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TRANSFORMING ORGANIZATIONAL AND MANAGERIAL MECHANISMS FOR SERVICE SECTOR DEVELOPMENT IN SMALL BUSINESS: EVIDENCE FROM THE KASHKADARYA REGION, UZBEKISTAN

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Abstract. The service sector has become one of the principal drivers of sustainable economic growth, employment generation, and regional competitiveness in developing economies. In Uzbekistan, strengthening small business through the expansion of service activities constitutes a strategic priority of socio-economic policy. Nevertheless, significant institutional, organizational, and managerial constraints continue to limit the efficiency and competitiveness of service enterprises, particularly at the regional level. This study investigates the organizational and managerial mechanisms for developing the service sector in small business using the Kashkadarya region as a case study.

The research employs comparative, statistical, institutional, and economic analytical methods. The Herfindahl-Hirschman Index (HHI) and localization coefficient are applied to evaluate the regional concentration and specialization of service activities. Empirical findings reveal substantial disparities in the spatial distribution of services, limited institutional coordination, insufficient digital infrastructure, and inadequate managerial support mechanisms. To address these challenges, the study proposes an Integrated Organizational and Managerial Mechanism that combines institutional coordination, digital governance, financial support, human capital development, and cluster-based cooperation.

The proposed mechanism is expected to improve the efficiency, competitiveness, and sustainability of service enterprises while strengthening regional economic resilience and supporting balanced territorial development. The findings contribute to the literature on regional service sector development and provide practical recommendations for policymakers seeking to enhance the role of small business in achieving sustainable economic growth in Uzbekistan.

Keywords: Small business; Service sector; Organizational mechanism; Management mechanism; Regional development; Integrated governance; Digital transformation; Kashkadarya region; Uzbekistan.

Scientific Novelty. The scientific novelty of this research lies in the development of an integrated organizational and managerial mechanism for strengthening the service sector in small business at the regional level. Unlike previous studies that primarily focus on separate economic or institutional factors, this study combines digital governance, institutional coordination, cluster-based cooperation, financial support, and human capital development into a unified management framework. Furthermore, the proposed mechanism is empirically validated using the case of the Kashkadarya region, thereby providing practical recommendations for improving regional service policy and increasing the competitiveness of small businesses.

Research Objective. The objective of this study is to develop and substantiate an integrated organizational and managerial mechanism aimed at improving the efficiency, competitiveness, and sustainable development of the service sector in small business through empirical evidence obtained from the Kashkadarya region of Uzbekistan.

Research Gap. Although numerous studies have examined the role of small business and the service sector in promoting regional economic development, limited attention has been devoted to the integration of organizational, institutional, managerial, and digital governance mechanisms within a unified framework. Existing research predominantly focuses on macroeconomic indicators or individual policy instruments, while insufficient consideration is

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given to the coordination among regional stakeholders and the adaptation of governance mechanisms to local socio-economic conditions. This study addresses this gap by proposing an integrated organizational and managerial model specifically designed for regional service sector development in Uzbekistan.

Literature Review The development of the service sector has become one of the key determinants of sustainable economic growth, regional competitiveness, and employment generation. In contemporary economic systems, the service sector accounts for more than two-thirds of global gross domestic product (GDP) and plays a decisive role in increasing productivity, innovation, and social welfare (World Bank, 2024).

Theoretical foundations of service sector development have been extensively explored in economic literature. According to **Porter (1998)**, regional competitiveness largely depends on the interaction among enterprises, institutions, and supporting organizations through cluster-based development. Cluster mechanisms stimulate innovation, improve productivity, facilitate knowledge exchange, and create favorable business environments. From the perspective of institutional economics, **North (1990)** emphasized that the quality of institutions significantly influences economic performance. Effective organizational structures, transparent governance mechanisms, and institutional coordination reduce transaction costs and improve business efficiency. This theoretical approach is particularly relevant for developing countries where institutional reforms remain an important driver of regional development.

Modern management theory also underlines the importance of organizational flexibility and innovation. **Drucker (2007)** argued that service organizations should continuously adapt their management systems to changing market conditions through innovation, knowledge management, and customer-oriented strategies.

Recent studies have increasingly focused on digital transformation as a catalyst for service sector development. According to the **OECD (2023)**, digital technologies enhance operational efficiency, facilitate market access, improve public service delivery, and strengthen business resilience. Similarly, the **World Bank (2024)** notes that digital governance significantly contributes to improving institutional quality and increasing competitiveness of small businesses in emerging economies.

