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## Managing the Development of the Innovation Market in the Service Sector in the Republic of Kazakhstan

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### Abstract

An ability to innovate is more commonly observed as a crucial element in obtaining a sustainable competitive advantage. Although the issue of innovational development within product companies has been an object of research, there are still questions to answer regarding how innovational management should be conducted in service organizations, especially in the context of the Republic of Kazakhstan. The main aim of this investigation is to develop the new theoretical concept of stimulation of innovative processes among service providers in the Republic of Kazakhstan. Thus, the central question in this paper asks what measures should be taken to increase the competitiveness of domestic companies offering services by virtue of managing the market of innovations taking into account the national peculiarities. The results of this study provide an important opportunity to advance the understanding of the innovation market as the unique sphere from other industries can benefit from. As the result of the investigation, the authors proposed the theoretical concept including the element of a customer, whose role of co-producer is especially important in the service sphere. Also, because of the difference in the innovational activity and economic differences among the territorial division of the country, it is more effective to grant the local innovational offices more power to set the priority directions in service innovation for each region. The current research sets a new ground for the following investigations in the area of innovation management in the service industry in Kazakhstan.

*Keywords:* Economics, Strategic Management, Innovation, Service, Industry, Business

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## Қазақстан Республикасында қызмет көрсету саласындағы инновациялық нарықты дамытуды басқару

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### Түйін

Инновациялық қабілет көбінесе тұрақты бәсекелестік артықшылыққа ие болудың шешуші элементі ретінде қарастырылады. Азық-түлік компаниялары ішіндегі инновациялық даму мәселесі зерттеу тақырыбы болғанына қарамастан, қызмет көрсету ұйымдарында, әсіресе Қазақстан Республикасының контекстінде инновациялық менеджментті қалай жүргізу керектігі туралы сұрақтар әлі де бар. Осы зерттеудің негізгі мақсаты Қазақстан Республикасында қызмет көрсетушілер арасында Инновациялық процестерді ынталандырудың жаңа теориялық тұжырымдамасын әзірлеу болып табылады. Осылайша, осы мақаладағы басты мәселе-ұлттық ерекшеліктерді ескере отырып, инновациялар нарығын басқару арқылы қызметтерді ұсынатын отандық компаниялардың бәсекеге қабілеттілігін арттыру үшін қандай шаралар қолдану керек. Осы зерттеудің нәтижелері инновациялық нарықты басқа салалар пайда көре алатын ерекше сала ретінде түсінуді тереңдетуге маңызды мүмкіндік береді. Зерттеу нәтижесінде авторлар тапсырыс берушінің элементін қамтитын теориялық тұжырымдаманы ұсынды, оның бірлескен продюсерінің рөлі қызмет көрсету саласында ерекше маңызды. Сонымен қатар, инновациялық белсенділік пен елдің аумақтық бөлімшелері арасындағы экономикалық айырмашылықтарға байланысты жергілікті инновациялық кеңселерге әр аймақ үшін инновациялық қызметтердің басым бағыттарын анықтауға көбірек өкілеттік беру тиімдірек. Осы зерттеу Қазақстандағы қызмет көрсету саласындағы инновацияларды басқару саласындағы келесі зерттеулер үшін жаңа негіз қалайды.

*Түйін сөздер:* экономика, стратегиялық менеджмент, инновациялар, қызмет, өнеркәсіп, бизнес

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## Управление развитием инновационного рынка в сфере услуг в Республике Казахстан

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### Аннотация

Способность к инновациям чаще рассматривается как решающий элемент в получении устойчивого конкурентного преимущества. Несмотря на то, что проблема инновационного развития внутри продуктовых компаний была предметом исследования, все еще есть вопросы, на которые нужно ответить, как вести инновационный менеджмент в обслуживающих организациях, особенно в контексте Республики Казахстан. Основной целью данного исследования является разработка новой теоретической концепции стимулирования инновационных процессов среди поставщиков услуг в Республике Казахстан. Таким образом, центральный вопрос в данной статье заключается в том, какие меры следует предпринять для повышения конкурентоспособности отечественных компаний, предлагающих услуги, за счет управления рынком инноваций с учетом национальных особенностей. Результаты этого исследования предоставляют важную возможность для углубления понимания инновационного рынка как уникальной сферы, от которой могут извлечь выгоду другие отрасли. В результате исследования авторами предложена теоретическая концепция, включающая в себя элемент заказчика, роль сопродюсера которого особенно важна в сфере обслуживания. Кроме того, из-за различий в инновационной активности и экономических различий между территориальными подразделениями страны более эффективно предоставить местным инновационным офисам больше полномочий для определения приоритетных направлений инновационных услуг для каждого региона. Настоящее исследование закладывает новую основу для следующих исследований в области управления инновациями в сфере услуг в Казахстане.

