

## Innovational Approach of Business Management in Kazakhstan

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### Abstract

Under modern conditions of development of the national economy, the high importance is given to entrepreneurial activity of small and medium-sized businesses, since the competitiveness level of domestic enterprises, the share in various types of markets and the effectiveness of innovational performance directly depend on the economic activity on the scale of the enterprise, industry and region. In this article, the literature review of domestic and foreign authors, which carried out the research on the issues of patterns and features of business development, including in the Republic of Kazakhstan, is conducted. As a result of research, theoretical and methodological aspects of the study of the development of small and medium-sized enterprises were systematized, and corresponding conclusions were drawn.

**Keywords:** National economy; Entrepreneurship; Small and medium-sized enterprises; Nation; Strategy; Innovational approaches.



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### 1. Introduction

In modern conditions of performance of the national economy, the development of small and medium-sized enterprise is one of the provisions of successful economic reform. In this regard, the patterns and features of the small and medium-sized business sector are the basis for the social restructuring of modern society, which ensures the preparation of the population and the transition of economic ties to the new conditions for the formation of the economy.

Nowadays in the Republic of Kazakhstan, more than 1 million active people in the sphere of small and medium business, which forms 11% of the national budget, and its portion in GDP shows 20%, steadily increasing the amount of investments. Share in GDP of small and medium-sized enterprise takes second place after oil sector.

At the current moment, the achieved level of formation of small and medium-sized business requires the study of problems of its formation and growth: developing the effective and flexible techniques for assessing, analyzing, managing and forecasting the development prospects.

Nevertheless, there are some problems that interfere with the growth of small and medium-sized businesses in the Republic of Kazakhstan, which differ in their complexity and cannot be resolved in a short-term.

The current situation in the development of the business sector dictates the necessity to revise the strategy of state support. The new strategy should be created taking into consideration the branch and regional features of business development.

The concentration of state and business resources on the development of priority sectors of the company should be accompanied by an interactive process of coordinating the decisions of the state and business.

These circumstances predetermined the relevance of the author's research.

### 2. Brief Literature Review

Analysis of the publications of management of small and medium-sized business under modern conditions has shown, that innovative approaches in administration in various countries are enough relevant for conducting the research work.

The methodological foundations of the study of the strategy for the development of entrepreneurship, as well as their problems are disclosed in the studies of scholars of the near abroad in various aspects: [Kireyeva \(2012\)](#) investigated the special development programs of competitiveness of national small enterprises; [Chistyakova, \(2013\)](#)

- the maintenance features of small and medium-sized business in the countries of the European Union and Russia have been studied; [Vlasova and Graphov \(2017\)](#) and [Vlasova and Graphov \(2017\)](#) investigated the characteristics, which are specific for innovative entrepreneurship in the countries with transition economy; [Manokhin \(2010\)](#) assesses the current state and development of the institutional foundations of the essence of small and medium-sized enterprise; [Popkov \(2015\)](#) considers the issues of macroeconomic regulation of entrepreneurship in the Republic of Belarus in order to ensure the balanced development of the economy, growth of the private sector, attraction of foreign investments, creation of favorable conditions for business development; [Metelev \(2011\)](#) shows modern approaches to research of competitiveness problems of entrepreneurial activity subjects; [Danilina and Bagratuni \(2017\)](#) and [Danilina and Bagratuni \(2017\)](#) analyze the bases of state support of small business, the theoretical and institutional aspects, forms and methods of state support.

In the fundamental works of scientists from far abroad: ([Greenhalgh, 2010](#))– the dynamics of studying the complex process of innovation activity and investigation the interconnections of innovations and economic growth of the national economy are traced; In the book of [Porter \(2005\)](#), the experience of many large and small companies is generalized, especially their successes and failures in modern markets with a tough competitive environment; [Smit \(2008\)](#) examines the applied problems related to specific markets and market structures, such as monopoly and monopolistic behavior, auctions, financial markets, and markets in the electricity sector; In the works of native scientists: [Baibusinova \(2017\)](#) believes, that in the modern economy, innovation is given high priority, because the innovative activity of an enterprise, industry, or state directly depends on their level of competitiveness, the spectrum of market opportunities and the effectiveness of current activities; [Kozhabaeva \(2017\)](#) considered the modern trends of the development of innovative-oriented small business by the example of the Republic of Kazakhstan, according to which she determined that in order to significantly rise the national economy, it is necessary to promote the maximum increase in the number of small innovative enterprises in the production sector, to stimulate the development of interrelationships between small, medium and large industrial business, to creatively apply the relevant foreign experience;

