

MANAGEMENT OF INNOVATIVE ACTIVITIES IN SERVICE ENTERPRISES AND STRATEGIES FOR ENHANCING COMPETITIVENESS

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Abstract:

The article analyzes the importance of innovative approaches and management strategies in increasing the competitiveness of service enterprises. It examines the impact of service sector growth, increased investment volume, and the implementation of digital technologies and automation on economic development. The research results highlight the significance of innovative management strategies, competitive advantages, and technological modernization for the sustainable development of the service sector.

Keywords: Service sector, innovation, competitiveness, management, economic development, investments, digitalization, automation, technological development, service diversification, customer-oriented strategy, government support, export, sustainable development.

Introduction

In the modern global economic environment, the service sector is becoming one of the fastest-growing industries, closely linked to innovations. This sector is not only a crucial pillar of the national economy but also plays a decisive role in enhancing a country's competitiveness in the global market. Therefore, to develop and support the sector, the "Uzbekistan-2030"¹ strategy prioritizes the modernization of the service sector, the widespread implementation of innovative technologies, and the use of advanced management mechanisms to improve efficiency.

Currently, service enterprises face key challenges such as adapting to market demands, improving service quality through innovative approaches, and maximizing customer satisfaction. The National Strategy for the Modernization and Rapid Development of the Public Service Delivery System for 2022–2026, adopted by the President of the Republic of Uzbekistan on April 20, 2022, emphasizes the need for the widespread implementation of innovations in the service sector, improving the quality and efficiency of services, and introducing a customer-oriented management system.

This once again confirms the importance of innovative approaches and advanced management strategies in enhancing competitiveness in the service sector.

Scientific research indicates that the development of innovative activities in the service sector is one of the key factors in enhancing the competitiveness of enterprises. Modern innovative approaches enable the improvement of service quality, optimization of service delivery processes, and the provision of consumer-oriented services.

¹ Presidential Decree of the Republic of Uzbekistan No. PF-158. (2023). On the Approval of the "Uzbekistan-2030" Strategy. September 11, 2023



International experience shows that enterprises that effectively implement innovations not only strengthen their positions in the domestic market but also achieve success in the global competitive arena. Therefore, the main objective of this study is to explore the scientific foundations of innovative approaches and management strategies for enhancing competitiveness in service enterprises and to develop effective methods for their practical application.

LITERATURE REVIEW

Research aimed at the innovative development of the service sector and the effectiveness of management strategies has been extensively studied both internationally and at the national level. Scientific studies in this field highlight the role of innovations in the service sector, the optimization of business processes, and the importance of management approaches in enhancing competitiveness. A deep analysis of innovation processes in the service sector reveals that leading economists have proposed various concepts on innovative management and competitiveness in service enterprises at the global level.

Michael Porter², in his work "Competitive Advantage," emphasizes the necessity of enhancing competitiveness through innovative strategies and the value chain. According to him, service sector enterprises must actively adopt innovative business models, customer-oriented approaches, and digital transformation processes to strengthen their market position. Porter's concept is also crucial for the service sector, demonstrating that the implementation of innovative technologies aimed at improving service quality and efficiency can ensure the global competitiveness of enterprises.

Peter Drucker³, in his work "Innovation and Entrepreneurship," emphasized the crucial role of innovative management in service enterprises. According to him, the service sector achieves competitiveness by deeply understanding customer needs, adapting to market demands, and continuously implementing innovations. Drucker's approach highlights that in the service industry, not only technological innovations but also the optimization of production processes, improvements in marketing strategies, and the modernization of management systems play a significant role.

Additionally, J.A. Schumpeter⁴, in his theory of innovation, introduced the concept of "creative destruction," emphasizing that competitiveness in the service sector is directly linked to the implementation of new technologies, the optimization of business processes, and the improvement of service quality. According to his research, the service sector, by investing in innovation, creates new market demands, reduces service costs, and attracts new customers.

G. Mensch⁵, in his research, analyzed the technological push model and the market demand pull model in the service sector, emphasizing that the innovative development of services occurs through adaptation to changing market demands and rapid adjustment to technological advancements. He highlighted that the growth of innovative activities in the service sector is closely linked to the volume of investments, economic diversification, and improvements in service quality.

² Porter, M. (1985). *Competitive Advantage: Creating and Sustaining Superior Performance*. The Free Press.

³ Drucker, P. (1985). *Innovation and Entrepreneurship: Practice and Principles*. Harper & Row.

⁴ Schumpeter, J. A. (1942). *Capitalism, Socialism, and Democracy*. Harper & Brothers.