*Ключевые слова:* экономика, стратегическое управление, инновации, услуга, отрасль, бизнес.

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### Introduction

Over the past century, there has been a dramatic increase in the size of the service industry worldwide. Nowadays, numerous companies strongly associated with manufacturing also perform services including insurance, consulting, staff development, technical support, etc. Traditionally, it is considered that the larger the percentage of the service sector in the national GDP, the more developed the country is. The recent global COVID-19 outbreak and measures to combat it collapsed many industries are pushing some of them to the edge of bankruptcy. It is not a surprise that the service sector, which strongly depends on in-person interaction, is among those which suffered to a great extent. While the healthcare system of the states is overloaded by the influx of patients, tourism, beauty, entertainment, and catering industries are experiencing a shortage of customers and lack of funds. Nevertheless, despite the common negative economic trend over the last year, during the global lockdown, there were some industries performing greatly, including e-learning, IT services, freelance, online retailing, food delivery and online entertainment. The experience of service providers doing well in times of devastating crisis means that proactivity and willingness to innovate are the keys to survival. Innovations market can be described as the system of economic relations arising in the process of creation, development, transfer, and use of innovations that can be in both tangible and intangible form (Doğan et al., 2013).

Despite the common concept saying that Kazakhstan economic system is strongly based on the primary sector, in other words, the export of natural resources, there has been a significant increase in the role of the service sector over the last two decades. However, it should be admitted that there is still a gap in the provision of knowledge-intensive services by local entrepreneurs. These circumstances force Kazakhstan enterprises to import services such as technical engineering and R&D from foreign providers. Taking into account the decision of the government of the Republic of Kazakhstan to enter the list of the 30 most developed countries, in recent years there has been an increasing interest in the service sector as a main driver of the economy. This means the adoption of the holistic approach aimed at the development of this sector which is impossible without innovation as one of the crucial elements. A considerable amount of studies has reported that innovations have the

potential to become the source of competitive advantage by enhancing the existing service as well as creating entirely new offerings (Urbanova, 2013), the current statistical data demonstrate the low involvement of Kazakhstan service providers in innovative activities. One of the reasons for the poor creative performance of domestic service providers is the lack of a structural approach to managing the innovation market within the country.

The main aim of this investigation is to develop the new theoretical concept of stimulation of innovative processes among service providers in the Republic of Kazakhstan. Thus, the central question in this paper asks what measures should be taken to increase the competitiveness of domestic companies offering services by managing the market of innovations considering the national peculiarities. The results of this study provide an important opportunity to advance the understanding of the innovation market as the unique sphere other industries can benefit from.

### Literature review

Due to the complexity of the description of the service as a whole, it seems to us that at the moment it is convenient to use the definition of services by type, where it is possible to more clearly define what is a service, to outline the radius of its action. Among the first attempts to classify services by type, the ideas which were further developed should include the works of Stanton and Judd, published in 1964.

Stanton, Etzel and Walker (2001) divide services provided on a commercial basis into ten groups: housing services; family services, home repairs, landscaping, cleaning of residential premises, etc.); recreation and entertainment; individual sanitary and hygienic services (washing, dry cleaning, cosmetic services, etc.); medical and other health services; private education; business services and other professional services (legal, accounting, consulting, etc.); insurance and financial services; transportation services; communications services.

Judd (1964) proposed his own scheme of classification of services, distinguishing three principal groups: services related to physical goods that the client owns and uses, but not on the rights of the owner; services related to material goods that are the property of the client; services not associated with physical goods.

Lovelock (2005) distinguishes services by the following characteristics: essential characteristics of demand, content and benefits, delivery procedures.

The fact that the service is an undoubted factor determining the comfortable state of society and ensures the well-being of the population, but it is not absolute, and a certain part of researchers have identified various contexts of distinctive characteristics of the service that affect the socio-economic development of the country. As a justification, the relationship between the services provided and the growing needs of society related to the introduction of innovations and competitive advantages in modern conditions of market development is shown (H. Urbancova, Hana, U., 2013). In another context, conceptual approaches were studied in a specific service industry, in particular in the field of tourism (Doğan, H., Nebioglu, O., Aydın, O., & Doğan, I., 2013). These approaches characterize progressive mechanisms in innovation management in conditions of global competition (Dereli, D. D., 2015), (Edvardsson, B., Gustafsson, A., Kristensson, P., & Witell, L., 2010).

Thus, based on the conducted research of the works of scientists and economists, the following hypothesis is proposed: differentiation of services contributes to the qualitative component of the welfare of the country's population, there is a relationship between the services provided and innovation management, the study and implementation of foreign experience significantly increases the competitiveness of the innovation market in the service sector at the regional level.

