The Impact of Corruption on Business Development of Small and Medium Enterprises in Kazakhstan

by

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ABSTRACT

Corruption literature has long debated the influence of corruption on the business performance of small- and medium-sized entrepreneurs (SMEs), suggesting that corruption can either "grease the wheels" or "sand the wheels" of local businesses. Using the World Bank BEEPS data for 2009, 2013, and 2019, and semi-structured interviews with Kazakhstani SME owners, we investigate the impact of corruption on SME performance, particularly sales and employment growth, and identify how Kazakhstani SME owners perceive corruption while running their enterprises. Our first contribution is that in support of the "sand the wheels" theory, research findings show that corruption decreases sales and employment growth worldwide. In the case of Kazakhstani SMEs, even though the relationship between corruption and sales and employment growth remains ambiguous, it is possible to start and grow an enterprise in Kazakhstan without corruption. Our second contribution shows that Kazakhstani SME owners do not perceive corruption as a severe obstacle for running an enterprise. More broadly, we find out that corruption perception is biased; it is largely influenced by the collective distrust for the government and varies with the role of the government, whether it is a service provider or a client. This study concludes that Kazakhstan does well in tackling corruption at the SME level but falls short of state-level corruption.

Keywords: Corruption, Small and Medium Enterprises, Grease the Wheels, Sand the Wheels, Corruption Perception

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GLOSSARY OF TERMS

Abbreviation	Definition
BEEPS	Business Environment and Enterprise Performance Survey
CPI	Corruption Perception Index
GDP	Gross Domestic Product
GEM	Global Entrepreneurship Monitor
SME	Small and Medium Enterprise

INTRODUCTION

Corruption has long been a subject of popular discourse and academic work, and the reasons for this are twofold. First, corruption is found in all countries and across both public and private institutions (Myint, 2000). Second, corruption intervenes in the course of economic development and investment and alters the distribution of public resources to benefit private interests (Transparency International, 2014). From different definitions and categorizations of corruption, the general agreement among scholars is that corruption is an abuse of power vested in government officials for private gains (Drury et al., 2006). Under this definition, any behavior that deviates from official functions and duties of government officials or that violates the public interests in favor of private interests is automatically considered corrupt activity (Rose-Ackerman, 1978). Kurer's definition of corruption goes a step further to suggest that corruption is foremost the breaking of the impartiality principle, by which public officials take into account personal relationships or affiliations while making their decisions (Kurer in Rothstein, 2011).

Most recent approaches in the corruption literature suggest that corruption is a bad thing, which bears a huge cost per country. Corruption costs represent tangible economic costs, calculated in terms of the corruption damage to economic growth and investment like GDP and GDP per capita decline, and these also include intangible social and political damages to the country (Myint, 2000), namely, the impact of corruption on quality of governance or stability of the regime (Avnimelech et al., 2011). Clearly, corrupt practices undermine the citizen's confidence in the government and damage the legitimacy of national institutions and collective welfare (Zimelis, 2020).

Corruption scandals also damage the functioning of local entrepreneurship and enterprise creation in the country (Avnimelech et al., 2011). First, corruption impedes enterprises from creating a competitive advantage to turn into high-performing enterprises because it distorts the distribution of enterprise assets and instead, "creates competitive disadvantages like enterprise inefficiency" (Osuagwu, 2012, p. 23). Corruption also incurs additional costs and losses to the enterprise owners because when confronted with corrupt officials, enterprise owners need to redirect their funds from enterprise development to bribe payments. As more and more enterprises are unable to make enough payments to corrupt

officials, many of them may take no other decision but to exit the market; consequently, we will see a fewer number of enterprises on the market and reduced competition among enterprise owners (Dvoulety & Blazkova, 2018). Corruption in the enterprise sector may also reduce public confidence in the enterprise and divert investments from it leaving the enterprise owners with fewer clients and partners (Avnimelech et al., 2011). In doing so, corruption may then cut the incentives of enterprise owners to develop their enterprise in the long-term and urge them to exit the market (Dvoulety & Blazkova, 2018).

In pointing out the effects of corruption, corruption literature reveals that corruption has both negative and positive consequences for enterprise development. As for the positive corruption effect, many advocate for the so-called "grease the wheels" hypothesis, by which corruption facilitates economic growth and contributes to economic efficiency (Budak & Rajh, 2011). This theoretical reasoning suggests that corruption benefits the economy and business development once it is spread in a country with weak institutional effectiveness and poor governance (Meon & Sekkat, 2005) just because it helps avoid the inefficiencies of weak institutional systems and speed up the processes for the business environment to work smoothly (Campos et al., 2010).

Just because corruption has a strong influence over the performance of small and medium enterprises (SMEs), a large mechanism that drives economic growth in the country (Obi et al., 2018), it is here where enterprise development becomes of a larger concern to the countries. Indeed, SMEs are an important sector of the national economy at least because it creates many employment opportunities, contributes to the national tax base, and drives innovation and research. To define SMEs, in Kazakhstan, the National Statistics Agency defines small and medium enterprises as businesses that have no more than 50 and 250 employees (Sarybay, n.d.), respectively, and specialize in a narrow range of goods and services for production (Ayandibu & Houghton, 2017). In 2014, SMEs accounted for 17.5% of Kazakhstan's Gross Domestic Product (GDP) and provided roughly 2.5 million jobs across the country (Sarybay, n.d.). These figures are growing, making SMEs an important contributor to the private sector that requires government assistance.

Traditional explanations of corruption still largely neglect the study of the consequences of corruption on SME development, particularly in the Kazakhstani context. Though, the

abundance of arguments for and against corruption in the enterprise environment and the important role of SMEs in the economy suggest that there is a high practical utility in discussing the corruption impacts on SMEs. As such, while enterprises grow, their owners face a list of challenges to cope with, and one of the main barriers is corruption in the enterprise environment. In particular, enterprises encounter corruption committed at the low- and mid-level of the government that forces business owners to pay out funds to the government officials to get their approval in the form of permits or registrations to keep their enterprises operating (Lambert-Mogiliansky et al., 2007). Kazakhstani government officials also recognize that the major threat to enterprise growth is indeed corruption; there is a common practice of lobbying activity at the low- and mid-level of the government to accomplish business goals and ambitions (Suleimenova et al., 2018). As of 2021, the Corruption Perception Index (CPI) in Kazakhstan was ranked the 102nd among 180 countries and got a score of 37 out of 100 (Transparency International, n.d.). Perhaps, a fertile ground for a high corruption level in Kazakhstan is the shadow economy; most SMEs tend to work informally, outside the regulatory system, which makes it hard to regulate (Satpayev, 2014).

Taking Kazakhstan as a case study, this research paper aims to study the influence of corruption on the business performance of SMEs and corruption perception among Kazakhstani enterprise owners. Based on this, the first research question to address is how corruption influences business performance worldwide and in Kazakhstan, particularly enterprise sales and employment growth. The second is how Kazakhstani enterprise owners perceive corruption while running their enterprises. Here, we argue that enterprise owners consider corruption a significant barrier to starting and growing an enterprise in Kazakhstan.

