



## METHODS OF EVALUATING THE EFFICIENCY OF SMALL BUSINESS SUBJECTS BASED ON DIVERSIFICATION

Bozarov Bokhodir Zukhrudinovich

Email: [Bozorovbahodir123@gmail.com](mailto:Bozorovbahodir123@gmail.com)

Тел: +998972520509

<https://doi.org/10.5281/zenodo.8424032>

### Abstract.

In this article, it can be seen that the share of small business and private entrepreneurship activity is increasing in the economy of many countries in the current globalization conditions, rather than large enterprises. An increase in the share of workers and production in small enterprises of industrialized countries was determined. The emergence of new small businesses has come to be seen as a major source of employment, wage income and, consequently, welfare growth. Most small and medium enterprises play a major role in the economy, especially in developing countries.

**Keywords:** small business, national income, diversification, entrepreneurship, small enterprise, wages, industry.

### INTRODUCTION

Small businesses account for 90% of business and more than 50% of employment worldwide and, according to official figures, contribute up to 40% of national income in developing countries. These numbers are observed to be much higher when informal SMEs are included. It is estimated that 600 million jobs will be needed to absorb the growing global workforce by 2030<sup>1</sup>.

This makes the development of small and medium-sized businesses a priority for many countries in the world. The majority of formal jobs in developing countries are created by small and medium-sized enterprises, accounting for an average of 7 out of 10 jobs<sup>2</sup>. However, studies show that limited financial opportunities are the main obstacle to the development of small and medium-sized businesses even in developed countries.

The development of small business, according to experts, in the countries of the former union, along with the disintegration of state-owned enterprises, small firms began to emerge, and it was determined that the results of changes in rapidly developing countries depend on small and medium-sized business entities. Because small businesses have higher economic performance than larger firms in many industries, as well as the ability to act as a catalyst for innovation and regional growth.

Against the backdrop of the privatization of state property of the Republic of Uzbekistan, which has gained independence, this process continues actively today and is manifested as a sector of its economy that is specially supported by state and non-state structures. In order to regulate this sector of the economy, a regulatory legal framework has been created in the republic and its regions, and reforms on the development of small business are being implemented.

<sup>1</sup> Improving SMEs' access to finance and finding innovative solutions to unlock sources of capital. <https://www.worldbank.org/en/topic/smefinance>

<sup>2</sup> Small and Medium Enterprises (SMEs) Finance. <https://www.worldbank.org/en/topic/smefinance>

### ANALYSIS AND RESULT

The world experience shows that small business is an important component of the regional economy, it is an important factor of the direction of specialization and level of economic development, socio-economic stability of the country, and it allows to reduce regional disparity economically. It is known that where small business is developing, the contribution of the middle class, the initiative of the population and the responsibility of people for the results of their work are increasing. Small business performs a number of social functions locally, provides employment, increases income and the budget system. Small business appeared as the main source of innovation and made a significant contribution to the development of production in technically developed areas and all sectors of the economy (Table 1).

Table 1

#### The share of small business and private entrepreneurship (in % of the total volume)

Indicators	2000	2005	2010	2015	2020	2021	2022	Change in 2022 compared to 200 years (-,+)
<b>GDP</b>	31,0	38,2	60,8	64,6	55,7	54,9	51,8	20,8
<b>Industry</b>	12,9	10,0	26,6	40,6	27,9	27,0	25,9	13,0
<b>Construction</b>	38,4	50,9	52,5	66,7	72,5	72,4	71,6	33,2
<b>Employment</b>	49,7	64,8	74,3	77,9	74,5	74,4	74,4	24,7
<b>Export</b>	10,2	6,0	13,7	27,0	20,5	22,3	29,5	19,3
<b>Import</b>	22,8	33,7	35,8	44,5	51,7	48,7	49,4	26,6

