

Social Networks and Entrepreneurships – Does Personal Networks Matters?

(Jaringan Sosial dan Keusahawanan – Perlukah Jaringan Peribadi?)

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ABSTRACT

Institutional and social network are several major research traditions in the business and management areas. This paper examines the role of owner/managers' social network on entrepreneurship initiatives and the underlying socio-cultural factors promoting or impeding SME development in Kazakhstan. A semi-structured interviews were carried-out with thirteen SME owners/managers in Almaty Kazakhstan. It is found that personal networks in general social networks have significant implications on a variety of entrepreneurial activities. SMEs still need to utilize their personal social networks to substitute for formal institutions. Normative institutional elements such as legal and moral are still major factors driving entrepreneurial activities but still lagging behind regulative and cognitive institutional transformation. Business ties and networking ability may mitigate the necessity for external financing. One of the major implication in this study is the need for SME owners/managers to build personal networks and to keep and maintain this network with their peers as well as the government not only for extra information but even for the sustainability of their business. To do this, SME owners/managers need to be regularly in contact with their peers and government officials, offering helps when needed, collaborate on projects, share their goals, get connected on social media and also joining networking events.

Keywords: Social networks; entrepreneurship; institutions; business ties; small and medium enterprises

ABSTRAK

Institusi dan jaringan sosial merupakan beberapa topik penyelidikan tradisional yang utama dalam perniagaan dan pengurusan. Kajian ini bertujuan meneliti peranan jaringan sosial pemilik/pengurus dalam inisiatif keusahawanan. Temubual separa berstruktur telah dijalankan bersama dengan tiga belas pemilik/pengurus Industri kecil dan Sederhana (IKS) di Almaty Kazakhstan. Kajian mendapati bahawa jaringan peribadi secara amnya jaringan sosial mempunyai implikasi yang signifikan dalam pelbagai aktiviti keusahawanan. IKS masih memerlukan kemahiran jaringan peribadi sosial dalam institusi yang formal. Elemen normal institusi seperti kesahan dan moral masih merupakan faktor utama yang mempengaruhi aktiviti keusahawanan tetapi masih ketinggalan di belakang berbanding transformasi institusi pengawalseliaan dan kognitif. Hubungan perniagaan dan kebolehan membuat jaringan mungkin dapat mengurangkan kepada keperluan IKS untuk mendapatkan pembiayaan luar. Salah satu implikasi utama dalam kajian ini adalah keperluan bagi pemilik/pengurus IKS untuk membina jaringan peribadi, menjaga serta mengekalkan jaringan ini dengan rakan sebaya mereka dan juga kerajaan bukan sahaja untuk maklumat tambahan tetapi juga untuk kelestarian perniagaan mereka. Bagi melakukan ini, pemilik/pengurus IKS perlu sentiasa berhubung dengan rakan sebaya dan pegawai kerajaan mereka, menawarkan bantuan apabila diperlukan, bekerjasama dalam projek, berkongsi matlamat mereka, berhubung di media sosial dan juga menyertai acara jaringan.

Katakunci: Jaringan sosial; keusahawanan; institusi; hubungan perniagaan; industri kecil sederhana.

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INTRODUCTION

It has long been recognized that Small Medium Enterprises (SMEs) especially entrepreneurial firms are backbones of a society (Shane & Venkataraman 2000; Hashim & Hanafiah 2015). Their prosperity will eventually ensure economic development and social stability. However, SMEs are resource constrained and informationally opaque (Achleitner Braun & Kohn 2011; Berger & Udell 2006) that suffer from liability

of newness (Stinchcombe & March 1965) liability of smallness (Baum 1999) and limited access to financial sources (Berger & Udell 2006). Therefore, they need to seek for alternative informal or private solutions to overcome these barriers (Ritter & Gemünden 2003; Yu Hao Ahlstrom Si & Liang 2014). Some researchers suggested that governments' intervention in terms of grants and assistants is necessity to help SMEs which have been implemented by most countries. While others suggested that SMEs should exercise their social

networks as an informal conduit to provide a variety of critical sources for their entrepreneurial start-up and survival (Shaw 2006).

