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## Features of Innovative Development of Small Business and Private Entrepreneurship

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**Abstract:** The innovative development of small business and private entrepreneurship represents a key driver of sustainable economic growth, especially in developing and transition economies. This development hinges on two critical dimensions. First, small businesses play an essential socio-economic role by contributing to employment, local development, and income generation within the framework of a market economy. They serve as flexible and adaptive units capable of responding quickly to market changes and consumer needs. Second, despite their significance, many small business entities face structural and operational shortcomings such as limited access to finance, insufficient technological capacity, and weak institutional support. These constraints often hinder their ability to grow and integrate innovation into their business models, thereby slowing down overall development in this sector. Moreover, the disconnect between scientific research and practical application further delays the commercialization of innovative ideas. Effective collaboration between academic institutions and small businesses is therefore essential to close this gap and stimulate innovation. By fostering an ecosystem where innovation thrives, small businesses can become more competitive, efficient, and resilient. Understanding these two interrelated aspects is crucial for policymakers and development institutions aiming to support entrepreneurial ecosystems. Tailored policy interventions, innovation support programs, and access to knowledge resources can help overcome existing barriers and unlock the innovative potential of small and private businesses.

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### 1. Introduction

In today's dynamic and competitive economic environment, the role of small business and private entrepreneurship has gained increasing attention across the globe. These enterprises are widely recognized not only as contributors to employment and income generation, but also as catalysts for innovation and local development. Particularly in emerging and transitioning economies, small business serves as a foundation for economic diversification and resilience. As technological advancement accelerates and consumer demands become more sophisticated, the integration of innovative practices into small business operations has become imperative[1]. However, the pathway to innovation for small enterprises is often obstructed by structural and financial limitations. These include restricted access to capital, limited research and development capabilities, and inadequate institutional infrastructure to support innovation. Such constraints hinder

the transformation of creative ideas into marketable products and services, ultimately impeding overall economic progress. Moreover, the lack of strong linkages between scientific research institutions and entrepreneurial actors creates further disconnect between innovation and its practical application[2]. Recognizing these challenges, policymakers and development practitioners have increasingly emphasized the need to strengthen innovation capacity within the small business sector. This includes creating favorable legal frameworks, providing financial incentives, and facilitating cooperation between universities and enterprises. The present article aims to examine the key features, barriers, and prospects of innovative development in small business and private entrepreneurship, with a focus on practical mechanisms that can foster a more inclusive and innovation-driven entrepreneurial ecosystem.

According to the International Council for the Development of Small Businesses, 90 percent of all enterprises in the world are micro, small and medium-sized enterprises. They account for 50 percent of the world's gross domestic product, and 70 percent of the working-age population is employed in this sector. The transition of the economy of Uzbekistan to an innovative basis necessitates the development of new forms and types of entrepreneurial activity (in particular, innovative). Innovative business is becoming an important factor in improving the quality and efficiency of business processes[3]. Due to the introduction of innovations, a decrease in production costs, the development of new economic sectors, and an increase in the competitiveness of enterprises and the national economy are expected. It is worth noting that science is an important tool for creating innovations. However, the commercialization of innovations occurs mainly with the participation of business. Thus, the interaction of science and business plays a decisive role in the implementation of the innovation process.

The innovative development of small business and private entrepreneurship is directly related to two aspects of the development of small business. The first aspect is related to the socio-economic tasks that small business performs in a market economy, and the second aspect is related to the shortcomings inherent in small business entities and the fact that their development is slow in a particular country due to these shortcomings[4].

The importance of small business in the economy can be revealed through the socio-economic tasks it performs. These tasks should be divided into general and specific tasks. General tasks reflect the innovative goals of the business entity. Specific tasks, on the other hand, differ more or less from the goals of the participants in innovative activities, which change over time. A. Smith noted: "We do not believe in the generosity of the butcher, cook or baker while eating, we believe that they are trying to realize their own interests, they pursue their own interests and, under the control of the "invisible hand", achieve results that they did not even imagine." This means that the entrepreneur performs not only individual tasks aimed at enrichment, but also functions of a hidden nature, of a social nature. He also approaches the goal innovatively in order to outperform the competition. This allows us to distinguish between individual tasks in the economic tasks of entrepreneurial activity, as well as tasks of a social nature.

It is necessary to prioritize the main function of small business as a factor of economic freedom. The development of small business, on the one hand, gives a person the opportunity to choose whether to be an employee or an independent entrepreneur, and on the other hand, the activities of a small business entity are more subject to the laws of the free market than the activities of large corporations. Small business entities that fulfill this function serve to popularize the innovative product they create[5].