### Methodology

Before diving into the analysis of the issue, it was decided to run a trial survey among the final consumers of services to understand if innovations in the service industry matter to customers. The results demonstrate that clients do want domestic service providers to be more innovative and consider the current level of innovativeness of domestic service providers insufficient. Also, it revealed that Kazakhstani service consumers associate more innovative companies with those who provide services of higher quality. Moreover, the vast majority of the respondents of the trial claim that they would prefer a company with a higher level of innovativeness, other things being equal.

Interestingly, the medical industry was where the adoption of innovations was considered of utmost importance. In other words, the issue of innovative development in the service industry occupies the minds of final consumers willing to reward those

open to innovations. It was decided that the best method for this investigation would be a qualitative study. The first reason behind this decision is the flexibility that the qualitative approach gives the researcher. Secondly, the selected research method provides instruments to reach deeper insights, experiences and expectations of people involved in the investigation. Taking into account the information received from the trial, we approached the service providers. The group of the respondents addressed within the study was presented by the managers of the companies who are in a position to make decisions regarding innovation adoption. Given the eligibility criteria for people to be participants of the research, the project employed non-probability convenience sampling. It should be noted that snowball which was expressed in addressing new interviewee by recommendations from the previous one. Semi-structured interviews were conducted with 14 managers, predominantly from small size companies. Taking into account the inequality existing among the regions in relation to the development of the service sector in Kazakhstan, the study encompasses the service providers both from the cities where the service industry occupies a considerable share in the economic system and the regions where the service sector is far behind. As a result, the companies whose managers agreed to participate in this research are Almaty, Nur-Sultan, Taraz and Kyzylorda. All interviews were organized in compliance with the basics of voluntariness and anonymity. Respondents were asked questions such as:

1. In what field do they work?
2. How innovative do they think their company is?
3. Are there any innovative methods used in their work?
4. What are the companies of the Republic of Kazakhstan lacking in order to become innovative?
5. What methods of foreign countries will work for us if we apply it?

It should be noted that all the managers who were interviewed unanimously came to the conclusion that innovation is at a low level. And in order to reach the heights, it is necessary to introduce some changes in the sphere of management.

The main method of data analysis within the current study is Grounded Theory. This method has been used because it allows researchers to gain a deeper understanding of phenomena that lacked depth in previous researches (Milliken, 2010). In the same vein, says that the Grounded Theory approach especially benefits exploratory studies (Engward, 2013).

## Discussion

### *A market of innovations*

Innovations traded on the innovative market can be presented by innovative products, know-how, new processes, patents, experience the adoption of which can lead to the increase of the quality of services, cost reduction or creation of completely new ones. Despite such variety of innovative products and services, they have one thing in common which is the stage of successful application of innovative technology for satisfying consumers' needs with the benefit for a provider. As for the subjects of the market of innovations, they can be state and private R&D centres, small innovative organizations, large companies with R&D departments, technology brokers, consulting agencies, patent-licensing organizations, higher educational institutions, individuals, etc. Although the market of innovations is still the market that follows the classic theoretical concepts that should be there are some peculiarities considered. Firstly, the market of innovations can be characterized by the leading role of supply while demand emerges in response to the offer. Frequently, the developers put an innovative technology or service on a market while consumers have not yet discovered its potential. For instance, when such ground-breaking innovation as a personal computer was introduced in the 1970s, people did not pay worthy attention to it. Furthermore, lately in the 1980s large proportion of people were gripped by fear of PCs the term "computer phobia" appeared on the headlines of many newspapers and magazines. In spite of this, it is almost impossible to imagine the modern world without computers which had become a necessity. Regarding the health

industry, which appeared to be of great importance to consumers approached within the trial, vaccination which has become common in the 21st century, still faces strong resistance. Consequently, it can be reckoned that the market of innovations is much more strongly based on long-term relationships between subjects. Secondly, since the innovative technology or idea is not sold directly to the final customer, who rather receives the results of implementing the innovation, the market of innovations is mostly of B2B nature. It should be noted that in spite of the positive outcomes of applying innovative technology or idea such as cost reduction, time-saving of service provision, elevating the level of service, there is still a considerable amount of entrepreneurs who equalize expenditures on innovations not to investments but to financial losses. The reason that stays behind this attitude is a high level of uncertainty and risk which is inherent to the market. Besides, simple extrapolation of innovation management approaches elaborated within the product sphere could be inefficient in the service industry due to peculiarities inherent to this area which are intangibility, heterogeneity, inseparability and perishability. Thirdly, due to the technical complexity of implementing innovations, it is often required for innovation suppliers to provide after-sales services, including monitoring the performance and educating the staff to operate with innovative technology (Doğan et al., 2013).

