

INSTITUTIONAL TRANSFORMATION AND COMPETITIVENESS OF SMALL INDUSTRIAL ENTERPRISES: THE CASE OF KHOREZM REGION

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Abstract

The article analyzes the main trends of small business participation in industrial production processes, using the Khorezm region as a case study. Based on statistical data, the study examines the volume of industrial output produced by small enterprises in recent years, growth rates, and structural characteristics. The regional analysis identifies the share of small business in industry, its activity in leading sectors, and its impact on production efficiency, as well as the interrelation with investment processes. Furthermore, the opportunities and existing challenges of small business development in industry are assessed, and practical recommendations for their improvement are proposed.

Keywords: small business, industry, production trends, Khorezm region, investment, regional development..

Annotatsiya

Maqolada kichik biznesning sanoat ishlab chiqarish jarayonlarida ishtirok etishining asosiy tendensiyalari Xorazm viloyati misolida tahlil qilingan. Statistika ma'lumotlar asosida so'nggi yillarda kichik korxonalar tomonidan ishlab chiqarilgan sanoat mahsulotlari hajmi, o'sish sur'atlari va tarkibiy xususiyatlari o'rganilgan. Hududiy tahlil kichik biznesning sanoatdagi ulushi, yetakchi tarmoqlardagi faolligi, ishlab chiqarish samaradorligiga ta'siri hamda investitsiya jarayonlari bilan o'zaro bog'liqligini aniqlab beradi. Shuningdek, sanoatdagi kichik biznesni rivojlantirish imkoniyatlari va mavjud muammolar baholangan hamda ularni takomillashtirish bo'yicha amaliy tavsiyalar ishlab chiqilgan.

Kalit so'zlar: kichik biznes, sanoat, ishlab chiqarish tendensiyalari, Xorazm viloyati, investitsiya, hududiy rivojlanish.

Abstract

The article analyzes the main trends of small business participation in industrial production processes, using the Khorezm region as a case study. Based on statistical data, the study examines the volume of industrial output produced by small enterprises in recent years, growth rates, and structural characteristics. The regional analysis identifies the share of small business in industry, its activity in leading sectors, and its impact on production efficiency, as well as the interrelation with investment processes. Furthermore, the opportunities and existing challenges of small business development in industry are assessed, and practical recommendations for their improvement are proposed.

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Small business is considered one of the key factors of sustainable growth in the modern economy. It not only creates new jobs but also increases the flexibility of production processes and ensures the competitiveness of the economy. In particular, the active participation of small businesses in the industrial sector plays a significant role in expanding production volumes, ensuring the efficient use of resources, and introducing innovative technologies. Therefore, the scientific analysis of small business performance indicators in industrial production is one of the pressing issues.

In recent years, the development of small business and private entrepreneurship has become a priority direction of state policy in the Republic of Uzbekistan. Presidential decrees and government resolutions have been aimed at supporting small businesses, providing tax incentives, developing the credit system, and strengthening industrial infrastructure. The “Uzbekistan – 2030” Strategy also identifies the increase of small business’s share in the economy and the enhancement of their efficiency in industrial production as one of the key tasks.

Khorezm region is one of the economically potential territories of the republic, where sectors such as agricultural product processing, construction materials production, light industry, and food industry are rapidly developing. In this process, the activity of small business entities plays an important role, directly influencing the overall industrial indicators. Studying the share of small business in the region’s industry, analyzing its development dynamics and structural features makes it possible to determine the opportunities for sustainable development of regional industry.

The issue of small business development and the related institutional reforms has long been the focus of attention of both international and national scholars. In particular, J. Schumpeter assessed innovative activity as a key driver of economic growth, emphasizing small entrepreneurship as a decisive factor in the renewal and adaptability of the economic system. M. Porter, in turn, substantiated that small enterprises contribute to strengthening local competition, fostering sectoral innovations, and enhancing the effectiveness of market mechanisms [1].

In theories of regional development, issues related to industrial location and intersectoral balance occupy an important place. A. Marshall, in his concept of “industrial agglomeration,” argued that the concentration of industrial enterprises in specific territories reduces production costs and enhances competitiveness [2]. M. Porter’s “cluster theory” further interprets regional clustering as an important mechanism for increasing industrial efficiency, stimulating innovation, and creating new jobs [3].

Foreign literature also widely covers modern trends in industrial development, particularly the concept of “Industry 4.0,” digital transformation, and the factors of the green economy (Klaus Schwab, OECD reports, and others). These approaches highlight the introduction of high technologies, the expansion of innovative product manufacturing, and the consideration of environmental factors as key priorities for sustainable industrial development [4].

Among Uzbek researchers, scholars such as G. Rahimov, S. G‘ulomov, and A. Ismoilov have paid special attention to the analysis of supporting small businesses,

ensuring the stability of the entrepreneurial environment, infrastructure development, and regulatory reforms [5–8]. For instance, in his article “The System of Reforms in the Development of Small Business in Uzbekistan,” S. G‘ulomov emphasized the advantages of simplifying regulatory mechanisms and providing services based on the “one-stop shop” principle. Furthermore, Uzbek economists such as K. Kh. Abdurakhmonov, M. G. Pardayev, S. Salayev, R. I. Nurimbetov, A. Abdullayev, and others have conducted in-depth studies on the transformation of regional industrial sectors, the enhancement of production capacity, and the introduction of digital technologies [9]. Their research particularly focuses on the role of small businesses in industry, the benefits created by state support, and infrastructural mechanisms of assistance.