The notion of a social networks and the method of social network analysis have attracted considerable interest in the recent decades. According to Liu et al. (2017), social network theory focuses on the role of social relationships in transmitting information channeling personal or media influence and enabling attitudinal or behavioral change. Through social networks entrepreneurs can have acquaintances and indeed can promote their products and services to many more audiences which could possibly give rise to their businesses. Study by Chen et al. (2018) also advocated that the effect of entrepreneurship is significantly enhanced after introducing the joint effects of entrepreneurship and social network. In fact, the empirical results reveal that both entrepreneurship and social networking significantly promote regional economic growth in China. It is both theoretically and empirically demonstrated that when utilized successfully social networks, companies were able to achieve certain goals (Minbaeva & Muratbekova-Touron 2013) such as gaining access to information (Arenius & De Clercq 2005; Bastié Cieply & Cussy 2013), specialized expertise (Butler Brown & Chamornmarn 2003), financial capital (Newman Schwarz & Borgia 2014), and new ideas and opportunities (Fuentes Arroyo Bojica & Pérez 2010).

Despite the importance of social networks, SMEs uptake remains relatively limited and behind larger firms. This case is more crucial when deal with countries such as Kazakhstan. Kazakh community for many centuries had been living as nomads in the vast steppes of Central Asia. With harsh climate severe and unsafe natural settings lacking the benefits of urbanization were the main challenges that called for strong social collaboration. Although majority of the population now reside in the cities the culture still adheres to nomadic norms. In particular, the society is composed of three umbrella-clans (zhuz) which are called as “uly (big) zhuz orta (medium) zhuz and kishi (small) zhuz”. There still exists strong cohesion and collaboration within each “zhuz”. Besides kinship ties of the individuals could be expanded through marriages between different umbrella-clans (zhuz) and clans (ru) (Minbaeva & Muratbekova-Touron 2013). This suggests that network formation in Kazakh society has different dynamics other than in contexts where most studies have been executed, particularly a person can establish new connections through “friends (and/or relatives) of friends (and/or relatives) of friends (and/or relatives) etc.” when “zhuz” ties are utilized (Boissevain 1974). Social organization of Kazakhs was based on variety of interconnected forms of human relations: blood-relative family, economic, genealogical, protest-political, military, cultural, ethnic and other, which arose in different spheres of public life and created difficult system of various social organisms and their institutes which have provided functioning of society as the self-regulating unit (Valikhanov 2013).

Thus, in this case, institutional theory plays important roles as it considers the process by which structures, including schemes, rules, norms, and routines, become established as authoritative for social behavior (Scott 2004).

Majority of empirical studies on social networks have been conducted within a limited set of contexts such as China and Russia where “quanxi” is rooted from Confucian philosophy in China and “blat” is shaped by Orthodox Christianity in Russia (Abou-Moghli & Al-Kasasbeh 2012) but relatively less research has been conducted in other contexts where social network structures have been shaped by different norms. “Tanys arkyly” is the equivalent term to “blat” and “guanxi” which refers to the social network relations in Kazakhstan that stems from Islamic nomadic and Turkic norms. A distinguishing feature of traditional Central Asian societies is their ability to successively lever social networks that are trusted within their environments.

However, it is quite not possible to expect that social networks are serving to a desired end uniformly in different contexts since cultural diversity among societies is a significant factor explaining the differentiated role of social networks (Michailova & Worm 2003; Zhang 2010). Consistent with Michailova and Worm (2003) this study intends to explore the entrepreneurial outcomes of social networks in specific context to enhance our understanding of the concept. In general, this study aims to examine the role of social networks on entrepreneurial activities and to explore if there any underlying socio-cultural factors promoting or impeding SME development in Kazakhstan. Furthermore, we also aim to understand how social networks influence the financing decisions of the entrepreneurial firms. Thus, the research objectives of the study are i) to explore the institutional environment SMEs in Kazakhstan, ii) to understand the relationship between social networks, business ties and entrepreneurial activities, and iii) to explore any current issues that SMEs in Kazakhstan faced. The main contribution of the study lies on the importance of personal network, in general social network theory, as it provides informal conduit of variety of critical sources for SME owners/managers, particularly owners/managers of entrepreneurial start-up. The results of the study imply that the need for SME owners/managers to build personal networks with their peers as well as the government not only for extra information but even for the sustainability of their business. SME owners/managers need to be regularly in contact with their peers and government officials, offering helps when needed, collaborate on projects, share their goals, get connected on social media and also joining networking events.

