TRANSFORMATION OF NATIONAL MODEL OF SMALL INNOVATION BUSINESS DEVELOPMENT

Orazaly Sabden, Academic of the NIA RK
Ardak Turginbayeva, Al-Farabi Kazakh National University

ABSTRACT

The article examines the role of small innovative business in the world and Kazakhstan in particular. Studied foreign experience of entrepreneurship's development and its impact on the competitiveness of the country. Furthermore, we investigate the current status of small and medium business and its peculiarities of economic sectors' development in Kazakhstan. Studying patterns of innovation products, manufactured in Kazakhstan, we found problems of innovative development of the Republic.

In research methods invented the existing model of development of small innovative business of Kazakhstan with the description of the key elements and relationships. In conclusion, the proposed transformed model of development of small innovative business of Kazakhstan with justification the benefits of using.

Keywords: Entrepreneurship's Development, Small Innovative Business.

INTRODUCTION

In the conditions of globalization of world goods and services markets, when interdependence and interaction between different spheres of social life and activity enhanced, innovation is the foundation of the qualitative transformation of the productive capacity of the country, the process of intellectualization of the economy and raise of living standards.

The benefits of small business is that it has a high degree of flexibility and efficiency in decision making, responsiveness to innovation in production and management, rapid adaptation to external influences and the local conditions, a high level of specialization of production and labour, quick turnover of funds, low management costs.

Many scientists investigate various areas of innovative development problems in entrepreneurship (Kondratiev et al., 1989; Schumpeter, 1991; Sweezy, 1943; Spivack, 2013). Part of them studied temporal features (Hausman & Johnston, 2014; Landabaso, 2014), other part of scholars research country features (Olavarrieta & Villena, 2014; Rayyes & Valls-Pasola, 2013; Molina-Morales & Mas-Verdu, 2010), another sectorial part (Smith & Starkey, 2010; Doran & Ryan, 2012). However, some aspects of this problem require further research. The necessary study of the transformation about existing model of development of small innovative business in Kazakhstan taking into account peculiarities and problems of its development in the country.

LITERATURE REVIEW

Foreign Experience of Business Development

The most important feature of the functioning of small businesses in the developed countries is that they provide about half of all innovations, the number of which is often greater per unit costs than in medium and large enterprises and their rate of development higher for one-third. For example, in the US small innovative firms produce innovations 24 times more than large firms (Kleiner, 2001).

Therefore, in developed countries the small businesses are in a better position compared to large enterprises, since they are guaranteed by the state inviolability of private property, the broad economic independence and freedom of action, support of fair competition and combat monopolistic activity, preferential loans and financing, significant assistance providing investment.

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At the same time in the UK small and medium enterprises involved in the implementation of government innovation programs. In Japan, a special mechanism of financial support of small innovative enterprises is used, which are based on "soft loans." If an ordinary loan of modern Japan can be obtained by 4-8%, the "soft loans" for small innovative companies means half of the interest rate for credit use. Stimulating co-operative of small innovative enterprises is made by combining small enterprises into cooperatives. In bankruptcy small businesses get the support of relevant insurance funds protection from chain of bankruptcies, with contributions coming to these funds, the legislation exempts them from taxation (Kaplinsky, 1999).

As said the President of Kazakhstan, Nazarbayev, in his address to the nation, it is important to "strengthen the trend of innovative industrialization" and help to small and medium-sized businesses that "will produce at least 50 percent of the volume of GDP of Kazakhstan" by 2050, instead of the current 20 percent.

As you know, according results of the World Economic Forum 2014-2015, Kazakhstan again took 50th place with an average score of 4.4, while holding steady last year's results in table 1.

However, from detailed analysis of factors of competitiveness is seen somewhat different. As you know, the global competitiveness index (GCI) consists of over 90 variables, divided into nine sub-groups: public institutions, infrastructure, macroeconomics, health and primary education, higher education and technological base, the efficiency of market mechanisms, technological readiness and the ability of the business to implement complex and innovative strategies.