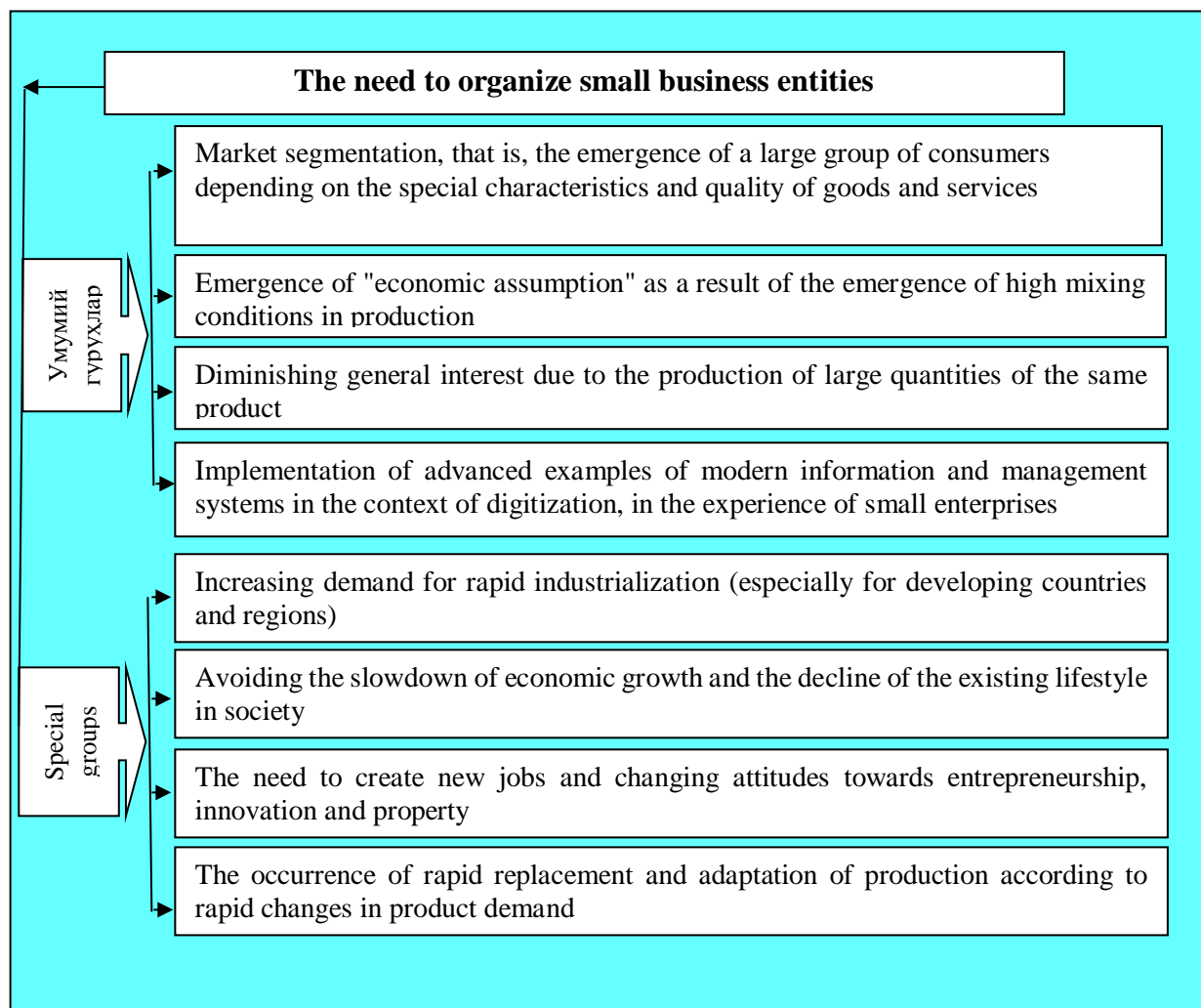
In 2022, the share of small business and private entrepreneurship in GDP was 51.8%, and it was equal to 54.9% in 2019. The decrease in the share of small business in GDP is explained by the increase in the share of large enterprises. If we pay attention to the values of the table, the share of small business entities in the volume of production of industrial products increased by 13.0% compared to 2000 and equaled 25.9% in 2022. It can be observed that the highest indicators of the share in the sectors of the economy are in the field of population employment and construction, which are equal to 74.4% and 71.6% in 2022, respectively. This, in turn, requires a wider study and deeper analysis of industrial production in order to develop the activities of small business entities and improve the production of industrial products within economic sectors.