This study is structured as follows. The first section introduces the theories advocating for both positive ("grease the wheels" theory) and negative ("sand the wheels" theory) effects of corruption on enterprise performance used throughout the paper. The second section describes the methodology and hypotheses used in this paper. It then goes on to describe the findings from our quantitative research and semi-structured interviews, followed by a discussion of the main findings. The next section then combines policy recommendations and presents conclusions drawn from the findings.

LITERATURE REVIEW

Corruption and Enterprises

The existing literature demonstrates that there is little consensus on the generally accepted definition of the term "corruption" because it takes many forms and characteristics to share. To take it broadly, corruption is usually perceived as an abuse of power or wealth to influence the decision-making process for personal gain and benefits (Mashali, 2012). As Mashali (2012) noted, corruption is pervasive in both the public sector and private sector, and both political and bureaucratic offices might get involved in the corruption process. The current paper is focused on the corruption that arises in the public sector to demonstrate how government officials might disrupt the decision-making process to secure the gain for small- and medium-sized SMEs owners.

Ogundiya et al. (2011) mentioned that corruption is different from the grease payments that arise in the political and bureaucratic offices. While corruption involves payments made for extra services, grease payments are conversely the payments made for the services the government officials are supposed to do as part of their job duties (Ogundiya et al., 2011). That is, grease payments do not require government officials to abuse their power to change the decision-making process system but induce them to accelerate it.

Theoretical Evidence

As there is an ongoing debate on the definition of corruption, the same is true for the consequences that corruption brings to enterprises. While some studies suggest that corruption hurts the development of enterprises and innovation, others advocate for the enhancement of enterprises that corruption causes (Bologna & Ross, 2015). This has been named the "grease the wheels" vs "sand the wheels" debate on the effect of corruption among scholars of different schools that have lasted for the last two decades. For Arif et al. (2020), because corruption is an arbitrary phenomenon, the effect of corruption differs from region to region, and thus, cannot be held universal. If so, the long-lasting debate on corruption outcomes is essential.

What the "grease the wheels" theory assumes is that despite the negative public attitude towards corruption, the economic impact of corruption is usually wrongly estimated. Namely, the theory assumes that corruption, within a context of low institutional quality, is

a beneficial factor that facilitates and improves bureaucratic processes, i.e. "grease the wheels" of the mechanism that drives the implementation processes (Meon & Sekkat, 2005). To speak about the enterprise sector specifically, the proponents of the theory such as Campos et al. (2010) suggested that corruption greases the enterprise sector by removing the legislative barriers and regulations to ease the business decision-making process.

An alternative view that Meon and Sekkat (2005) presented is the "sand the wheels" theory, by which corruption "sands" the wheels or slows down the whole process. In other words, the theory argues that the benefits of corruption incur higher costs. For example, it might provoke additional speculation or purposeful worsening of the quality of service, which otherwise would not appear, by public officials to get this extra payment or bribe (Meon & Sekkat, 2005). Hoinaru et al. (2020) developed the "sand the wheels" theory further by saying that while corruption impedes economic growth and cuts investments, it catches the business sector in a vicious circle. It means that while corruption reduces the enterprise's potential for growth and productivity, enterprise owners and government officials make little attempt to change the situation. As they do so, corruption spreads further and destroys the business sector more (Hoinaru et al., 2020).

Indeed, the findings on corruption outcomes remain mixed. The empirical findings to support either of the theories are largely drawn from the results of the GEM (Global Entrepreneurship Monitor) surveys for 55 countries, which is the project that helps identify the correlation between the country's economic growth and the enterprise sector (Bosma, 2013).

Based on the available data, Dutta and Sobel (2016) suggest that the entrepreneurs' plans for future growth rise with a low level of corruption. The other study led by Aidis et al. (2012), which also uses the GEM data, proves that corruption brings mixed results, and the correlation between corruption and lowering SME activity is held strong. As they continue their study, they suggest that the impact of corruption differs because the relationship between corruption and enterprises is influenced by the factors such as the business climate, quality of institutions, and whether the business sector that corruption proceeds in is formal or informal.

Empirical Evidence

Negative Effect of Corruption

Corruption as an illegal act is considered one of the key problems in many countries. Bologna and Ross (2015) found a strong correlation between a high level of bribery and a decrease in the number of enterprises in Brazilian municipalities. The authors indicated that Brazil is one of the highly corrupt countries mainly because of the decentralized government (Bologna & Ross, 2015). The study was focused on the long-term negative effect of corruption on enterprises between 2003 and 2012.

Chen and Cheng (2019) provided several reasons why corruption suppresses enterprise activities and diminishes the incentives of potential entrepreneurs to start their businesses. First of all, corruption decreases the profitability of enterprises by increasing their costs since public officials or other authoritative figures may require additional payments and bribes. Secondly, corruption devalues trust that is necessary within the market as well as a social network that is important for potential entrepreneurs. Thirdly, corruption creates a monopoly and hurts the competitiveness of the market. This negatively affects the incentives of new entrepreneurs to enter the market.

Similar results have been found by Liu et al. (2018) by using a longitudinal nationwide household-level survey for China. That is, individual-level activity has been studied in the emerging market framework. Emerging markets tend to be considered developed but they do not completely meet its standards. Therefore, the corruption at sub-national and individual levels was examined to identify whether corruption at higher levels would affect the individuals' choices to enter the emerging market (Liu et al., 2018). It has to be noted that the consideration of individual characteristics is important. In other words, how sub-national corruption can influence the motivation and incentives of entrepreneurs to continue their businesses. Also, the background and personality of entrepreneurs are important factors in the context of research. However, Liu et al. (2018) emphasized the nonlinearity of the relationship between corruption and enterprises so that the influence of corruption on SMEs depends on whether corruption is high or low. At a high level of corruption, its effect on enterprises is detrimental, while corruption at a low level can facilitate enterprises. This nonlinear and complex effect of corruption refers to other findings that the quality of

institutions can also change the impact of corruption. Many studies indicated that corruption tends to hurt enterprise activities within strong institutional frameworks. Bologna and Ross (2015) explained this pattern by saying that the institutional quality can be measured by the ability of municipalities to control the procedures through regulations and business codes, which is also known as the management capacity of municipalities.

Indeed, entrepreneurs tend to be engaged in corruption if the enforcement of financial and legal institutions is weak. Berdiev and Saunoris (2018) highlighted that the decision to engage in entrepreneurship can be affected by the low quality of institutions along with corruption. That is, bribes will help entrepreneurs to expand their businesses in the competitive market and could even lead to a monopoly. According to Dutta and Sobel (2016), this has two sides. On the one hand, the overall output and efficiency in the market would decrease. On the other hand, the industry may produce inefficiently big output at a social cost, but with private benefit creating negative externalities (Dutta & Sobel, 2016). Hence, the impact of corruption on enterprises depends on the quality of institutions and bribes tend to help entrepreneurs to survive within the market. Bologna and Ross (2015) emphasized that poor quality of institutions can lead to a positive effect of corruption on enterprises, which partially supports the "grease the wheels" theory. As a result, corruption can facilitate enterprise activities within the framework of poor-quality financial institutions, but the influence of corruption on enterprises is negative with regulations.