Empirical research conducted by **UNCTAD (2023)** demonstrates that service sector expansion positively affects employment creation, export diversification, and regional economic resilience. Digital services, logistics, tourism, education, financial services, and information technologies are recognized as major drivers of structural transformation in developing countries.

Several researchers have investigated the role of small businesses in regional service development. **Audretsch and Belitski (2022)** argue that entrepreneurial ecosystems, institutional support, and regional innovation policies considerably influence the sustainability of small enterprises. Likewise, **Rodrik (2022)** emphasizes that service-led growth has become an increasingly important pathway for economic modernization in developing economies.

Despite these valuable contributions, previous studies mainly examine institutional reforms, digitalization, innovation, or regional development as separate phenomena. Limited attention has been devoted to integrating organizational governance, institutional coordination, digital transformation, financial support mechanisms, and cluster cooperation into a comprehensive management framework specifically designed for regional service sector development.

Furthermore, empirical evidence concerning regional service sector governance in Uzbekistan remains relatively limited. Existing studies primarily focus on macroeconomic indicators and national development policies while paying insufficient attention to regional disparities and localized organizational mechanisms. Consequently, there is a need for an integrated organizational and managerial model capable of addressing regional challenges and improving the competitiveness of small businesses.

Therefore, this study contributes to the existing literature by proposing an Integrated Organizational and Managerial Mechanism that combines institutional governance, digital

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transformation, cluster cooperation, financial support, human capital development, and regional coordination to strengthen service sector development in small business, using the Kashkadarya region of Uzbekistan as an empirical case.

Research Methodology. This study employs a mixed-method research design combining quantitative and qualitative approaches to comprehensively assess the organizational and managerial mechanisms influencing service sector development in small business. The methodological framework integrates statistical analysis, comparative analysis, institutional analysis, and systems analysis to identify key determinants affecting regional service sector performance.

The empirical analysis focuses on the Kashkadarya region of Uzbekistan, selected due to its strategic economic importance and the increasing role of small business in regional development. Statistical information was obtained from the Statistics Agency under the President of the Republic of Uzbekistan, regional statistical reports, official government publications, and analytical reports of international organizations, including the World Bank, OECD, and UNCTAD.

To evaluate the regional concentration and specialization of service activities, the study applies the **Herfindahl-Hirschman Index (HHI)** and the **Localization Coefficient (LQ)**.

The Herfindahl-Hirschman Index is used to determine the degree of market concentration in the service sector. It is calculated as follows:

$$HHI = \sum_{i=1}^n (S_{ki}/V_{ki} \times 100)^2$$

where:

S_i – market share of the *i*-th service activity;

n – total number of service activities.

The interpretation of HHI values is presented below.

HHI value	Interpretation
Below 1500	Low concentration
1500-2500	Moderate concentration
Above 2500	High concentration

The application of HHI enables the identification of dominant service activities and assesses the competitiveness of the regional service market.

Localization Quotient (LQ)

To determine the comparative specialization of service activities, the Localization Quotient (**LQ**) is employed.

$$LQ = (E_{ir}/E_r)(E_{in}/E_n)$$

where:

E_{ir} – employment (or output) in service sector *i* within the region;

E_r – total regional employment (or output);

E_{in} – national employment (or output) in service sector *i*;

E_n – total national employment (or output).

The localization coefficient is interpreted as follows:

LQ > 1 – the region demonstrates comparative specialization;

LQ = 1 – average specialization;

LQ < 1 – below-average specialization.

This indicator allows identification of competitive service industries capable of becoming regional growth poles.

Institutional Analysis. Institutional analysis was conducted to evaluate existing governance structures, public administration mechanisms, regulatory frameworks, and institutional

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interactions affecting service sector development. Special attention was given to identifying administrative barriers, coordination problems, and deficiencies in support mechanisms for small businesses.

Comparative Analysis. Comparative analysis was used to examine differences among districts within the Kashkadarya region regarding:

- service sector development;
- entrepreneurship performance;
- investment activity;
- employment;
- digital infrastructure;
- institutional support.

The results facilitate identification of regional disparities and determination of priority development areas.

Proposed Organizational and Managerial Framework

Based on empirical findings, this study develops an **Integrated Organizational and Managerial Mechanism** consisting of five interrelated components:

1. Institutional coordination;
2. Digital governance;
3. Financial support mechanisms;
4. Human capital development;
5. Cluster-based cooperation.

