



**THE FINANCIAL MECHANISM AS A FACTOR IN INCREASING THE
EFFECTIVENESS OF SMALL BUSINESS**

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Abstract: The article examines pressing contemporary issues related to strengthening the impact of small business development on improving the financial efficiency of entrepreneurial activity. The main indicators of the level of entrepreneurship development are identified and analyzed. Based on practical materials, specific recommendations are provided for the formation of a civilized market environment and the achievement of optimal employment of the population.

Keywords: small business, entrepreneurship, individual entrepreneur, standard of living, labor activity, self-employment, motivation, education, flexible forms of employment.

Entrepreneurship can be divided into production, commercial, and financial types. Each form has its own specific features, characteristics, and technologies. Being relatively independent types of entrepreneurial activity, they intersect and complement one another; that is, one type of activity may be incorporated into another.

The financial mechanism of an enterprise is understood as a system governing the operation of financial instruments, manifested through planning, incentives, and organization aimed at the effective use of financial resources.

The financial mechanism of an enterprise encompasses specific relationships:

- within the enterprise itself;
- between the enterprise and other organizations or companies;
- with the financial and credit system;
- with investment institutions;
- with insurance companies and organizations.

Financial relations among various structural subdivisions are aimed at the timely, high-quality, and efficient fulfillment of tasks and ensure the enhancement of financial performance in this direction. Each individual element and segment of the enterprise's financial mechanism constitutes a part of the overall financial mechanism. They are interdependent and interconnected. At the same time, all elements and sectors operate relatively independently, which requires continuous coordination of the components of the financial mechanism and control over their implementation.

An important condition for the effectiveness of the financial mechanism is the internal coherence of its constituent elements.

Based on the above, it can be concluded that the financial mechanism represents a set of forms and methods, instruments and levers for the formation and use of financial resource funds in order to meet the diverse needs of the state, economic entities, and the population.

The tasks and main types of entrepreneurial business are as follows:

- production of goods and services, innovative activity, and scientific and technological activity;
- intermediary activity;
- consulting activity, auditing, and valuation services.



Production of goods and services. Business organizes activities whose results, in the form of tangible goods or services, are required by certain market participants. Social needs are constantly increasing, and the world's population continues to grow. The reproduction process at all stages and levels requires an ever-increasing volume of material goods, while their qualitative characteristics are also changing. Scientific and technological achievements complicate and expand human needs. The essence of business lies in organizing activities aimed at satisfying emerging social needs through the division, specialization, and cooperation of labor, as well as through the exchange of the results of activity for the mutual benefit of the parties involved.

Division of labor refers to the separation of types of activities. For example, a computer consists of several dozen components. All parts may be produced in one place, and the computer itself may also be assembled there. However, it is possible to manufacture individual components in regions where labor is cheaper and, consequently, production costs are lower. As a result, it becomes more profitable to assemble the computer in other locations, thereby reducing overall production costs. Thus, the division of labor takes place. In order to make the division of labor possible, it is necessary for workers to specialize in performing specific operations related to computer production.

Labor specialization is a form of division of labor in which an individual or a firm concentrates efforts on performing one or a limited number of activities. If labor specialization exists, the need for cooperation inevitably arises.

Labor cooperation is a form of labor organization in which a significant number of people jointly participate in the same or in different but interrelated labor processes. In the example considered, as soon as it became possible to divide labor into the separate production of components and the assembly of the final product, cooperation between component manufacturers and assemblers became necessary. In entrepreneurial activity, the search for opportunities to divide existing types of labor, specialize in specific operations, and cooperate with operating producers becomes a source for the creation of new types of business.

The purpose of this study is to examine and analyze the current trends observed in the share of small enterprises in GDP, which amounts to 79.1%, whereas in industrially developed countries small businesses account for up to 40% of gross domestic product, and together with medium-sized enterprises up to 70%. More than half of all employees in the economy are engaged in small and medium-sized enterprises.

The movement of labor supply and demand is determined by a combination of opposing influences on the interests and motivation of small and medium-sized businesses and can be divided into two groups: factors caused by the crisis of socio-economic systems, and factors related to the formation and structural transformation of society and a multi-structured economy. The labor supply in these sectors of the economy is characterized by the size and composition of labor resources by gender, occupation, education, qualification, and profession. The number of people employed in small business amounted to 2.6 million, representing an increase of 15.1%. The labor resources of Uzbekistan amount to 18.9 million people.

As established by the analysis, the growth in the number of labor resources is influenced by demographic processes that are developing in the direction of declining natural and mechanical population growth. This is occurring due to a decrease in the birth rate, an increase in the mortality rate, as well as rising emigration and a decline in immigration over the past ten years. This situation poses serious challenges for the republic and indicates the need to take decisive measures to improve the healthcare system, change behavioral patterns among certain social groups, stabilize the demographic situation, and implement preventive measures addressing demographic processes.



At the present stage of economic development, the role of small and medium-sized enterprises (SMEs) is significantly increasing. This is explained by the following characteristics and functions of SMEs:

- operation in local markets;
- greater adaptability to local economic conditions, faster turnover of fixed capital and resources, as well as a smaller amount of required initial investment compared to large enterprises;
- high responsiveness to market conditions and consumer preferences, with the ability to introduce changes in the production process and the product itself within a short period depending on internal and external factors;
- direct interaction with consumers;
- narrow specialization in specific segments of goods and services markets;
- ensuring mobility and the capacity for rapid adaptation to technological changes.

