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KAZAKHSTAN**

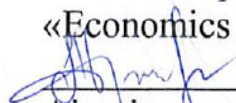
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THESIS WORK

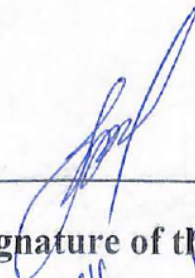
**Theme: « The role of
Social Capital and Entrepreneur Orientation for SME's performance»**

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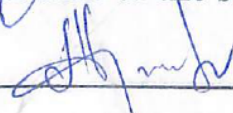
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Abstract

Social capital and Entrepreneur Orientation have recently been the subject of many studies. The current study looks at the relationship between social capital and firm performance, as also at the relationship between entrepreneur orientation and firm performance. Using a sample of 30 small business owners, we test the relationship between social capital and firm performance, as well as the relationship between entrepreneur orientation and firm performance. We offer discussion of why these findings are relevant, as well as research implications.

Абстракт

Социальный капитал и предпринимательское направление недавно стали предметом многих исследований. В текущем исследовании рассматривается взаимосвязь между социальным капиталом и производительностью фирмы, а также взаимосвязь между предпринимательским направлением и производительностью фирмы. Используя выборку из 30 владельцев малого бизнеса, мы проверяем взаимосвязь между социальным капиталом и производительностью фирмы, в добавок взаимосвязь между предпринимательским направлением и производительностью фирмы. Были протестированы структурные и измерительные модели. Мы предлагаем обсудить, почему эти выводы актуальны, а также результаты исследований.

Абстракт

Әлеуметтік капитал және кәсіпкерлік бағыт - көптеген зерттеулердің тақырыбы. Ағымдағы зерттеу әлеуметтік капитал мен фирманың өнімділігі арасындағы қарым-қатынасты қарастырады, және кәсіпкерлік бағыт пен фирманың өнімділігі арасындағы қарым-қатынасты қарастырады. 30 шағын бизнес иелерінің үлгісін пайдаланып, біз әлеуметтік капитал мен фирманың өнімділігі арасындағы қатынасты тексереміз, және кәсіпкерлік бағыт пен фирманың өнімділігі арасындағы қарым-қатынасты қарастырады. Бұл зерттеудің нәтижелері талқыланады.

Introduction

Small and medium-sized enterprises (hereinafter, "SME") now account for more aggregate employment and business turnover than large firms and the public sector together. (Porter et al., 2000). However, development of SMEs is one of the leading problems worldwide because they have several advantages and disadvantages in comparison with large and developed firms (Narula, 2004; Nooteboom,1994). Rothwell summed up the difference between large and small business effectively (1985, p. 9; see also Rothwell, 1989): the advantages of large business are material and those of small business behavioral (motivation, flexibility). Therefore, SMEs are bounded to resource limitations which is mainly due to their liabilities of newness and smallness (Amburgey, Kelly, and Barnett,1993; Stinchcombe, 1965). Thus resource differences help to interpret how and why some small and medium-sized enterprises are able to survive, go ahead, and grow in disregard of the lack of significant firm-specific resources (Barney 1991). Knowledge is the most important resource for small and medium sized enterprises among the various resources available to the small and medium sized enterprises (Spender, 1996). Another determination of the resource-based view concerns knowledge which is continually renewed (Lane and Lubatkin, 1998). Because get possession of knowledge and exploitation of knowledge are mainly social processes (Kogut and Zander, 1992). In this context, social capital may be critical to obtain knowledge (Kogut and Zander, 1992)) and ensure for the long-term success (Helena Yli-Renko, Erkkö Autio and Harry J. Sapienza;2001). The extent to which SMEs acquires external knowledge depends on the existence of external knowledge, on the ability of the firm to recognize and assess the value of the knowledge, interaction, and on the willingness of the firms to share information (Cohenand Levinthal, 1990; Dyer and Singh, 1998). As a determination of the resource-based view, the relational view maintains that competitive advantage derives not only from firm-level resources but also from network relationships (Dyer and Singh, 1998; Lane and Lubatkin,1998).

Social capital particularly with customers ((Helena Yli-Renko, Erkkö Autio and Harry J. Sapienza;2001).) facilitates knowledge acquisition and exploitation by affecting conditions necessary for the creation of value through the exchange and combination of existing resources.(Nahapiet and Ghoshal,1998). The amount of external knowledge a SMEs will obtain from the customer depends on three aspects of social capital in the relationship: reciprocity, shared vision and density (Tsai & Ghoshal, 1998; Granovetter, 1973). These are activities in which using 'social capital with customers' can prove priceless, and the increasing importance of the 'knowledge economy' (in which the competitive edge derives from dynamic improvement rather than from static price-based competition) is making social capital ever more important in achieving competitiveness (Maskell, 2000). In addition, when formal system like government fails, comes an informal system like Social capital. We extend developments in social capital theory and the relational view into interfirm relationships of SMEs with basis of reciprocity, shared vision and density (Tsai & Ghoshal, 1998; Granovetter, 1973).