This paper is organized as follows. The first section presents the introduction of the paper, follows by the literature review. Next section demonstrates the methodology of this study, follows by the results and discussion of the study. Finally, the last section displays the conclusion of the study.

LITERATURE REVIEW

There are many theories that have been used by researchers to study about organizations, particularly SMEs. Among them includes Classical or Traditional Theories, Contingency Theory, Motivation theory, administrative theory and many others. However, for this study three main theories have been considered to understand the issues being studied. They are Resource-Based View (RBV), Social Capital, particularly Social Network Theory (SNT) and Institutional Theory.

The RBV argues that in order to gain and maintain the sustainability of competitiveness companies need to accumulate combine and exploit (Grant 1991; Sirmon & Hitt 2003; Shubin et al. 2020) those rare inimitable and non-substitutable resources (Barney 1991) that are not under their possession such as social capital. An enriched body of theoretical and empirical studies examined the role social capital within a variety of contexts (Purchase & Phungphol 2008). Due to diverse conceptualization and operationalization, there is not a consensus on a specific definition of the phenomenon. For example, Adler and Kwon (2002) compiled 20 different definitions of social capital from the literature and concluded that market social and hierarchical relations will make up social capital. Social capital is also viewed as a second order construct comprising of social ties shared goals and social trust which enhances innovative capacity through motivating knowledge sharing (Michailova McCarthy Puffer Chadee & Roxas 2013; Stam Arzlanian & Elfring 2014). Furthermore, social capital is suggested to have structural relational and cognitive dimensions (Nahapiet & Ghoshal 1998). The structural dimension is related to the availability of a certain set of networks relational dimension in personal contacts such as trust respect and friendship and cognitive dimension is related to having common language coding and understanding within a network (Gooderham 2007). Thus, social capital cannot be defined by words but rather can be understood by its functions (Coleman 1988).

In the organizational researches social capital is shown to be an effective tool to achieve desired organizational outcomes (Adler & Kwon 2002). Social capital is an intangible non-monetary (Coleman 1988) and informal (Li & Zhang 2007) asset which is embedded in social structure (Chang & Chuang 2011) which promotes action through accessing others' resources (Batjargal 2007; Oh Labianca & Chung 2006) within their networks of relationships (Bastié et al. 2013). Social capital is accumulated through systematic and purposeful relationship-specific investments in the form of gaining trust and commitment (Kwon 2011) which correspondingly becomes as a mean to achieve a set of desired returns (Li & Zhang 2007; Welter & Kautonen 2005).

Social networks are regarded as the structural dimension of social capital (Nahapiet & Ghoshal 1998) which might offer unique and valuable resources where

formal institutions fail to provide (North 1990; Peng 2003). Despite numerous studies revealed that network of social ties is an indisputable ingredient of social capital formation e.g. Nahapiet and Ghoshal (1998) there is also not a universally accepted definition of social networks. Social network literature roughly analyzes entrepreneurial network ties in three categories; they are personal ties (kinship or friendship ties) business ties (ties with customers, suppliers, banks and business associations) and governments ties (ties with supporting or regulating government agencies). However, all three categories of social network overlap in nature (Tretyak Mattsson & Salmi 2013) which imposes difficulty in suggesting a universally accepted definition. In general, network studies basically focus on the links between actors (Kirkbesoglu 2013; Lechner Dowling & Welp 2006) structure of the ties and strength of these ties (Granovetter 1973). These ties promote knowledge sharing and exchanging behavior among the network actors (Allen & Henn 2006; Nahapiet & Ghoshal 1998), encourage entrepreneurship through providing initial customers information and psychological support for start-ups (Allen 2000), recognize opportunities in international markets (Ellis 2011; Zhu Hitt & Tihanyi 2006) and contribute innovativeness (Gao Xu & Yang 2008). The benefits gained by social network entrepreneurs include access to financial sources (Deeds & Decarolis 1999), intangible resources like know-how and management practice (Wang Jiang Yuan & Yi 2013), as well as other material moral and advice support (Adler & Kwon 2002).