⁵ Mensch, G. (1979). *Stalemate in Technology: Innovations Overcome the Depression*. Ballinger Publishing Company.



Uzbek scientists have extensively analyzed the theoretical and practical aspects of innovative management in the service sector. A.V. Vakhobov and H.P. Abulqosimov⁶ have developed approaches aimed at increasing the economic efficiency of innovative activities and emphasize the need to improve strategic management principles in service enterprises. Their scientific research reveals opportunities to enhance the efficiency of the service sector through customer-oriented service development, digital transformation, and business process automation.

Sh.Sh. Saipnazarov, M.Q. Pardaev, and T.O. Mamayunusov⁷ have contributed to the development of the service sector through their research on enhancing innovative infrastructure in service enterprises, improving government support mechanisms, and attracting investments that drive economic growth. Their studies emphasize the importance of establishing an innovative ecosystem in the service sector, improving the business environment, and developing strategies to support small business growth.

ANALYSIS AND RESULTS

The service sector is a crucial component of the modern economy, and implementing innovative approaches is essential to enhancing its competitiveness. In the context of the 21st century, the service sector is not only a driver of economic growth but also a key factor in attracting investments and creating new job opportunities. Global experience shows that in developed countries, this sector accounts for more than 70% of gross domestic product (GDP) and has become a vital factor in economic stability. In Uzbekistan, the service sector is also rapidly developing, playing a significant role in the national economy.

The Presidential Decree of the Republic of Uzbekistan No. PQ-287, issued on August 17, 2023, "On Additional Measures to Support the Service Sector and Fully Utilize Its Potential,"⁸ is one of the key documents aimed at accelerating the development of the service industry. According to this decree, measures have been set to increase investments in the service sector, improve regional infrastructure, and create new jobs. Specifically, by 2025, more than 500,000 new jobs are planned to be created across the country, contributing to the further expansion of the service sector's share in the national economy.

According to statistical data, the volume of the service sector in the Republic of Uzbekistan has significantly increased during 2023-2024. In 2023, the service sector amounted to 649,806.4 billion UZS, while in 2024, this figure reached 818,428.3 billion UZS. This growth represents 112.9%, with an absolute increase of 168,621.9 billion UZS. The share of the service sector in the country's gross domestic product (GDP) has reached 47.4%.

The largest share of the service sector volume by region belongs to Tashkent city. In 2024, the volume of services in this region reached 298,825.6 billion UZS, accounting for 36.5% of the total services in the country. Samarkand region demonstrated the highest growth rate in the service sector, reaching 114.1%. The lowest growth rates were recorded in Kashkadarya and

⁶ Vakhobov, A. V., & Abulqosimov, H. P. (2023). Increasing the Economic Efficiency of Innovative Activities and Improving Strategic Management Principles in Service Enterprises. Tashkent University of Economics Scientific Journal, 4(2), 45-58.

⁷ Saipnazarov, Sh. Sh., Pardaev, M. Q., & Mamayunusov, T. O. (2023). Development of Innovative Infrastructure in the Service Sector, Government Support Mechanisms, and Investment Attraction for Economic Growth. Uzbekistan Economic Research Journal, 6(1), 22-35.

⁸ Presidential Decree of the Republic of Uzbekistan No. PQ-287 dated August 17, 2023, "On Additional Measures to Support the Service Sector and Fully Utilize Its Potential"



Surkhandarya regions, at 110.9%.

1-Table Volume of the Service Sector in the Republic of Uzbekistan (2023-2024) (billion UZS)⁹

Region	2023-year	2024-year	Percentage Change in 2024 Compared to 2023 (%)
Republic of Uzbekistan	649 806,4	818 428,3	112,9
Tashkent City	230 819,9	298 825,6	116,8
Tashkent Region	45 199,2	56 317,9	112,8
Samarkand	46 593,0	58 875,7	114,1
Andijan	33 643,1	41 807,5	113,1
Fergana	44 130,6	55 200,7	112,3
Namangan	34 468,0	43 090,6	112,3
Kashkadarya	34 956,0	43 255,9	110,9
Bukhara	28 157,8	34 495,1	111,2
Navoi	16 247,2	20 055,6	112,1
Jizzakh	15 970,6	20 069,5	113,8
Surkhandarya	23 159,1	28 505,9	110,9
Khorezm	22 601,2	28 262,0	112,0
Syrdarya	9 368,8	11 609,1	112,2
Karakalpakstan	23 040,1	28 820,8	110,6

By 2025, the volume of the service sector is projected to reach 1,055.95 trillion UZS. The growth of the service sector has been influenced by factors such as the implementation of innovative technologies, the diversification of service types, and the development of infrastructure. Notably, there has been a significant expansion of the service sector in major cities and economic centers. The largest share of services is concentrated in trade, financial services, transportation, information technology, education, and tourism.