Today in a dynamic, fast changing, and intensive global competitive environment importance of entrepreneurial orientation (EO) obvious in its fast distribution everywhere on strategy literature (Corbo, 2012; Carton, 2004; & Rauch el la, 2009, Soininem, et al, 2013). Entrepreneurial orientation is as key ingredient for organizational success which lead to higher performance (Wiklund & Shepherd, 2005, Soininem, 2013). Further affirms that firms which have higher levels of entrepreneurial orientation, more successful, than those with lower levels of entrepreneurial orientation (Rauch,2009, & Dada, 2012). Firms with higher levels of entrepreneurial orientation have a capability to be unique that differentiates them from non-entrepreneurial firms (Covin, Slevin & Shephard, 2006; Soininem, 2013). Entrepreneurial orientation represents processes of production of strategy which provide to the organizations the basis for entrepreneurial decisions and actions (Rauch & Wiklund, 2009). It covers a certain behavior of the organizational level to execute risk, to participate in innovation and to react proactively against competitors in the

market and therefore to increase firm performance (Lumpkin & Dess, 1996; Hakala, 2011).

In developing countries, external conditions of the environment, such as competitive effects of globalization and frequent financial crises, forces national firms to define advantages and disadvantages to be more entrepreneurial, adaptive, and innovative to sustain their competitiveness (Mintzberg 1973; Miller and Friesen 1978; Slater and Narver 1994; Appiah-Adu and Singh 1998; Barringer and Bluedorn 1999). Increase in intensity of competitiveness in the local and world markets, financial executive influences of EO for national firms become very important to promote the competitive advantage and sustain it.

Despite, extant literature has extensively examined the role of different dimensions of social capital and entrepreneurial orientation with antecedents and consequences for different research purposes and in various contexts, less study has been conducted in Kazakhstan. Therefore the main objective of the study is to examine the relationship between three dimensions of social capital with customers, three dimensions of entrepreneurial orientation and firm performance. In particular, the study aims to examine:

1. The relationship between Social Capital and SME's Performance
 - The relationship between Reciprocity and SME's Performance.
 - The relationship between Shared Vision and SME's Performance.
 - The relationship between Density and SME's Performance.
2. The relationship between Entrepreneur Orientation and SME's performance.
 - The relationship between Innovation and SME's Performance.
 - The relationship between Risk-taking and SME's Performance.
 - The relationship between Pro-active posture and SME's Performance.

In order to achieve its objective, current study addresses the following research question:

1) Do three dimensions of social capital of the firm with its customers and three dimensions of entrepreneurial orientation affect SME's performance?

Current study is significant because it is one of the scarce studies examining the proposed relationships at SME level in Kazakhstan. Having a deeper understanding of the influence six dimensions on firm performance might enable firms to formulate better marketing strategies.

Literature review

For the last decade in analysis of social capital were made significant progress and of evidences of the importance and value of this resources for economy, small and medium entrepreneurs (hereinafter, "SME") and society. Social capital can help to create a benefit for competition through exchange of information between members (Nahapiet and Ghoshal, 1998). Social capital can serve as resource for owners of SME's, if it helps to increase number of local consumers who often visit a firm. The theory of social capital provides a method to help to explain interaction of local consumers and owners of SME's. Putnam, (1993) found that there is a positive relationship between quantity of available social capital in the area, and it is good for that area's economic development. The components of social capital that are used in our study are reciprocity and shared vision (Tsai & Ghoshal, 1998), and constructs of social networks (Granovetter, 1973) including density. The concept of social capital has main role in our understanding of it dimensions and it influence on firm performance. Social capital is the complement to human capital.(P.Burt)

Nowadays, exist the variety of meanings and different opinions about social capital concept, during a long period of time scholars looking for an adequate definition of social capital. Distinction oaf opinions and views are the source of misunderstanding, especially in case of differentiation of social capital and its results. Various authors at different times determined a social capital as the resource which increase public efficiency as divided in the society of a regulation and value as social networks and communications between individuals on the basis of reciprocity and trust (Durlauf S.,Fafchamps M. 2005) the most acceptable economists consider (Putnam R., 1993) which is going to be a determination of a social capital as capability of communities in our case firms to collective actions for the benefit of achievement of a common goal. Coleman (1988), Etzioni (1996), and Portes (1998) all have argued that social capital is most likely to be formed in a closed community where informal norms and sanctions are particularly strong.

Conditions, social capital with customers and environment around firms influence

on firm performance. (Caves and Porter, 1977; Porter 1980, 1985). The Firm performance is better explained by differences in firm resources (Wernerfelt, 1984). Resources include all assets, knowledge, experience, etc. controlled by a firm. The firms strategy is improving effectiveness. (Barney 1991). Resources can be tangible or intangible in nature. (Wernerfelt, 1984). Tangible resources include capital, technology and location. (Wernerfelt, 1984). Intangible resources consist of knowledge, skills, social capital and reputation. (Wernerfelt, 1984). The firms strength is it resources. (Learned, Christensen, Andrews and Guth, 1969; Porter, 1981).

How was written above shared vision, reciprocity and density are components of Social Capital. (Tsai & Ghoshal, 1998; Granovetter, 1973). According to Table 1, among different opinions of different authors from different countries for our study have been chosen definition written by Tsai & Ghoshal, 1998; Granovetter, 1973.

Table 1 - Social Capital conceptualization

	Author(s)	Definition
1	Bourdieu, in Bourdieu & Wacquant, 1992	Social capital is the sum of the resources, actual or virtual, that accrue to an individual or a group by virtue of possessing a durable network of more or less institutionalized relationships of mutual acquaintance and recognition.
2	Burt P.	Social capital here refers to features of social organization, such as trust, norms, and networks, that can improve the efficiency of society by facilitating coordinated action.
3	J. Coleman	Social capital as a collective resource utilizable by actors who are goal-oriented. Social capital requires an element of embeddedness in social structure.