Sufficient evidence has been provided by the literature regarding the need to rely on both material and emotional support provided by informal institutional conduits when formal institutional framework creates barriers for entrepreneurship (Gao et al. 2008; Wiklund & Shepherd 2005; Xu Huang & Gao 2012; Yiu Su & Xu 2013). Under such circumstances social networks of the entrepreneurship as an informal institutional phenomenon stands for a complementary mechanism to alleviate the weaknesses of the formal system (Estrin & Prevezer 2011; Kong 2011; Puffer & McCarthy 2011; Shirokova & McDougall-Covin 2012; Tretyak et al. 2013; Wiklund & Shepherd 2005). For instance, companies are inclined to cultivate various ties with government officials when they are challenged by weak formal institutions failing to provide a sound regulatory framework security in the legal system and protection against illegal bureaucratic barriers and crimes (Michailova et al. 2013). Underdeveloped market mechanisms such as less supportive financial institutions urge companies especially SMEs to rely on informal solutions (Yiu et al. 2013) that can be an important substitute for formal financing (Wang et al. 2013). Besides business associations may well provide sound information about the prospective investments and promote risk reduction (Yiu Lau & Bruton 2007). Companies have a variety of choices to overcome institutional barriers through investing on social networks

as business partnerships business associations personal ties and others (Welter & Kautonen 2005). However, the extent to which each entrepreneur should invest on each network capital namely relational mix (Lechner et al. 2006) and effectiveness of networking activities highly depend on the cultural and economic structure of the country where entrepreneurs are located (Chantararat & Barrett 2012).

Studies reveal that large firms are able to provide banks appropriate information about a firm's creditworthiness (Mizruchi & Stearns 1994). Identically firms can employ their treasury departments to determine the lowest cost loans and to gain bargaining position fronting banks by borrowing directly from money or capital markets. By contrast, entrepreneurial firms are resource constrained and are required to seek for alternative private solutions for the existing issues created by underdeveloped institutional infrastructure (Gao et al. 2008; Xu et al. 2012). In particular, they experience ambiguity in assessing banks since they experience the insufficiency of sophisticated financial expertise and are extremely small to rent from money or capital markets. Thus, they depend on banks for financial resources supply yet they lack the clout and capital resources to ensure a bank's trust. Therefore, in transition economies like Kazakhstan financial resource acquisition is a leading challenge for business start-up survival and development (Beck & Demircuc-Kunt 2006; Rosenbusch Brinckmann & Müller 2013).

Institutional environment refers to the combination of regulative, normative and cultural-cognitive elements all of which together set the boundaries for the business activities (Scott 2008; Shirokova & McDougall-Covin 2012). In an institutional environment where SMEs are intensively bounded to financial constraints, they need to have a wide array of financing options to maintain their sustainability (La Rocca La Rocca & Cariola 2011). Drawing on the institutional theory improvement in formal legal and regulatory institutions will eventually lessen the need for network utilization (Sheng Zhou & Li 2011). Moreover, the theory implies that the performance of the companies is related to the institutional and environmental factors because they directly or indirectly affect transaction costs (Zhu Wittmann & Peng 2012). Consequently, institutional framework is suggested to have a contingent role on firm performance (Beck & Maksimovic 2002).

METHODOLOGY

This study employed qualitative approach. Qualitative techniques enable researcher to deeply understand the underlying mechanisms of the phenomenon (Coviello 2005; O'Donnell & Cummins 1999; Creswell & Clark 2018). Semi-structured interviews were carried-out with thirteen SMEs managers. Creswell (1998) recommended interviews with up to ten people in phenomenological

research such as this. Respondent companies were selected from the databases of KATIAD (The Association of Businessmen of Kazakhstan and Turkey) and KAZKA (Kazakhstan Association of Entrepreneurs) using purposive sampling to enhance the representativeness of the population. As the next step it was compulsory to get assistance from the aforementioned business associations to arrange the interview appointments because without a strong reference from highly trusted people or organizations business owners/managers would be reluctant to participate to the study or at least to respond to the questions sincerely on account of a strong distrust towards the people out of their social environments (Stam et al. 2014; Tretyak et al. 2013; Wiklund & Shepherd 2005). The interviews were recorded in the mother tongues of the respondents (Kazakh or Turkish). Some of the semi-structured questions include some of financial issues that SME faced, whether they have been established social networks with their peers or government and some others and also institutional environment that they are facing such as their norm and culture. All interviews took place in the SME offices in Almaty Kazakhstan. After transcribing the interview conversations in their original languages all texts were translated into English for further analysis. Atlas.ti a qualitative analysis software was deployed to ensure systematical coding and proper categorizing of the data. The data analysis was completed in an iterative way until we are fully saturated. Table 1 displays the respondents' designations and their sectors.

