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INFLUENCE OF INNOVATIONS ON THE PROFITABILITY OF ENTERPRISES

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Abstract: *The article examines the impact of innovation activities on the profitability indicators of industrial enterprises of the Republic of Uzbekistan for the period 2018–2023. Based on the analysis of real statistical data, trends in the growth of innovation activity are determined and the relationship between the introduction of innovations and the improvement of the financial results of companies is revealed. The special role of digital and product innovations in increasing the competitiveness and expanding the export opportunities of Uzbek manufacturers is noted. The article offers practical recommendations for the further development of the innovative potential of industry and support for digital transformation.*

Keywords: *innovation, profitability, profitability, innovation efficiency, investment.*

Introduction

In the modern economy, innovations are becoming one of the most important factors determining the success and competitiveness of companies. Every year, the market is becoming more dynamic and saturated, and in order to maintain sustainable growth and profitability, businesses need to adapt to rapidly changing conditions. Innovations allow companies to quickly respond to consumer demands, improve the quality of products and services, and reduce costs. It is thanks to innovations that organizations can not only increase their efficiency, but also open up new sources of income, which is especially important in the context of growing global competition.

Today's consumers are becoming more demanding, expecting personalized offers, convenience and a high level of service, which pushes businesses to actively search for new solutions to meet their needs. Companies that are not ready to implement innovations risk losing their positions and giving way to more flexible and technologically advanced competitors. In this context, the study of the impact of innovations on a company's profit is not only relevant, but also practically significant, as it helps to better understand how modern technologies and new approaches contribute to sustainable business development and its financial success.

Thus, the relevance of the topic is justified by the need to adapt business to modern challenges, the need to improve efficiency and competitiveness, as well as the possibility of creating a long-term growth strategy through the implementation of innovations.

Literature Review

American economist Michael Porter[1], one of the leading experts in the field of competitive strategy. Porter considered innovation as a key element of the competitive advantage of companies. He argued that innovation allows improving productivity and creating a unique offer, which gives the company the opportunity to stand out in the market.

"Profit is the final financial result of the economic activity of an enterprise engaged in entrepreneurial activity" [2]. As a result of the effective work of the enterprise, its capital increases due to profit.

"Profit is the difference in the amount of net assets at the end and at the beginning of a period,

for a given period of production activity, adjusted, if necessary, for amounts withdrawn or added by the owners" [3].

"Profit or loss is the total amount of income minus expenses, excluding the components of other comprehensive income" [4].

The study of the role of innovation in increasing the profitability of enterprises began with the works of J. Schumpeter, who in his works "The Theory of Economic Development" (1934) substantiated that innovation is the main source of entrepreneurial profit arising from a temporary monopoly advantage. He identified product, process and organizational innovations as key types. This theory was later developed in the works of M. Porter [Porter, 1990], where it is argued that technological leadership and innovative strategy form a sustainable competitive advantage and allow achieving superprofits in saturated markets.

Analysis and results

Innovations are one of the most important means of ensuring sustainable development of an enterprise in both the short and long term. Innovations of various types have a positive direct or indirect impact on the volume of production and sales of products, production and sales costs, prices, quality indicators (quality of performance and technical characteristics) and operating costs, which is manifested in the growth of competitiveness of products and demand for them.

The growth of production volume can be ensured by innovations in the field of production technology, production capacity, organization and maintenance of production. Naturally, these innovations are appropriate if there is a stable solvent demand for products. The growth of production volume entails an increase in the volume of sales of products and, consequently, profit from sales. In addition, it ensures a reduction in overall production costs due to savings in fixed costs and, as a result, an increase in profit and profitability of products, as well as a decrease in the cost of a unit of production, which creates the opportunity to reduce the price.

Thus, innovations aimed at increasing the volume of production ensure an increase in profit and profitability, a decrease in the cost and prices of products.

Reduction of production costs is ensured by resource innovations (use of progressive, cheap types of raw materials and materials), product innovations (improvement of product design, development of new products), technological innovations (modernization of existing technologies and development of new ones, modernization of equipment and use of models with higher productivity), organizational innovations.

As a result of the implementation of resource innovations, variable material costs per unit of production are reduced. A reduction in these costs can also occur as a result of product innovation. Labor costs are reduced due to technological and product innovations by reducing the labor intensity of manufacturing products.

Reduction of costs, all other things being equal, ensures growth of profits and profitability of products. In addition, reduction of costs creates conditions for price reduction and effective price competition (due to the greater difference between price and costs, it is possible to vary the price).

Price reduction is possible not only due to reduction of production and sales costs, but also due to innovations in the field of product distribution: by simplifying the structure of distribution channels.