Berdiev and Saunoris (2018) also argued that corruption deters formal entrepreneurship but promotes entrepreneurship in the informal sector. Formal entrepreneurs have several advantages over informal ones. For example, they have access to the financial system of official institutions. Also, participation in the formal economy provides "law and order, property rights and contract enforcement, and a court system" (Berdiev & Saunoris, 2018, p. 833). However, there is also a high cost of operating in the formal sector, such as high taxes, regulations, and other bureaucratic challenges. These factors influence entrepreneurs to move from the formal to the informal sector, where they can participate in illegal activities and promote their businesses at the risk of being detected and consequently punished. In return, they are free from bureaucracy and paying high taxes (Berdiev & Saunoris, 2018).

In many developing countries, avoiding government interventions and regulations through corruption is one of the ways for entrepreneurs to survive and increase their revenues. Rent-seeking in such countries could be a government failure since it is inefficient. Moreover, some state regulations can put entrepreneurs in a stalemate. Ngunjiri (2010) emphasized that in African countries, a state can impose high costs for entrepreneurs in the form of rents to promote their businesses. As a result, many enterprises look for an easier way to minimize that costs and bribe civil servants to avoid rent. This will lead to low economic development because corruption diminishes future investments and consequently economic growth.

The results of the survey conducted by Ngunjiri (2010) demonstrated that the Police, the Ministry of Local Government, and the Ministry of Lands are the most corrupt organizations in Kenya. Therefore, public services provided to the citizens by these organizations are extremely low-quality since they are corrupted. Involvement in corruption is led by possible access to particular services and information or the possibility to avoid punishment. All of these factors decrease the quality of public services and consequently the well-being of citizens. Obviously, some individuals benefit from it, but this also creates negative externalities.

Suleimenova et al. (2018) demonstrated the corruption perception of Kazakhstani entrepreneurs and civil servants: they understand corruption mainly as a social network for protection and covering up, and then as bribery and usage of official status for their interests. Respondents mentioned irregular involvement in corruption despite their perception of widespread corruption cases in the country. Authors highlighted that entrepreneurs and civil servants are reluctant or not willing to discuss their experience in corruption. This could be a cause of the gap between their perceptions and responses to corruption cases.

Entrepreneurs in Kazakhstan believe that bribes are considered an easier way to avoid problems, but only under extreme circumstances so that they are forced to be involved in corruption. Nevertheless, corruption is detrimental to the development of enterprises and consequently to economic growth because SMEs are an essential part of the economic

development of the country (Suleimenova et al., 2018). Therefore, tolerance for corruption should be diminished.

Positive Effect of Corruption

Recently, a great number of studies started to explore the other, positive, side of corruption and its influence on the business industry, in particular. For example, Dreher and Gassebner (2013) in their studies tried to identify whether corruption may actually "grease the wheels" of the enterprise activity by performing a cross-cultural analysis of 43 countries over two years. The results of this study have shown that corruption positively influences, what they have called, "nascent entrepreneurship". As the measure of "nascent entrepreneurship", the authors took the percentage of the population that has attempted to initiate new business over the past year. Another example that supports this "grease the wheels" theory is the work of Liu et al. (2018), where the relationship between corruption and enterprises through a nationwide survey in China was investigated. As was demonstrated by the results of the probit regression model, there exists a positive correlation between entrepreneurial activity and corruption up to some threshold point of corruption level.

As for Kazakhstan, it was found that corruption promotes the productivity growth of Kazakhstani firms and contributes to the abovementioned "grease the wheels" hypothesis as well (Kalyuzhnova & Belitski, 2019). The research is based on the BEEPS for Kazakhstan; about 940 firms participated in this survey. Moreover, the authors identified that corruption increased employment in these firms, especially within low-competitive markets. Corruption can be considered a positively affecting factor for enterprises in countries with bad business climates, especially in post-socialist countries with high corruption (Dutta & Sobel, 2016). A bad business climate initiates corruption to navigate enterprises and business growth will be weak without corruption in such countries.

Though it all violates the traditional view of corruption as a negative issue, Meon and Sekkat (2005) in their work offered a possible explanation of its positive effect. Authors state that bribes to public sector officials accelerate the bureaucratic processes by motivating the workers with the reward. Bayley (1966) also argues that bribes can increase the quality of civil servants' work because it compensates for their usually low salary and augment persons' willingness to do their job properly. Another research done by Hanoteau

and Vial (2014) on the productivity of the industrial plants in Indonesia pointed out that small and medium-sized bribes, except for the large ones, tend to facilitate the growth of labor productivity.

However, what is detrimental in the case of the "grease the wheels" hypothesis is the above-mentioned combination of low-quality governance and corruption. Infante and Smirnova (2009) in their work developed a theoretical model, where they have assessed how rent-seeking behavior (including an illegal one, like corruption) influences the performance of the business sector within the context of weak institutions. As a result, the authors concluded that if bureaucrats are more prone to rent-seeking behavior, it tends to increase the social surplus and facilitate business development. Meon and Weill (2010) in their work testified this hypothesis on the example of 69 countries, where both developed and developing countries were included. What they have discovered is that this positive correlation between bribery or any other kind of corruption works only in countries with low institutional efficiency.

Following that, Xie et al. (2019) in their research also emphasize the importance of the context of transitional economies when talking about corruption. By analyzing the World Bank Enterprise Survey of China, where 2099 Chinese firms were included, the authors concluded that there is a relationship between corruption and the innovative ability of the firm, and this relationship is positive. What is also important among the authors' findings is that institutional and political instability can be accounted for in this strong relationship. If the quality of institutions rises, the impact of corruption on firms' innovations decreases.

As was discussed above, the relationship between corruption and enterprises is still ambiguous. Many authors indicated that the influence of corruption depends on the size of the latter. That is, corruption can accelerate the growth of enterprises at a low level of corruption. Also, the influence of corruption can be positive under weak and ineffective formal institutions. Therefore, corruption can be helpful for enterprises in developing countries, while in well-developed countries, it can be detrimental. However, the effect of corruption varies across countries according to the business climate within the country. Hence, this conclusion is not valid and cannot be generalized due to the gap in the existing

literature such as the lack of information about the perception of entrepreneurs and their incentives to start or continue the business.

The limitation of existing literature is that it mainly focuses on corruption from the economic perspective, i.e. emphasizes its effect on the economic growth and productivity of firms, and does not consider the perspectives of the entrepreneurs towards corruption. The current study contributes to the discussion about the effect of corruption on enterprise performance. First of all, we provide the corruption perception of Kazakhstani entrepreneurs. Second, the study is aimed to identify the influence of corruption on the personal incentives and motivation of entrepreneurs. Hence, while other studies mainly focused on the industry at the country level, we consider individual characteristics. Moreover, the paper contributes to the findings by Suleimenova et al. (2018) that there is a negative impact of corruption on the development of enterprises.

RESEARCH METHODS

In our research, we use a quasi-experimental research design, and a mixed-methods approach in order to explore not only the general effect of corruption but entrepreneurs' perceptions and investigate possible similarities or contradictions between the results of quantitative and qualitative parts, respectively.

For the quantitative part, the regression analysis will be conducted using the data from the BEEPS, which was developed by the World Bank in cooperation with the European Bank for Reconstruction and Development (EBRD). The survey has collected information about more than 160 thousand firms in 146 countries (World Bank, n.d.) according to different categories such as management of the enterprise, sales, business-government relations, infrastructure, etc. In particular, we will use the regression model developed by Kalyuzhnova and Belitski (2019) in their work about firm performance and corruption in Kazakhstan.