Two-thirds of the input data comes from a Survey of senior executives, one third is taken from published statistical sources. These subgroups are summarized in three groups of sub-indices:

• Sub-indices basic requirements (institutions, infrastructure, macro economy, health, primary education);

• Sub-indexes efficiency enhancers (higher education and technological base, the efficiency of market mechanisms, technological readiness);

• Sub-indexes innovation and modernization (the ability of the business to implement complex and innovative strategies).

H1 *In developed countries the small businesses are in a better position compared to large enterprises, since they are guaranteed by the state support.*

H2 *The formation of a civilized modern small innovative business, that can survive in the competition in a globalized economy, should be one of the endogenous forces of Kazakhstan's society, leading to sustainable development of the republic.*

Table 1
THE ASSESSMENT INDEX WEF GLOBAL COMPETITIVENESS IN 2014-2015

Country	2009-2010	2014-2015	Country	2009-2010	2014-2015
Switzerland	1	1	Armenia	**97**	**85**
Singapore	3	2	Belarus	-	90
USA	2	3	Azerbaijan	51	38
Finland	6	4	Turkey	61	45
German	7	5	Kazakhstan	67	50
Japan	8	6	Russia	63	53
Hong Kong	11	7	Tajikistan	122	91
The Netherlands	10	8	Kyrgyzstan	123	108
UK	13	19	.....	...	...

Source: Report on the global economy 2014-2015 (e.g. World Economic Forum, 2015)

Kazahstran Practice of Business Competitiveness

So, a detailed analysis of the factors of competitiveness of the republic shows that the category Innovation decreased from 84 to 85 places in Table 2. (World Economic Forum, 2015).

Table 2
THE STRUCTURE OF KAZAKHSTAN'S COMPETITIVENESS RANKING

Indicators	2015
General Rating of Kazakhstan	**50**
Group I: Basic requirements	**48**
Macroeconomic stability	27
Health and primary education	96
Group II: Factors of effectiveness	**53**
Higher education and training	62
The efficiency of the labour market	15
The development of the financial market	98
Technological readiness	61
Group III: Factors of innovative development	**87**
The competitiveness of companies	91
Innovation potential	85

Source: Report on the global economy 2014-2015 (e.g. World Economic Forum, 2015)

That is, as the table shows, according to a Report on the global economy of 2015, a good macroeconomic situation in Kazakhstan, it seems, has a dominant effect on its synthesis Indicator of global competitiveness, positioning the components in ascending order. If we analyse the state of small and medium business in Kazakhstan, then on April 1, 2015 in Kazakhstan, the number of registered small and medium-sized businesses was 1,544,666 units, of which current - 1,270,235 units, 3.3% more than the previous year. Among the latter: the share of individual entrepreneurs amounted to 73.7%, (peasant) farms is 13.9%, legal entities of small business is 12.2%, medium-sized business entities is 0.2% (Agency of Kazakhstan of Statistic, et al, 2015). The number of employed in small and medium-sized businesses reached 2769938, representing 31.8 % of total employment in the country (Kazbayeva, 2014).

However, while, as in previous years, in our country the speculative activity of businessmen dominated than innovative. Thus, according to the Agency on Statistics, on April 1, 2015 38.7% of small businesses were concentrated in trade and only 3.38%, for example, in industry in table3.

Table 3
THE NUMBER OF REGISTERED SUBJECTS OF SMALL ENTREPRENEURSHIP OF THE REPUBLIC OF KAZAKHSTAN ON 1 APRIL 2015 BY KINDS OF ECONOMIC ACTIVITY