Among the many tasks of small business, its tendency to introduce innovations into practice can be highlighted. As is known, innovation means the application of new technologies, products and services, innovations in the form of production, labor, service and management. The development of innovative activities of small business entities can be achieved due to the following factors. First, the compactness of the scale of economic

activity in small business makes it relatively easy and inexpensive to implement innovative approaches. Second, the simplicity of the organizational and management structure of small business enterprises ensures a relatively short decision-making process related to the introduction of innovations. Third, the predominance of individual forms of ownership in this area leads to a strong interest in the introduction of innovations. For example, in US companies with less than 1,000 employees, major technical innovations are developed 17 times more often than in firms with 10,000 employees. Small innovative firms in the US are four times more efficient at R&D than large corporations. In addition, small innovative businesses produce 2.5 times more innovations per employee than large businesses and implement them one year faster. At the same time, they spend 75 percent less money on this[6].

Since the 1980s, economic literature has given priority to scientific research devoted to the innovative development of small business and private entrepreneurship. As a result, the concept of "small innovative entrepreneurship" has entered the economic literature. However, a single, generally accepted definition of this economic term has not yet been developed. The results of the conducted research show that the unique and important aspect of the activity of "small innovative entrepreneurship" that differs from "small business and private entrepreneurship" is characterized by its tasks, which are determined based on the purpose of its innovative activity. In this case, through the activity of small innovative entrepreneurship, the presence of an innovative approach in the process of producing goods and services, a high level of aspiration to implement new techniques and technologies in production processes, and ultimately the achievement of increasing the competitiveness of goods and services produced, as well as an increase in the variety of innovative developments, ideas and products in the relevant industries and sectors of the economy. The development of small innovative entrepreneurship, in turn, creates favorable conditions for the formation of small innovative regions, including innovative cities, innovative districts, innovative sectors, and innovative regions.

Another concept directly related to "small innovative entrepreneurship" is the term "small innovative enterprise". Despite the fact that the term "small innovative enterprise" is increasingly used by researchers in the field of economics and law and is often found in various regulatory documents, there is no single idea of a "small innovative enterprise". For example, in some studies, small innovative enterprises are interpreted as relatively new economic entities in the market economy, characterized by independence and flexibility, designed to perform tasks such as structural changes in production, expanding international scientific and technical cooperation, and increasing the country's global prestige based on the development, development and introduction of innovations. In other sources, it is emphasized that a "small innovative enterprise" is an enterprise that meets the definition of a small enterprise established in the legislation, the main activity of which is innovation. In the above definitions, the term "small innovative enterprise" is primarily understood as an independent firm owned by a private individual (individual entrepreneur) or a legal entity. However, according to a number of researchers, "small innovative enterprises" are business units established by universities in order to implement the results of intellectual activity in practice, and the organization of small innovative enterprises is carried out on the basis of a higher educational institution[7].

Thus, "small innovative enterprises" can be grouped according to the type of activity they perform. A number of researchers, for example, emphasize that the main activity of small innovative enterprises is innovation, while other researchers believe that the essence of small innovative enterprises is not in the development of innovations, but in their commercialization. On the other hand, if the legal status of the founders is chosen as the basis for characterizing small innovative enterprises, two approaches can be distinguished that reveal the content of the concept of "small innovative enterprise": in the first approach, small innovative enterprises are represented by private owners as independent companies;

in the second approach, “small innovative enterprises” are understood as firms with mixed ownership (for example, universities can participate as founders).

In order to form and establish this type of activity, it is necessary to have complete information about its structural structure and types. When dividing small innovative entrepreneurship into different groups, it is advisable to first of all pay attention to the following characteristics:

- a. According to the importance of the innovations adopted by the entity in solving the problems in the industry in which it operates (economic, social, environmental, etc.);
- b. According to the directions of the goals and objectives set for implementing innovative entrepreneurship (production-oriented, scientific and technical, applying scientific achievements in practice, etc.);
- c. According to the nature of consumption satisfaction (oriented to personal consumption, oriented to the supply of raw materials to manufacturers, oriented to science, etc.).
- d. Based on the practical significance of small innovative entrepreneurship in the system of economic relations, it is advisable to pay attention to the following when dividing it into different groups:
- e. By the composition of innovations (innovative product, innovative technology, innovative management, organizational-legal and social renewal);
- f. The degree of innovation of the achieved result or developments (completely new product, modernized, improved with new technological and design decisions);
- g. By the composition of the work performed (scientific and technical, scientific and production, implementation and consulting of scientific developments, scientific and technical services);
- h. By the degree of innovation (in the process of developing innovations, in the state of implementing innovations in practice, mastering innovations and exploiting them);
- i. The orientation of innovations (to the external market - export or import - to the domestic market);
- j. The level of risk (high; medium; and low levels of risk).
- k. The above-mentioned grouping of small innovative businesses by type allows solving the following tasks:
  - l. Scientific substantiation of their formation and development directions;
  - m. Identification of sources and forms of financing;
  - n. Improvement of the organizational and economic structure;
  - o. Assessment of the level of competitiveness, that is, comparative comparison of the planned and actual state of innovative small businesses;
  - p. Keeping accurate and precise reports.