Next, the qualitative part includes 10 in-depth semi-structured interviews. We conducted interviews with Kazakhstani entrepreneurs, limited to businesses functioning in Almaty and Nur-Sultan cities. The entrepreneurs operate in different areas such as education, health, beauty industry, PR & media, transportation services, logistics, and the restaurant industry. The respondents were invited to a Zoom or in-person meetings to discuss how they started their enterprises and the difficulties they face in running an enterprise in Kazakhstan, and share their perception of corruption in Kazakhstan. As corruption is a sensitive subject for discussion, the method of snowball sampling was applied; we assumed that not every entrepreneur would be willing to talk about such issues with outsiders, especially among those, who somehow were involved in any type of corruption during their entrepreneurial activity. That is why to ensure the completeness and trustworthiness of the information as far as possible, entrepreneurs were chosen from relatives or friends and acquaintances. However, the main limitation of the snowball sampling might have been the bias in respondents' answers due to the lack of randomness in the sample. Because the responders were further referred by other respondents, there is a possibility of the similarity in the views of acquainted people.

Conceptual Model and Hypothesis

Based on the literature review, the following hypotheses will be tested:

H1: Corruption decreases firm performance worldwide.

H2: Corruption decreases firm performance in Kazakhstan

H3: Kazakhstani entrepreneurs perceive corruption as a severe obstacle for running the enterprise.

The hypotheses are connected to the current situation in Kazakhstan and evolved from the literature on the negative effect of corruption within the context of poor institutional development. The main point was to test whether it is true that corruption demotivates entrepreneurs to develop their businesses and negatively affects their profitability because of the lack of confidence within the Kazakhstani business climate.

The outcomes of our mixed-methods approach include interview analysis as well as the results of regression models. The former includes thematic analysis and uncovers the attitude of the business owners on corruption and its effect on business operation. The latter quantitatively assesses the impact of the presence of corruption on the performance of the firm by hypothesis testing.

In the quantitative part, the main dependent variable, which is the variable for corruption, will be taken directly from the answers to the specific question, where entrepreneurs had to rank to what extent is corruption an obstacle for them (0 - not an obstacle at all or minor obstacle, 1 - major or severe obstacle). The independent variable, firm performance, will be composite and will be operationalized according to the methodology of Kalyuzhnova and Belitski (2019). This variable will be divided into two parts, which, presumably, can reflect the firm performance: sales growth and employment growth. Other than that, independent demographic variables, which might also influence firm performance are controlled. The description of all variables can be found in Table 1.

The regression models have the following forms:

$$sales\ growth = \beta_0 + \beta_1 corruption + \beta_2\ size\ + \beta_3 age + \beta_4 foreign + \beta_5 state \\ + \beta_6 certificate + \beta_7 manager + \beta_8 female + \beta_9 govcontract \\ + \beta_{10} GDP + i.\,year + e$$

$employment\ growth$

$$= \beta_0 + \beta_1 corruption + \beta_2\ size\ + \beta_3 age + \beta_4 foreign + \beta_5 state$$
$$+ \beta_6 certificate + \beta_7 manager + \beta_8 female + \beta_9 govcontract$$
$$+ \beta_{10} GDP + i.year + e$$

FINDINGS

Summary of Findings from the Regression Analysis

This section presents the results of the quantitative part of the methodology. First, to check whether the results for Kazakhstan and other countries in the world are similar or different, we built time-fixed effect regressions for the whole world and Kazakhstan separately.

The main independent variable in the regression model is corruption, which indicates firms' perception of corruption. The variable *corruption* is a dummy variable. That is, 0 is no obstacle or a minor obstacle; 1 is a major obstacle or a very severe obstacle. The distribution of firms is such that about 66.6% of them do not perceive corruption as a significant obstacle, while about 33.4% of firms perceive corruption otherwise.

Our control variables are firm-level indicators such as the size and age of the firm, percentage of government's or foreign investors' share, whether the firm has international quality certification, work experience of a top manager, gender of a top manager, whether the firm received government contracts within a year, and GDP per capita of the country, where the firm is located. GDP per capita is an important representative of the economic environment in which business grows. Size and age of the firm directly influence the firm performance as, for example, younger firms may grow faster compared to the older ones because they are at the beginning of their path, while bigger firms might grow more rapidly than smaller firms due to larger human capital. The ownership of the firm might also play a role as well as affiliation with government contracts, as state-controlled and state-supported enterprises may have more convenient financial assistance to develop. International certification, as well as manager's experience and female representation in top management, also might demonstrate the firm's internal politics and willingness to grow. These control variables were taken into account based on Kalyuzhnova and Belitski's (2019) methodology.

Summary statistics for all variables are presented in Table 1 and Table 2 below.

Table 1: Description of variables

Variable	Description	Unit of Measurement	Source
salesgrowth	change of sales during the last three fiscal years, in percentage	percent	World Bank BEEPS
empgrowth	change of number of employees during the last three fiscal years, in percentage	percent	World Bank BEEPS
corruption	firm's perception of how much corruption is an obstacle	0 - minor or no obstacle at all; 1 - a severe or major obstacle	World Bank BEEPS
size	size of the firm in terms of the number of full-time employees	person	World Bank BEEPS
age	age of the firm	year	World Bank BEEPS
foreign	percent of the firm's shares owned by foreign investors	percent	World Bank BEEPS
state	percent of the firm's shares owned by the government	percent	World Bank BEEPS
certificate	presence of international quality certification	0 - no; 1 - yes	World Bank BEEPS
manager	top manager's years of experience	year	World Bank BEEPS
female	whether the top manager is a woman	0 - no; 1 - yes	World Bank BEEPS
govcontract	involvement in contract work with the government during the last 12 months	0 - no; 1 - yes	World Bank BEEPS
GDP per capita	GDP per capita of the country, where the firm is located	Constant 2015 US dollars	World Bank World Development Indicators

Table 2. Summary statistics of variables for all countries and Kazakhstan

Variable	Mean		Std. Dev.		Minimum		Maximum	
	World	KZ	World	KZ	World	KZ	World	KZ
salesgrowth	0.791	-0.989	26.381	27.849	-99.999	-99.769	100	95.064
empgrowth	4.190	4.389	16.626	14.977	-100	-89.349	100	100
corruption	0.337	0.189	0.473	0.392	0	0	1	1
size	22.174	23.358	20.540	20.255	0	1	99	99
age	17.474	10.763	14.717	6.879	0	1	221	65
foreign	5.877	2.423	21.962	13.861	0	0	100	100
state	0.369	0.125	4.755	2.496	0	0	100	60
certificate	0.167	0.126	0.373	0.332	0	0	1	1
manager	17.607	13.246	11.167	9.570	0	1	60	60
female	0.165	0.274	0.371	0.446	0	0	1	1
govcontract	0.184	0.217	0.434	0.412	0	0	1	1
GDP	7039.191	10596.61	10747.81	1096.196	328.147	8487.545	104529.3	11402.76

Our two main hypotheses are that corruption negatively affects the performance of firms worldwide and in Kazakhstan. The hypotheses refer to a common perception that corruption and bribery are a problem that impedes the functioning of the economy. The performance of enterprises can be demonstrated through the growth of their revenues and employment level. That is why we used two regression models both for sales growth and employment growth. It was also necessary to control for omitted variable bias by conducting state-fixed effect and time-fixed effect regressions. That way we managed to control for time-invariant differences across countries and state-invariant differences across time. The main objective is to identify whether there is a causal relationship between corruption and business performance. Secondly, it is important to test this relationship whether positive or negative. Next, it is necessary to identify whether this relationship, if it exists, is the same worldwide and in Kazakhstan.