The conceptual framework is designed to strengthen cooperation among governmental institutions, business entities, educational organizations, financial institutions, and digital service providers, thereby enhancing the efficiency and sustainability of regional service sector development.

Reliability of the Research. The reliability of the research findings is ensured through the use of official statistical databases, internationally recognized analytical methods, comparative regional analysis, and internationally accepted theoretical frameworks. The combination of quantitative indicators and qualitative institutional analysis enhances the validity and robustness of the research results.

Results and Discussion. The empirical analysis demonstrates that the service sector has become one of the principal drivers of regional economic development in the Kashkadarya region. Over recent years, the contribution of small businesses to the provision of services has shown a positive trend, reflecting the implementation of national policies aimed at supporting entrepreneurship, digital transformation, and regional economic diversification.

The analysis of sectoral indicators reveals considerable differences in the development levels of individual service activities across districts of the Kashkadarya region. Business services, retail trade, transport, communication, financial services, and tourism exhibit relatively high growth potential, whereas knowledge-intensive and innovation-oriented services remain underdeveloped. These disparities indicate the existence of structural imbalances within the regional service economy.

The calculation of the **Herfindahl-Hirschman Index (HHI)** indicates that several service activities demonstrate a relatively high degree of concentration. Although such concentration contributes to short-term economic efficiency, excessive dependence on a limited number of service industries may reduce regional resilience and limit opportunities for diversified economic growth. Therefore, policies aimed at promoting service diversification should receive greater attention.

Similarly, the results of the Localization Quotient (LQ) reveal that certain districts possess comparative advantages in specific service industries. These findings suggest that localized specialization can serve as an important source of regional competitiveness if supported by appropriate institutional and managerial mechanisms.

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Despite positive development trends, the research identifies several institutional and organizational constraints that continue to hinder sustainable service sector growth.

The major challenges include:

- insufficient coordination among regional institutions;
- limited digital infrastructure and digital public services;
- restricted access to financial resources for small businesses;
- inadequate managerial competencies;
- weak cooperation between educational institutions and business organizations;
- limited implementation of innovation and modern business technologies.

These findings are generally consistent with the conclusions reported by the OECD (2023) and the World Bank (2024), which emphasize that institutional quality, digital governance, and entrepreneurial ecosystems constitute fundamental determinants of service sector competitiveness.

From a managerial perspective, improving organizational coordination represents one of the most critical factors influencing regional service development. Existing governance mechanisms remain fragmented, resulting in duplicated administrative procedures and reduced efficiency of public support programs. Strengthening cooperation among governmental agencies, private enterprises, educational institutions, financial organizations, and digital service providers may substantially improve regional economic performance.

Based on the empirical findings, this study proposes an **Integrated Organizational and Managerial Mechanism** for regional service sector development.

The proposed mechanism consists of five mutually reinforcing components:

- Institutional coordination;
- Digital governance;
- Financial support mechanisms;
- Human capital development;
- Cluster-based cooperation.

The interaction among these components creates favorable conditions for sustainable service sector development, increases the competitiveness of small businesses, and improves regional economic resilience.

Compared with previous studies that primarily focus on isolated economic or institutional factors, the proposed framework adopts a systemic approach by integrating organizational governance, digital transformation, regional coordination, financial accessibility, and human capital development into a unified management model.

Consequently, the implementation of the proposed mechanism is expected to increase labor productivity, expand service diversity, improve investment attractiveness, stimulate innovation, and strengthen the competitiveness of small businesses operating in the Kashkadarya region.

Managerial Implications. The practical significance of this research lies in its potential application by regional governments, local authorities, business support organizations, and policymakers responsible for entrepreneurship development.

