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ANALYSIS OF INNOVATION ACTIVITY IN SMALL BUSINESS

Abstract

Innovation is a key determinant of productivity and long term growth and can help solve social challenges at the lowest possible cost. The article considers the role of innovation in the activities of small businesses. Innovation in small sized enterprises is at the core of inclusive growth strategies: more innovative small businesses are more productive businesses that can pay better wages and offer better working conditions to their workers, thus helping reduce inequalities.

Existing approaches of foreign and Uzbek authors to the definition of the term “innovation” are explored. As a result of the research, the author's approach to the concept of innovation in small business is developed. The statistical indicators of innovative activity of small businesses in the Republic of Uzbekistan are analysed and reforms carried out in this area are highlighted. Factors preventing innovative activities of small business entities have been identified. Proposals for increasing the innovative activity of small businesses have been developed.

Keywords: Innovation • Small business • Economic growth • Technological innovation • Innovative activeness • Expenditure on R&D.

1.Introduction

In the context of the globalization of the world economy, the concept of innovation, which is rapidly grasping all aspects of social life, has become a necessary factor in small business and private entrepreneurship. Innovation is a means of maintaining and expanding the existing market share of a small business, and the main source of competitive advantage.

"Today, we are on the path of innovative development aimed at the radical renewal of all spheres of state and community life. It's not in vain, surely. Because in today's fast-paced world, who wins? The country that relies on a new thought, a new idea, and innovation will win" [1].

The decree №-165 of the President of the Republic of Uzbekistan Sh.M. Mirziyoev dated July 6, 2022 "On approval of the innovative development strategy of the Republic of Uzbekistan in 2022-2026" [2] envisages accelerating the transition of our country to innovative development as well as innovative economy and it defines the priority tasks in this regard. Acceleration of innovative development, wide implementation of innovations and technologies in all sectors of the economy, development of human capital, science and innovation spheres were stated as the main goals of this strategy.

Undoubtedly, the activity of small business entities in the introduction of innovations plays an important role in the formation of the innovative economy. As of January 1, 2021, 411,203 small business entities were operating in our Republic. According to the statistics of 2021, 55.7% of the GDP was created by small businesses and private enterprises. 72.5% of total construction works, 27.9% of industrial products are produced by representatives of this sector. The share of small business in the total export of the country was 20.5%, in import it accounted for 51.7%. More than 74.5% of the total employed population of Uzbekistan work in this industry [3].

In our country, reforms are being carried out on a large scale for business entities "... to improve their knowledge and skills in the field of business management, the widespread implementation of innovations and advanced technologies in their activities". However, according to the conclusions of the research carried out by the World Bank Group on the evaluation of the innovative activity of enterprises and organizations in the Republic of Uzbekistan, the innovative activity of the enterprises of Uzbekistan is relatively low compared to other developing countries,

and small businesses and private entrepreneurship in this field are still lagging behind large and state-owned enterprises. Moreover, a relatively low level of commercialization of scientific and innovative developments, weak cooperation between science, education and production in the real sector of the economy can be the basis of our study of this topic.

2. Literature Review

Issues related to innovation and innovative activity were researched by foreign scientists like N.D. Kondratiev, J. Schumpeter, P. Druker, G. Mensh, M. Khuchek, D. Twiss, B. Santo, P. Myers, S. Cook, R. Fatkhutdinov, A. Kulagin, I. Balabanov and others. In particular, N.D. Kondratiev determined that the development of the country's economy is connected with scientific, technical and innovative development in the theory of "big cycles" or "long fluctuations".

Austrian economist J. Schumpeter introduced the term innovation as a new economic category in his work "Theory of Economic Development", explaining it as a new combination of production factors. The scientist identifies five aspects of innovation [5]:

- use of new techniques and technological processes;
- introduction of a product with new features;
- use of new raw materials;
- changes in the organization of production and its material and technical support;
- emergence of new sales markets.

Schumpeter considers the entrepreneur as the driving force of development. He suggests that "The main result of innovation is profit, which motivates the innovator to continuously create innovations that lead to the development of society". Porter [6] identifies innovation as: "a new way of doing things that is commercialized". The latest edition of the Oslo Manual [7] defines an innovation as "a new or improved product or process (or combination thereof) that differs significantly from the unit's previous products or processes and that has been made available to potential users (product) or brought into use by the unit (process)".