As it was stated earlier, it takes time for innovation to be adopted by people. In 1962 Rogers proposed the theoretical model classifying the adopters of innovation into 5 categories presented in Picture 1.

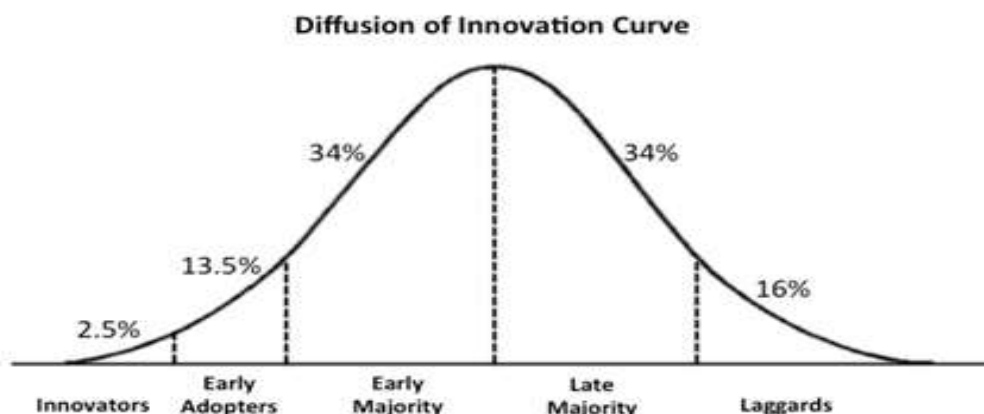


Figure 1 - Diffusion of innovation

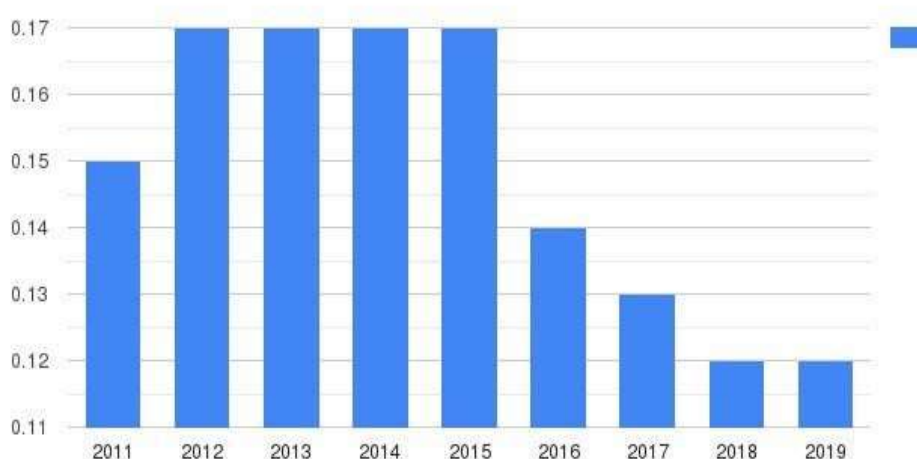
Source: Compiled by link Rogers (1962)

Extrapolating this theoretical model to the market of innovations from the demand perspective it can be derived that innovators are companies that first adopt novelties and work in high risky conditions. However, in the case of successful implementation of innovation, first movers have higher chances to maximally benefit financially from it. Early adopters, the early majority and the late majority can be viewed as imitators divided into categories based on time of adoption. While innovators broaden horizons and set the tone for followers, often imitators determine the fate of innovation and bring the new technology or idea into the masses. As for laggards, they can be defined as companies who adhere to traditional business models and accept innovations in the final stage of their life cycle (The Global Economy, 2019).

***History of innovations development in service industry in Kazakhstan***

For a long time, the Kazakhstan market like other parts of the USSR was a subject of command economy which is characterized by dominating role of the government. In the times of the so-called Cold War, the vast majority of innovations developed within the Soviet Union had a strong military orientation. As result, the Soviet military-industrial complex produced goods and services highly competitive in the global arena.

Unfortunately, the strong military orientation of innovations and low level of their transferability are the reasons that stay behind the wide gap between military and civilian markets. After the decay of the USSR Kazakhstan service providers had to adapt to the new rules of the market economy the most important of which is competition. In terms of innovations, the Kazakhstan service market is predominantly imitative. Despite the achievements reached over the 30 years of independence, domestic companies abstemiously invest funds in research and development activities. According to the data provided by theglobaleconomy.com in 2018 total R&D expenditures of both state and private organizations equal 0.12% of GDP which places Kazakhstan in the 66th position in their country ranking. By comparison Israel, the leader of the ranking, the same year spent more than 18 345 million USD which account for 4.95% GDP. Interestingly, the maximum value of thi index for Kazakhstan was 0.29% of GDP which was demonstrated in 1997. Since 2015 there a clear downward trend which can be due to economic reasons such as the drop of national currency. Considering the expensiveness of innovative technologies and the fact that innovations are implemented mostly on a company’s own funds, economic obstacles highly impact the innovative processes.