## 2. Materials and Methods

This article employs a conceptual and analytical approach to examine the innovative development of small business and private entrepreneurship. The research is primarily qualitative in nature, relying on a synthesis of existing academic literature, policy documents, and statistical data from both national and international sources. Key reports from institutions such as the International Council for Small Business and the World Bank have been referenced to contextualize global trends in entrepreneurship and innovation. Additionally, official documents and reforms introduced in Uzbekistan related to private sector development were reviewed to assess the local landscape. The study does not involve primary data collection through surveys or experiments, but rather adopts a secondary research method by analyzing previously published materials and case studies. This approach allows for the identification of key challenges and enabling factors in the innovation process among small business entities. Comparative analysis was also used to contrast innovation capacities and outcomes between small and large enterprises, as well as to highlight differences in innovation adoption in developed versus developing economies. Where available, statistical comparisons and practical examples were

incorporated to illustrate the benefits and constraints of innovation in small business environments. The purpose of this methodology is to provide a comprehensive understanding of the structural, economic, and institutional conditions that affect innovative development in the small business sector[8]. By integrating theoretical insights and practical observations, the article aims to present a balanced overview and offer applicable recommendations for enhancing innovation-driven entrepreneurship.

### 3. Results and Discussion

The findings of this conceptual study highlight that small business and private entrepreneurship play an increasingly strategic role in fostering innovation across economies. One key result is that small enterprises, due to their flexibility, adaptive decision-making, and owner-driven motivation, are more likely to adopt new technologies at a faster rate compared to large, bureaucratic firms[9]. This agility makes them fertile ground for the early implementation of innovative practices, particularly in service delivery, process improvement, and product customization. However, despite this potential, the innovative activity within small businesses remains uneven[10]. A significant number of enterprises, especially in developing economies, are limited by inadequate access to finance, poor infrastructure, and a lack of exposure to research institutions. The absence of robust university–industry collaboration further hinders the transformation of scientific research into commercial products. As a result, while the intention to innovate exists, actual implementation is often delayed or fragmented. Another important observation is the regional disparity in innovation performance. Urban-based small firms tend to be more connected to knowledge networks and financial services, whereas rural enterprises often operate in isolation, with fewer opportunities for innovation adoption. These disparities reinforce the need for regionally targeted policy support[11]. The discussion also reveals that legal and regulatory frameworks significantly shape innovation incentives. Countries that offer tax benefits, innovation vouchers, and incubator support see higher levels of entrepreneurial innovation. In contrast, overly rigid licensing procedures or insufficient intellectual property protections deter entrepreneurs from investing in research and development. Overall, the evidence suggests that fostering innovation in small business requires a holistic approach one that addresses both internal capacity-building and external ecosystem development[12].

### 4. Conclusion

In conclusion, the innovative development of small business and private entrepreneurship stands as a vital pillar of sustainable economic transformation, particularly in developing and transitioning economies[13]. The research emphasizes that while small enterprises possess inherent advantages such as flexibility, personal ownership, and fast adaptability, these strengths alone are insufficient to guarantee innovation-driven growth. Systemic challenges ranging from limited financing and infrastructure gaps to weak institutional linkages continue to restrain their full potential. Effective innovation in this sector depends not only on internal motivation or business acumen but also on the surrounding ecosystem[14]. Close cooperation between academia, industry, and government is essential to bridge the gap between research and commercial application. Moreover, targeted state support, including tax incentives, grant funding, incubators, and simplified regulatory procedures, plays a decisive role in encouraging innovation among small business entities. The development of innovative entrepreneurship should be seen not just as a technological shift but as a broader economic strategy aimed at enhancing national competitiveness, employment, and long-term growth[15]. Tailoring innovation policies to the specific needs of small businesses especially those in underdeveloped regions can help reduce inequalities and unlock new opportunities for inclusive development. Therefore, to harness the full potential of small business in driving innovation, a comprehensive and coordinated policy framework is

needed one that empowers entrepreneurs, supports risk-taking, and ensures that innovation becomes a natural part of the entrepreneurial journey.

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