4	Tsai and Ghoshal, 1998	Social capital is an intangible resource, and a term originally used to describe relational resources, occurring in cross-cutting personal ties.
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Source: Prepared by author

Reciprocity refers to a “network” in which each member has something to provide to the other. When something is provided, there is an expectation of some sort of quid pro quo.(Portes & Sensenbrenner, 1993). Reciprocity is not the immediate exchange of a legal or business contract but a combination of short-term self forgetfulness (altruism) and long-term self-interest (Taylor, 1982), or what de Toqueville called “self interest rightly understood.” Human provides a kindness to others, or acts for the benefit of others at a personal cost, but human expect that this service will be returned in the future in case of need. In a community where reciprocity is strong, people care for each other’s interests. At the psychological level, this refers to prosocial behavior (Reno, Cialdini, &Kallgren, 1993).

Shared vision identified understanding of the general purpose (Nahapiet and Ghoshal 1998). This common understanding can be described by a resource (Portes and Sensenbrenner 1993). Some researchers defined relationships between firms are important factor influencing knowledge transfer (Ghoshal & Bartlett, 1988; Ghoshal, Korine, & Szulanski, 1994). Different authors have agreed in opinion about value creation and resource exchanges the best way is trust and shared vision (Tsai & Ghoshal, 1998; Yli-Renko, Autio, & Sapienza, 2001) are important determinants to effective knowledge transfer. Shared vision is the collective goals of the members of an organization. (Tsai, W., & Ghoshal, S. (1998) Social capital is a set of resources which has positive influence on firm conduct and performance (Gulati et al., 2000;Nahapiet & Ghoshal, 1998).

Density of networks refers to the number of links connecting members of the network, in comparison with the general possible connections (Granovetter, 1973). Density of networks refers to the number of links connecting members of the network, in comparison with the general possible connections (Granovetter, 1973). This is an

indicator of the relationship of network members (Wellman, 1988). Density is an indicator of cohesion and helps establish trust among members of the network (Axelrod, 1984; Greve, 1995). Cooperation, commitment and cooperation are enhanced by the density of network links (Axelrod, 1984, Cross, Borgatti, & Parker, 2002). How network norms and values are disseminated and accepted will function within the basic network structure (Borgatti & Foster, 2003).

The concept of Entrepreneurial Orientation has arisen in D. Miller's (Miller, 1983) and J. Covin's and D. Slevin's works (Covin, Slevin, 1988; 1989). According to original definition, the level of development of entrepreneurial orientation is defined "by degree of readiness of the management to undertake risky decisions, to put into practice changes and to be engaged in innovative activity with the purpose to get certain competitive advantages to the firm or to work more successfully in the conditions of the increased aggression of the competitive environment" (Covin, Slevin, 2012, C. 76). This determination became a basis for operationalization of entrepreneurial orientation as the theoretical construct consisting of three a component: innovativeness, pro-activity and readiness for risk. The variables to be reviewed in this study include innovation which is divided into product, process and technological innovations. Risk-taking which is divided into monetary, social and psychological risks. Pro-active posture which is divided into anticipating and prevent problem, be action-oriented and adopt opportunity seeking strategy. At the same time it is supposed that the firm can be considered entrepreneurial oriented only in case of equal extent of development all corresponding component of entrepreneurial orientation. Studying of influence of entrepreneurial orientation to results of activities of firm is the widest direction of researches in the field. A large number of the researches devoted to this subject agree that entrepreneurial orientation is a benefit of firm and positively influences its performance.

Innovation of firm is understood as ability to create new products, to introduce the new ideas and processes in the organization, to experiment and support the creative atmosphere. This component of Entrepreneurial Orientation will be coordinated with

Schumpeter representation of business and category of "new combinations", i.e., innovations (Schumpeter, 1934). Innovation of firm is understood as ability to create new products, to introduce the new ideas and processes in the organization, to experiment and support the creative atmosphere (Lumpkin, Dess, 2012; Hult et al., 2004).2012, C.76). Mahrdad, et al, 2011 came to conclusion that firms with greater innovativeness more successful in reacting to changing environment conditions and in development of new opportunities which allow them to achieve better performance. Innovativeness is shown in search of the new ideas, in the aspiration to introduce new processes and methods of business, in creativity and readiness to experiment, development of new fields of activity or active development of new products in area, traditional to the firm (Gurkov, 2005; Vij, Bedi, 2012). In its initial sense innovativeness can be defined as degree to which the person or other enterprise there are relatively earlier in adoption of the new ideas, than other members of system (Rogers, 2003; Oscar, & Hassan, 2013). Also it is a tendency to support the new ideas, experimenting and creative processes (Lumpkin & Dess, 1996). An Oscar and Mashood Ul-Hassan (2013) also integrated innovativeness closely with creativity.

Milling and Stumpfe (2000) classified an innovation in a product innovation, process innovation and technological innovation. According to them, the product innovation includes reduction of life cycle of a product, widen commercial production process, generate sales and revenue and compensate investments into development. Process innovation involve quantity of the innovations which are carried out in the course of production or service. According to Kim, et al (1992) technological innovation include acquisition of more and flexible processing equipment, in combination with more flexible organization and administrative processes which facilitates or allows frequent changes in the product line.