Theoretically and practically, undoubtedly, the significance of joint initiatives of the heads of state on the formation of the Common Economic Space and the prospects of the creation of the Eurasian Union as a strategic integration project for the Eurasian region is growing. At the same time, the analytical evidence of strategic directions for the formation of innovative mechanisms of national economies in the context of deepening integration requires further theoretical, methodological and applied developments. In particular, it is important to determine the economic priorities of long-term development of entrepreneurship with state support and mechanisms of public-private partnership in implementing the national innovational competitive model.

Despite the research conducted by economists in the context of theoretical and methodological aspects, the study of the development problems of small and medium-sized enterprises, taking into consideration the competitiveness of national economies is insufficiently studied and creates wide range of opportunities for further research.

All this determined the authors' investigations of the modern state of small and medium-sized business in Kazakhstan.

### 3. State Policy of Field Entrepreneurship Development

At the current stage of industrial and innovative development of Kazakhstan, small and medium-sized business entities are called upon to play a major role in the implementation of innovative projects and the production of a final competitive goods based on the use of domestic and foreign scientific potential.

The activity of small businesses is an important factor in raising the country's economy. The state policy in the Republic of Kazakhstan in relation to entrepreneurship is aimed to form the middle class, through the development of small and medium-sized enterprises, which aim at creating new high technology industries with the highest added value.

To achieve this goal, as one of the stages of implementing the strategy of industrial and innovative development of the Republic of Kazakhstan, the task of business infrastructure development is envisaged. The maintenance infrastructure of entrepreneurship is an aggregate of organizations that provide favorable conditions for the creation, functioning and development of private entrepreneurial activities.

Nowadays, support, growth and development of entrepreneurial movement within the sphere of small and medium business is a foreground direction of state policy of Kazakhstan. Particular attention is given to the development of small and medium-sized enterprises in the regions of the Republic of Kazakhstan. Almost all regions have developed their own small business programs, in more than 50% of them special agencies and small business funds were created.

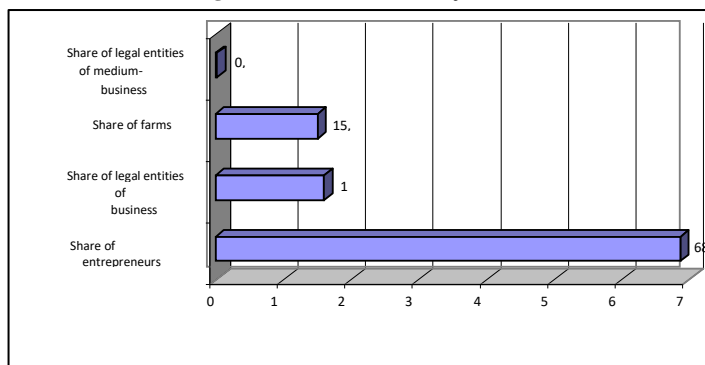
The key objectives of the state support measures implemented in the given direction are:

- support in the implementation of manufactured products by small businesses;
- provision of conformity of products produced by small business entities to current international quality standards;
- supply of small business entities with production facilities;
- establishment of financial support for small business entities of production and innovation activities, including the access of small businesses to advanced forms of investment support;
- equipping the maintenance of small businesses in the organization of modern high technology, knowledge-intensive industries and innovation;
- provision of conditions for free competition.

In general, the small business occupied the niche of economic activity, which is highly focused on regional and local needs. They are mostly confident in the production of goods and services, which were in the economic and social shadow of a large industry in some period.

In the regions of Kazakhstan, more than 80% of a small business is oriented in the intraregional markets (with a trade and construction, more than 90% goes to the local, that is, urban and regional); even with respect to industry, the intraregional orientation is more than 70%. By January 1 in 2017, the quantity of operating SMEs decreased by 4.6% comparing to the same date of the previous year. In the total number of SMEs, the share of individual entrepreneurs was about 68.7%, small businesses – 16%, farms – 15.1%, medium-sized businesses – 0.2% (Figure 1).