Indicators	Units	%
The Republic of Kazakhstan	15,44,666	100
Agriculture, Forestry and Fishing	2,97,353	19.25
Industry	52,321	3.38
Mining and Quarrying	2,706	0.17
Manufacturing	46,341	3.0
Electricity, gas, steam and air conditioning	1,021	0.06
Water supply; sewerage system, control over the collection and distribution of waste	2,253	0.17
Building	69,485	4.49
Wholesale and retail trade; repair of motor vehicles and motorcycles	5,98,043	38.7
Transportation and warehousing	1,15,988	7.5
Information and communication	18,770	1.21
Services for accommodation and meals	34,989	2.26
Financial and insurance activities	9,480	0.61
Real estate transactions	77,834	5.03
Professional, scientific and technical activities	46,808	3.03
Activities in the field of administrative and support services	42,470	2.75
Public administration and defence; compulsory social security	23	0
Education	9,901	0.64
Health care and social services	8,443	0.55

Arts, entertainment and recreation	10,319	0.66
Other service activities	1,52,395	9.86
Activities of households employing domestic workers and producing goods and services for personal consumption	44	0
Note: Calculated by the author on the basis of source (e.g. Agency of Kazakhstan of Statistic, 2015)		

This is due to the fact that limited access to financial and credit resources is forcing the majority of businessmen to work in low knowledge-intensive sectors, to engage in commercial activities. As you know, count "innovation" or "venture" is still lacking in statistical form the structure of products by small businesses and other data. There are no data on the role of small business in the process in special statistical reports on innovation activity in Kazakhstan.

Innovation Business Development of Kazahstan

Talking about innovation in the country as a whole, it can be seen that at present Kazakhstan entities generally chose to "catch up" strategy that involves imitation of foreign technology copying their products and mass production. So, from all sales of innovative products in Kazakhstan from 2004 to 2011 products, newly introduced or affected by significant technological changes, ranging from 29% to 89.9%, while the share of really fundamentally new products remains unknown in Figure 1 (Agency of Kazakhstan of Statistic, 2015).