Proactiveness involves attempts to discover future opportunities, even when these opportunities may be somewhat unrelated to existing operations (Venkatraman, 1989; Rauch, Wiklund & Frese, 2004). Proactiveness as measurement of EO belongs to "desire and anticipation to take new opportunities" (Lumpkin & Dess, 1996).

Proactiveness as a dimension of entrepreneurial orientation is an opportunity seeking and forward-looking perspective that involves acting in anticipation of future demand and trends, and thereafter capitalizing on these opportunities to gain benefit (Kropp, Lindsay & Shoham, 2008). Pro-activeness is connected with advantage of the first engine as the firm which is able to expect future requirements and to develop new products to satisfy such requirements before competitors, is inclined to take favorable conditions in a financing, sourcing, access to the markets, etc. (Rauch et al., 2009). The firms which are developing and implementing clear managerial strategies to be successful in their markets are more likely to perform well, and this can be measured by the extent to which profits are retained and reinvested back in to the business (Miller & le Breton-Miller, 2011).

Readiness for risk assumes desire and a capability of firm to put the resources in projects, result of participation in which it is difficult to predict in advance, and in which there is a high probability of considerable losses (Zahra, 1991; Wiklund, Shepherd, 2003; Frank et al., 2010). This component of entrepreneurial orientation is rather connected with understanding of essence of an entrepreneurship according to R. Cantillon who refers category of risk to the main characteristics of this phenomenon (Cantillon, 1734). Risk taking is also comprehended as a tendency to risky projects (Miller 1983, Covin & Stevin, 1988; Mario, 2013).

Landes (2012) has defined three types of risks, namely, social risk or market risk (i.e. the risk which occurs when crash happens in the market or decrease crushes execution of investments, even when quality of investments remains to the same). Monetary risk as the phenomenon resulting effect of inflation: Inflation reduces value of money, that is, purchasing power of money, doing firms to spend more money in production, distribution of their products or services and therefore to affect profit level negatively, while psychological risk, the risk connected with inability of debtors to execute or observe their obligations of payment, thus, weaken position of liquidity of firm and therefore it's performance.

Hypothesis Development Section

Miller and Kean (1997) refer to the reciprocity of the community as an expected exchange between local consumers and local retailers. They found that local consumers are more likely to make purchases from local retailers when these retailers expressed a high level of community support. Lumpkin, Hawes and Darden (1986) had similar findings, but also found that consumer attitudes about relationships with local retailers were a more important determinant of patronage than any other variable. Support for the relationship between the influence of reciprocity on small business owners was found by Miller (2001). In her study of consumers in two rural cities, customer satisfaction with the level of reciprocity was a significant predictor of consumer behavior. Thus, reciprocity helps small business owners develop social capital with local consumers.

H₁: Perceived reciprocity is related to firm performance.

This design reflects the collective goals of the group, organization, or community (Tsai & Ghoshal, 1998). Tsai and Ghoshal (1998) found that a shared vision is a statistically significant and positive indicator of social capital. Shared vision is also an important area with regards to the local community. It is important for all stakeholders (customers) to support and “buy in” to marketing programs and image creation (Office of the Governor, 2003). We formulate the hypothesis as follows:

H₂: Perceived shared vision is related to firm performance.

Coleman (1988) argues that one of the benefits of density among a firms (closed network) is collective social capital, which promotes shared behavioral norms (Rowley, 1997) and cooperation (Walker et al.,1997). Ties to huge amount of SME', who are connected to each others, provide a lot of useful information (Granovetter, 1973; Burt, 1992). Although dense ties require more frequent interactions and commitment of resources (Granovetter, 1985; Krackhardt, 1992; Kogut, 1988), dense ties provide exchanges of information. Burt (1992) argues that having relationship with

a group of firms who has to one another parties provide helpful information and limit the firm's access to divergent perspectives. Finally, created third hypothesis:

H₃: Perceived density is related to firm performance.

Schumpeter (1934; 1942), emphasized a role of innovation in entrepreneurial process. He declared that it was process of "creative destruction" where the welfare was created when the existing structures of the market were destroyed by entering of new goods or services which moved resources far from the existing firms and forced new firms to grow. . As defined, innovativeness - a tendency, a susceptibility of the person or the organization and propensity to accept the new ideas, new thinking or decisions which lead to new opportunities (Eggers, etc., 2013; Li, etc., 2012; van der Lagt, etc., 2007). Innovation allows firm to use the opportunities arising in the market, to get competitive advantages that, in turn, positively influences it's performance (Kreiser, Davis, 2010; Hult et al., 2004). Thus, conceptual arguments suggest that innovativeness dimension of EO leads to higher performance. Therefore, our fourth hypothesis is as follows:

H₄: The innovativeness is related to firm performance.

Empirically, proactiveness leads to better performance in terms of sales and employee growth, profitability, product and customer performance (Krauss, Frese, Freidrich & Unger, 2005; Baba & Elumalai, 2011). Proactivity is the strategic orientation of the firm, which reflects the specific entrepreneurial aspects of the styles, methods and practices of decision-making (Frank, Kessler & Fink, 2010). This refers to attempts to prepare for the future by searching for new opportunities that may or may not be related to the current line of business, which allows the introduction of new products and brands on the eve of competition (Okpara, 2009). A strong proactive behavior gives SMEs the ability to anticipate needs in the market place and the capability to anticipate competitor's needs (Covin & Slevin, 1989; Miller & Friesen,

1983; Eggers, Kraus, Hughes, Laraway & Snyckerski, 2013). Therefore, our fifth hypothesis is as follows:

H₅: The proactiveness is related to firm performance.