RESULTS AND DISCUSSION

Dissolution of the Soviet Union offered plain research areas for scholars since newly founded countries came across many distinct economic and social challenges caused by transition from command economies to market based system (Luthans Stajkovic & Ibrayeva 2000). Perhaps one of the biggest problems faced by these countries was the lack of entrepreneurship and entrepreneurial culture due to traditional Kazakh life style which was prevailed by centrally planned economy. In Kazakhstan one of the main reasons is that Kazakh people have never been involved in commercial activities due to their nomad life style. But after several years of independence, it was understood that there is not a return to the past and their attitude towards entrepreneurial activities started to change. This was revealed during the interviews where most of the respondents (11 out of 13 respondents) agreed that they need to move forward with countries elsewhere to embark on entrepreneurial activities.

Findings of the current study also supports the previous studies in a manner that social networks in Kazakhstan promotes entrepreneurship in a variety of areas as HR recruitment establishing new business connections reducing formal institutional uncertainties

TABLE 1. Respondents and business sector

| No | Respondent | Sector | Duration (in Minutes) |
|----------------|-------------------|---------------------------------|-----------------------|
| 1 | Chief Executive | Business Association | 45 minutes |
| 2 | Owner | Service | 75 minutes |
| 3 | Financial Manager | Manufacturing | 35 minutes |
| 4 | General Manager | Service | 58 minutes |
| 5 | Owner | Trade | 32 minutes |
| 6 | Owner | Trade | 58 minutes |
| 7 | Owner | Service | 36 minutes |
| 8 | Owner | Manufacturing | 59 minutes |
| 9 | Sales Manager | Manufacturing/Trade | 36 minutes |
| 10 | Owner | Service (Not allowed to record) | 45 minutes |
| 11 | Owners | Trade | 34 minutes |
| 12 | Owner | Service | 46 minutes |
| 13 | Owner | Service/Trade | 67 minutes |
| TOTAL DURATION | | | 10 hours 26 minutes |

access to finance in formal financial system emotional support for starting-up. This study identifies that socio-cultural sanctioning mechanisms might best explain the rationale of networking. In this regard majority of networking activities are conducted with a fear of losing own status or reputation in the society by being blamed for unfaithful behavior and also with an expectation of future reciprocity for favor.

Socio-economic environment in transition countries is highly dynamic and therefore, that dynamism implies different roles for networking activities at different phases of transition (Peng & Zhou 2005; Tang & Tang 2012). This study detects that there is a remarkable improvement in the formal institutional framework but less has changed about the reliance on the informal institutional arrangements. Regardless of the improvement made SMEs still need to have social network ties to gain several benefits especially in access to financial sources. The effectiveness of entrepreneurial networking is contingent upon the sector the firm is operating in. Several thematic have been identified in the analysis of the interviews which falls under institutional framework, business ties, entrepreneurial start-ups and SME financing. Details of the findings are discussed below.

Institutional framework Ideally transition from a command economy to market-based economy should have been conducted through reforms in all three institutional dimensions (regulative normative and cognitive). In the very first years and until recently Kazakh entrepreneurs suffered from regulative barriers caused by the voids that were abused by state officials. Within the last 7 years Kazakhstan has made important amendments in the legislations. For instance, companies can be inspected only by court's decision or prosecutor's resolution. All the respondents agree that tax and any other official inspections are much constructive rather

than destructive in the recent years. Legal sanctioning mechanisms regarding the state officials who are engaged in some kinds of unlawful actions have been strengthened. As a consequence of the reforms in the legal system corruption has been reduced to some degree. As an example, automated invoice comparison system developed by the Ministry of Finance has been a very effective tool to struggle with illegal inspections. Another remarkable development in the bureaucratic system was the establishment TSONs (Center for Serving to the Public) which were founded within the body of governorates in all regions with an aim of delivering bureaucratic and training aid to the firms.