Local empirical studies demonstrate that the share of small businesses in industrial production is steadily increasing, making them an essential factor of regional economic growth. In particular, observations conducted in the Khorezm region show that small businesses are more active in sectors such as agricultural product processing, construction materials production, and light industry. Therefore, the analysis of the existing scientific literature indicates the need to apply classical economic theories, clustering approaches, and the findings of local researchers in a comprehensive manner to study the trends of small business in industrial production.

The issue of industrial development in the Khorezm region remains problematic. Specifically, the share of industrial products in the regional gross domestic product (GRDP) is more than twice as low compared to the national level. While identifying the main directions for industrial development in the region, supporting industrial enterprises and increasing the number of small business entities operating in the sector will contribute to raising its share in the GRDP. Therefore, it is necessary to assess the role and significance of small businesses in ensuring industrial growth in the region and to determine, through quantitative methods, the impact of changes in their number on gross output [10].

In general, it is observed that the share of small businesses in the industry of the Khorezm region is relatively high, although in some years sharp fluctuations can be seen. For example, in 2014, despite maintaining the growth rate at the national level, the regional share declined from 36.8 percent in the previous year to 29.7 percent. As a result, during the studied period, for the first time, the regional share fell below the national average. The sharp increase in the following two years led small businesses in the region’s industry to reach their maximum level in the past decade, once again surpassing the national level.

Both at the national and regional levels, a decline in the share of small businesses in industry was observed in 2019, although in the region this decline was relatively less significant. However, a sharp decline in 2021 resulted in the regional share once again differing significantly from the national average, this time in the opposite direction. Apart from some fluctuations, the period from 2010 to 2016 witnessed an increase in the share, while a decline was observed from 2017 to 2024. Nevertheless, these results do not lead to the conclusion that the development of small businesses in the industrial

sector in recent years has lacked positive tendencies. This is because, during the same period, the number of small business entities in the industrial sector continued to grow at a high rate.

Since the data on the number of enterprises and organizations are recorded in the register as of January 1 each year, attention has been given to the changes in key indicators reflecting the activities of small business entities in the Khorezm region's industrial sector during the period 2016–2024. Over this period, the number of registered and operating small business entities in the region's industrial sector increased by 2.3 times. At the same time, the number of inactive small enterprises—which negatively affect the overall performance of small business entities—also grew rapidly, increasing by 3.3 times. Specifically, their number rose from 84 to 273 units, which contributed to a decline in the overall level of activity of small enterprises.

For the analyzed period, the highest growth rate was observed in the number of newly established small business entities, which increased by 4.9 times. On the other hand, the number of liquidated enterprises showed the lowest change, which positively influenced the survival coefficient of small businesses in the industrial sector during this period. The two indicators mentioned above—namely, the level of activity and the survival coefficient—are considered important measures in assessing changes in the share of small businesses in industrial production.

Since the enterprise register has been formed by the State Committee on Statistics starting from 2016, these indicators were calculated for the period 2016–2024 (Table 1).

Table 1.

Activity level and survival coefficient of industrial enterprises¹

Year	Activity Level		Survival Coefficient	
	Total industrial enterprises	Small industrial enterprises	Total industrial enterprises	Small industrial enterprises
2016	96,4	96,4	35,2	35,6
2017	96,8	96,8	35,5	36,1
2018	95,7	95,7	-10,8	-10,9
2019	97,9	97,8	35,9	35,9
2020	96,4	96,3	55,7	55,6
2021	94,7	94,6	68,3	68,8
2022	94,9	94,9	80,5	80,6
2023	93,5	93,4	84,4	84,3
2024	94,0	94,0	67,8	68,0

For the purpose of conducting a comparative analysis, both the activity level and the survival coefficient were calculated for total and small industrial enterprises. The obtained results indicate that the survival coefficients of total and small industrial enterprises differ insignificantly. The main differences are observed in the period 2017–2019. During this period, the survival coefficient of small industrial enterprises was 0.1

¹ Athour's work

points lower, which can be considered one of the main reasons for the decline in the share of small business entities in industrial production after 2016. The same situation was also observed in 2021 [11].

In addition, during 2017–2024, except for the years 2020 and 2024, a slight downward trend in the activity level was observed. The lowest indicator for activity level corresponds to the year 2021, which reflects the impact of restrictions introduced in 2020 due to the pandemic.

By 2016, the survival coefficient reached its lowest level, amounting to –10.8 percent for total industrial enterprises and –10.9 percent for small industrial enterprises. This indicates that, compared to the number of newly established enterprises, the number of liquidated ones exceeded by more than 10 percent. Naturally, this serves as an important indicator justifying the effectiveness of the measures undertaken to support entrepreneurial entities [12]. In subsequent years, due to the implementation of support measures, this indicator showed a positive growth trend, with only a slight decline observed in 2024. Apart from minor differences in some years, it can be concluded that the survival coefficients of total and small industrial enterprises in the region are almost identical.