It was assumed that firms, with better performance, are also inclined to higher level of risk (Leko-Simic & Horvat, 2006, 2013). Standard representation - that risk-taking - one of three basic elements of EO and that which increases profitability of the company (Miller, 1983; Miller & Le Bruton Miller, 2011). At the theoretical level, the willingness to engage in relatively high levels of risk taking behavior enables SMEs to seize profitable opportunities in the face of uncertainty which leads to long term profitability (McGrath, 2001). Empirically, risk taking firms are able to secure superior growth and long term profitability in contrast to risk avoiders (Yang, 2008; Wang & Poutziouris, 2010; Ahimbisibwe & Abaho, 2013). Therefore, to be outpaced and staying economical is openly related to a firm's strength to take premeditated dangers, and our last hypothesis is as follows:

H₆: The risk taking is related to firm performance.

Methodology

Survey questions were distributed among different types of SMEs owners and directors in Almaty. SMEs provide different types of services like manufacturing, retail and food, ecological services and etc. Questionnaire were distributed and collected among 30 SMEs in Almaty. Most items in the questionnaire were measured using either five point Likert scales, anchored from “strongly disagree” to “strongly agree”.

In questionnaire were used six variables: reciprocity, shared vision and density, because they are components of Social capital (Tsai & Ghoshal, 1998; Granovetter, 1973) and innovativeness, risk taking and proactiveness they are components of entrepreneurial orientation. All variables are latent variables, because they are not directly observable in our study.

For avoiding misunderstanding by member of survey (SME) a questions in a questionnaire have been done some extra work. First of all, all questions have been written in English, after translated by a translator into Russian language. Next, for correct grammar and only sense, questionnaire have been sent to professional translator from English into Russian language. After all that transactions survey questions checked by professor and approved. Finally, questionnaires were distributed.

When all data was collected analyses did with help of computer program called SmartPLS 2.0 software. For analyzing collected data we used exactly SmartPLS 2.0 software in comparison with SPSS, because of small sample size and main argument and answer for question why we used SmartPLS is when SPSS and other programs require normal distribution, SmartPLS can work with data with non-normal distribution. By using questionnaire we collect primary data for our research. It is another argument and proof why exactly SmartPLS. When collected primary data by using questionnaire can not be a normal distribution. Many academics and professors are witnesses.

There are two types of measurement scales for latent variables; formative or reflective. As the measurement items revealed, both exogenous and endogenous variables are reflective because indicators are highly correlated, and thus their

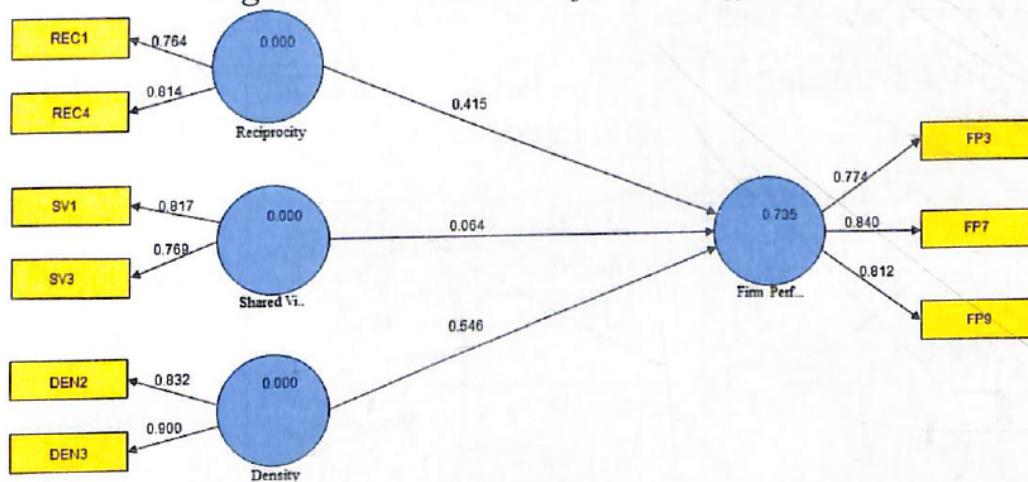
reliability should be statistically examined (Haenlein & Kaplan, 2004; Hair et al., 2013; Petter et al., 2007).

Social capital and entrepreneurial orientation are a latent variables which have different dimensions or indicators and difficult to observe directly. Current study measures social capital and entrepreneurial orientation indirectly with a set of measurable indicators, like: reciprocity, shared vision, density, innovativeness, risk taking and proactiveness. In order to understand Social Capital, Entrepreneurial orientation and Firm Performance, a survey can be created. In this survey we are asked from entrepreneurs questions on a scale representing latent variables, namely Reciprocity (REC), Shared Vision (SV), Density (DEN), Pro-activeness (PA), Risk-taking (RT), Innovativeness (INN) and Firm Performance (FP), using a 5-point Likert scales ((1) strongly disagree, (2) disagree, (3) neither agree nor disagree, (4) agree, and (5) strongly agree). The survey questions asked are presented in table 6 and table 7 (Appendix).