In general, business is making money from money, it is the transfer of money from money to money based on the production of goods or services that people need through an activity. Business means, first of all, organization of production, relations of economic activity, life itself, and then making money<sup>3</sup>. Business is a global foreign word that is widely used in all countries. In Uzbek, the word business means entrepreneurship. The Uzbek word corresponds to the foreign word, but also gives it an additional meaning. Behind these words is "work", that is, to engage in some activity or to organize an enterprise.

It is clear from this that an entrepreneur should first of all be able to foresee how to carry out entrepreneurial activities, under what conditions to act practically, ways to solve the obstacles faced by the entrepreneur, and what achievements to achieve. Also, the objective necessity and certain subjective reasons that have arisen in Uzbekistan make it a condition for

<sup>3</sup> Peter F. Drucker The Theory of the Business. From the Magazine. (September–October 1994).

the emergence and development of small business enterprises. These conditions and reasons can be divided into general and special groups (Figure 1).



**Figure 1. The need to organize small business entities<sup>4</sup>**

In the implementation of tasks of modernization, technical and technological updating and development of industrial sectors in the Republic of Uzbekistan, extensive use of foreign investments and effective use of every soum involved is required. Reform and liberalization of political and socio-economic processes, democratic renewal and modernization of society are developing rapidly in the country. In this regard, the huge tasks defined and consistently implemented in the way of the formation of a strong civil society create a solid foundation.

Also, many small, medium and large industrial enterprises are operating in the development of the economy of the Republic of Uzbekistan and its integration into the world community, which cover almost all sectors of the economy - from heavy industry to light industry, from processing of agricultural products to scientific research. They, of course, use all factors of production, including land, natural and labor resources, investments, modern

<sup>4</sup> Author development based on research results

information systems, techniques and technologies, to develop their activities and ensure their integrity.

Diversification (lat. diversus - different and facere - to do) - means expanding the activities of large firms, associations, enterprises and the entire industry outside the framework of the main firm in order to ensure operational efficiency and strengthen its position in various markets<sup>5</sup>. Diversification is one of the main methods of gaining competitive advantages, which consists in increasing profits by taking advantage of market opportunities and establishing competitive advantages, despite the fact that their incentives are different<sup>6</sup>. It can be seen that diversification is important in increasing the efficiency of industrial enterprises and increasing the range of products, as well as ensuring the viability of production.

The need for rational diversification is clearly felt in the conditions of industrial enterprises first choosing a clear direction and gradually eliminating their shortcomings. A company that offers a complete set of products and services can reduce potential risk and increase its competitiveness through diversification. Such situations motivate the enterprise to expand its scope of activity as a result of acquiring other enterprises and establishing new types of business. Although the reasons for diversification are different, its ultimate goal is to increase the efficiency of the enterprise not only now or in the near future, but also in the long term.

Further researches in this field allowed the formation of an approach to the assessment and analysis of the effectiveness of diversification of the firm. In this regard, I. Ansoff, F. Kotler, M. Porter, A. A. Thompson and A. D. Strickland carried out great work.

I. Diversification of Ansoff production<sup>7</sup> - believes that this means the redistribution of resources from the current field of activity of the enterprise to a sufficiently different field. F. Kotler and diversification<sup>8</sup> defines it as a strategy that allows the company to develop outside its field and is divided into concentric, horizontal and conglomerate types.