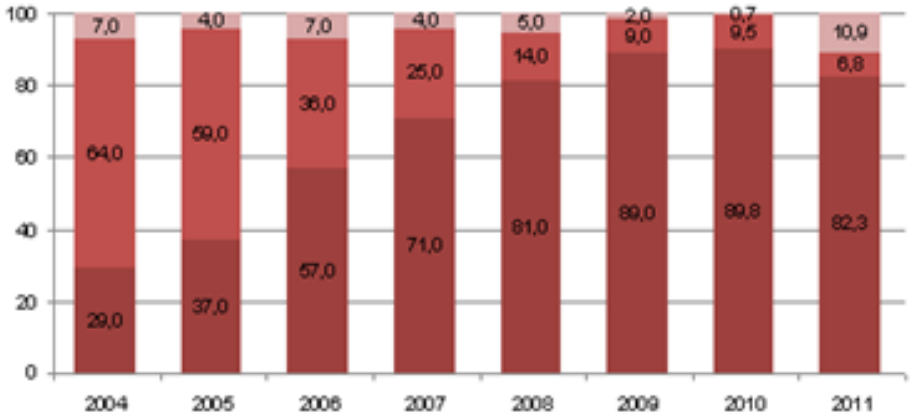


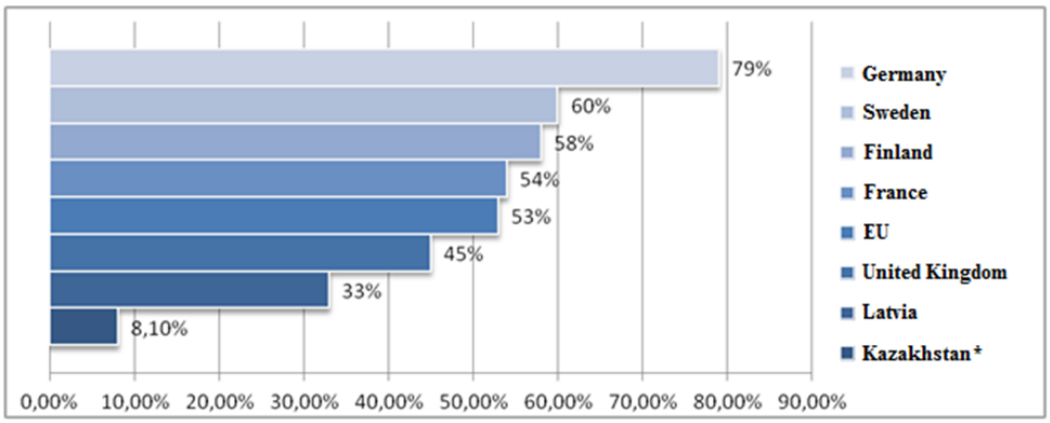
FIGURE 1
THE STRUCTURE OF INNOVATIVE PRODUCTS AND SERVICES IN KAZAHSTAN

Low capacity of enterprises to implement innovative activities is largely predetermined by low susceptibility to innovation economy of the republic. At present, demand is not focused on the use of advanced technologies, specific to the current level of scientific and technological progress. According to the Kazakh Statistics Agency for 2013, from 578,263.1 million tenge created innovations only 42.0% were employed in the practice.

In addition, local small businesses, though interested in innovation, cannot realize their potential for objective reasons. This is due primarily to the extreme degree of depreciation of fixed assets. Since the creation of competitive production involves the use of innovative technologies and high-quality resources, industrial enterprises in the bulk are not ready for the technological modernization.

So, according to experts, the average depreciation of fixed assets of Kazakhstan's enterprises is in the last years at the level of 33-35%. In some industries the physical depreciation of fixed assets is approaching 50% (Turginbayeva, 2015). The current depreciation of domestic enterprises is not the function of reproduction of their fixed production assets and is often used for other purposes.

Another problem holding back innovation activity of small businesses, is an imperfect reproduction process innovation, destroyed the system of financing R& D. It is significant that in modern conditions the enterprises themselves increasingly focused on the old methods of work, in which they continue to build their products without establishing a reverse flow connections with consumers. Developers perform research in isolation from the needs of the market. It is clear that the old concept of the organization and management of innovation sphere was effective in the control of the state. Today, with the relief measure of state regulation, we have the collapse of the former powerful structure of scientific and industrial complexes, reduction or denial of the bulk of enterprises from investing in R&D. Capital investment, including in innovation, businesses have to do mostly at their own expense, the influx of investment money from the outside is still not significant. The major share of investments in innovative projects, according to statistics, it is necessary to own funds-85.5%, the republican budget-8.1%, foreign investments-3.4%, the local budget-2.9%. As of 01.01.2015, the level of innovation activity of enterprises and organizations of the republic amounted to 8.1%. Compared with the previous year, the growth is, of course, there (105.3%). However, compared with other countries, will work for a long time (Russia-12%, Germany-79.3%, Sweden-60%, Finland-58%) in Figure 2 (Turginbayeva, 2015).



Note: Source: Eurostat Pocketbooks/Science, Technology and Innovation in Europe, 2013 edition

* - Data for Kazakhstan for 2014

FIGURE 2
INNOVATIVE ACTIVITY OF ENTERPRISES IN KAZAKHSTAN AND COUNTRIES OF THE WORLD IN 2013-2014

According to experts, in Kazakhstan there is no appreciable progress towards the formation of an innovative economy. In its macroeconomic indicators Kazakhstan is a country with an average income, but the index KEI (the level of application of knowledge in the economy), the country can only be compared with countries such as Kenya and Mongolia, where incomes are much lower. In general, as the experts, the assessment of the situation in Kazakhstan allows to make the assumption that the formation of effective mechanisms of support and innovation remains a weak point of the national innovation system.

One of the most pressing problems of the Kazakh economy is the weak adaptation of the real sector of the economy to the conditions of today's market, which manifests itself in the technical and technological backwardness and, as a consequence, the low competitiveness of products. Hypertrophied development of the financial and commercial sectors to the detriment of the real sector (industry, agriculture, transport, communication) leads as shown, to unsustainable growth and in the end - the crisis phenomena in the socio-economic situation of the country.

H 3 The current conditions of Kazakhstan, there are no effective incentives for both manufacturers are widely used innovation and investors to finance their development and implementation.