The results of all regressions are presented in Table 3 and Table 4. In general, the results demonstrate that *corruption* negatively influences both sales and employment growth

among SMEs all around the world. In other words, the perception of corruption as a severe obstacle would decrease sales and employment growth rates by 0.484 and 0.664 percent respectively (ceteris paribus). As a result, we fail to reject the first hypothesis about the negative relationship between firm performance and corruption worldwide. As for control variables, it can be seen that almost all of them, in different regressions, have a statistically significant effect on firm performance.

From the results of regression analysis for Kazakhstani firms presented in Tables 3 and 4, we can see that the connection between firm performance and corruption perception goes against our expectations. There exists a positive relationship between the corruption index that firms evaluate and sales and employment growth, but it is not statistically significant. That means that corruption in Kazakhstani firms in the sample affects neither sales nor employment growth of the firm. Thus, we reject our second hypothesis. Among statistically significant variables in both models for Kazakhstan, there are the size and age of the firm, the presence of international certification, and GDP per capita.

Table 3. Results for sales growth

Sales growth	Worldwide	Worldwide	Worldwide	Worldwide	Kazakhstan	Kazakhstan
corruption	-0.990*** (0.215)	-1.180*** (0.216)	-0.228 (0.218)	-0.484** (0.218)	0.248 (2.169)	0.099 (2.124)
size	0.056*** (0.005)	0.042*** (0.005)	0.041*** (0.005)	0.038*** (0.005)	0.111*** (0.041)	0.087** (0.040)
age	-0.276*** (0.018)	-0.266*** (0.018)	-0.29*** (0.018)	-0.289*** (0.018)	-1.374*** (0.314)	-1.245*** (0.308)
age-squared	0.002*** (0.0002)	0.002*** (0.0002)	0.002*** (0.0002)	0.002*** (0.0002)	0.022*** (0.008)	0.019*** (0.007)
foreign	-0.005 (0.005)	-0.009* (0.005)	-0.007 (0.005)	-0.006 (0.019)	0.028 (0.064)	0.033 (0.062)
state	0.041** (0.020)	0.036* (0.020)	0.038* (0.019)	0.033* (0.019)	-0.129 (0.319)	-0.115 (0.313)
certificate	1.470*** (0.271)	1.791*** (0.273)	0.494* (0.268)	0.602** (0.268)	4.373* (2.512)	4.714* (2.459)
manager	-0.007 (0.010)	-0.030*** (0.010)	-0.045*** (0.010)	-0.045*** (0.010)	-0.098 (0.098)	-0.136 (0.096)
female	-0.141 (0.275)	-1.005*** (0.274)	-0.723*** (0.270)	-0.710*** (0.269)	0.576 (1.824)	-0.342 (1.789)
govcontract	1.158*** (0.271)	0.779*** (0.269)	0.538** (0.263)	0.495* (0.262)	0.482 (2.019)	1.412 (1.980)
GDP	0.0002*** (0.00001)	0.0001*** (0.00001)	0.00001 (0.0001)	0.0005*** (0.0002)	0.002*** (0.001)	0.002** (0.001)
Constant	1.624*** (0.287)	3.15*** (0.930)	1.627 (1.489)	-4.699** (2.042)	-16.098* (8.552)	-4.771 (8.516)
State-fixed	No	No	Yes	Yes	No	No
Time-fixed	No	Yes	No	Yes	No	Yes
N, observations	68,804	68,804	68,804	68,804	1,164	1,164
R-squared	0.012	0.034	0.120	0.127	0.044	0.085
RMSE	26.187	25.897	24.735	24.644	27.657	27.067

* - p-value < 0.1
** - p-value < 0.05
*** - p-value < 0.01

Table 4. Results for employment growth

Employment growth	Worldwide	Worldwide	Worldwide	Worldwide	Kazakhstan	Kazakhstan
corruption	-0.542*** (0.119)	-0.654*** (0.121)	-0.703*** (0.127)	-0.664*** (0.127)	0.044 (0.991)	0.064 (0.991)
size	0.064*** (0.003)	0.061*** (0.003)	0.067*** (0.003)	0.066*** (0.003)	0.087*** (0.019)	0.088*** (0.019)
age	-0.339*** (0.009)	-0.335*** (0.010)	-0.306*** (0.010)	-0.304*** (0.010)	-0.792*** (0.142)	-0.798*** (0.019)
age-squared	0.0025*** (0.0001)	0.002*** (0.0001)	0.002*** (0.0001)	0.002*** (0.0001)	0.012*** (0.003)	0.012*** (0.003)
foreign	-0.010*** (0.003)	-0.009*** (0.003)	-0.014*** (0.003)	-0.014*** (0.003)	0.020 (0.027)	0.021 (0.027)
state	0.029** (0.012)	-0.031*** (0.012)	-0.032*** (0.012)	-0.034*** (0.012)	-0.001 (0.156)	0.0004 (0.155)
certificate	1.126 (0.152)	-0.201 (0.154)	0.217 (0.157)	-0.221 (0.157)	-2.229** (1.138)	-2.267** (1.138)
manager	-0.059*** (0.006)	-0.057*** (0.006)	-0.055*** (0.006)	-0.052*** (0.006)	-0.136*** (0.044)	-0.134*** (0.044)
female	-0.589*** (0.152)	-0.542*** (0.153)	-0.166 (0.156)	-0.173 (0.157)	0.456 (0.840)	0.499 (0.842)
govcontract	0.698*** (0.153)	0.625*** (0.153)	0.323*** (0.154)	0.344*** (0.154)	1.218 (0.905)	1.175 (0.906)
GDP	0.00002** (0.287)	0.00002*** (0.000)	0.0001** (0.00008)	0.0005** (0.0001)	0.0007 (0.0004)	0.0007 (0.0004)
Constant	8.151 (0.158)	9.247*** (0.084)	12.356*** (0.679)	12.356*** (0.679)	4.189 (4.042)	3.333 (4.147)
State-fixed	No	No	Yes	Yes	No	No
Time-fixed	No	Yes	No	Yes	No	Yes
N, observations	83,223	83,223	83,223	83,223	1,585	1,585
R-squared	0.035	0.039	0.063	0.063	0.062	0.063
RMSE	16.091	16.06	15.872	15.872	14.828	14.828

* - p-value < 0.1
** - p-value < 0.05
*** - p-value < 0.01

In general, the results of the regression models for Kazakhstani firms and firms in the whole world are different. Corruption seems to have a negative influence on firms' performance worldwide but does not seem to have such an effect in Kazakhstan. Our findings for Kazakhstan partially support the outcomes of Kalyuzhnova and Belitski (2019), whose methodology we tried to replicate in the quantitative part, and who also found out that there is no connection between corruption and sales growth.

Summary of Findings from Semi-Structured Interviews

This section demonstrates the findings from the semi-structured interviews held with 10 small and medium Kazakhstani entrepreneurs. During the interviews, enterprise owners were asked to share their corruption experiences and attitude toward the extent of corruption in the interaction between government and SMEs in Kazakhstan.