Figure-1. Shares of SMEs subjects



The largest number of active enterprises in the regional context is in Almaty (29.3%), Astana (8.3%), and East Kazakhstan (8.2%), South Kazakhstan (7.4%) and Almaty (6.6%) regions. Other regions are Akmola region - 8th place (5.0%) and West Kazakhstan – 12 to 14 places (2.7%).

As a whole, only 35.7% of registered small enterprises are active: in Akmola and Almaty regions, it is 54.1%; Kyzylorda - 50.9%; in 4 regions, this indicator ranges from 40 to 50%; in 3 regions and in Astana, this indicator is higher than the average of a national level (from 35.9% to 38.5%); below the national average level in Almaty (29.8%); Zhambyl (28, 0%), South-Kazakhstan (29.1%) and Aktobe regions (32.1%).

One of the main indicators of the level of entrepreneurship development is the number of operating small businesses per 1000 inhabitants. Therefore, the number of operating subjects of small business of legal entities per 1,000 residents showed 7.4 units, peasant farms - 23.5 units, individual entrepreneurs - 16.4 units. The growth to the corresponding period of the previous year was 13.5%, 7.9% and 11.4%, respectively. Most of the operating subjects of small business specialized in the field of trade, repair of cars, household products and personal items - 194261 units, or 37.8% of the total. In agriculture and forestry, 160027 small businesses (or 31.1%) are engaged, of which 95.1% are individuals. Industrial activity employs 17,015 small businesses (or 3.3%), of which 90.1% accounted for the manufacturing industry.

Small and medium-sized businesses in Kazakhstan are actively involved in the implementation of government programs. In order to create favorable conditions for the formation and development of new small business enterprises, specialized institutions for the support and development of entrepreneurship are being established and are developing in various regions of Kazakhstan.

Thus, the development processes of small and medium business are inevitable and mutually beneficial phenomena that solve a number of socio-economic tasks of the national economy.

#### 4. Innovative Approaches to Business to Management in Kazakhstan

The state, comprehensively supporting small and medium-sized business, creates favorable operating conditions, such as the opportunity to register a new company in the shortest possible time, to minimize forms of reporting and changes in tax administration.

The “Business Roadmap 2020” program and the designation of development institutions by its financial operators determined the beginning of a sharp increase in borrowing by means of private banks, repayment of interest of loans and the provision of guarantees to entrepreneurs. Simultaneously, trainings and lectures, which were held as a consultation for company managers, attracted a huge number of new listeners who joined the large base of loyal customers.

Due to the Business Roadmap 2020 program, projects, which are related to the sphere of materials processing, were developed, and this is clearly shown by the target of the funds allocated by the Damu Fund (was created by the decision of the government of the Republic of Kazakhstan in 1997 year).

The Fund places the public funds, which are allocated in the form of loans to small businesses, in second-tier banks. By placing funds in private banks, the Fund remains an outside observer, not interfering in operational activities, shifting all risks on non-repayment of loans, under the property responsibility of these banks. Second tier banks issue the loan without restriction on economic spheres.

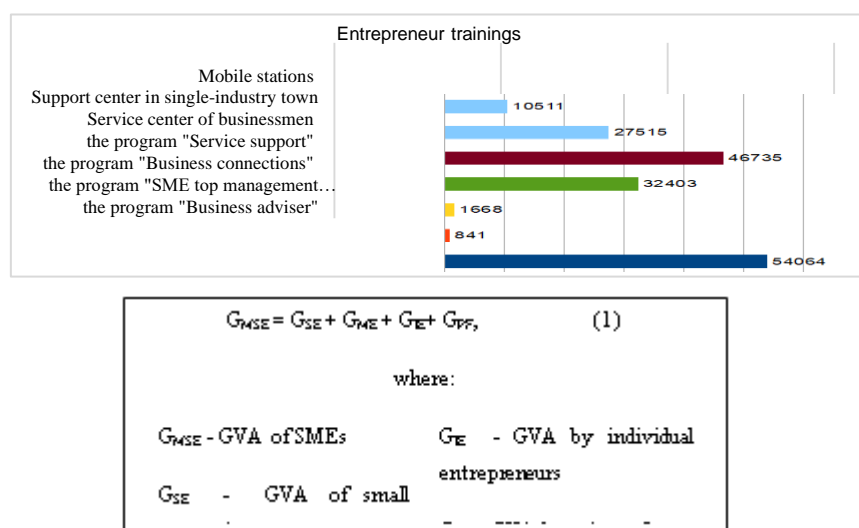
The program, which provides guarantees to small businesses, whose second-tier banks consider their assets insufficient for collateral, has three directions (Table. 1):