Despite the good news about the reforms in the regulative institutional framework, respondents still think that reforms are not sufficient and much work has to be done. Bureaucratic barriers and corruption are still causing some unlawful costs to the companies and these costs are reflected in the prices of the goods and services provided (Michailova et al. 2013). Majority of the entrepreneurs believe that state supports are subject to corruption or ties with those bureaucrats are essential. A certain segment of the country is able to benefit from the state supports or as observed in many cases ties are used to conceal illegal actions of the companies. Finally, in almost all cases state officials were not qualified enough for their positions. In particular HRM practices in the public sector could be an outstanding example for the dark side of networking (Lin & Si 2010) since majority of state recruitments and promotions were conducted on the norms of "tanys arkyly" (social network).

Kazakh government has devoted a great effort to fill legal voids but many bureaucratic issues are still solved by either bribery or through personal connections in the state institutions. In this context "tanys arkyly" with state officials creates unfair competition in a sense that such ties are beneficial for some firms but lacking such ties

still cause barriers for their competitors. Benefits gained through utilization of “*tany arkyly*” ties with state officials at the macro level is ambiguous. Therefore, we believe that institutional transformation process could be examined deeply by future studies to enrich our theoretical understanding of the phenomenon.

Business Ties Business organizations are embedded in a complex network of relationships consisting of ties with suppliers, customers, competitors, partnerships and business associations (Gao et al. 2008; Ge & Wang 2013). In line with this classification, current section overviews the quality of business networks of entrepreneurial firms. One of the key success factors for SMEs is related to their capacity to establish and sustain strong relations with a wide range of suppliers and customers. Despite a general consensus on the performance implications of supplier-customer relations only few firms are found to really invest on such relations. Another type of business network that a firms can utilize is their ties with competitors. In Kazakhstan, many firms are competing in a relatively small market and majority of the entrepreneurs do not trust their competitors. Thus, none the interviewed companies cultivate any kind of business relationship with their similar sized competitors or collaborate or at least perceive them as their colleagues. In consistent with Bengtsson and Johansson (2012), companies engage in cooptation with larger firms if they perceive an opportunity to gain reputation which is also detected in our context. Only in logistics sector – that might be due to geographic complexity – competing firms do engage in some kind of cooptation. This might mean that cooptation is contingent upon the sector and expected reciprocity. Partnership with other firms in terms of distributorship or dealership could play a pivotal role for the start-up firms to gain valuable information and experience. However, companies are involved in partnership practices only when they perceive short run benefits.

Almost all firms (12 out of 13 firms) stressed out that they do not think to have such contracts because they distrust their effectiveness. Business associations are expected to act as an intermediating agency to enhance trust and expand business connections through maintaining communication providing flow of valuable information and facilitating exchange of experience (Danis De Clercq & Petricevic 2011; Fuentes et al. 2010; Xu et al. 2012). In Kazakhstani context several respondents stated that during startup they accessed to a great deal of valuable information about government supports entrepreneurship and regulations from business associations. But majority of the respondents believe that business associations could perform better than government support institutions. In particular, almost all firms stressed out that business associations are too young in Kazakhstan their effectiveness is too low and they have not reached to their full potential.

“I think the business associations should play better roles than the government support institutions so that they can perform better”. (SME number 3)

All prior discussions lead us to conclude that business ties in Kazakhstani context is underdeveloped. Furthermore, there is a common agreement among the respondents about the essence of personal network ties to expand other business ties. In particular size and strength of personal networks ties is essential for entrepreneurial start-up and survival success because majority of business and government ties are initiated through personal ties.

Entrepreneurial Startup Current study reveals that willingness to gain economic and personal independence is a key motivating factor for young entrepreneurs to startup, particularly paid jobs are perceived to be a threat to their individual freedom. Thus, they prefer self-employment rather serving for the benefits of somebody else. For example, manager of a trading firm says:

“When you work for a company, you have to be at the workplace from 9 am till 6 pm no matter you have something to do or not. Here we don’t need to stay here and wait till 6 pm. We feel greater personal freedom here”. (SME number 11)

Volatile workplace conditions also promote entrepreneurial startup through encouraging youngsters to quit from their existing workplaces. For example, a retailer in the construction sector states the following:

