3.3 per cent). One third of all the businesses had been operating for between 5 and 10 years.

Survey respondents were asked, from a list of nine items, to identify which issues presented a challenge to operation and growth of their business and which did not present a challenge. The research discovered that 60 per cent of respondents found it a challenge to raise the capital to start a new business while 80 per cent said it hard securing bank finance to grow their business. 83.3 per cent of those surveyed reported government bureaucracy was a big challenge to doing business and just over half said paperwork, registering and licensing were barriers to doing business. Far fewer entrepreneurs reported employee management a challenge. 40 per cent said finding and keeping high quality employees presented a challenge while only 20 per cent said that the procedures around hiring and firing employees presented their business with difficulties. 36.7 per cent of respondents claimed that labor laws governing employee working conditions were problematic for their business.

Respondents were then asked to assess how business conditions had improved for small business in Kazakhstan during the past ten years. Asked to take into consideration all aspects of running a small business, 56.7 per cent of those surveyed disagreed that it had become easier to run a small business. 60 per cent disagreed that economic development in Kazakhstan during the preceding decade had made it easier to run a small business. 56.7 per cent also disagreed that government rules and regulations had improved conditions for small business. The same percentage also stated that infrastructure and public transportation improvements had not made small business ownership easier. Just over half of respondents agreed that bureaucracy associated with running a small business had lessened over the past ten years. 63.3 per cent of entrepreneurs said that bank financing had become easier to obtain over the past several years.

## **DISCUSSION**

Despite the considerable achievements of the Government of Kazakhstan to improve conditions for new and existing small businesses, entrepreneurs still face significant operational challenges. Financing remains a challenge and this is a barrier to those wanting to launch and expand a business. In other countries entrepreneurs have easier access to alternate sources of funding such as credit unions, microfinance providers and business investors (Tucker and Lean, 2003) and Kazakhstan could further diversify sources of finance in this direction to aid entrepreneurs. In many countries start-up businesses are financed by the entrepreneur themselves (Lam, 2010) but in Kazakhstan where wages are low compared with western countries this is more difficult where a new business requires high start-up capital outlay.

Bureaucracy remains one of the biggest challenges with most respondents identifying this as a hindrance to business. The literature review highlighted efforts to reduce bureaucracy but this does not seem to be filtering through to business owners. Managing paperwork and complying with regulations are also significant problems for business owners. The literature also highlighted a problem with the supply of skilled employees and many respondents highlighted finding and keeping good people as a challenge. While things are changing there seems to be a lot more to do so that small business can recruit and retain quality employees to sustain business growth and development.

Most significantly, the entrepreneurs surveyed generally did not agree that conditions for small business had improved over the past ten years despite a great deal of evidence presented in the literature review to the contrary. The evidence from the World Bank is that the environment for small business has become far more conducive to doing business in Kazakhstan in recent years. Public sector reform, competition in the banking sector, concerted efforts to combat corruption and simplification of compliance requirements for small business have all been effected. Yet small business owners appear not to be experiencing the intended benefits of these changes. It is not clear why exactly and a range of possible explanations could be forwarded to account for this discrepancy between reality and perception. Perhaps the most pressing issue for further research is to identify why small business owners sense no significant improvement in ease of doing business over the past ten years. Even in the two areas where

entrepreneurs did express that conditions had improved during the past decade (reduction in bureaucracy and accessing bank financing) a significant proportion still disagreed.

The areas where entrepreneurs believe there has been least improvement (economic environment; infrastructure and transportation) require further investigation. Almaty, where the research was conducted, has benefited more than any other region in Kazakhstan from advancements in these areas. Almaty has evolved into the commercial and financial center of Kazakhstan in recent years with dramatically improved infrastructure and transportation connections. Air Astana, the country's national airline, has its hub in Almaty and has developed an impressive national and international network in the past ten years. It would be interesting and valuable to those agencies that work with small businesses to understand why entrepreneurs feel the improvements have not aided business and what could be done to change this. It would also be interesting to learn why entrepreneurs experience so little improvement in the small business sphere when the evidence suggests very significant improvements have been achieved.

## CONCLUSION

The World Bank has recognized Kazakhstan as one of the countries that has done most in recent years to improve conditions for small businesses. Additionally, indirect reforms such as fighting corruption and developing a competitive financial sector should deliver benefits to small business. However, the research findings presented in this paper indicate that small business owners still face significant challenges running their businesses in precisely the areas that have been the focus of reform. Government bureaucracy and securing the finance to grow a small business are the two biggest challenges facing small business owners and yet two key areas that have experienced reform. Clearly, although progress has been made to improve conditions for small businesses, further reform is still required in the view of entrepreneurs.

The study also found that the majority of entrepreneurs did not feel that conditions for running a small business in Kazakhstan had improved over the past decade. This is despite considerable evidence to the contrary. Kazakhstan has undoubtedly made dramatic progress in creating more business-friendly environment in the past ten years, something acknowledged by the World Bank. There appears to be a gap between perception and reality or between reform and the impact it has had. Policy makers and agencies that interact with and support small business in Kazakhstan need to understand why entrepreneurs feel little progress has been made to help them and what policy changes might make a bigger difference. It could be that reform has missed addressing the daily challenges faced by small business and that other, more pressing, concerns have not been addressed by policy changes. Listening to entrepreneurs and understanding their priorities would be a valuable starting point to inform future plans to improve the operational environment for small business in Kazakhstan.

## ACKNOWLEDGMENT

The author wishes to express his sincere thanks to Ms. Fatima Abdiyeva for translating the survey into Russian and for logistical support in collecting the data.

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