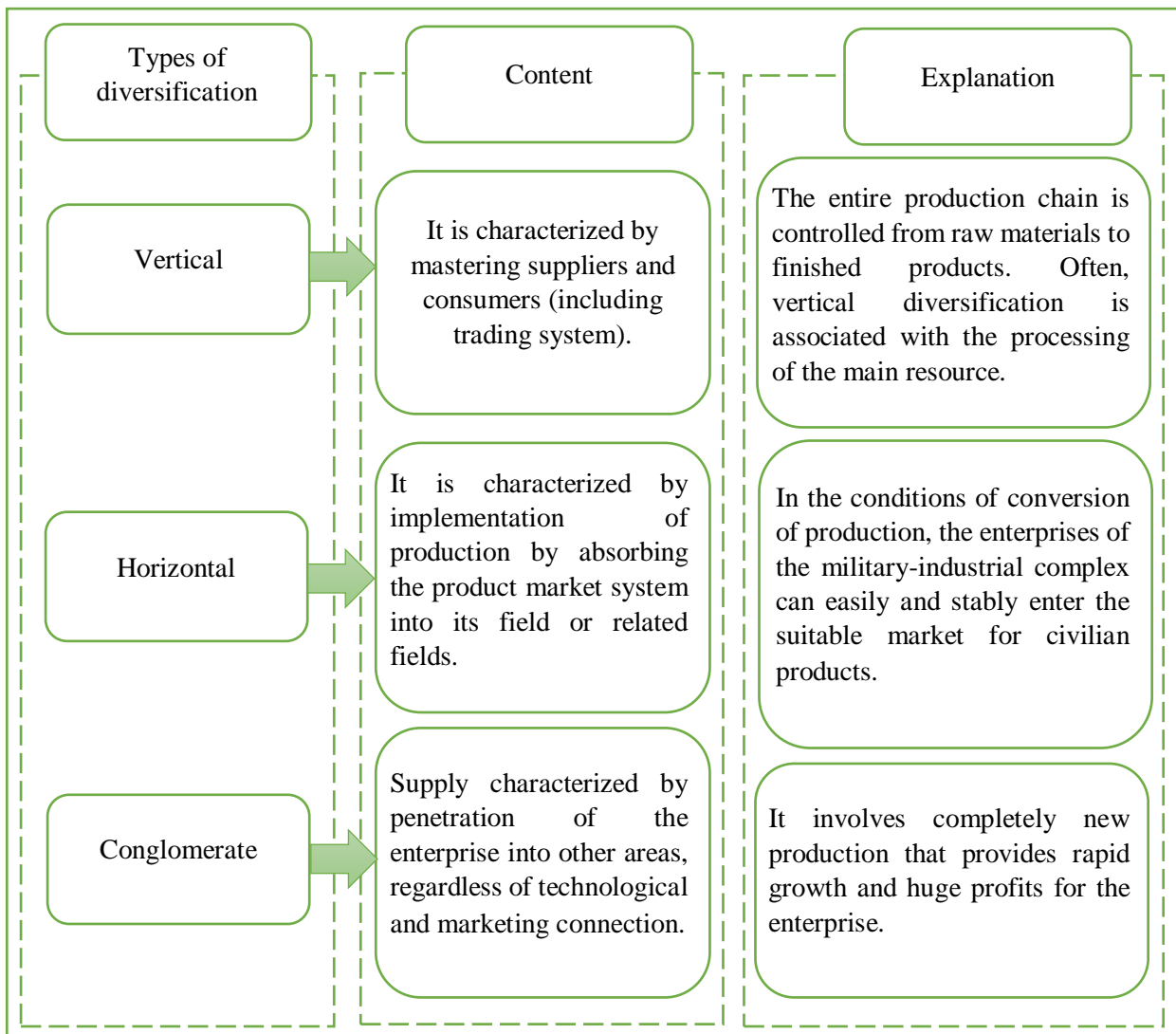
M. Porter refers to diversification of economic activity as a large firm, association, enterprise and entire industries, which go beyond their main activity, and in addition, increase the production of other products from the proceeds of sales. The logical continuation of diversification is the emergence of conglomerates, the main parts of which are functionally unrelated to each other (Figure 2).

<sup>5</sup> Архипов А.И. Экономический словарь, 2-е издание – М.: Издательство «Проспект» - 2013.