To support the innovative development of the service sector, the government

⁹ Compiled Based on Data from the Statistics Agency Under the President of the Republic of Uzbekistan



is implementing large-scale reforms in the following areas:

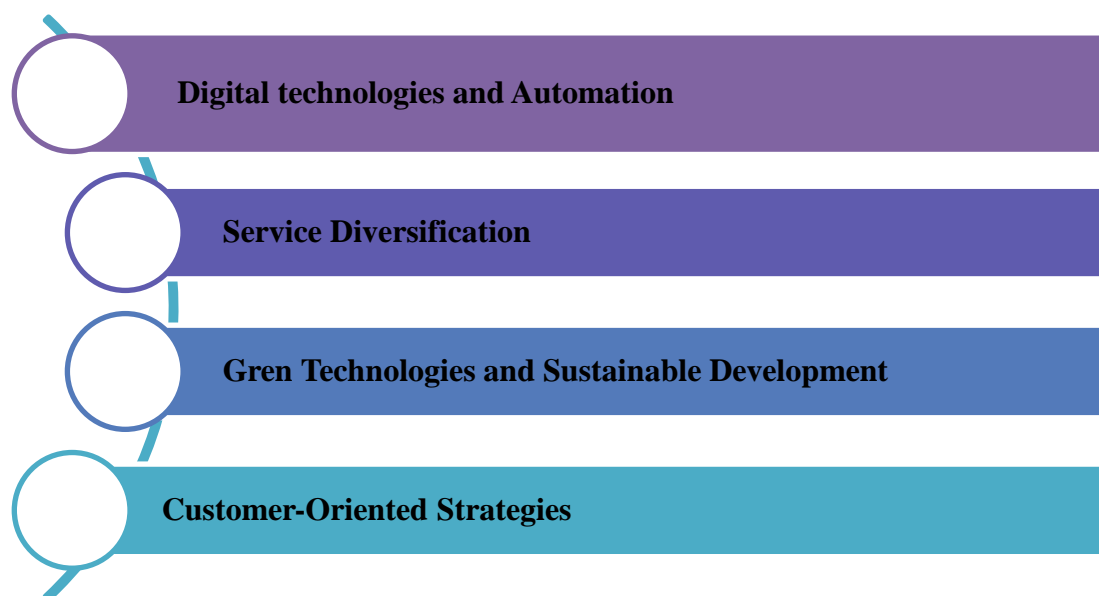


Figure 1. Directions of Government Support for the Innovative Development of the Service Sector¹⁰

This figure illustrates the key directions implemented by the government to support the innovative development of the service sector. It highlights four main strategic areas:

Digital Technologies and Automation– aimed at enhancing efficiency in the service sector by implementing advanced digital technologies, automating business processes, and utilizing artificial intelligence. This process helps reduce operational costs for service enterprises while enabling the delivery of faster and higher-quality services.

Service Diversification – aimed at expanding the range of services offered by enterprises, entering new markets, and introducing innovative services to increase the customer base. This is a crucial factor in driving economic growth and enhancing competitiveness.

Green Technologies and Sustainable Development – ensuring sustainable economic growth by implementing environmentally friendly services, energy-efficient technologies, and innovations with minimal environmental impact. The government is developing incentives and support mechanisms in this direction.

Customer-Oriented Strategies – enterprises are implementing strategies focused on adapting services to customer needs and demands, introducing personalized services, and improving service quality to enhance customer loyalty. All these directions contribute to the rapid development of the service sector, increasing its competitiveness and expanding its share in the national economy.

The innovative development of the service sector not only contributes to economic growth but also enhances the global competitiveness of the national economy. Therefore, the government is implementing a series of reforms to support and regulate this sector. In particular, the Government of the Republic of Uzbekistan is carrying out comprehensive measures aimed at developing the service industry.

¹⁰ Developed by the Author



Specifically, the modernization of service infrastructure, expansion of electronic service networks, and support for business entities are intended to increase the sector's competitiveness. At the same time, various programs are being implemented to support small and medium-sized enterprises (SMEs), finance innovative startups, and enhance human capital in the service sector. The government plans to significantly increase investments in the service sector by 2025, which will contribute to the creation of new jobs, expansion of service types, and an increase in the sector's share in GDP. Additionally, special incentives and financial support mechanisms are being introduced to increase the volume of service exports and assist local enterprises in entering the global market.