Analysis and results

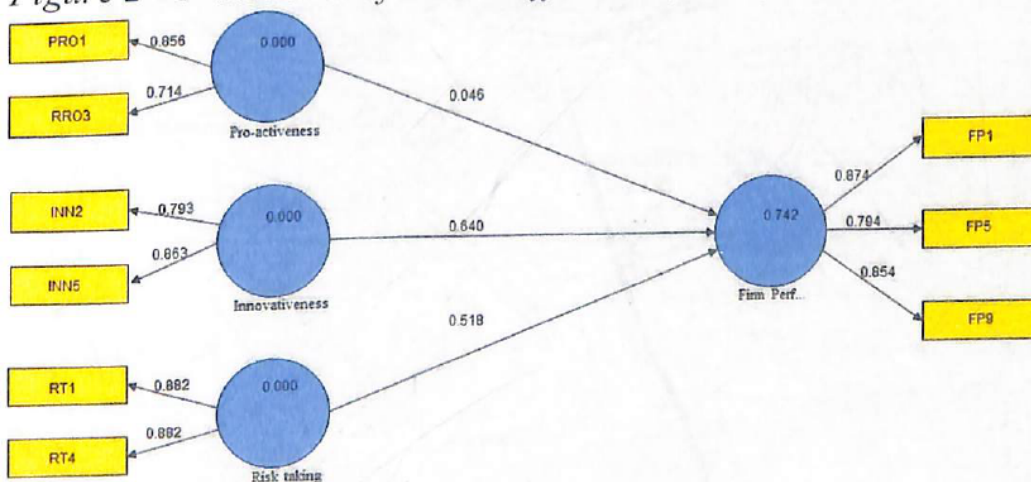
The analysis was conducted by using SmartPLS 2.0 software. The software is very useful in research to analyze collected data from surveys and test-hypothesized relationships. The graphical interface allows to create a PLS path model, which shows the various reliability and validity of items that we must check and report when conducting a SmartPLS software. There are two submodels in a path model: the structural model, the measurement model. Following path models are used to examine the relationship between Social Capital and SME's Performance (Figure 1), and the relationship between Entrepreneur Orientation and SME's Performance (Figure 2).

Figure 1 - T- statistics of Path coefficients (Social Capital)



Source: Prepared by author

Figure 2 - T- statistics of Path coefficients (Entrepreneur Orientation)



Source: Prepared by author

Measurement Model

Measurement model specifies the relationship between variables and their indicators. It also known as outer model, results of which are interpreted by the following topics:

- Outer model loadings and significance
- Indicator reliability
- Internal consistency reliability
- Convergent validity
- Explanation of target endogenous variable variance

2: Results Summary for Reflective Outer Model (Social Capital)

Variable	Indicators	Indicator Reliability	R-Square	AVE	Composite Reliability
Firm Performance	FP1	0.774	0.735	0,8067	0.8974
	FP5	0.840			
	FP9	0.812			
Reciprocity	REC1	0.764	0	0,6005	0.8532
	REC4	0.814			
Shared Vision	SV1	0.817	0	0,5923	0.7421
	SV3	0.769			
Density	DEN2	0.832	0	0,5087	0.7052
	DEN3	0.900			

Source: Computed by author

Table 3: Results Summary for Reflective Outer Model (Entrepreneur Orientation)

Variable	Indicators	Indicator Reliability	R-Square	AVE	Composite Reliability
Firm Performance	FP1	0.874	0.742	0,5712	0.7917
	FP5	0.794			
	FP9	0.854			
Pro-activeness	PRO1	0.856	0	0,5254	0.7321
	PRO3	0.714			
Innovativeness	INN 2	0.793	0	0,7015	0.8901
	INN5	0.863			
Risk taking	RT1	0.882	0	0,6837	0.7093
	RT4	0.882			

Source: Computed by author

Explanation of target endogenous variable variance

The coefficient of determination, R^2 , is 0.735 for the Firm Performance (Social Capital) and R^2 is 0.742 for the Firm Performance (Entrepreneur Orientation), which means that the three latent variables of Social Capital together (DEN, REC, SV) explain 73,5% of the variance in Firm Performance. Three latent variables of Entrepreneur orientation together (PRO, INN, RT) explain 74,2% of the variance in Firm Performance. In marketing research R^2 of 0.75 is accepted as a substantial value. Therefore, it is sensible to conclude that exogenous variables together have a strong effect on the variance of firm performance.

Indicator Reliability

Outer loading is used in order to evaluate the indicator reliability and 0.70 or higher values are preferred, which shows how associated indicators have much in common. It can be seen from table 2 and table 3 that all of the indicators have individual indicator reliability values that are larger than the preferable level of 0.7.

Internal Consistency Reliability

Cronbach's Alpha reliability method was applied to check the reliability of all items in the questionnaire and to determine internal consistency. It determines the internal consistency and should be more than 0.7. Due to Cronbach's Alpha it is more appropriate to apply "composite reliability" measurement to see an overview of results. As seen in table 2 and table 3 our "composite reliability" values lay between, which is greater than the acceptable level of 0.7. Consequently results show high reliability of the questionnaire.