The responses to semi-structured interview questions were then grouped into eight common major themes.

Theme 1: Corruption is considered a problem across public and private sectors in Kazakhstan

All the entrepreneurs recognize that corruption is present in Kazakhstani society and is found in both the private and public sectors. When asked to evaluate the extent to which corruption is generally a problem in Kazakhstan on a scale of 1 (not a problem) to 10 (a major problem), most if not all rated corruption as 10 out of 10. This shows that entrepreneurs mostly believe that corruption hurts and is a serious problem, particularly for its negative effect on the functioning of national institutions and economic growth in the country, and if so, they support the "sanding the wheels" theory.

For all respondents, the reasons for corruption persistence are twofold: first, left unchecked by the poorly functioning Kazakhstani anti-corruption agency, government officials have open opportunities for corruption, and second, when salaries of government officials are low, government officials may decide to accept bribes to make ends meet. Third, for some, corruption is thought of as a problem just because not only government officials are ready to take bribes, but Kazakhstani people also feel compelled to give bribes. One of the respondents said, "*Surely, we are also to blame. I cannot earn my daily bread if I do not do that, I have to do all the corrupt things*". Some believed that corrupt behavior is rooted in

the Kazakhstani culture and mentality; they shared that the culture of corruption stretches from the 1990s, the unstable times in early independence times, during which the business spheres were occupied by a few oligarchs who used bribery or other forms of corruption to advance their interests. One respondent said, "*We are too romantic about corruption. We talk about how we manipulate money, sounding like we are bragging. We think that if we have a relative working in the top government, we are cool*". The other has shared, "*We are greedy. We want more*".

Theme 2: Entrepreneurs do not anticipate corruption while running an enterprise in Kazakhstan

While all perceive corruption as present across many institutions in Kazakhstan, nine of the entrepreneurs do not anticipate corruption in the enterprise sector just because for them, the business operations seem to be fairly transparent. For example, one of the entrepreneurs acknowledged, "*I have not seen it yet so that someone weaker than me in any sense could win the tender. So far what I have seen is only that they were stronger than me…who is stronger, who is more experienced wins*". As such, when asked to rate corruption as a problem in the enterprise sector on a scale from 1 (not a problem) to 10 (a major problem), most entrepreneurs rated corruption as 5 or 7 out of 10. With this, only one respondent believes that it is difficult to run an enterprise in Kazakhstan without being involved in corruption.

This might reflect several factors. First, corruption represents a minor business challenge compared to bureaucratic issues in the enterprise sector; as such, all entrepreneurs have reported having problems with bureaucracy and service of documents, not with corruption. Second, the size of enterprises matters; perhaps, SMEs are rarely involved in corruption because the size of these companies is too small for the government officials to extract large benefits from it. As one small-scale entrepreneur shared, "*I did not encounter corruption. I am too small for the system…*". For many, corruption is more of a persistent problem in larger enterprises, given the larger profits of these companies. Third, respondents may also demonstrate an unwillingness to talk about sensitive issues such as corruption.

Theme 3: Starting and growing an enterprise in Kazakhstan is not problematic: it requires minimal costs and is easy to do.

All the respondents shared their positive experiences of going through the government procedures to start and grow an enterprise in Kazakhstan. As shared, opening an enterprise in Kazakhstan gets much easier with the current "Digital Kazakhstan" state program because fresh entrepreneurs do not need to submit an overwhelming amount of documentation or consult with the government officials to iron out the exact course of business procedures in person or traveling to official institutions. Instead, entrepreneurs obtain business licenses and permits online via EGOV.KZ portal or KASPI.KZ bank system in 20-30 minutes with the minimum enterprise information needed to process the request. One of the respondents said, "*I did not have any problems with the registration. In this regard, it is super that you can do it online. Very comfortable and quick.*". The other has supported the same position by saying, "*I opened the business while being in a taxi. I only needed the WI-FI and KASPI account*".

Entrepreneurs also share positive expectations for the future of their businesses; they emphasized that despite problems with bureaucratic procedures, they still develop the forecasts for the next few years to transform into medium or large enterprises and are ready to invest to keep their businesses growing. One respondent said, "*I'm not afraid. I will enlarge my business. I will not pay anyone bribes. It is possible not to pay bribes but be successful. I do not know, perhaps I am unique*".

As revealed, the real challenges in running the enterprise in Kazakhstan lay beyond once the enterprise is officially open.

Theme 4: The major obstacle to running an enterprise in Kazakhstan is not corruption but bureaucracy

For many, the major obstacle to running a business is the bureaucratic long procedures, which do not work steadily, slow down the decision-making process, and are needlessly time-consuming. As one entrepreneur said, "*This (*bureaucracy*) is a barrier, which we cannot pass. We need some way for young companies to grow*".

Entrepreneurs have shared their major bureaucratic concern – a lack of information on how to start a business, by which fresh entrepreneurs are not aware of services the government

and National "Atameken" Chamber of Entrepreneurs deliver, where they should go to get the service and how to fill in the necessary documents. For them, a good way to solve the problem is by introducing a calendar in the EGOV system, which handles deadlines and business opening emails; this will be a fast and easy way to remind fresh entrepreneurs of key deadlines and the documents they must submit such as financial reports. This should be designed to improve the knowledge of entrepreneurs of key documents and navigate them at the start of their enterprise journey. As one entrepreneur shared, "*That is, you are not told that at the beginning of the month you must prepare this, and in the middle of the month you must prepare this, but at the end of the month you must prepare this... I am working, I don't always devote time to documentation, and this is all at the end of the month when everyone is already waking up, everyone is running to the tax office... There could be such a function, for example, as a calendar, an alarm clock, I don't know... some reminders*". As of now, instead of wasting time in long wait lines and going to the local *Akimats,* discussions have shown that entrepreneurs heavily rely on the services of privately recruited and freelance accountants, who help with document filling and sending the financial reports to the local Departments of State Revenues.

Indeed, most have reported never asking for government assistance with their enterprises. Discussions with entrepreneurs have shown that they share the common prejudice of the government being unable to consult the entrepreneurs and wasting their valuable time. One of the respondents said, "*I know that maybe I will go there, I will spend a lot of strength and energy. Then, in the end, I won't get anything*". This shows that the key reason why they do not ask for government help is that they believe that the government is run ineffectively either because government officials cannot manage and organize tons of data or because they suffer from low human capital, which then limits their productivity. One entrepreneur shared, "*People who compile this documentation, they do not quite understand even what is written there because they have a lot of different tasks, they cannot understand each one specifically. And in this regard, of course, there are problems*".

To sum up the responses of entrepreneurs, corruption is not a hindrance to business functioning, ineffective bureaucracy challenges business decision-making much more.

Theme 5: Entrepreneurs do not want to work for government officials because of their suspicions and accusations of corruption in the government

Entrepreneurs shared a pessimistic view towards working for the government when the government is a client, particularly winning the tender or securing the government contract because they believe that this necessarily involves corruption. One respondent shared, "*There are troubles, any tender you look at, everywhere something has been done for someone. In other words, it is directly creating obstacles for others not to enter the market and get the tender. Of course, this is a problem*". The respondent continues her point by saying that the government might cause problems for the businesses artificially and demand paying bribes to help solve these problems. The entrepreneur believed, "*This situation might not have happened. It turns out that they can also artificially create a situation that it is already necessary to solve… It seems to me that this is present in all areas. The fact that government agencies or quasi-state agencies can artificially create a problem that did not exist. Scarcity creates demand. If we make a deficit artificially, then people will want to solve the problem faster*".