**Figure 2** - Research and development expenditure in Kazakhstan for 2011 - 2019, % of GDP

***Inequality among the regions***

The analysis of findings obtained from interviews with service providers revealed that the main constraints staying in the way of innovation adoption are financial problems and the lack of personnel competencies. Due to the high uncertainty of the innovative market, companies have to bear the risks especially financial to adopt a novelty which

can be especially problematic in times of global pandemic when many service providers experience financial problems. Besides, it is clear that the Kazakhstan service market develops disproportionately when 3 locations significantly outperform the rest. Nur-Sultan, Almaty and Atyrau regions produce the service industry much more intensively than other regions (Table 1).

**Table 1** - Total volume of services provided by regions in 2021

	mln. KZT	percentage
<b>The Republic of Kazakhstan</b>	<b>5 317 811.8</b>	<b>100.0</b>
Akmola region	69 396.8	1.3
Aktobe region	91 053.2	1.7
Almaty region	123 731.7	2.3
Atyrau region	493 129.9	9.3
West Kazakhstan region	102 539.8	1.9
Zhambyl region	50 180.1	0.9
Karagandy region	157 419.2	3.0
Kostanay region	67 973.7	1.3
Kyzylorda region	82 620.4	1.6
Mangystau region	184 788.3	3.5
South Kazakhstan region	132 331.7	2.5
Pavlodar region	80 242.7	1.5
North Kazakhstan region	40 037.7	0.8
East Kazakhstan region	137 396.8	2.6
Nur-Sultan	927 184.3	17.4
Almaty	1 131 580.4	21.3

The findings obtained within this research seem to be consistent with the state statistical data.

Talking about this disproportion, one of the interviewees from Zhambyl region said:

*“Given the population size, higher income index per capita and rate of overall economic growth of Almaty and Nur-Sultan, the service providers of these cities have more possibilities for innovation adoption”.*

Interestingly, another respondent who works as a restaurant manager from Almaty city noted the high rate of competition in the city among the service providers which forces them more to adopt innovations to obtain a competitive advantage. He said:

*“No doubt, Almaty gives more possibilities to entrepreneurs for growth but there is one important thing they should bear in mind which is intense competition. Innovations may be a key to survival, especially during pandemic.”*

If now we turn to the information published by the state officials of the Bureau of National statistics, it becomes clear that Almaty and Nur-Sultan region keep leading positions in the volume of companies utilizing innovations expressed in absolute value (Table 2). What is surprising to observe is that in terms of percentage of innovative business units Kostanay, North Kazakhstan and Zhambyl regions are on top of the ranking. It is especially striking considering the opinion of many residents of Zhambyl region that local companies are not innovative.



**Table 2** - The volume of innovative enterprises by region for 2020

	Total number of companies	Number of innovative companies	Percentage of innovative companies
Republic of Kazakhstan	28 087	3 236	11.5
Akmola region	1 160	86	7.4
Aktobe region	1 118	124	11.1
Almaty region	1 666	163	9.8
Atyrau region	1 074	108	10.1
West Kazakhstan region	786	46	5.9
Zhambyl region	732	100	13.7
Karagandy region	2 196	281	12.8
Kostanay region	1 337	191	14.3
Kyzylorda region	635	79	12.4
Mangystau region	1 035	82	7.9
Pavlodar region	1 128	101	9
North Kazakhstan region	965	136	14.1
Turkestan region	832	93	11.2
East Kazakhstan region	1 831	236	12.9
Nur-Sultan	3 605	453	12.6
Almaty	6 561	856	13
Shymkent	1 426	101	7.1

### *Innovations or mainstream*

However, we should keep in mind that since service provision is a complex process the evaluation of which is strongly based on personal perceptions individual and interconnection between them, it becomes more complicated to measure the innovativeness of each enterprise. Moreover, compared to tangible innovations which can be tested in labs before offering to clients, the assessment of service innovations generally requires its deployment in real market conditions. Surprisingly, only 1 of the respondents who participated in the study considers his/her enterprise innovative. This is a director of a small dental clinic located in Almaty employing 11 people, 7 of which are medics. According to the findings, many organizations do perform services using the online system but its application is limited to connection in social media which, according to the respondents, cannot be defined as an innovation. For instance, the owner of the restaurant who agreed to participate in the interview stated:

*“We added the delivery services as since the start of lockdowns like many other restaurants and cafes. There is no innovation in this, it is a mainstream.”*

In addition, there was no positive answer to the question asking if a budget was allocated for research and development activities. It is somewhat surprising that three respondents noted that their customers do not need innovations, what is of utmost importance for their clients is price. It seems quite bizarre given the data of a trial survey among customers of service companies which clearly demonstrates that 63% of consumers agree that domestic service providers should be more innovative. Moreover, the vast majority of respondents from the customer population group assume that innovations make services more available, including financially. However, the group of service providers is of the opposite opinion claiming that the development and implementation of an innovative idea or product require expenditures that inevitably leads to the rise of the costs and price consequently.