<sup>6</sup> Даровских, Е.В. Диверсификация и интеграция хозяйствующих субъектов как фактор повышения их конкурентоспособности // Журнал ВАК: Управление экономическими системами. – 2011.– Вып. 4.

<sup>7</sup> Ансофф И. Стратегическое управление. - М.: Экономика, 1995.

<sup>8</sup> Котлер Ф., Армстронг Г., Вонг В., Сондерс Д. Основы маркетинга. – М.: Вильямс, 2014.



**Figure 2. The essence of the types of diversification<sup>9</sup>**

According to A. Rumyantsev, "Diversification is an enterprise's ability to increase its range of products at the expense of its own resources, to master new fields of activity." it is said. R. Pitts and H. Hopkins said, "Diversification is doing several types of business at the same time." In the Economic Dictionary edited by A.I. Arkhipova, it is defined as "Diversification is the distribution of capital among several objects in order to reduce economic risk." From all of these definitions, diversification can be understood as a method of reducing risk to increase product range and increase efficiency.

The need for diversification in the enterprise occurs in cases where there is a strong competitor in the market, the demand for the currently produced product and reduced profit. The theoretical reasons for diversification are as follows:

- risk reduction, survival - i.e. measures aimed at reducing side effects from the market, production or material side;
- ensuring stability - moving the balance of production in the product cycle;
- rational use of excess resources, adaptation to changing customer needs and growth.

In this case, based on the diversification of a large amount of capital accumulated in the main

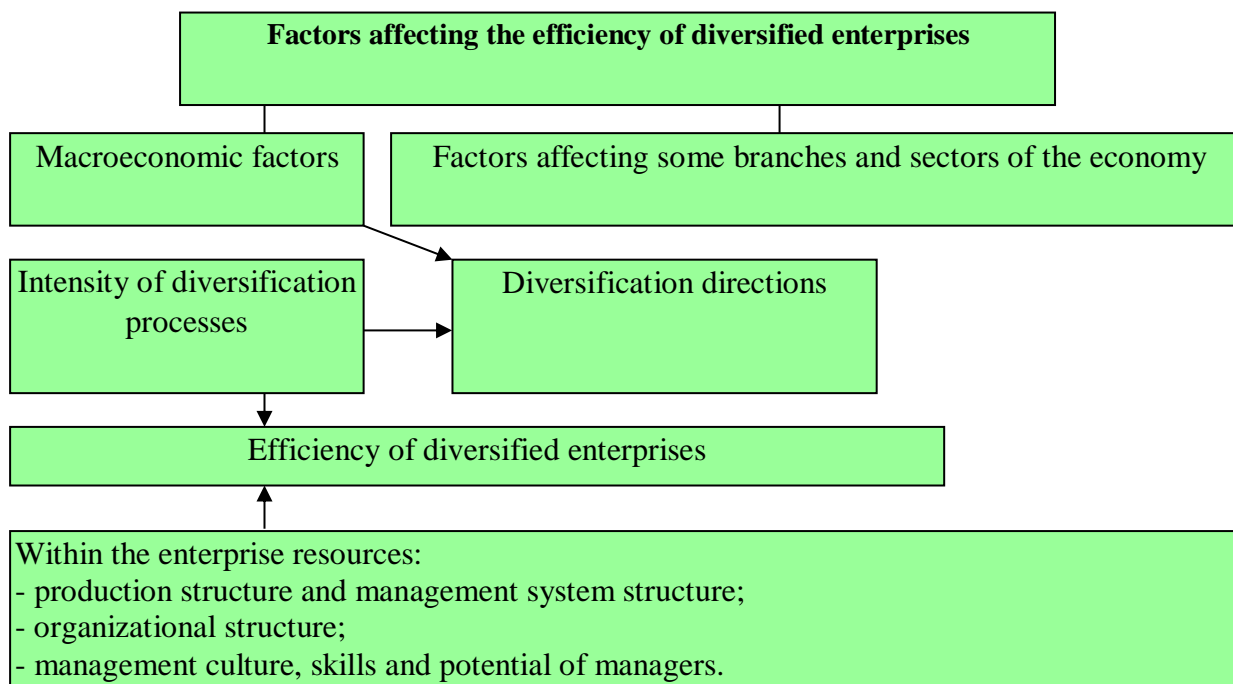
<sup>9</sup> Source: Kotler F, Armstrong G, Wong W, Saunders D. Basic marketing. - M.: Williams, 2014. The author's approach to the information presented in the literature



areas of business, it provides the opportunity to develop the activity of an enterprise with limited financial opportunities, reduce the level of risk and further expansion (expansion, distribution). The process of diversification is characterized from different points of view, namely:

