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The Scope of Influence of Factors Determining the Effectiveness of the Economic Mechanism of Innovative Activity of Small Business Entities in Uzbekistan

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Abstract: This article analyses the range and power of factors defining the realization efficiency of an economic mechanism ensuring the innovative activity of small business subjects in the Republic of Uzbekistan. It investigates the underlying critical contexts where innovation stimulation, funding and management in small businesses needs to be improved, against a backdrop of deepening market competition and; continuing national reforms for innovation driven growth. Previous studies have examined innovation for its development, financing, and state support to small enterprises, however there is obvious gap in the academic knowledge regarding the integrated assessment of the factor groups affecting the effectiveness of the economic mechanism of innovative activity as an integrated system. In order to fill this gap, this paper adopts an expert evaluation method and analyzes key factor groups on five-point scale. It includes an analysis of internal organizational conditions, financial and credit resources, external market conditions, state policy and the regulatory legal framework, scientific and technological innovation environment. Despite a supportive state program and an increasingly competitive market environment, the results reveal that innovation activity is largely limited by internal management deficiencies, poor access to financial resources, and an immature innovation ecosystem. The findings suggest that managerial skill improvement, diversification of financing instruments, strengthening science production integration, and decreasing bureaucratic barriers are key components of increasing innovation effectiveness. This study offers insights for policymakers and development institutions about priority directions for reforming support mechanisms and creating conditions for small business entities to sustainably innovate in a conducive transitional direction.

Keywords: Entrepreneurship, Small Business, Innovation, Innovative Activity, Small Innovative Entrepreneurship, Innovative Entrepreneur, Innovation Environment.

1. Introduction

Trends in the development of global economic relations under conditions of modern market competition increase the necessity to develop measures aimed at innovative development, and to prioritize practical efforts to introduce innovative projects into the activities of entrepreneurial entities operating in various sectors of the national economy, including small business entities [1]. In particular, within the framework of reforms implemented in Uzbekistan in recent years, deep reforms have been carried out to develop the innovative activity of all forms of domestic entrepreneurship, especially representatives of small and medium-sized businesses. In regulating the socio-economic relations arising in the process of implementing these reforms, the Law of the Republic of

Uzbekistan “On Innovative Activity” and the “Innovation Development Strategy” are used as the basis for implementing priority reform measures [2], [3]. These regulatory documents are of conceptual importance in developing the innovative activity of entrepreneurial entities of various forms operating in the sectors of the national economy, particularly small business entities. To ensure the effectiveness of their implementation, it is necessary to deeply analyze the scientific views formed in economic science regarding the innovative activity of small business entities and to identify opportunities for their creative application in national practice [4].

Relevance of the Topic

In recent years, deep reforms aimed at improving the functioning of the economic mechanism for increasing the innovative activity of small business entities have been consistently implemented within the framework of reforms focused on enhancing the efficiency of utilizing the economic development potential of national economic sectors and regions [5], [6]. In particular, the Strategy for the Development of Small and Medium-Sized Businesses for 2025–2030 defines priorities such as “increasing the innovative activity of small business entities, granting free use of vacant state-owned real estate to entrepreneurial entities producing high-tech products, encouraging the implementation of international standards in entrepreneurial activities, and investing in startup projects in new business areas such as artificial intelligence, ‘smart’, digital, ‘green’, and resource-saving technologies with the participation of venture funds.” This indicates that in the coming years, improving the economic mechanism for increasing the innovative activity of small business entities will become an important component of state policy [7].

Problem Statement

In Uzbekistan, local economists such as I. Ulashev, A. Tashpulatov, Sh. Hakimov, Z.R. Khusanova, R.A. Rashidov, G.A. Solieva, Z.Kh. Zakhidova, K.D. Karimova, and A.Kh. Pulatov have conducted research on organizing the activities of small business entities, their innovative development, improving the efficiency of innovation processes and their financing, assessing the sector’s role in the national economy, and strengthening it [8].