Table-1. Basic directions of the program

| First direction   | Second direction  | Third direction   |
|---|---|---|
| Issuance of a guarantee to newcomers in business:<br>Limit size should not exceed 70% of the loan<br>Limit size of a loan should not exceed 20 million KZT.<br>Issuance of a guarantee to existing businessmen:<br>Limit size of a guarantee must not exceed 50% of the loan<br>Limit size of a loan:<br>Should not exceed 60 million KZT for one type of a loan<br>Total sum of loans should not exceed 300 million KZT. | Personal guarantees for businessmen:<br>Limit size of a guarantee should not exceed 50% of a loan<br>Limit size of a loan should not exceed 300 million KZT for one entrepreneur. | Introduction of the procedure for rapid processing of applications:<br>by accelerated security, up to 5 working days;<br>by personal security, 10 working days;<br>multiplied the number of signed contracts. |

Only in 2014, more than 300 contracts were signed for securing loans for 24 billion KZT, and the total amount of providing was more than 10 billion KZT. The total number of businessmen who received services under this program exceeded 30,000; more than 50,000 people attended trainings, courses and lectures, according to Figure 2.

Figure-2. Entrepreneur trainings In the field of entrepreneurship, there are also certain methodological calculations of the main indicators of entrepreneurial activity of domestic enterprises



The methodology of calculating the indicators of small and medium-sized enterprises refers to the statistical methodology formed in accordance with international standards and approved in accordance with the Law of the Republic of Kazakhstan dated March 19, 2010 "On State Statistics".

The methodology defines the main aspects and methods of obtaining official statistical information for the calculation of indicators characterizing the activity of small and medium-sized businesses with the aim of assessing the contribution of the small and medium-sized business (SME) sector to the economy of the Republic of Kazakhstan.

The base of information for the formation of data on SME statistics is:

- primary statistical data of national statistical observations on the activities of legal entities related to small and medium-sized enterprises.
- official statistical information about the gross output of farm products on agricultural statistics;
- data of the statistical business register;
- administrative data of administrative sources;
- indices of consumer prices.

The contribution of SMEs to gross domestic product (hereinafter - GDP) is assessed once a year.

GDP equals to the sum of the gross value added (hereinafter - GVA) of all resident producers (institutional sector) and net taxes on products, respectively, at the first stage, the GVA is calculated for SMEs. The GVA of SMEs is calculated using the following formula:

## 5. The Importance of Public-Private Partnership

By arguing the effectiveness of public-private partnership in Kazakhstan, it is necessary to emphasize the role of national branding within the country's economy. National branding is an extremely important foreign policy tool that allows influencing the perception of the country by the target audience - foreign business and socio-political circles that strengthen the complex power of the state. One of the most important events in the Republic of Kazakhstan, influencing the image of the national economy, was the international exhibition under the auspices of the

International Exhibition Bureau (EXPO-2017), one of the objectives of which is attracting large investments to the country. The theme of the exhibition is "Energy of the Future". The exhibition was visited by 5.4 million people and 500 thousand of them were foreign guests. In the Expo-2017, 100 states and more than 10 international organizations took part.

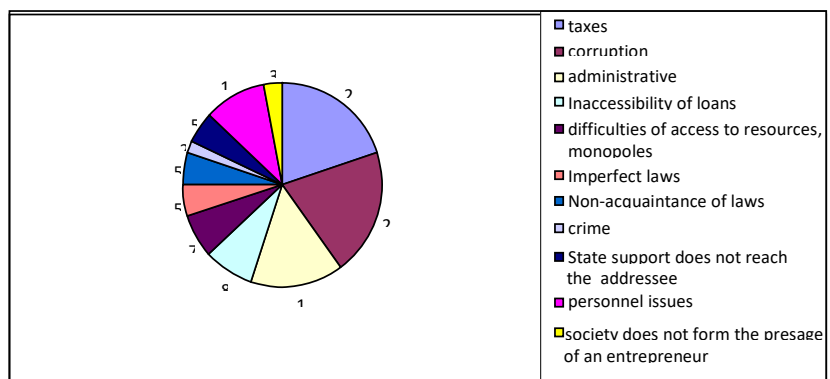
In preparation period of opening of the exhibition, within the framework of the public-private partnership, the construction of EXPO facilities was carried out at the expense of the host party. More than 100 companies, including Zaha Hadid Architects, UNStudio, Snøhetta, HOK, and Coop Himmelb (l) au, took part in the International architectural competition for the best sketch-idea of Expo-2017. The winner was the Chicago-based company Adrian Smith + Gordon Gill Architecture. The Swiss company IT-Engineering carried out the main work on the project. Several local and international construction companies received work contracts. The main contracting organizations that completed the construction part were Mabetex Group, Sembol JSC, SK Basis-A LLP, ABK Kurylys-1 LLP, Turquaz-YDA Stroy LLP, and SREDAZENERGOSTROY LLP. The government of the Republic of Kazakhstan and some private investors, such as Plast Invest Production LLP, Sonik Company LLP, PolymerMetall-T LLP and Alugal LLP financed the project. In order to hold EXPO-2017, 2.1 billion dollars (565.1 billion KZT) were allocated from the national budget of Kazakhstan.