RESEARCH METHOD

Research teams performing applied research and development work, as a rule, organizational, economic and psychologically separated from industrial companies, which is one of the most serious obstacles to the effective functioning of the cycle "science - production - market" (Turginbayeva, 2010).

Integration of science and production is largely fragmented. The responsibility for the inertia, isolation and excessive "fundamental" often shift to the scientists. Although in reality,

experts say, such a state of science contributed to the objective conditions. Even in Soviet times, bringing science to space exploration, the launch of the satellites, the establishment of high-precision weapons for the military-industrial complex, the system does not encourage the participation of science in everyday life. Disinterest enterprises to improve efficiency at the expense of scientific research are increasingly moving away from the science of the production of consumer goods in Figure 3.

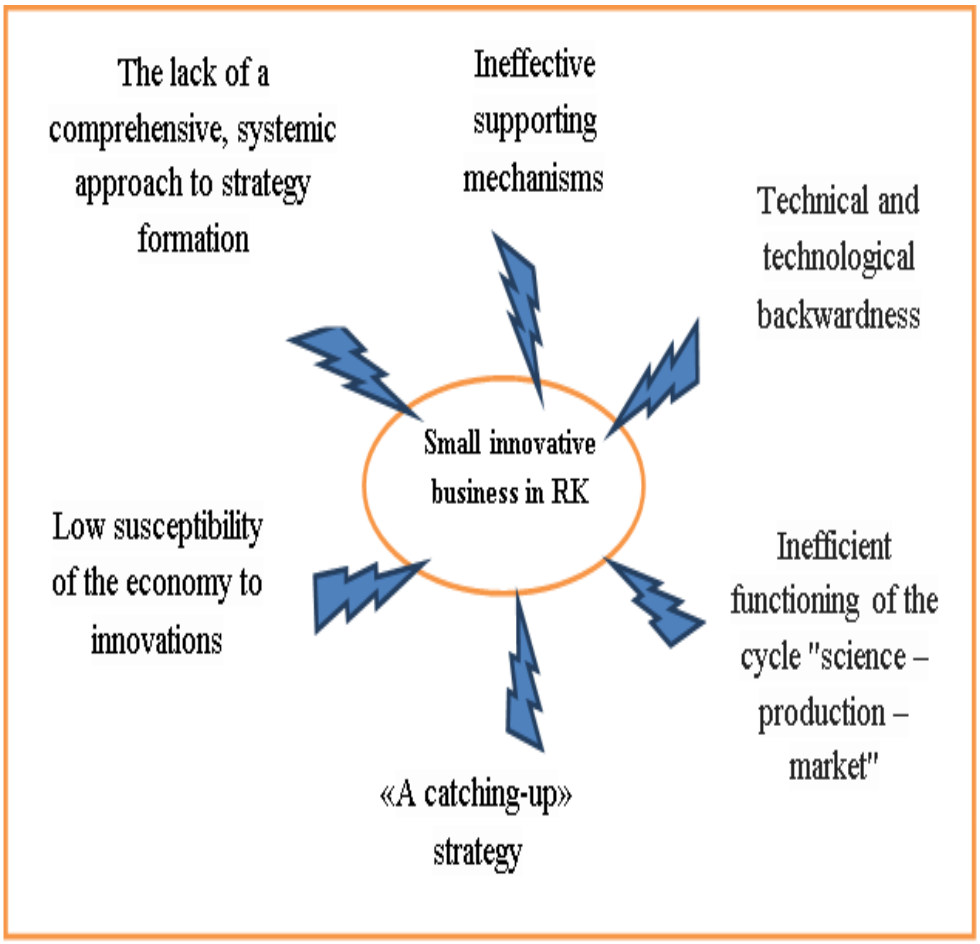


FIGURE 3
EXISTING MODEL OF DEVELOPMENT OF SMALL INNOVATIVE BUSINESS IN KAZAKHSTAN

Innovative business development requires a systematic approach, because it is not seen as a one-way causal links leading from R & D to innovation, but as a process of interaction and feedback between the whole complex of economic, social, institutional and other factors that determine the creation and commercialization of innovations.