It is somewhat surprising that 9 inter-views out of 14 claimed that in case of obtaining an innovation they would make attempts to keep it secret to prevent competitors to imitate it. Thus, the large proportion of Kazakhstan service providers would most likely follow the “outside-in” innovation model described by 8, which is expressed in absorbing external ideas and technologies

(Chesbrough, 2011). Such approach to innovation openness undermines an “inside out” flow of novelties which causes the stagnation of the whole field. Analysis of the results demonstrates that the major obstacle to innovation implementation in Kazakhstan’s service industry is the lack of funds and personnel qualification, especially in the provinces. For instance, the situation in Zhambyl region is an evident demonstration of the negative influence of both factors. First, statistically the in terms of income per capita the region constantly is among the outsiders. Secondly, the region experiences large emigration of young educated population predominantly to Almaty, Nur-Sultan and Shymkent primarily due to economic reasons. This explains why business entities in case of obtaining a beneficial novelty would endeavour to transform it into a sustainable competitive advantage they can capitalize on which results in isolation of information.

Another important finding of this research is that none of the service organizations investigated does not directly collaborate with R&D companies who are supposed to play the role of suppliers of innovations. More than half of the respondents have low trust in domestic organizations focusing on research and development activities, including research institutes and universities. Besides, in most of cases, their innovative proposals involve significant spending due to the technical nature of the innovations offered. One of the reasons behind this is that over the last decade educational and research state programs financially favour predominantly engineering and natural studies rather than social sciences. Under these circumstances, domestic innovation providers mainly focus on technological novelties, the elaboration of which usually consumes more financial resources.

#### ***Tangible or intangible innovations***

In contrast to product innovations with a strong technology orientation, innovations in the service sphere can be presented in a new form of communication approach to a client which may require a service provider to possess person-to-person skills, expertise in foreign language culture and so on. As compared to manufacturing, where a large volume of work is performed by robots that enable standardization and drop of production costs, the inseparable nature of service considerably elevates the importance of client-employee interaction that is to say a new way of treating employees, which leads to an increase of customer satisfaction, client retention rate and rise of the income as a result, can also be considered innovation. In other words, innovations

in the service industry do not necessarily imply the adoption of physical items or software (Engward, 2013). However, one of the interesting discoveries was that the vast majority of the respondents strongly associate service innovation with the implementation of new technologies or processes. For instance, one of the participants who took the position of manager of educational centre with six people employed defined service innovation in the following way:

*“Service innovation is a use of new technology, product, methodology to teach students, the program to register clients and other resources that is new in the region we work in”.*

This statement explains that few service providers pay proper attention to innovations in employee management. Also, the findings show that geographical borders play a significant role in the definition of innovations, i.e., what has become common in one region, when implemented for the first time in another, would be perceived by the local population as an innovation. Repeatedly service providers of the Republic of Kazakhstan have been copying various innovative elements elaborated in developed countries and adapting them to the local environment.

#### ***Innovative customer***

As mentioned earlier, the role of a customer in the service industry is much higher than in manufacturing because of the process of co-creation involving dynamic interaction between a supplier and a client. If we now turn to the service innovation sphere, several authors report that consumers are also co-creators of innovations (Chesbrough, 2011). Moreover, according to some research, there is a positive relationship between service interactivity and opportunities for innovations because the active knowledge sharing process contributes to the invention, research and development of innovative ideas (Mathieu, 2001). The results of the current study indicate that few companies involve customers intensively in the process of innovation discovery, in most of cases the innovative collaboration is limited to surveys using which consumers can express their ideas regarding service improvements. Moreover, nearly half of the respondents question the competence of the customers in the process of innovation elaboration. For instance, the owner of a small-size car service company said:

*“Frequently, clients simply do not possess the necessary expertise in the matter we work in, this is why I have doubts about their recommendations, most of which are about lowering costs and decreasing the repair time”.*

In the same vein, another respondent

who holds the position of a manager in a private clinic said that blindly following customers' ideas can be fatal in such areas as the healthcare industry, which is under heavy pressure due to lockdown. Also, the findings demonstrate that in most of cases customers express ideas that cannot be considered innovative but logical proposals, the implementation of which requires extra budget service providers do not possess. In addition, another respondent stated that customers are prone to evaluate the level of innovativeness of an enterprise predominantly by the front office and especially physical evidence not diving into back-office activities.