However, the priorities for improving the economic mechanism for increasing the innovative activity of small business entities have not been comprehensively studied as a specific research object. The relevance of the problem, its insufficient study in economic literature, and the scientific and practical significance of the expected results served as the basis for selecting this topic as a research object [9].

2. Materials and Methods

In this study, we are using a mixed qualitative and analytical methodology for the purpose of identifying and analyzing the variables that define the impact of the economic mechanism underlying innovative activity of small enterprises in Uzbekistan. The study is based on the systematic analysis of a significant body of national and foreign scientific literature, regulatory legal documents and state programs in the field of innovation development, small business and entrepreneurship policy. At the first step approaches to the innovation activity and economic mechanism were integrated to develop a conceptual framework, which interprets the innovative activity mechanism as a complex system due to the correlated internal and external factors.

The central empirical part of the research relies on the methodological approaches of experts’ assessment. This led to the establishment of a panel of appropriate subject matter experts, which includes economists, small business management practitioners, and innovation policy and financing specialists. The above specialists evaluated the current trends and the impact of major groups of factors on the efficiency of the economic mechanism for stimulating innovation activities. The identified factor groups were internal organizational conditions, the financial and credit resources, external economic and

market environment, the state policy and regulatory legal framework, the scientific technical and innovation environment. Five Point scale was used for each factor group according to which higher scores indicated strong positive influence on the innovation effectiveness. Expert assessments were received, aggregated and analyzed by comparative and logical analysis methods; this allowed us to reveal the most significant constraints and development opportunities. This has been generalized and abstracted in order to draw conclusions and recommend a course of practical action. A phased approach to the methodological study of the problems of forming the readiness of graduates for labor activity in the conditions of creating a market economy, allows to develop a clear unity and relevance of the results to the specific institutional and economic conditions of Uzbekistan.

3. Materials and Methods

The approaches developed as a result of scientific research conducted by local economists on the innovative development of small business entities make it possible to distinguish national theoretical approaches in this field. In particular, A.A. Kulmatov argues that “state regulation of economic and innovation processes is one of the main conditions for transitioning the economy to market principles and plays an important role in stimulating innovative activity in the small enterprise sector.” In the course of the research, the scholar notes that increasing the level of innovative activity of small business entities expands opportunities to shift the integrated economic system toward an innovation-oriented development path through the intensification of innovation diffusion processes in sectors of the national economy [10], [11].

In addition, in the studies of J.Ya. Babakhanov, when explaining the essence of innovative activity of small business entities, attention is paid to its performance indicators, leading to the conclusion that “it is necessary to take into account the dual nature of innovation processes in enterprises, as these processes occur through continuous interaction between scientific and technological capabilities and the needs for developing knowledge-intensive production” [12].

The conducted analyses indicate the existence of the problem of limited financial opportunities in increasing the innovative activity of small business entities. This leads to the conclusion that, in improving the effectiveness of the economic mechanism, priority should be given to diversifying sources of financing for this type of activity [13]. Today, as in many countries, the practice of Uzbekistan uses venture capital, bank loans, state grants and subsidies, crowdfunding, startup financing, and business incubators to finance the innovative activity of small business entities.

At this point, it was considered necessary to focus the research on analyzing the factors influencing the effectiveness of the economic mechanism for developing the innovative activity of small business entities [14]. To date, numerous scientific studies have been conducted in this area in economic science, and the results of each study differ depending on the priorities identified for developing the innovative activity of small business entities and on the analysis of factors affecting the effectiveness of its economic mechanism.

In particular, studies conducted by foreign economists such as M. Scott, S. Boone, and A.J. Iliev prioritize analyzing the scopes of influence of factors related to state policy implemented in the country, the established legal environment, and the external economic and market environment on the effectiveness of the economic mechanism for developing the innovative activity of small business entities [15], [16]. At the same time, studies by N.T.P. Thus, I. Blazkova, and S.N. Chu identify internal factors related to financial and credit resources that influence the effectiveness of the economic mechanism for developing the innovative activity of small business entities, while N.H. Malik and O.R. Payangan emphasize scientific-technical and innovation-related factors.