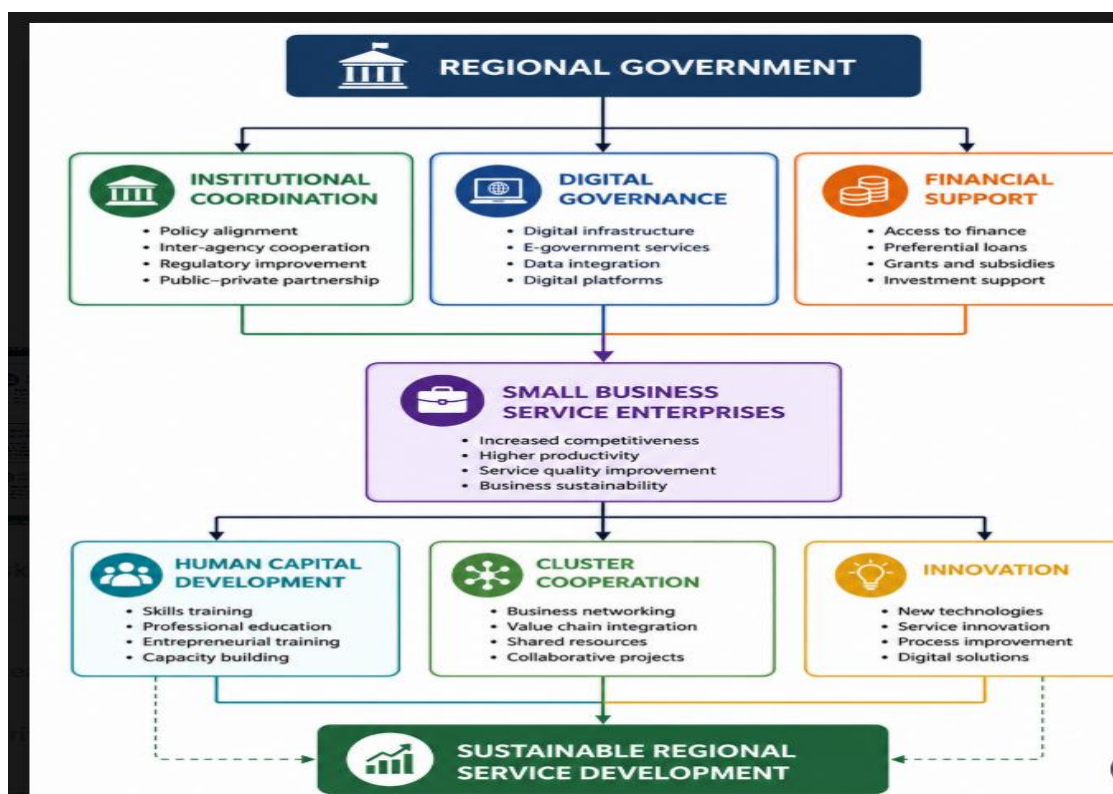
The proposed organizational and managerial mechanism may contribute to:

- strengthening institutional cooperation;
- improving the efficiency of regional governance;
- expanding digital public services;
- increasing investment attractiveness;
- supporting service innovation;
- enhancing employment opportunities;
- accelerating sustainable regional development.

Furthermore, the recommendations developed in this study may serve as a practical framework for designing regional service sector development programs in other regions of Uzbekistan.

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Figure 1 *Sustainable Regional Service Development*



Source: Developed by the author.

Conclusion. The findings of this study confirm that the sustainable development of the service sector in small business depends not only on economic factors but also on the effectiveness of organizational and managerial mechanisms operating at the regional level. The empirical analysis of the Kashkadarya region demonstrates that despite the positive dynamics observed in the expansion of service activities, considerable institutional, managerial, and infrastructural challenges continue to constrain the competitiveness and long-term sustainability of small service enterprises.

The application of the Herfindahl-Hirschman Index and the Localization Quotient revealed significant territorial disparities in service sector development, indicating the need for differentiated regional policies and targeted institutional support. The results suggest that existing governance mechanisms require greater coordination, digital integration, and stronger interaction among governmental authorities, business entities, educational institutions, financial organizations, and innovation support agencies.

One of the principal scientific contributions of this study is the development of an **Integrated Organizational and Managerial Mechanism** designed to improve service sector governance in small business. Unlike traditional approaches that consider organizational, institutional, or financial factors separately, the proposed framework integrates these components into a comprehensive management system capable of enhancing regional competitiveness and supporting sustainable economic development.

The implementation of the proposed mechanism is expected to improve institutional coordination, stimulate innovation, expand digital public services, facilitate access to financial resources, strengthen human capital, and encourage cluster-based cooperation among regional stakeholders. Consequently, these measures may contribute to increasing labor productivity,

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service diversification, investment attractiveness, and employment opportunities in the Kashkadarya region.

The research findings possess both theoretical and practical significance. From a theoretical perspective, the study enriches the literature on regional service sector governance by introducing an integrated management framework applicable to developing economies. From a practical perspective, the proposed recommendations may assist policymakers, regional governments, and business support institutions in designing more effective regional development strategies for strengthening the role of small business within the service economy.

Future research may extend the proposed framework by incorporating econometric modeling, panel data analysis, and comparative regional studies covering other regions of Uzbekistan and neighboring Central Asian countries.

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