Accordingly, growth in the following types of services was indicated: tourism (+ 78%), international air transportation (+ 30%), domestic passenger services (+ 88%). Souvenirs were sold for over 300 million KZT. 5000 jobs were created.

Undoubtedly, despite the positive dynamics of business development in the Republic of Kazakhstan, there are a number of problematic issues that were determined during the author's marketing research through focus groups by questioning entrepreneurs in large cities of Kazakhstan - Almaty with a population of 1,703,500 people and Astana - 972 692 people.

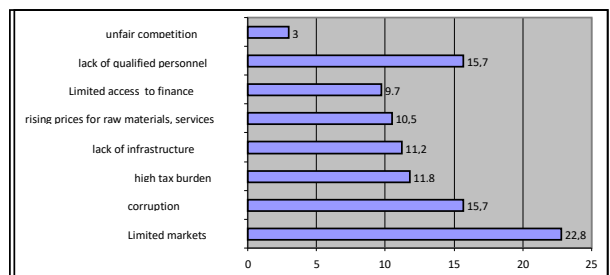
The purpose of the study is to identify the reasons that impede the development of small business in Kazakhstan. The number of respondents was sampled from Almaty city – 80, and Astana city – 50 people. Based on the results of the study, problems that impeded the development of business in Almaty were identified (Figure 3).

Figure-3. Main problems constraining the development of entrepreneurial activity in Kazakhstan, %



The results of the marketing research on Astana respondents are shown in Figure 4.

Figure-4. Results of questioning of respondents in Astana, %



By these two cities, the same problematic issues emerged:

Inefficient tax policy (Almaty city - 20%, Astana city - 11.8%), which impedes the effectiveness of running its own business;

Corruption (Almaty city - 20%, Astana city - 15.7%), is especially explicit in tenders for government purchases and government orders;

Lack of qualified personnel (Almaty city - 5%, Astana city - 15.7%), connected with the training of specialists in the field of industry.



## 6. Conclusions

Analyzing all facts above, it follows that, unfortunately, the small business in the Republic of Kazakhstan was unable to expand its component to the level of developed countries and to generate high indicators for 2017, and it is not more than 20% of GDP.

Until a certain time, entrepreneurs in Kazakhstan not only had no business experience, but also did not have programs to teach them the "basics" of the economy: accounting, management and marketing.

Currently, the component of small business in GDP in Kazakhstan does not exceed 20%, which underlines the systemic shift of the national economy in the development of large enterprises. To create the conditions for entrepreneurial activity of small and medium-sized businesses, it is necessary:

- in conjunction with the placement of funds in private banks, it is rational to use more widely the instruments of increasing the availability of credit, including issuing guarantees to banks and compensating part of the interest rate;
- increase the number of funding sources and apply them, in addition to public funds, such as funds from international capital donors and market-based credit resources;
- to form business service centers that should become a kind of analogue of the service centers of the population where, an entrepreneur can get the whole complex of necessary services to do business;
- local executive bodies should have to have directly proportional interest in increasing the number of small businesses, since it depends on the receipt of taxes in local budgets, the employment of the population and, consequently, reducing the crime situation;
- on the basis of market research conducted at the regional level, it is necessary to work with akimats to develop real projects for the category of beginning entrepreneurs with the exact location of the proposed business in a certain territorial unit.

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