Scientific research conducted by local economists has also analyzed factors influencing the effectiveness of the economic mechanism for developing the innovative activity of small business entities in the country [17]. It was found that the scientific results obtained differ depending on the object and purpose of the research. In particular, external factors related to market conditions influencing the effectiveness of the economic mechanism are reflected in the works of Q. Muftaydinov; the impact of state programs on sector development is examined by N.Q. Murodova and D.A. Akbarov; directions for ensuring the effectiveness of the economic mechanism through the application of various preferential programs are analyzed by E.F. Gadoev and Sh.A. Atamurodov; factors of the market environment influencing the effectiveness of the economic mechanism are studied by H.P. Abulqosimov; and the social significance of factors influencing the effectiveness of the economic mechanism is highlighted in the research of U. Turdiev [18].

Based on the analysis of factors influencing the effectiveness of the economic mechanism for increasing the innovative activity of small business entities under the conditions of Uzbekistan, the scientific conclusions formed made it possible, using the expert evaluation method for each group of factors, to assess the current situation on a 1–5 point scale (a star-based evaluation was applied, where one star was conditionally equated to 1.0 point) and to determine the situation by factor groups [19], [20]. The results of the research conducted in this direction are summarized and presented in Table 1.

Table 1. The state of factor groups influencing the effectiveness of the economic mechanism for increasing the innovative activity of small business entities in Uzbekistan.

No.	Factor group	Description of the state	Star rating (1–5 points)
1	Internal (organizational) factors	Weaknesses of the innovation activity management system and insufficient qualifications of personnel	
2	Financial and credit resources	Relevant infrastructure has been formed, but access to these services is limited; provision of financial and credit resources is insufficient	
3	External economic and market environment	The competitive environment is intensifying, and opportunities are being created	
4	State policy and regulatory– legal environment	Programs supporting the innovative activity of small business entities are being implemented, but access to them and their coverage are limited	
5	Scientific- technical and innovation environment	The national innovation environment is at the formation stage; the innovative development potential of small business entities is insufficiently developed	

4. Conclusion

The conducted analyses showed that, in ensuring the effectiveness of the economic mechanism for developing the innovative activity of small business entities, it is necessary to achieve quality management of internal systems, improvement of financial support and the external environment, and increased activity in implementing innovations. At the same time, based on the analysis of the current situation in Uzbekistan regarding groups of factors influencing the effectiveness of the economic mechanism for increasing the innovative activity of small business entities, the following generalized conclusions were formulated:

It is appropriate to develop special state and private training programs aimed at increasing knowledge, skills, and competencies of small business entities in the use of digital and innovative technologies, and such programs should be designed taking into account sectoral characteristics of small business activities;

there is a need to expand the scope and volume of tax incentives allocated for venture capital and startups used in financing activities aimed at increasing the effectiveness of the economic mechanism for enhancing the innovative activity of small business entities;

to increase the level of innovative activity of small business entities, it is necessary to support integration relations between science and production at the institutional level (for example, technoparks, IT parks, business incubators, scientific and innovation grants, etc.);

it has been identified that there is a need to reduce bureaucratic barriers in the field of innovative activity of small business entities, including further simplification of licensing procedures for innovative activities in the sector.

Thus, the conducted analyses show that, at present, reforms aimed at forming appropriate legal and regulatory frameworks and developing clearly targeted state programs to support this type of activity are of priority importance in improving the economic mechanism for increasing the innovative activity of small business entities in the country. They demonstrate that consistent efforts are being implemented to create appropriate conditions for transitioning the activities of small business entities to an innovation-oriented development path. At the same time, the obtained results indicate the existence of a need to eliminate practical problems associated with the functioning of the economic mechanism for increasing the innovative activity of small business entities.

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