Thus, in the context of the new technological order, dominated by high-tech and science intensive industry, a major factor in ensuring implementation of state innovation policy, is an innovative enterprise, the effectiveness of which depends on strategic management.

Meanwhile, Kazakhstan, responding to the global challenges of the twenty-first century by the deepening of the Eurasian integration, as noted by the President of Kazakhstan, Nazarbayev must implement socio economic modernization, strengthen the economy, to stabilize the society, improve their livelihoods and quality of life. The optimal balance between economic success and providing public goods is possible under the fair competition of RK regions, high rates of economic growth, well-functioning industrial complex.

One of the main factors stimulating the implementation of this strategic goal is the development of small and medium business, conducive to sustainable development of different regions of the country through the use of their favourable competitive opportunities. Small business performs an important function in the development of innovative economy of the state by investing in high-tech science intensive areas of production. The restructuring of small business in Kazakhstan to innovative nature will allow preparing a business for the development of large technical enterprises that contribute to the rise and development of the national economy.

What should be done to increase the innovative activity of small business in Kazakhstan?

* First of all, it is necessary to revise the criteria for determining private businesses adequately to the needs of economic development. A guide for selection criteria of subjects of private entrepreneurship can be a country in which small business has a long history and tradition, but also countries close to us in its evolutionary development.

Therefore, we propose to use in Kazakhstan the following indicators:

1) Micro - up to 50 people and annual turnover of up to $ 3 million;
2) Small - up to 250 persons and annual turnover up to 10 million;
3) Medium - up to 500 people and an annual turnover up to 50 million.

With this gradation, the closest the world practice, more realistically balanced development of small enterprises, research and development activities, the direction of funds for the acquisition and use of know-how, as well as the formation of the reserve fund.

Another direction of work on support of small innovative business in Kazakhstan is elaborating of the Concept and State program of development of small innovative businesses to 2030 in the context of globalization and competitiveness of the national economy. In this connection it is necessary to hold Parliamentary hearings on problems of small business in General and entrepreneurship in particular, with the participation of representatives of business, Executive and legislative authorities, scientists, practitioners, etc. the Result of this public-private partnership should be the creation of the Agency for support of small innovative enterprises in Kazakhstan, functioning under the Government of the Republic of Kazakhstan. The proposed structure, not limited to the functions of banks of the second level will provide a real significant support to small businesses. It is known that a variety of structures, foundations,

organizations with a similar name. For example, in 1997, was created JSC "Fund of development of small entrepreneurship". The Fund is more consistent with the functions of banks of the second level with an appropriate insurance system does not cover small knowledge-intensive business, not enhance it. Funds allocated to the Fund from the state budget are generally directed to Finance short-term projects.

To create an innovative economy under these conditions is unrealistic (Entrepreneurship Development Fund “Damu”, 2014).

As the most important institutional features of an innovative economy emit a strong system of intellectual property relations, which mediates the transformation of intellectual activity results in innovation.

Today the capital of foreign companies is mainly determined not by the value of material (production) assets of the business and, above all, the value of intangible assets. For the period from 1980 to 2000 in the UK and the USA, for example, the ratio of the carrying value of companies to their market value has decreased five times. In England now only 30% of the market value of the company reflected in the balance sheet, everything else falls on intangible assets: know-how, patents, goodwill, copyrights and naturally, the most important intangible asset - brand. So, British Petroleum, the ratio of tangible and intangible assets is assessed to 29:71, Coca-Cola - 4:96.

Kazakhstani companies tend not yet taken into account in the total share capital of the company intangible assets. This is due, according to experts, both from the imperfection of the legal and regulatory framework and the lack of a specific methodology of accounting of intangible assets on the balance sheet. In addition, a prerequisite for inhibition of these processes is the low level of development of the stock market and the market of buying and selling companies, which inevitably would have to consider all factors that raise the market value of the company.