The application of innovative management strategies enhances the efficiency of service enterprises, accelerates their entry into the international market, and ensures economic security. The fact that private sector funding allocated for research and innovation has increased eightfold over the past 20 years demonstrates the high level of attention given to the sector. Such approaches not only increase the competitiveness of service enterprises but also expand their opportunities to diversify service types and introduce new technologies.

The innovative development of the service sector is a crucial component of the economy and has demonstrated significant growth rates in recent years. Below are the key indicators of the service sector as of January 2025:

Table 2 Development of the Service Sector in the Republic of Uzbekistan: As of January 2025¹¹

Service Type	Volume (billion UZS)	Growth (%)
Financial Services	11 864.5	13.2
Trade Services	10 295.2	10.2
Transport Services	13 162.4	8.7
Communication and IT Services	5 312.2	21.6
Education Services	4 321.8	16.0
Hotel and Catering Services	3 245.6	11.1
Medical Services	2 143.9	9.2
Architecture and Engineering Services	2 987.5	23.6

The service sector is an important component of Uzbekistan's economy, with its volume reaching 64,784.6 billion UZS as of January 2025, reflecting a 11.4% increase compared to the same period of the previous year. The growth of the sector has been driven by innovative approaches, economic digitalization, government support, and increased consumer demand. Financial services amounted to 11,864.5 billion UZS (+13.2%), trade services 10,295.2 billion UZS (+10.2%), transport services 13,162.4 billion UZS (+8.7%), and communication and IT services 5,312.2 billion UZS (+21.6%). The highest growth was observed in the communication and IT sector, where innovative technologies are rapidly developing.

¹¹ Compiled Based on Data from the Statistics Agency Under the President of the Republic of Uzbekistan



Tashkent city leads in terms of service sector volume by region, accounting for 38.5% of the total volume (24,931.8 billion UZS). Samarkand (7.1%), Fergana (6.5%), and Tashkent region (6.6%) hold the next positions, while the lowest indicator was recorded in Syrdarya region (1.3%).

The sustainable development of the service sector is directly linked to the widespread implementation of digital technologies, support for small and medium-sized businesses, increasing investment volumes, and the application of innovative management strategies. Therefore, the government has planned to increase investments in the service sector by 2025, which will contribute to the creation of new jobs and the expansion of the sector's share in GDP. Currently, the service sector in Uzbekistan accounts for 47.4% of GDP, which is significantly lower than in developed countries. For example, the service sector makes up 79% of GDP in the United States, 69% in Germany, 55% in Kazakhstan, and 50% in Kyrgyzstan. In developed countries, the service sector is highly advanced in industries such as finance, technology, logistics, and consulting, whereas in Uzbekistan, it remains primarily focused on the domestic market.

In developed countries, innovative technologies and digital services play a crucial role in enhancing the export potential of the service sector. Uzbekistan, however, needs to accelerate technological transformation, expand digitalization processes, and increase service exports through additional reforms in this direction. These measures will help improve the international competitiveness of Uzbekistan's service sector and contribute to the diversification of the economy.

Conclusion

The rapid development of the service sector plays a crucial role in ensuring the sustainable growth of Uzbekistan's economy. The implementation of digital technologies, expansion of service exports, modernization of infrastructure, and diversification of service types are key directions for enhancing the sector's international competitiveness. Currently, although the service sector accounts for 47.4% of GDP in Uzbekistan, this figure remains significantly lower compared to developed countries. This highlights the need to expand service exports, introduce innovative technologies, and improve the management system to further strengthen the sector's position in the global market.

To further develop the service sector, the implementation of a series of strategic measures is required. In particular, the wide application of innovative management principles in service enterprises, as well as the use of artificial intelligence and automation technologies, will contribute to increasing efficiency. Additionally, to stimulate service exports, attracting foreign investments, introducing international quality standards, and diversifying service types are essential factors. To eliminate regional disparities, it is necessary to develop infrastructure, especially by improving transportation and information-communication networks, to ensure the comprehensive growth of the service sector.

Supporting innovative startups in the private sector, improving the business environment in the service industry, and implementing advanced management strategies will contribute to the sustainable development of the sector. Increasing service exports through incentive programs, expanding tax benefits, and strengthening government investment support measures can help



enhance the sector's share in the economy. Therefore, accelerating digital transformation, developing customer-oriented service types, and implementing innovative management strategies should be identified as key priorities for the future.

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