In national encyclopedia of Uzbekistan, the term innovation is defined as follows, i.e. innovation (innovations - introduced novelty, invention) -

- 1) funds spent on the economy to ensure the replacement of equipment and technology generations;
- 2) novelty in such areas as technique, technology, management and labor organization based on scientific and technical achievements and best practices, as well as their application in various fields and spheres of activity [8].

Innovation is any improvement in business: not only in products, services and processes, but also in leadership, human resources (HR), communication, organizational, marketing and other activities [9].

According to the Law of the Republic of Uzbekistan dated July 24, 2020 "On Innovative Activity" № 630, innovation is explained as the term included in civil circulation or used for personal needs, the use of which in practice ensures the achievement of great socio-economic results [10].

Innovation [11] is the core factor behind the survival and continuity of enterprises; it supports the company's expansion and growth and enhances the enterprise's future success. The Hungarian scientist Boris Santo considers innovation as a socio-economic process that leads to the creation of products and technologies that are the best in terms of their characteristics through the practical use of ideas and inventions, and he emphasizes that innovation can bring additional income when it appears on the market, focusing on economic benefits [12].

R. Fatkhutdinov, the author of the textbook "Innovative Management", evaluates innovation as the final result of novelty introduced with the aim of changing the object of management and obtaining economic, social, ecological, scientific-technical and other types of results [13].

As stated by Uzbek scientists R.I. Gimush, F.M. Matmurodov, "Innovation means newness and novelty. At the core of this innovation, it is necessary to understand a new order, a new habit, a new style, a discovery [14].

Acknowledging the above definitions of the concept of innovation, we also expressed own opinion on the concept of innovation in business activity. Innovation in business activity is the creation and assimilation of new products, technology, and management methods by business entities in order to achieve economic and social efficiency. It is possible to rationally use limited resources, increase labor productivity, and intensively develop the economy of the enterprise through innovation.

Based on the given definitions, we list the features of innovation:

- organization and management method of new or improved product, technique, technology, production;
- it has been presented to the market or its production has been launched;
- It should benefit the enterprise or increase efficiency.

3. Materials and Methods

The innovative activity of small businesses was selected for the research. Graphical method, statistical methods, including descriptive, diagnostic analytics and interpretation were used for analysis and presenting results of research. The annual press releases and open data published by the Statistics Agency under the President of the Republic of Uzbekistan were used in conducting scientific research.

4. Results

In 2021, 1,098 of the 475,197 enterprises and organizations operating in our country introduced technological innovations in their activities, i.e., the level of innovation introduction of enterprises is equal to 0.24%. This indicator accounts for 10.8% [15] in the Russian Federation, and 10.5% [16] in Kazakhstan in 2020.

Despite the fact that small business is a compact and dynamic industry that quickly adapts to market changes and consumer needs, there are various factors that hinder the introduction of innovations. These include the limited financial resources, the risk of losing the investments made in this activity, and the lack of qualified employees.

The diagram below shows the contribution of small business entities in the introduced innovations.

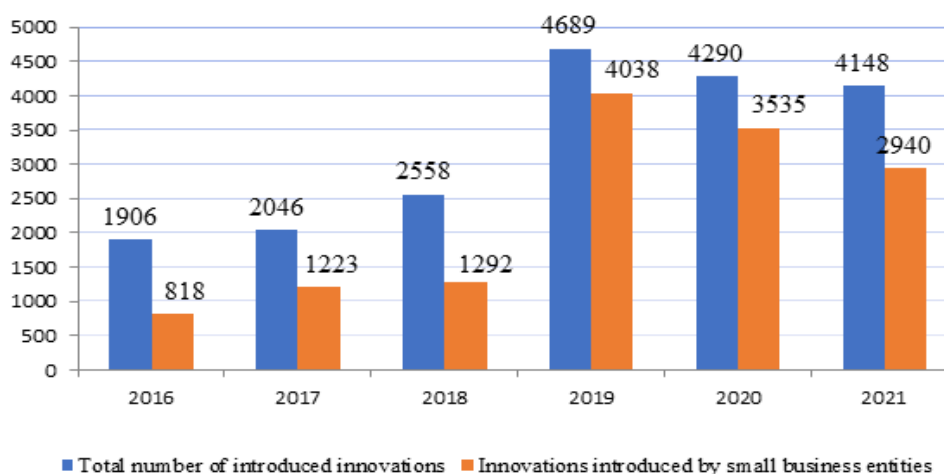


Figure 1: The share of small business entities in the total introduced innovations, unit.