Therefore, the traditional methods of business management, which are based on assessment and maximizing the efficiency and value of tangible assets, should be replaced by methods based on the evaluation and maximize the value of intangible assets of the business, which, along with tangible assets, form the so-called total capital of the company. This fact is of great strategic importance in the cases where national companies are sold at the cost of tangible assets, rather than total capital, resulting in the company or the government (in the case of a foreign investor) not received significant share of the cost.

In terms of ensuring a favourable tax regime has a solution adequate to the new policy of building an innovative economy:

- Tax incentives are not appropriate to provide for the types of innovation and in priority areas and by type of expenditure on R & D. In addition, for each type of company (for SMEs and large companies) to set their own rules in respect of the costs of subcontracting R & D, according to which, in some cases for projects receiving subsidies or grants, the expenditure on R & D, for which there are tax benefits may be reduced.

A tax credit for research and development should give companies the right to reduce the taxable base of the profit in the amount of 125 to 150% (it is advisable to apply a mechanism for increasing the R & D costs in their write-off on the income, thus taxable income and prescribe the mechanism in the legislation). It is advisable, in addition to the list of R & D costs to apply the following additional criteria:

1) The share of shipped innovative products in the total volume of shipped goods of own production, works and services on their own at least 20% and the growth of the shipped goods of own production, works and services on their own, in comparable prices at least 15% per year.

2) The share of the costs of innovation on the total volume of shipped goods of own production, works and services on their own at least 15% or the proportion of expenditures on research and development of the total volume of shipped goods of own production, works and services on their own at least 5%.

* Perhaps the most entrepreneurs complain about the illegal checks. Employers felt that each employee in a small business has to a half of the controller. Number of inspectors small businesses organizations still high.

CONCLUSION

Thus, it is important to create a favourable innovation climate, which allows accelerating the process of invention, innovation. The solution of this task should be carried out simultaneously top-down and bottom-up in Figure 4.

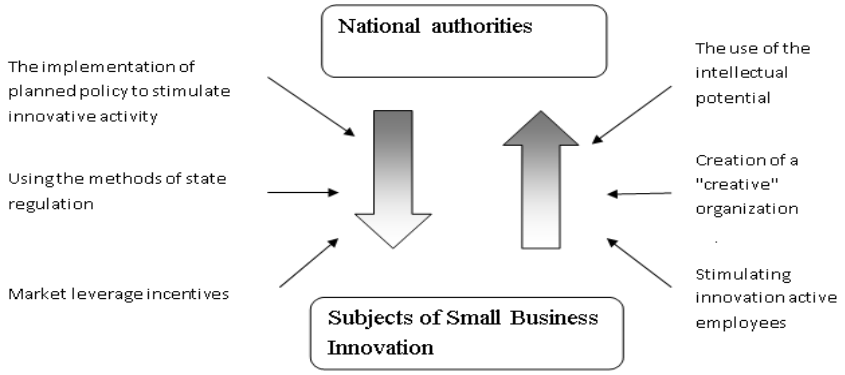


FIGURE 4
TRANSFORMED MODEL OF DEVELOPMENT OF SMALL INNOVATION BUSINESS RK

As can be seen from the figure, it is assumed "bottom-up" development of the economic entity itself the internal mechanism of increasing innovation activity, based primarily on the maximum utilization of the intellectual potential of their employees and the formation of the respective "Creative" organizational culture. A method of "top-down" means the implementation of the state authorities planned policy to stimulate innovation activity of economic entities using a variety of instruments and methods of regulation of the innovation process. Only such concerted double exposure possible to ensure the competitiveness of small innovative business in Kazakhstan today's globalized economy, characterized by the active process of global economic, political, cultural and religious integration and unification.

At dawn of the third millennium, highly innovative small firms still play a crucial role in social progress. Small business today is a testing ground to develop and test new technical ideas and rapidly adapt to changing production conditions. Therefore, the development of domestic small business innovation is extremely needed in the transformation of the existing model, so that, as noted by Schumpeter in his time, become the engine of economic development and a source of competitive restructuring of the economy.

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