“When backstabbing slanders lies and bullying emerged within the company our life at workplace turned into the Day of Judgment. When I fell into position that I couldn’t prove my work success anybody else other than myself I recalled the advice of my friend. I quitted from job. I was jobless for two months. Then we started this business”. (SME number 4)

In consistent with the previous discussions personal ties provide emotional support (Allen 2000) for those potential entrepreneurs who are either dissatisfied with their current jobs or who seek for personal independence. Furthermore, personal ties are used to access a variety of information either directly or they may act as an intermediating mechanism (Zhang 2010). Therefore, we posit that high quality personal ties are a significant resource for entrepreneurial startup. However, encouragement and information provided by personal ties at the startup stage does not necessarily ensure future firm performance. It was not surprising to find out that foreign firms especially in the early years of transition contributed to the establishment entrepreneurial culture through facilitating pre-startup experience since majority of the entrepreneurs had been employed by these firms. It was interesting to find out that young entrepreneurs

are cautious about sustaining their personal relationships with their ex-working places so that they can expand their business ties.

Kazakhstan has taken remarkable steps to empower entrepreneurship through realizing serious reforms in the regulative dimension as well as entrepreneurship is viewed as a desirable activity. All these indicate that regulative and cognitive dimension of institutional framework has transformed significantly. But “tanys arkyly” (as normative dimension) still dominates the business and state relationships. Therefore, we conclude that transformation in the dimensions of institutional environments may not be achieved at a same speed. In particular, we argue that at least in Kazakhstani context transformation of normative dimension is being matured at a slower pace than regulative and cognitive dimensions.

Following up the conceptualization of Scott (2008) current study has analyzed the institutional environment of Kazakhstan under three dimensions: regulative, normative and social cultural-cognitive. Table 2 demonstrates the summary of findings on ties found in this study based on Scott (2008) institutions’ conceptualization.

SME Financing Financing SMEs by financial markets in Kazakhstan is leading by banking sector; However, has dramatically declined in the course of recent years (National Bank of Kazakhstan 2014). Lending to small business decreased relative to pre-crisis period. Indeed, the financial crisis complicated the situation in regard to access to financial resources. Despite the introduction of government program of the Business Roadmap 2020 loans to small enterprises have not been significantly increased and access to financial resources still remains a major obstacle for small business development (OECD 2013). Nevertheless, some ties are needed to fasten access to financial resources.

Our findings are consistent with the previous studies in a manner that as in other transition economies transaction costs and interest rates are too high (Berger & Udell 1995; Mac an Bhaird & Lucey 2010; Peng & Luo 2000; Radaev 2002) application procedures are

exhaustive approvals require high level of collaterals (Schäfer Siliverstovs & Terberger 2010) and financial system fails to offer a variety of alternative financing tools as leasing and venture capitalism is underdeveloped. In such a resource constrained environment personal tie with bank officials should act as a complementary mechanism to overcome the barriers for accessing to external finance (Udell 2008). In contrary to the discussions in the literature findings of the current study reveal that SMEs in Kazakhstan neither cultivate any personal relationships with bank officials nor think to get any form of loans from the banks unless alternative financing tools are fully utilized. Firms access to formal finance by using their personal ties (Yiu et al. 2013) and/or other business ties (Udell 2008) as a bridging mechanism.

In Kazakhstan, there are several state programs and projects available to support SME. For example, DAMU is one of the most important state institutions to provide financial support for SMEs. As its major policy DAMU does not make the loans to the firms directly. An SME loan is approved by a contracted bank then DAMU screens the project and if the project is found to worth for support DAMU agrees to pay 50%- 70% of the future interest expenses. However, interestingly all respondents stated that they are neither informed about the state support programs nor they think or at least expect to get any kind of financial support from the government. This is due to the perceived weaknesses in the support programs.