According to the data of the State Statistics Committee, 818 units were introduced by small business enterprises in 2016, and by 2021 this indicator reached 2940 units. In 2021, innovations introduced by small business entities increased by 3.6 times compared to 2016, and the contribution of small businesses to innovations introduced by enterprises and organizations was 70.1%.

In 2021, a total of 2,778 technological innovations were introduced by small business entities, of which 1,692 or 60.9% were industrial, 18.9% wholesale and retail, 7.0% construction, 1.8% accommodation and food services, 2.6% belonged to information and communication networks. The lowest indicator was observed in the sectors of health care and social services (5 units), transportation and storage (12 units), agriculture, forestry and fishing (30 units). In other types of economic activity, 194 units of technological innovations were introduced.

When the technological innovations introduced by small business entities are analyzed by regions, the leading three are occupied by the city of Tashkent (1048 units), Navoi (409 units) and Tashkent regions (236 units). The Republic of Karakalpakstan (6 units), Andijan region (21 units), and Khorezm regions (27 units) occupied the lowest places in terms of introduced technological innovations.

One of the factors preventing innovation activity is entrepreneurs' inability to foresee the costs of implementing innovations and the expected future income from them as well as the efficiency of this activity, lack of skills in working in uncertain situations.

The second diagram below describes the efficiency indicators of innovations introduced by small business entities.

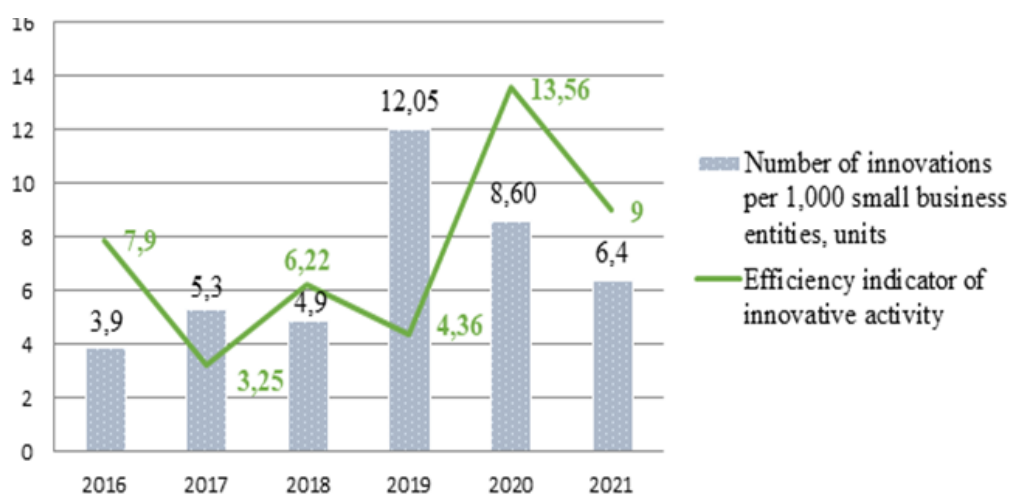


Figure 2: Indicators of innovative activity of small business entities [17].

In this diagram, the efficiency indicator of the innovative activities of small business entities, that is, calculated by the ratio between the volume of innovative products, work, and services produced by small business entities and the total costs of innovation during 2016-2021. This indicator can be interpreted as follows: on average, innovative products, services and works worth 7.9 soums in 2016 and 9 soums in 2021 were created per 1 soum spent by small business entities on innovations. In total enterprises and organizations (large, medium, small) of our republic, this indicator was 4.2 coefficients in 2016, and 1.6 in 2021 [18].

In researches, it has been proven that the efficiency of small business enterprises spending on scientific research is four times higher than that of large enterprises [19]. Including the econometric analyzes carried out in the research works of professors B.T. Salimov and B.B. Salimov, it was found that the innovative product per unit cost in small business enterprises is higher than that of large business [20].