### ***Innovations across industries***

Another important theme that emerged as a result of grounded theory deals with the importance of cooperation among the partners, especially those who represent other industries. Due to the risky nature of the market of innovations, a first-mover should evaluate his capabilities and be prepared to bear the majority of the costs of the discovery and development of innovation. Even though many interviewees confessed that they are more likely to secretly exploit a successful innovative project to bail out the invested funds, they admit that cooperation has more chances to result in something all partners can benefit from. What is more interesting is that more than half of the service providers who participated in the current study positively react to the idea of cooperation with their partners from related industries who are not rivals to them but allies who all together form a value chain of the service offered. At the same time, such an open approach has higher chances of fostering innovation diffusion across several industries. For instance, the manager of the private dental clinic which provides innovative treatment said:

*“The service we provide requires the application of new materials we order from our suppliers who make their best and evolve to catch up with our requirements. Moreover, without their development, we could not create a new offering”.*

Thus, the provision of just one innovative service can be backed up by developing several value chain nodes. It should be mentioned that although the use of modern treatment methods leads to a considerable increase in the price charged, the durability of the result is much longer, allowing a client to save money in the long run.

## **Results**

### ***System of innovations management***

Taking into consideration the analysis of the data received it is possible to work out the set of recommendations for the subjects of the market of innovations in the service industry in the Republic of Kazakhstan aimed at promoting innovation activities in firms. In the first instance, it should be stated that since the sphere of services is a compound of various industries, there are considerable peculiarities arising in innovative management in each case. Besides, the state of the innovations market results from the decisions taken by both government and managers of commercial organizations. In order to improve the efficiency of the innovation process, these parties need to work in coherence. Unfortunately, the traditional way of thinking that only government bodies themselves are responsible for enhancing the innovations market leads to that the large proportion of enterprises stagnate or have to implement the foreign result of scientific and technical progress. Thus, the recommendations developed within the current research encompass the activities of both aforementioned sides. Furthermore, the recommendations presented presume the indirect involvement of the government focusing on non-state activities in the reform of the innovation market. Obviously, when working elaborating the following proposals, the authors reckoned for the actual situation of the service industry and the abilities of the government.

1) First, based on the more proactive behaviour of some regions and innovation diffusion theory, it can be recommended to transform the most active of them in the vanguard of innovative movement across the country. Possessing more funds and qualified labour resources such regions have more potential for innovative activities which consequently can set the tone for other regions. In other words, such locations can be the “test-drive” zones for innovative ideas which in case of successful implementation can be transferred to other regions. Moreover, today both in Nur-Sultan and Almaty there are special economic zones aimed at stimulation of innovation activities. Nevertheless, there is still a large proportion of managers who do not know about the existence of such possibilities what requires the conduction of educational program among them.

2) Secondly, since there is a low probability of service providers disclosing their innovations voluntarily, the state officials should start to motivate the companies performing in-

house research activities to share the developed knowledge with other subjects within the industry. Some of the possible ways are considerable financial rewarding or particular tax relief what requires applying the changes to the existing legislation regulating the innovation management in the Republic of Kazakhstan.

3) As the analysis of the findings revealed that managers in the service industry mainly associate innovations with the implementation of new technology, it becomes relevant to organize educational work among the managers about types of innovations. In addition, the adequate management of the market of innovations is problematic without an effective system of innovation evaluation. Nowadays, the assessment of innovative activities is

4) primarily based on the number of patents and expenditures on research and development. Although such an approach seems lucrative due to its relative easiness, it lacks the tools for evaluation of intan-

gible innovations especially those which are formed in the process of interaction between service supplier and customer.

5) Besides, due to the socio-economic differences among the regions the development of the innovation system of all regions cannot be standardized. Instead, it is adequate to have priority service industries for innovation for each region. This approach would enable the appearance of advanced development zones within a particular territory, which requires the empowerment of local administration bodies. For instance, Zhambyl region, which is usually famous for its orientation to the chemical industry, has large possibilities for the tourism industry, which is rapidly developing nowa-days. However, the recreational resources within the region are presented unevenly, predominantly concentrating on the southern part of the region for historical reasons. The unique attitude would enable the effective exploitation of resources with minimum losses. Figure 3 presents the summary of the management.