Our findings suggest that when internal equity is exhausted entrepreneurial firms initially aim to access to financial resources from their personal and/or business ties if they perceive a possibility to do so. Furthermore, business ties and networking ability might mitigate the need for external financing. For example, owner/manager (SME number 10) of a logistics firm states that:

“We have no investments on transportation vehicles in this sector since we are working as an intermediary. Anybody can start such a business with 3-4 million tenge (40-50 thousand dollars) if he has a good database of clients and drivers. This amount is needed for working

TABLE 2. Summary of findings

| Institutions | Type of tie | Challenges | How Personal Ties help |
|----------------------------|---------------------------|--|--|
| Regulative Dimension | Ties with state officials | Personal Ties with State Officials possessed by competitors cause unfair competition when legal voids are abused. | Companies seek for Personal Ties at state organs at the same level or above. Or they might use other means. No need for professional assistance. |
| Normative Dimension | Personal ties | Entrepreneurial activities are still commanded by norms of “tanys arkyly”. Sanctioning mechanisms within personal networks effect entrepreneurial activities. | Personal ties both promote and impede entrepreneurial success. |
| Social-cognitive Dimension | Business ties | Entrepreneurship and Entrepreneurial culture are underdeveloped. Official ties with Business Associations Banks and Customer/Suppliers are not strong. Lack of trust is a key issue. | Personal ties are used as a bridging mechanism for new business ties through facilitating trust. |

Source: Adapted from Scott (2008)

capital only. We just match truck drivers with the clients. Of course main reason for our survival has been the availability of a wide array of network ties that we managed to compile while we were working for other companies before we started this business.”

Other Issues Rough competition created by foreign brands external dependency in terms of both technology and know-how customs union insufficient experience lacking of secondary industry job attrition HRM deficiencies and underdeveloped financial system are other key barriers for SME manufacturing sector. When these issues are combined with the normative burdens discussed above utilization of personal ties are acting as a complementary mechanism.

Entrepreneurs are reluctant to get professional assistance from consulting firms. Hiring a lawyer or getting professional assistance from a consulting firm is perceived to be costly and risky. We might interpret this in two ways. There is a great distrust to entities outside their personal environment as seen in other transition economies (Kirkbesoglu 2013) or benefits of such ties are believed to be low. Current study identifies that firms basically use two channels to access to regulative and market information; firm's staff and personal networks. Even if professional assistance is required from outsiders' initial preference is to seek for those professionals from their personal networks. This strategy enables the companies to reduce the cost of access to new information (Watson 2007).

Another issue that impedes SME performance is the mismatch between human capital resources and opportunities for economic growth. Furthermore, employee loyalty and perseverance to work is found to be low and job attrition is high. Therefore, high employee turnover imposes both explicit and implicit costs to the companies. Several reasons might explain the issues related to frequent job quits as cultural-cognitive norms inherited from the former economic system low population of the country great job opportunities and high economic growth. Nevertheless, majority of human capital is recruited through owner/manager's personal networks (Kamm & Nurick 1993; Zhang 2010) because they are believed to be highly committed and less likely to fraud the organization.

CONCLUSION

The purpose of the study is to examine to what extent social networks contribute or impede the development of SMEs in Kazakhstan and to explore if there are any underlying socio-cultural factors affecting this relationship. Similar to other studies, this study found that SMEs in this study need to utilize their social networks, particularly their personal networks to get in touch in formal institutions. In general, this study suggests that social networks, particularly personal networks seem

to have strong influence on variety of entrepreneurial activities. One of the managerial implications from the results and discussion shows that personal networks have significant implications on a variety of entrepreneurial activities in spite of amendments in the regulative institutional framework. SMEs need to network with their peers as well as the government to get extra information and even to sustain in their business. As the main finding our study suggests that normative institutional elements are still major factors driving entrepreneurial activities in Kazakhstan. Prior studies also stated that in countries where formal institutions are underdeveloped, entrepreneurial activities are still commanded by norms of socio-cultural of “tanys arkyly” or social networks.

To sum up SMEs are still over-reliant on the utilization of personal networks (friend's acquaintances relatives) rather than other formal networks (suppliers, customers, business associations, and government consulting firms) in Kazakhstan. Size and strength of personal networks are key tools for expanding business connections. Firms in Kazakhstan should realize that investing on network relations is a time-consuming process during which entrepreneurial firms should be patient to achieve a desired end.

Consistent with other studies this study too bounded by several limitations. First because of this study is constrained by context specific generalizable results for the whole SMEs in the country are still lacking. In addition, this study collects data only from owner/managers of the SMEs; there is no other resources as bank officials state officials large-scaled firms and employees of the respondent firms involved. Thus, future studies might consider larger sample quantitative scale or may need to collect data from aforementioned resources in different cultural setting so that comparative analysis would enrich our understanding of networking.

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