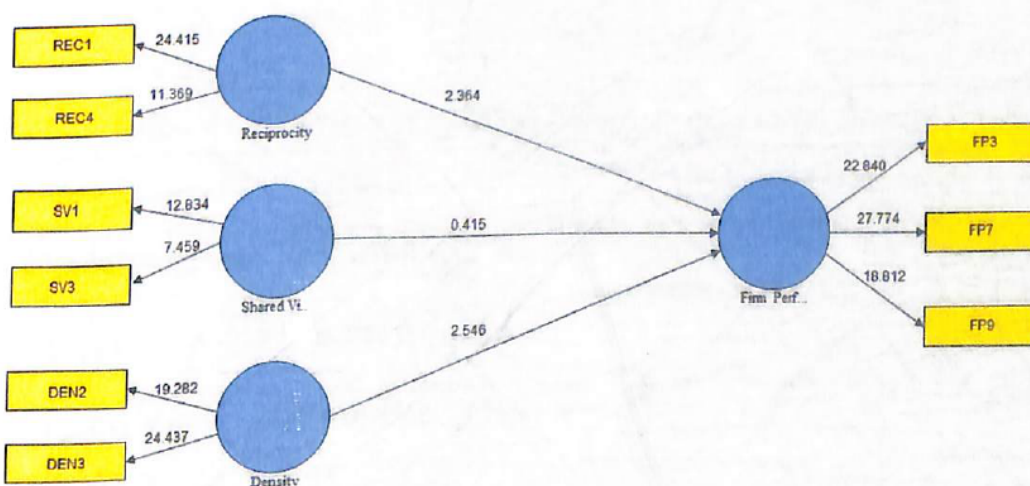
Convergent Validity

To check convergent validity, each variable's Average Variance Extracted (AVE) is evaluated. Again from table 2 and table 3, it is found that all of the AVE values are greater than the acceptable threshold of 0.5, so convergent validity is confirmed.

Structural Model

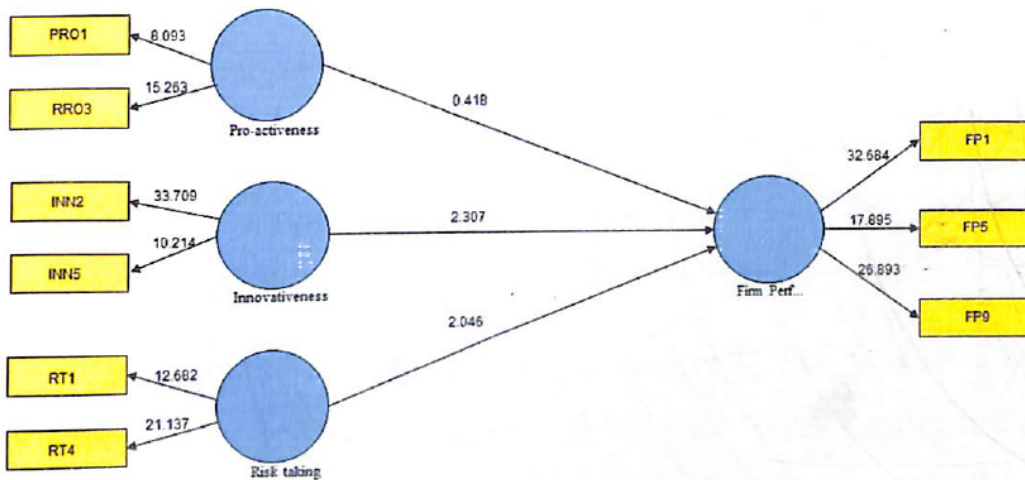
Next step is assessment of results of structural model. The models concern the relationship between dependent and independent variables, results can be seen using a procedure called bootstrapping.

Figure 3: T- statistics of Path coefficients (Social Capital)



Source: Prepared by author

Figure 4: T- statistics of Path coefficients (Entrepreneur Orientation)



Source: Prepared by author

Significance and relevance of the structural model relationships

T-statistics gives approximate T-value for the significance testing of the structural path. Using a two-tailed *t*-test with a significance level of 5%, the path coefficient will be significant if the *T*-statistics is larger than 1.96. Outer model tests the relationship between variable and its indicators.

Inner model cares about relationship between dependent and independent variables. The numbers in the “*T*-Statistics” column shows the path coefficients of the inner model.

Table 4: T-Statistics of Path Coefficients (Inner Model for Social Capital)

	T – Statistics
Density -> Firm Performance	2.546
Reciprocity -> Firm Performance	2.364
Shared Vision -> Firm Performance	0.415

Source: Computed by author

Table 5: T-Statistics of Path Coefficients (Inner Model for Entrepreneur Orientation)

	T – Statistics
Pro-activeness -> Firm Performance	0.418
Innovativeness -> Firm Performance	2.307
Risk Taking -> Firm Performance	2.046

Source: Computed by author

According to table 4, we can conclude that, Social Capital's dimensions: Reciprocity (2.364) and Density (2.546) are both significant predictors of Firm Performance, but Shared Vision (0.415) does not significantly predict Firm Performance. According to table 5, we can conclude that, Entrepreneur Orientation's dimensions: Innovativeness (2.307) Risk Taking (2.046) are both significant predictors of Firm Performance, but Pro-activeness (0.418) does not significantly predict Firm Performance.