- from the technical side - it is defined as combining productions that are technically or technologically homogeneous and close to each other within the framework of a monopoly;
- economically - as a form of production development, a large agricultural enterprise strives to stabilize its profit by changing the types of crop and livestock products produced;
- diversification in organizational matters implies the expansion of large enterprises in agriculture and the departure from the boundaries of their network, the transition from mono-product to multi-branch activity producing a wide range of products in areas not directly related to their main activity in production and functional communication.

In order to achieve the effectiveness of diversification efforts, it is necessary to take into account a number of factors that contribute to a clear and detailed composition of the diversification direction when developing and implementing certain measures in this direction (Fig. 3).



**Figure 3. Factors of efficiency of diversification in the enterprise**

### CONCLUSIONS AND SUGGESTIONS

Also, there are positive aspects of diversification in the enterprise, it is an opportunity to integrate existing opportunities to achieve the set goals. The optimal result of such integration is determined by the effect of synergistic effect. In this case, the integrated whole activity is more effective than the sum of separate parts. Large companies increase the level of profitability of their purchased enterprises by modernizing their management and financial monitoring systems and reorganizing enterprises according to the types of activities. In this case, a favorable effect is achieved due to the combined use of resources and experience. The highest level of synergistic effect is achieved when there are divisions of the enterprise in related sectors.

The reforms carried out in the regions are mainly aimed at achieving the highest possible level of modernization and diversification of industrial enterprises through foreign investments. Today, the industry of Uzbekistan has all the economic, political and legal grounds for accepting large foreign investments. Based on these principles, there are issues of further improvement of the mechanisms of attracting foreign investments to modernize and diversify the economy of industrial enterprises.

The directions of diversification of innovative activities ensure the competitive advantage of small business entities in the world markets of industrial production and other sectors related to it, that is, innovation risks are reduced, economic growth is ensured, costs are reduced when diversifying into related sectors.

### References:

1. Botirjon o'g'li, M. B., Xasanboy, S. D., & Akmaljon o'g'li, A. X. (2022). ISH BILAN BANDLIGINI OSHIRISHDA MEHNAT BOZORINING TA'SIRI. PEDAGOGS jurnali, 12(1), 4-10.
2. Botirjon o'g'li, M. B., & Hasanboy o'g'li, S. D. (2022). Organization and increase of activity of small industrial zones.
3. Muhammadjonov, B. B. O. G. L., & Xudayberdiyev, O. A. (2022). O'ZBEKISTONDA FAOLIYAT YURITAYOTGAN KICHIK SANOAT HUDUDLARI RIVOJLANISHINING ISTIQBOLLARI. Academic research in educational sciences, 3(1), 265-273.
4. O'G'LI, M. B. B. (2021). ESTABLISHMENT AND ACTIVITY OF SMALL FREE ECONOMIC ZONES IN THE TERRITORY OF UZBEKISTAN. International Journal of Philosophical Studies and Social Sciences, 1(2), 156-159
5. Botirjon o'g'li, M. B., & Shaydullo o'g'li, R. D. (2023). KICHIK BIZNES SUB'YEKTLARINI RIVOJLANISH MASALALARI. FINLAND" MODERN SCIENTIFIC RESEARCH: TOPICAL ISSUES, ACHIEVEMENTS AND INNOVATIONS", 14(1).
6. Botirjon o'g'li, M. B., & Hasanboy o'g'li, S. D. (2022). Organization and increase of activity of small industrial zones.