At the same time, when asked about their experience of working with the government when the government is a service provider, they all have shared that they do not have problems with accessing the government service or departments.

Theme 6: Entrepreneurs do not have a common definition of corruption

When asked to share their definition and understanding of corruption, entrepreneurs have defined corruption in different ways. While for some corruption is when the government officials use public power to provide services for individuals in exchange for money only, for others corruption is any other activity that defies the law. This shows that individuals cannot cultivate a common definition of corruption in society, and if individuals view corruption differently, they may also have different viewpoints regarding how to curb corruption and which anti-corruption measures to implement.

Theme 7: Individuals do not know what kinds of fraud or bribery should be reported and how to report it

When asked about what their actions would be once they see someone paying a bribe to a government official in exchange for service, all respondents have expressed their

willingness to report the cases. One shared, "*I am a police informer. I am against corruption. I stand for honesty. I will find a way to report corruption. This is the right thing to do*".

Once the respondents are asked to share agencies whom to contact to report corruption, they are dubious. One respondent said, "*There are some phone numbers, I guess. We can find them on the Internet*". This demonstrates little knowledge of anti-corruption agencies and policy in Kazakhstan; individuals did little to cultivate a knowledge of anti-corruption tools and cannot fight for their rights. This may prompt the government to use better communication channels to communicate anti-corruption policy more openly and educate the population on the key agencies to contact.

Theme 8: Digitalization is a way the government can sustain a corruption-free environment in the enterprise sector

When asked to suggest effective anti-corruption tools, for all, the current "Digital Kazakhstan" state program does well in preventing corruption in the enterprise sector. All take an example of a successful EGOV launch, by which opening the business has become a quicker process taking 20-30 minutes on the online system. The system launch also helps make the business processes run transparently and more effectively because the services can be delivered online in an open system. One entrepreneur shared, "*When it's all electronic, it's all convenient, you don't need to travel as it used to be, you don't need to go to other government agencies, take each document, we send just one mail to one government agency, they do everything there themselves. In this regard, it is convenient*".

They also believe that once the punishment for corruption becomes harsher, government officials and citizens will be disincentivized to accept or pay bribes, respectively. For others, the long-term solution is to cultivate "anti-corrupt thinking" by better education in schools and universities promoting open discussions, transparency, and honest behavior; this also includes the courses on information literacy taught at schools to help students enhance critical thinking skills and identify credible sources of information.

DISCUSSION

The present paper contributes to the existing literature on corruption impact on SME development and corruption perception in several aspects. First, our findings suggest that corruption hurts SME development by driving down enterprise performance, particularly employment and sales growth. If so, we fail to reject the first research hypothesis. Second, for Kazakhstan, the corruption impact on SME performance remains negligible, and thus, we reject the second research hypothesis. We explain the differences in the results for the worldwide and Kazakhstani situations by saying that these might come from inaccurate data provided by local BEEPS respondents unwilling to share information about corruption because it is a sensitive topic for discussion. From the qualitative part, we also reject the third hypothesis, which means that Kazakhstani entrepreneurs do not perceive corruption as a severe obstacle for running the enterprise. Instead, they perceive bureaucracy as a major concern for business, not corruption.

As we examine the corruption perception among Kazakhstani entrepreneurs, we observe that respondents perceive the problem of corruption in Kazakhstan negatively, and in so doing, they think of corruption as the major government problem to tackle. If we identify where this negative perception comes from, we first find out that personal experience of corruption does not determine one's negative perception of corruption. Indeed, following the responses collected, we do not have data on corruption incidents, personal experience of corruption, or witnessing corruption elsewhere. If so, personal experience of corruption is not as far important in formulating collective negative attitudes towards the problem of corruption in Kazakhstan.

Instead, the decisive factors in explaining one's negative corruption perception are the collective distrust for the government and some pessimism about the functioning of national institutions in Kazakhstan. It is here where we find out that individual negative perceptions of corruption are largely shaped by environmental and social influences like those of what peers or family members think of corruption. After individuals become informed that others think of corruption as a persistent problem in Kazakhstani society, individuals tend to change their corruption perception and indirectly agree with the public's negative view of corruption. In other words, it is from the interaction of individuals who

assume that corruption is a negative phenomenon that this collective negative perception of corruption arises. Individuals may change their behavior and corruption perception in line with the public opinion, even if their corruption experience is different from what the public thinks. As observed, while none of the entrepreneurs have reported or witnessed corruption cases, they still believe that corruption is pervasive everywhere.

Perhaps, collective pessimism about Kazakhstani national institutions might be raised by the media coverage of corruption in Kazakhstan (Park & Lee, 2017). Media impact implies that as the media generates more and more news about corrupt officials in Kazakhstan, it creates a public impression of a very corrupt culture in Kazakhstan that may then change the individual perception of corruption towards the negative. The continued and widespread public opinion of corruption as a serious problem in Kazakhstan might also be reinforced by the historical collective distrust for the government accumulated over years of economic and social instability in Kazakhstan. This phenomenon of historical collective distrust for the government is not limited to Kazakhstan; it is perhaps applicable to other post-Soviet countries, which experienced a difficult period of economic recovery and state-building once the Soviet Union collapsed. Indeed, caught in the center of economic disaster and regime crisis, individuals were pessimistic about the prospects of the country. In so doing, they may have thought that the poor economic situation is necessarily linked to the abundance of corruption cases among the government officials. The continued absence of strong economic policies and political restructuring may have translated into citizen distrust of the government and national policy-making.

The other research finding is that corruption perception varies with the role of the government. As such, respondents do not have problems with the government when the government is a service provider because, for entrepreneurs, public institutions fulfill their obligations to help SMEs. But when the government is a client, entrepreneurs become suspicious about working with the government and tender system because they think that government contracts will necessarily involve some acts of corruption. This emphasizes the important role of the government, whether it is a service provider or a client, in the study of the relationship between SMEs and the government. From this, corruption perception is found to be biased and does not reflect the real corruption situation in the country.

By and large, we found that it is possible to start and grow an enterprise in Kazakhstan without being involved in corruption cases. Perhaps, this is true only for SMEs and the situation is different for large enterprises. Indeed, at the starting point, entrepreneurs' main business challenges are bureaucratic processes, which do not require entrepreneurs to give a bribe. At the same time, the government and other public institutions are not interested in small-sized enterprises because they represent a tiny source of private benefits. From this, it can be stated that there is a significant difference between the functioning of SMEs and larger enterprises employing more than 250 workers, particularly in regard to the role of government and corruption issues. Further research might survey the corruption problem at the level of large enterprises.