Small and medium-sized enterprises make a substantial contribution to strengthening the country's sustainable competitiveness. In conditions of intensifying competition with foreign companies, SMEs are able to respond quickly and adequately to changes in demand and consumer preferences, thereby ensuring the necessary flexibility of the national economy.

The dynamic functioning of small and medium-sized enterprises, including innovative entrepreneurship, serves as the foundation for economic growth and prosperity in many developed countries.

These business entities carry out entrepreneurial activities with the aim of generating profit, which acts as an integral indicator of the efficiency of these enterprises and their operations. Classification based on quantitative criteria is convenient and simple, as the indicators required by researchers-such as turnover and the number of employees-are easily accessible. However, such a classification lacks a theoretical basis for selecting specific criteria and determining appropriate measurement methods.

With the transition to a market economy, in which domestic entrepreneurship must compete with high-quality imported products both in foreign and domestic markets, the primary economic objective becomes the creation of conditions that ensure competitiveness. Technological modernization and optimization of production processes become the key and most significant factors in achieving competitiveness, the importance of which continues to grow steadily. The continuously rising level of economic development compels consideration of the role of innovation on a broad scale and demonstrates the necessity of its implementation. Consequently, innovative development of the economy represents the only viable alternative.

The services market is the sphere of exchange of services that result from the activities of enterprises. The historical prerequisite for the emergence of the services market was the development of commodity-money relations. The services market emerged as a complement to the already existing goods market; for a long time, however, these two types of markets were not differentiated.

Services in which technology predominates-such as air transportation, telecommunications services, and automated teller machines-generally do not face significant issues related to quality and marketing. For example, gaming machines provide entertainment services with no direct human involvement in service delivery beyond maintenance. In those areas of services where human participation is essential-such as consulting, education, and healthcare-the human factor becomes a crucial component of service quality.

At present, the importance of the service sector has increased due to the formation of certain socio-economic conditions associated with the specific mechanisms for satisfying the diverse



needs of modern society. Moreover, the development of the service sector of the economy is also linked to the emergence of economic sectors whose functional activities are carried out in the sphere of production and provision of services.

The formation of a market economy in the republic has been accompanied by a decline in the standard of living and purchasing power of the population, which affects both the scale and structure of labor supply as well as its quality. On the one hand, this leads to an increase in labor supply in the labor market and to overemployment among certain socio-demographic groups, driven by the desire to maintain an adequate standard of living. On the other hand, the significant and persistent gap between wage levels and the socially necessary costs of labor reproduction, as well as the objectively determined standard of living, results in a decline in economic and labor activity, a loss of incentives for wage employment, and a shift in professional orientation toward self-employment and entrepreneurship.

This, in turn, is обусловлено social division of labor. The demand for services and the expansion of their range grows in direct proportion to the overall growth of needs and to the shift in social development priorities from satisfying production interests to meeting the interests of the final consumer.

It is evident that the nature of demand for services has now transformed, and economic and social interests have begun to coincide, forming the basis for the emergence of new needs. In this context, it should be noted that the institutional boundaries of the service sector have significantly expanded following the adoption of the classifier of types of economic activities, products, and services.

In light of the above, it is necessary to create new and effective mechanisms to support small and medium-sized businesses that will form the basis for developing a theory and methodology of infrastructure support for small enterprises; to elaborate development strategies for SMEs, the practical implementation of which will create a mechanism for economic development and, in turn, ensure sustainable development of the service sector at various levels.

The formation of a civilized market and the achievement of optimal employment of the population are inconceivable without the broad development of entrepreneurial activity. In its various forms, a key element is a support policy that includes the organization of necessary information services, training systems for start-up entrepreneurs, professional development programs, and an effective system of tax and credit incentives.

As noted by the President of the Republic of Uzbekistan, Sh. M. Mirziyoyev, small business should play a significant role in addressing employment and poverty issues. Therefore, promoting the development of small enterprises is necessary not only for modernizing the economy and increasing its flexibility, but also for mitigating employment problems through job creation supported by entrepreneurship, which has substantial potential to expand labor demand.

Summarizing and analyzing the prospective development of Uzbekistan's economy, including the implementation of the Innovation Development Strategy, the "Households" Program, the Agro-Industrial Complex Development Program, the Regional Development Program of the Republic of Uzbekistan, the Program for the Development of Karakalpakstan and the Aral Sea region, as well as other measures to support small business, it has been forecast that approximately 618 thousand jobs will be created across all sectors of economic activity during 2021–2025. More than 20% of these jobs will be generated in small business, over 20% in the manufacturing sector, and in tourism and infrastructure.

State policy on employment regulation and job creation can be implemented through further structural changes in various enterprises, attracting investment for the development of small businesses while modernizing outdated facilities and creating new high-efficiency productions;



establishing stimulating investment and tax mechanisms to create and maintain jobs; and determining priority sectors and industries of the economy.

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