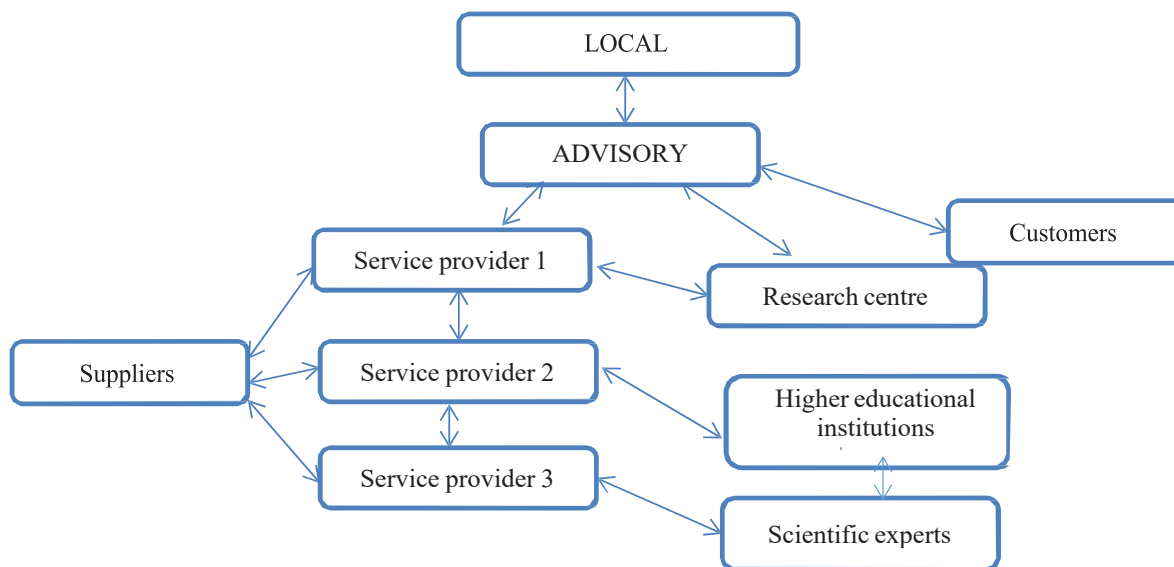


Figure 3 - Scheme of management of innovation process within a region

The scheme presented presumes the free flow of information among participants. Instead of the traditional system where the suppliers of innovative products were the first movers, in the current system, customers can ignite the appearance of a creative idea. Although customers in the service industries play the role of co-creators, many theoretical approaches neglect their role. While many service providers question

the expertise of final customers in innovations, the advisory board monitors the demand for innovations on the market, analyses proposals and offers them both to service providers to employ and those whose job is to elaborate innovations. The business entities operating in the market should be stimulated to work in cooperation which will lead to the distribution of risk and as a result higher readiness of managers to innovate. This

method requires elaborating the current legislation, especially in terms of distribution of the final result in successful development.

### Conclusion

The present study was designed to determine the state of innovation management in the Republic of Kazakhstan and elaborate the recommendations based on the findings. The results demonstrate that the process of innovative development of domestic service providers is still in the nascent stage which results in imitation of foreign ideas. The results of this investigation clearly demonstrate the lack of cohesion between subjects of the market of innovations in the Republic. The major reasons that stay on the way of intensive diffusion of innovations across the service industries are the lack of financial resources of companies, conservative point of view on the nature of innovations which is detached from the realities of the service area and dearth of qualified personnel which are supposed to enforce execute the innovative strategy. The study has gone some way towards enhancing our understanding of the attitude of commercial business entities to the role of innovation as a source of competitive advantage across a number of service fields. Taken together, these results suggest that the collaboration within the network combining subjects of innovative process must be fostered both by private and public entities. While reading the paper there is a number of important limitations that need to be considered.

Firstly, quite a small population group addressed through convenience sampling and investigated within the current research does not enable the effective generalization of findings. Besides, since only one company involved in the research can be defined as innovative there is still a knowledge gap regarding the experience of an organization practicing innovative activities. However, this research has thrown up many questions in need of further investigation. Firstly, since the current study encompassed small and medium enterprises it would be especially interesting to shed the light on the innovative process in large companies who usually possess large resources both financial and human to discover, develop and employ innovations. Another possible area of future research would be to investigate in detail major areas of service industries focusing on peculiarities of a sub-industry. Besides, since the present study was mainly based on findings obtained from interviews with

service suppliers it would be useful to approach other subjects of the market of service innovations such as public representatives, employees of research institutes, non-commercial organizations, etc.

Thus, it is necessary to conclude that innovation in the service sector is introducing new services or improving existing services. The increase in the work, profit and turnover of the company depends on its innovativeness. The management of innovative processes, as well as the application of new management methods in the organization of the company's activities can make a significant contribution to the effective and at the same time stable development of the entire enterprise. It is known that the position of the enterprise and competitiveness directly depend on the measures that the company is taking today to introduce innovative technologies in all areas of its activities.

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