Conclusion

The purpose of our study was to examine the role of Social Capital and Entrepreneur orientation for SME's performance. To examine our research questions we collected data from small businesses in Almaty. We hypothesized, that social capital and entrepreneur orientation are related to firm performance. Specifically, shared vision, density, reciprocity, pro-activeness, risk-taking and innovativeness. We identified reciprocity, shared vision, and density as the indicators of social capital and pro-activeness, risk-taking and innovativeness as the indicators of entrepreneur orientation. All dimensions (REC,SV, DEN) were statistically significant indicators of social capital, except of shared vision. All dimensions (PRO, INN, RT) were statistically significant indicators of entrepreneur orientation, except pro-activeness. We fit a structural model to test the relationship between social capital and SME's performance, the relationship between entrepreneur orientation and SME's performance. Our analysis revealed that social capital and entrepreneur orientation were positive and significant indicators of SME's performance. These results support previous empirical work (Rodney C. Runyan & Patricia Huddleston & Jane Swinney 2006).

Actually Social Capital exist in Kazakhstan, but not all entrepreneurs educated, do not know how named their relationships and how it is measurand. For example each entrepreneurs when helps their customers or another entrepreneurs wait some return, it is not money. It means I will help you now and you will help me later when I will need. It is some sort of quid pro quo practice everyday by everyone because nobody is altruist. But huge amount of entrepreneurs know that it named reciprocity. Also, SME's owners may help to each others if they have the same purpose, it is also has the title as shared vision. In current study was discussed and developed social capital which part and parcel of firm performance.

Social capital may help to create competitive advantage for a firm, through the exchange of information among members (Nahapiet & Ghoshal, 1998). Social capital can serve as a resource for small business owners, if it helps to increase the number of

local consumers who patronize a business.

Our investigation was limited to small firms located in one biggest city in Kazakhstan. Business characteristics may differ between firms located in big cities and small cities or rural areas. Thus it is possible that our findings on SC, EO and FP may not be same to all small businesses. It would be beneficial to replicate this study with small cities or rural areas, with more amount of respondents.

In conclusion, this study has conducted factors affecting the firm performance. If we can achieve a better understanding of the important factors influencing the firm performance, this will have positive outcome for Kazakh entrepreneurs.

Appendices

Appendix 1 - Questionnaire about social capital and entrepreneur orientation

Table 6: Questionnaire about social capital and entrepreneur orientation

Раздел А

Пожалуйста, укажите, в какой степени Вы согласны/не согласны с нижеприведенными утверждениями (1=Полностью не согласен, 2=Не согласен, 3=Затрудняюсь ответить, 4=Согласен, 5=Полностью согласен):

		Полностью не согласен(а)	Не согласе н(а)	Затрудня юсь ответить	Согласе н(а)	Полностью согласен(а)
1	Мы уделяем первоочередное внимание исследованиям и разработкам в целях содействия использованию технологии.					
2	Мы открыты для новых идей, даже если они нам непривычны.					

3	Мы всегда заботимся о повышении эффективности внутренних процессов в компании.					
4	Мы всегда стремимся адаптироваться к изменению внешней среды.					
5	Мы постоянно стремимся к тому, чтобы предлагать уникальные товары и услуги.					
6	Наша компания, как правило, выступает инициатором и принимает участие в проектах с высокой степенью риска.					
7	Положительное отношение к риску — залог нашего успеха.					
8	Мы ценим идеи относительно новых стратегий и планов, даже если мы не уверены в том, что они сработают.					
9	Мы содействуем участию наших сотрудников в рискованных программах.					

10	Мы регулярно отслеживаем возможности, возникающие на рынке.					
11	Мы обычно стараемся спрогнозировать состояние рынка в будущем.					
12	Мы стремимся к тому, чтобы иметь возможность удовлетворять появляющийся спрос.					
13	Наша маркетинговая деятельность направлена на формирование спроса, а не на удовлетворение уже существующего.					
14	В наших товарах и услугах предусмотрены решения, отвечающие скрытым потребностям клиентов.					
15	Наши клиенты, как правило, честны при ведении бизнеса с нашей компанией.					
16	Наши клиенты готовы сделать нам одолжение, если мы попросим.					

17	Мы время от времени помогаем нашим клиентам, а они — нам.					
18	Наши клиенты лояльны по отношению к нашей компании, потому что мы их поддерживаем.					
19	Если мы перестали бы поддерживать наших клиентов, они бы прекратили лояльно относиться к нашей компании.					
20	Мы с клиентами разделяем общие цели относительно будущего нашей компании.					
21	Нашим клиентам нравится работать с нами для достижения будущих бизнес-целей.					
22	Клиенты с энтузиазмом относятся к проектам, которые принесут выгоду нашим компаниям.					
23	Мы знаем каждого клиента по имени.					
24	Мы регулярно обсуждаем бизнес с клиентами.					

25	Мы регулярно встречаемся с клиентами в рамках ведения бизнеса.					
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Source: Prepared by author

Appendix 2 - Questionnaire about firm performance

Table 7 - Questionnaire about firm performance

		Очень низко	низко	средне	высоко	очень высоко
1	Рентабельность продаж (чистая прибыль/общий доход)					
2	Рентабельность собственного капитала (чистая прибыль/собственный капитал компании)					
3	Рентабельность инвестиций (чистая прибыль/начальное капиталовложение)					
4	Темпы роста занятости					
5	Темпы роста прибыли					
6	Рентабельность					
7	Рост доли рынка					
8	Операционная эффективность (способность предприятия производить продукцию с наименьшими затратами)					
9	Качество предоставляемой продукции и услуг					

Source: Prepared by author

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