The growth of quality indicators is ensured by resource, product and technological innovations. Thus, innovations aimed at the use of new, high-quality materials contribute to the improvement of strength characteristics, wear resistance, and durability of products. Modernization of products and the development of new types of products also ensure an increase in the level of quality indicators. The improvement of existing and the use of progressive technologies pursue not only the goal of reducing production costs, but also, first of all, improving the quality of products. For example, the use of progressive technological processes of mechanical processing, surface hardening, chemical-thermal treatment contribute to increased wear resistance, durability and strength.

Therefore, innovations aimed at improving product quality provide growth of regulated and comparative indicators and reduction of some economic indicators of competitiveness (for example, operating costs), i.e. increase in the level of competitiveness of products, which results in growth in demand. Naturally, when implementing certain innovations, all expenses and incomes are calculated, especially the effectiveness of innovation projects is assessed (Figure 1).

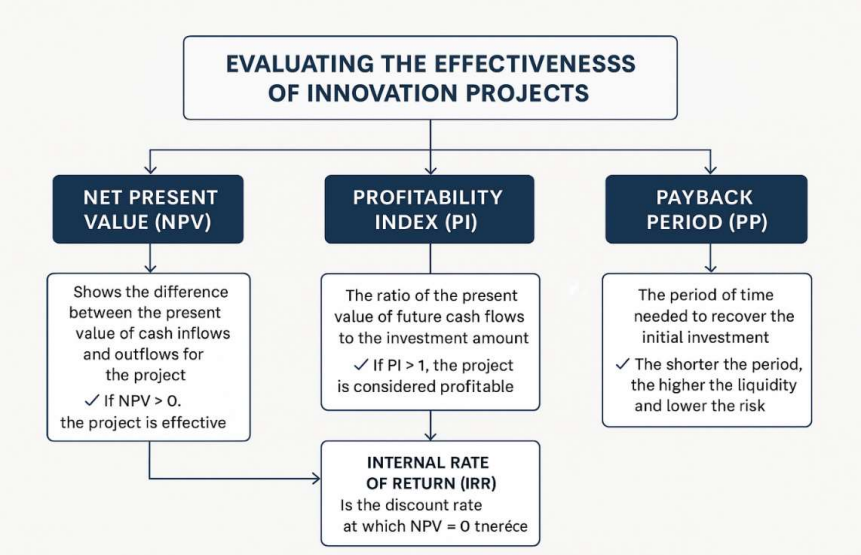

Figure No. 1. Evaluation of the effectiveness of innovative projects.

To justify the feasibility of introducing innovative solutions into the production process of the enterprise, we used a comprehensive system for assessing the effectiveness of projects, including NPV, IRR, PI and payback period, which made it possible to quantitatively assess the contribution of innovations to the future profitability of the enterprise.

Below is a graph reflecting the dynamics of innovation implementation in the industry of Uzbekistan for the period from 2018 to 2023. The data is based on official statistical sources and analytical reviews.

There is a steady increase in the share of enterprises implementing innovations, which indicates positive dynamics in the field of industrial development. The increase in indicators is due to the implementation of the state strategy for innovative development for 2022-2026, aimed at stimulating scientific research and the introduction of new technologies in industry. Particular attention is paid to the digital transformation of production processes, which helps to increase the efficiency and competitiveness of enterprises.

Figure No. 2. Dynamics of innovation implementation in the industry of Uzbekistan (2018-2023).

Here is a graph showing the dynamics of innovation implementation in the industry of Uzbekistan for 2018–2023 based on real statistical data. The graph clearly demonstrates the steady growth of the share of innovation-active enterprises over the past five years.

Over the past five years, a number of measures have been taken within the framework of the Action Strategy for the innovative development of the country, comprehensive support for science and research activities, as well as increasing its efficiency.

In particular, the Ministry of Innovative Development was created to implement a unified state policy, the Law "On Innovation Activity" and the "Concept for the Development of Science until 2030" were adopted, defining the legal framework for regulating relations in the field of innovation.

Conclusions and Recommendations

The analysis conducted confirms the significant and positive impact of innovation on the profitability of industrial enterprises in Uzbekistan. Based on real statistical data from the past five years (2018–2023), a steady increase in innovation activity was observed, which correlated with marked improvements in the key financial indicators of enterprises in the industrial sector.

The implementation of innovations—particularly digital technologies, modernization of production processes, and increased investment in research and development—has led to enhanced profitability, reduced production costs, and expanded market reach. For instance, the share of innovation-active enterprises grew from 9.5% in 2018 to 15.4% in 2023, underscoring the effectiveness of both government policy and private-sector initiatives in promoting industrial innovation.

To ensure further sustainable development and enhance the global competitiveness of Uzbekistan's industrial sector, it is recommended to continue fostering innovation, support digital transformation initiatives, and establish favorable conditions for the adoption of advanced technologies. The successful implementation of these recommendations will help strengthen the position of Uzbek enterprises in both domestic and international markets, while ensuring long-term profit growth and the sustainable economic advancement of the country.

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