POLICY RECOMMENDATIONS

Before going to policy recommendations, it is important to understand the framework suggested by Khan in 2014 (see Appendix A). Khan et al. classified corruption into four types: corruption driven by market restrictions, policy-distorting corruption, political corruption, and predatory corruption (2019, p. 22). The current paper is focused on the first two classifications. According to Khan et al. (2019, p. 22), market restriction-driven corruption mainly occurs to reduce limitations created by states such as red tape, bureaucratic barriers, and market regulations, while state policy-distorting corruption diminishes social benefits of government policies through illegal acts of corruption that are aimed at private benefits of political authorities or other individuals. Anti-corruption strategies vary based on these types of corruption. For example, policies that are aimed at curbing corruption at the enterprise level should remove market restrictions. However, the effect of such anti-corruption strategies on economic growth is relatively low. In the case of policy-disturbing corruption, the government should focus on redesigning and further feasibility of policies. Moreover, the influence of this anti-corruption policy on economic development is high. Therefore, the government of Kazakhstan needs to concentrate on state-level corruption as it has a higher effect on development.

Based on the results of our research, several policy recommendations might be drawn from it. Taking into consideration the model we discussed above, developed by Khan et al. (2019, 22), we emphasize two main areas for policy influence: corruption in the business sector and state-level corruption. As for the former, it was mentioned previously that all of the interviewees are positive about the rapidly evolving digitalization process in Kazakhstan as a way of handling corruption in government-business relationships. According to the respondents, the reduction of human-to-human interaction leads to greater transparency and lowers the risk of corruption during bureaucratic processes related to opening and running a business. Thus, the government needs to proceed with the wider implementation and further development of the "Digital Kazakhstan" program so that more of the operations related to entrepreneurship would be possible to do online.

Another major common concern among the respondents related to the SME activity was the absence of instruments of communication between the government and business owners.

Respondents heavily expressed their dissatisfaction with the fact that there are no official sources with comprehensible information about the mandatory bureaucratic procedures or state support programs. This lack of available information, specifically at the beginning of the entrepreneur's path, makes opening and operating the business more challenging. Precisely the lack of information leads also to a low participation rate in the state support programs. The absence of high-quality communication channels also either increases the likelihood of corruption or demotivates the entrepreneur to interact with the state officials because, in case of the requests for informal payment or bribes from civil servants, entrepreneurs have nowhere to address their complaints. Thus, it is needed for the state to use digitalization, for example, the EGOV platform, in order to make the required information easily accessible and understandable for the entrepreneurs. It is also needed to improve and better monitor the work of the Entrepreneurs Chamber "Atameken", which is supposed to play the role of a communication bridge between state and business owners and represent their interests, but in reality, is very difficult to access. Also, there should exist hotlines and approachable state institutions, which would not only formally exist, but directly interact with the entrepreneurs and address their requests, complaints, and questions.

As for the state-level corruption, one of the major complaints from the entrepreneurs regarding the evident instances of corruption in government-business relations was connected with government contracts and tenders. Thus, when the government serves not as a service provider for SMEs, but as a client, it significantly increases the likelihood of corruption. Entrepreneurs are very dissatisfied with the existing tenders system and unmotivated to cooperate with the state because they automatically anticipate high risks of bribe requests in current conditions. There should be established common criteria and standards for fair and competitive tendering, because now, according to the responses, they are too vague or tailored specifically for firms that bribe the tender committee. Thus, the increase in transparency and tightened control of the state procurement and tenders systems should also be one of the priorities in the process of fighting corruption.

Additionally, the majority of the respondents referred to the "national mentality" as one of the sources of corruption in the country. This means there exists a general notion of acceptability of corruption, at least to the extent, where people perceive it as a part of their

culture and something prevalent among Kazakhstani citizens. That is why there is also a need to influence this perception on both individual and collective levels by implementing nudge policies, for example. The use of warnings in public places, spreading awareness about the negative effects of corruption, and establishing rewards for personal contributions to the fight against corruption might alter people's attitudes and behavior. This would help to cultivate anti-corrupt thinking and behavior, and eradicate the tolerance of corruption on a national level.

RESEARCH LIMITATIONS

The main research limitation is that we made a study on the sensitive subject for discussion that concerns the corruption practices and evaluates the corruption experience of SME owners. During the interview, some respondents were either reluctant or very cautious in talking about corruption because it is linked to criminal activities and is at risk of legal persecution. In fear of talking about corruption, some may indeed hide their true opinions and do not voice real concerns. There also could have been problems with the data provided by the World Bank BEEPS respondents, who may also be hesitant to talk about the sensitive topic of corruption and provide inaccurate information.

The other part of the problem lies in the bias of the interview sample. First, just because we employed a snowball sampling method that limits the respondents' characteristics to a certain group of people, this study lacks sample representativeness and may not accurately reflect the view of the general public. Second, as the sample size has been limited to the SMEs operating in Almaty and Nur-Sultan cities, this also incurs sampling bias because the corruption experience in these large cities might differ from the situation in other Kazakhstani cities and regions.

Finally, corruption is limited to one variable in our regression model, which is described as whether a firm perceives corruption as a major obstacle for running the business or not. However, corruption is a multidimensional phenomenon.

Despite these limitations, which cannot be overcome completely, we contend that our research contributes well to the open discussion of the corruption perception among different strata of the Kazakhstani population, and helps the government establish efficient anti-corruption strategies.

CONCLUSION

Our study draws some important conclusions about the corruption impacts and corruption perception. First, in our estimation of the corruption influence on the business performance of SMEs through the regression analysis, particularly sales and employment growth, we found out that corruption negatively affects the business performance of worldwide SMEs. This goes much in line with the "Sand the wheels" theory to support the argument that corruption impedes the functioning of an enterprise. The more important conclusion is that although the corruption influence on Kazakhstani SME performance remains ambiguous, it is possible to start and grow an enterprise in Kazakhstan without being involved in corruption.

From our interviews with small- and medium-sized Kazakhstani enterprise owners, we found that enterprise owners share a negative view of the phenomenon of corruption because of its damage to the economic development and the functioning of national institutions in the country. At the same time, when asked about the influence of corruption on the business performance of SMEs, enterprise owners do not think that corruption is a severe obstacle for running an enterprise in Kazakhstan. There are at least two reasons why the corruption impact on the Kazakhstani SME performance is not considerable. First, corruption does not represent a big hurdle to the enterprise's functioning compared to the problem of extensive bureaucracy in SME activity. Second, the other important conclusion is that corruption perception is found to be biased, and does not reflect the actual corruption level in Kazakhstan. Instead, the key factors shaping individual corruption perception are collective pessimism towards Kazakhstani government officials and collective negative perceptions of government officials among the Kazakhstan general public. This brings us to the most important conclusion of this paper to suggest that Kazakhstan does well in tackling corruption at the SME level but it falls short of state-level corruption and corruption across other public sectors.

It is primarily the government officials and enterprise owners that will recognize the importance of this study as a guide for developing anti-corruption strategies and programs to build the enterprise sector free of corruption. Anti-corruption strategies are then important to strengthen Kazakhstan's institutional capacity to reduce corruption at low- and

mid-levels of the government, increase public awareness to take on social responsibility to report on corruption cases, and help the enterprise sector succeed and promote a healthy competition on the market.

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APPENDIX A

Khan's Framework (Khan et al., 2019)

Low ⟵ Impact of Corruption ⟶ High

Low

Feasibility of Anti-Corruption Strategies

High

Predatory corruption

Political corruption

State policy-distorting corruption

Market restriction-driven corruption