Another important indicator characterizing the development of the sector is the share of enterprises and organizations belonging to the industry in relation to the total number of enterprises. This indicator was also calculated for both total and small industrial enterprises (Table 2).

As of January 1, 2014, 18.8 percent of the registered small enterprises and 15.5 percent of the total enterprises in the Khorezm region belonged to the industrial sector. However, during the studied period, no uniform trend is observed in the changes of these indicators. The share of small enterprises in industry reached its maximum value in 2019, while for total enterprises it was observed in 2022. That is, excluding the decline in 2016–2017, the share of industrial enterprises in relation to the total number of enterprises in the region showed an upward trend. The fact that the share of total and small active industrial enterprises is generally higher than that of registered enterprises indicates a relatively higher activity level in the sector. Nevertheless, in the last two years, the activity level of small industrial enterprises has declined compared to other sectors in the region [13].

In addition, the share of inactive enterprises in the industrial sector relative to the total has also increased: from 12.3 percent as of January 1, 2014, to 17.8 percent as of January 1, 2024. In small enterprises, however, this indicator showed a relatively lower change. Such results point to existing problems in ensuring the stability of industrial enterprise activity in the region.

The share of newly established small enterprises in industry was relatively high, amounting to 24.7 and 24.6 percent in 2014 and 2018, respectively. In other words, almost one in four newly established small enterprises in the region belonged to the industrial sector. However, this indicator reached its lowest level in 2016 and 2020, particularly amounting to 19.8 percent in 2020. Due to measures implemented in the following two years, the indicator increased to 22.2 percent.

Table 2

**Share of industrial enterprises in the total number of enterprises in
Khorezm region¹**

Year	Registered		Active		Inactive		Newly Established		Liquidated	
	Small enterprises	Total enterprises	Small enterprises	Total enterprises	Small enterprises	Total enterprises	Small enterprises	Total enterprises	Small enterprises	Total enterprises
2016	18,8	15,1	18,9	15,2	16,2	12,3	24,7	20,9	18,3	17,8
2017	19,1	15,4	19,2	15,5	17,9	12,9	21,2	20,4	20,8	20,1
2018	18,2	14,6	18,1	14,7	19,1	13,7	17,1	15,9	18,2	17,8
2019	19,0	14,8	19,2	15,1	12,9	8,4	23,2	22,1	19,0	18,2
2020	19,5	15,7	19,6	15,8	18,2	13,5	24,6	22,9	17,4	13,0
2021	20,0	16,1	20,1	16,2	17,7	14,5	22,2	19,4	17,7	17,4
2022	19,6	16,4	19,6	16,4	19,8	16,5	19,8	19,1	18,3	17,6
2023	19,2	16,6	19,1	16,6	19,5	17,2	20,8	20,4	20,5	17,3
2024	19,5	17,1	19,4	17,1	20,4	17,8	22,2	21,5	19,9	19,3

The share of industrial enterprises among total liquidated enterprises remained relatively large, although lower than that of newly established enterprises. It should be emphasized that the share of industry among liquidated small enterprises was relatively higher compared to the total. In 2024, the increase in the share of liquidated industrial enterprises contributed to narrowing the gap between the two indicators [14].

In order to assess the efficiency of small business entities in the industrial sector of the region, per-enterprise indicators were also analyzed. For this purpose, the value of industrial products produced by small business entities was converted to 2010 constant prices. Dividing this result by the number of active small business entities in the region made it possible to determine the output per enterprise. According to the research results, between 2013 and 2015 the output per small business entity almost doubled. However, in 2016, it declined by 11 percent compared to the previous year, although this decline was recovered in 2017. Since 2019, the output has been steadily decreasing compared to the previous year, and by 2021, it amounted to 15 million soums, which is 26.2 percent lower than in 2018. These results show that in order to ensure industrial production growth in the region, it is necessary not only to increase the number of active small business entities, their activity level, and their survival coefficient, but also to improve the efficiency of their operations.

The results of the analysis show that despite the growth trend of the real value of industrial production in the region, the share of small business entities in industry has been declining. The main reason for this is the reduction in the real output per small business entity, which directly reflects the existence of problems related to enterprise

¹ Athour's work

management and ensuring operational efficiency. Overall, the total volume of industrial production in the region demonstrates a growth tendency. In our view, one of the most promising directions for the development of industry in the region is to intensify the production processes of small business entities and thereby increase the output per enterprise.

In other words, increasing the share of small business in industry and ensuring sectoral development requires the acceleration of investment support. In this process, it is advisable to attract foreign investments and establish joint ventures through enhancing investment attractiveness.

The implementation of these proposals, developed on the basis of research findings and aimed at addressing existing problems, will ensure the development of small businesses in this direction. Taking into account the above, the next paragraph of this research focuses on assessing the significance of small business development in industry using quantitative methods.

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