The share of small business in innovative products, works, services produced in total enterprises and organizations of our republic is increasing. In 2016, the volume of innovative products, works, services produced by small business entities equaled to 1671.9 billion and it amounted to 10,658.6 billion soums in 2021. The share of small businesses in the volume of innovative products, works, services has increased from 15.6% to 39% during 2016-2021.

The number of innovations introduced by small business entities per 1000 small business entities operating in our republic was 3.9 in 2016, and by 2021 this indicator reached 6.4. The

highest rate in the last 5 years was observed in 2019, when there were 12.05 innovations per 1000 small business entities.

5. Discussion

Although the number of small business entities in our country is increasing year by year, most of them are inactive in introducing innovations in their activities, and the level of investments made for scientific research and experimental design work remains low. This situation is caused by abovementioned internal factors that prevent small businesses from engaging in innovative activities as well as by external factors. They are as follows:

- the fact that innovative infrastructure and its main elements of technopark, business incubator, innovation cluster, technology transfer center are in the stage of formation in the regions;
- shortage of qualified personnel;
- insufficient formation of special institutions for financing innovative activities;
- lack of cooperation between scientific research institutes and higher education institutions of small business entities;
- lack of enrichment of the educational system with practical, modern knowledge, etc.

In the last 5 years, large-scale reforms have been implemented in our country to comprehensively support and develop scientific and innovative activities, to create favorable conditions for the formation and further improvement of the innovative potential of the country. A number of regulatory and legal documents were adopted as the legal basis of these reforms, which are listed below:

1. The law № 630 of the Republic of Uzbekistan dated July 24, 2020 "On Innovative Activity"; <https://lex.uz/docs/-4910391>;
2. The decree № 6097 of the President of the Republic of Uzbekistan dated October 29, 2020 "On approval of the concept of development of science until 2030"; <https://lex.uz/ru/docs/-4545884>;
3. The decree № 165 of the President of the Republic of Uzbekistan dated July 6, 2022 "On approval of the innovative development strategy of the Republic of Uzbekistan in 2022-2026"; <https://lex.uz/ru/docs/-6102462>;

Based on the innovative development strategy of the Republic of Uzbekistan in 2022-2026, it is intended to upgrade the current 86th position of the Republic of Uzbekistan to the 56th position in the Global Innovation Index. It is planned to increase the number of infrastructure subjects of innovative activity from the current 25 to 75 by 2026, the volume of private sector investments in development and research is expected to triple, and the number of innovative active business subjects (in the total number of industrial production organizations) is anticipated to increase from the current 613 to 2250. As a result of the implementation of these efforts, opportunities will be created to widely introduce innovations into the economy, increase the level of innovation propensity of small business entities, and develop cooperative relations between industrial enterprises and scientific institutions.

6. Conclusion

- It is possible to form an innovative economy only by increasing the innovative activity of small business entities. The share of small business enterprises in the total enterprises and organizations operating in the country is 86.5%;
- The indicator of innovative activity of the private sector, including small business entities, is much lower compared to the indicators of other developing countries. Gross expenditure on research and development carried out by the private sector (as a percentage of GDP) is currently 0.1%;

- When the innovative activity of small business entities is analyzed in terms of regions, Tashkent city and Tashkent regions have an edge. The dense location of higher education institutions that increase intellectual potential in the center, the aspiration of qualified specialists - personnel to the center and, inevitably, the better formation of the infrastructure of innovative activity compared to other regions, had a positive effect on the increase in the innovative activity of small business entities.

Based on the conducted research, we present the following suggestions for increasing the innovative activity of small businesses in Uzbekistan:

- Stimulation of interest in co-financing of innovations among small business entities. "Partnership financing" or "co-financing" leads to positive results such as the increase in innovative activity of small business entities, the distribution of risk among partners, and at the same time, synergistic efficiency.

- Strengthening integration between science - education - small business entities. This integration allows small business entities to reduce costs for innovative activities, effectively implement and manage innovative activities based on the use of material and technical base, personnel potential of research institutes and higher education institutions.

- Organization of measures to stimulate the innovative activity of small business subjects, etc.

All the reforms implemented in the formation and development of the innovative economy aim to ensure economic growth, gain the prestige of our country in the world market, and increase the competitiveness of business entities. After all, enterprises are provided with high profits, living conditions and standards of the population are improved as a result of innovations and innovative activities.

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