

## UNLOCKING ECONOMIC POTENTIAL: THE UNIQUE ROLE OF VALUE CREATION IN THE DIGITAL ECONOMY

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### Annotation

The digital economy has ushered in a new era of business and innovation, reshaping industries and challenging traditional economic models. Central to this transformation is the concept of value creation, which plays a unique and pivotal role in the digital age. In this thesis, we will explore how value creation takes on distinct characteristics and importance in the digital economy.

**Keywords.** value creation, concept of value creation, global economy, digital economy, R&D (Research and Development), incentives of value creation, digital age.

### Аннотация

Цифровая экономика открыла новую эру бизнеса и инноваций, меняя отрасли и бросая вызов традиционным экономическим моделям. Центральное место в этой трансформации занимает концепция создания стоимости, которая играет уникальную и решающую роль в эпоху цифровых технологий. В этой диссертации мы исследуем, как создание стоимости приобретает различные характеристики и важность в цифровой экономике.

**Ключевые слова.** создание стоимости, концепция создания стоимости, глобальная экономика, цифровая экономика, исследования и разработки, стимулы создания стоимости, цифровой век.

### Introduction

**Relevance of the topic.** In today's rapidly evolving global economy, the concept of value creation stands at the forefront of economic growth. Businesses and governments alike are increasingly recognizing the pivotal role value creation plays

in driving innovation, competitiveness, and overall prosperity. One crucial factor in facilitating value creation is the tax system. The tax system is a cornerstone of any modern society, providing the necessary funds for government operations and public services. However, beyond its fiscal role, the tax system also plays a crucial role in fostering economic growth, promoting fairness, and encouraging innovation.

A fundamental principle of any tax system is fairness. Fairness implies that taxes should be levied equitably, with each citizen or entity contributing their fair share based on their ability to pay. This notion of fairness encourages value creation by instilling trust and confidence in the system. Currently, value creation in the digital economy means creating economic and social value through the use of digital technologies, data and digital business models.

### The main argument about value creation

It should be noted that the implementation of the tax concept based on value creation is complex. In addition, there may be difficulties in properly defining and measuring value creation. Despite these difficulties, many countries and international organizations are actively studying and implementing reforms to adapt their tax systems to the changing nature of the global economy and to ensure that taxation is fair and efficient. Value creation is the process of turning resources into something valuable with work. In economics, it is a broad term that includes the production of tangible goods and services.<sup>1</sup>

Value Creation is the process of turning labor and resources into something that meets the needs of others. That includes, for example, farmers growing crops, workers building something in a factory, as well as other intangible goods like computer code and creative ideas.<sup>2</sup>

In the field of economics, this is a comprehensive concept that includes the creation of specific products and services.

<sup>1</sup> Learn the value creation definition and understand how business and value creation relate. Study value creation examples and see its importance and overall impact. Author: Katherine Williams.

<https://study.com/learn/lesson/value-creation-business-concept-examples.html#:~:text=Value%20creation%20is%20the%20process,goods%20and%20intellectual%20property%20products.>

<sup>2</sup> Value Creation Definition, Model, Principles, Importance & Steps. Author: Stefan F.Dieffenbacher. Published: 12 June, 2022. Source: <https://digitalleadership.com/blog/value-creation/>



### **The significance of value generation within the taxation framework**

The role of value creation in the tax system is pivotal in shaping tax policies, ensuring fairness, and promoting economic development. It refers to the principle of taxing economic activities based on the value they generate, rather than relying solely on traditional tax bases like income or physical presence. Here are key aspects of how value creation influences the tax system:

- Fair and equitable taxation;
- Reducing profit shifting;
- Preventing tax evasion;
- Encouraging domestic investment;
- Promoting economic growth;
- Global taxation challenges;
- Environmental considerations;
- Incentivizing innovation;
- Public services funding;
- International cooperation.

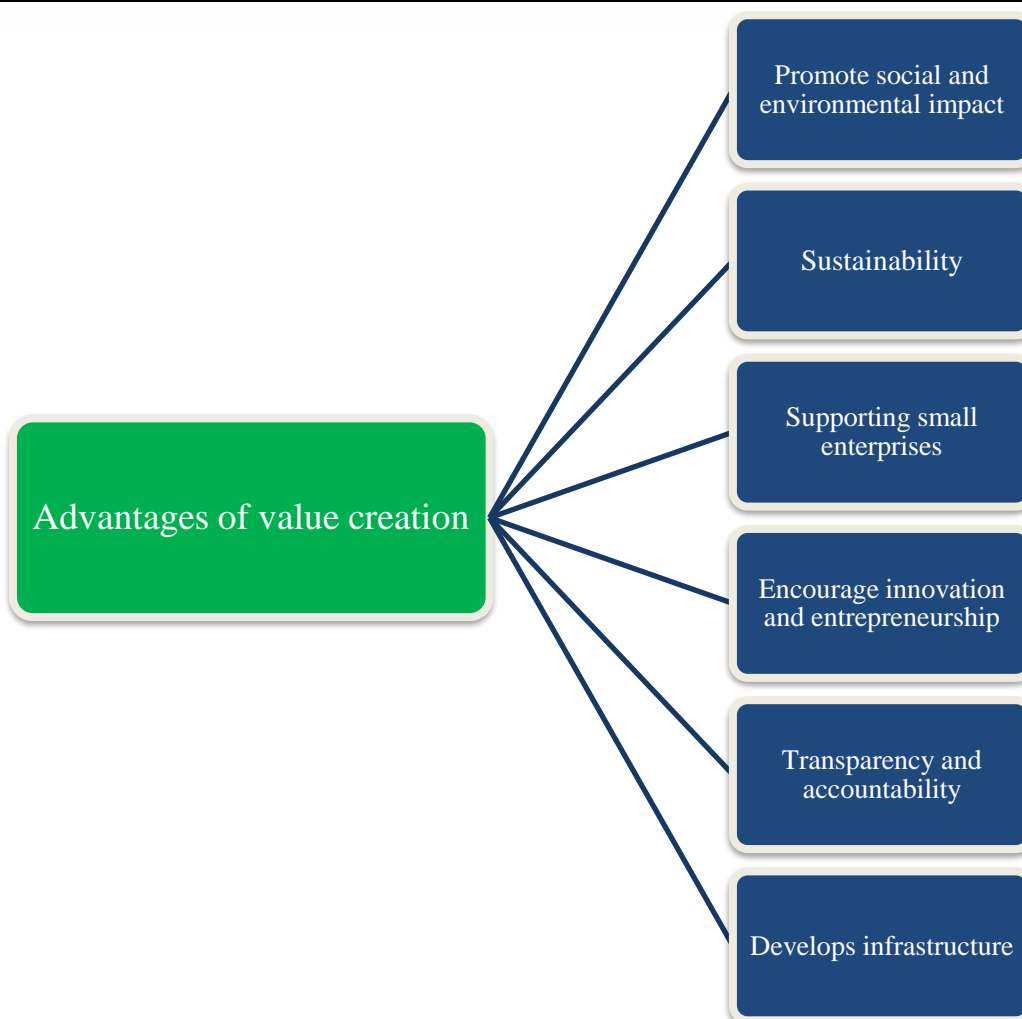
Value creation plays a critical role in shaping modern tax systems by promoting fairness, preventing profit shifting, encouraging investment, and supporting economic growth. As the global economy evolves, governments and tax authorities should continue to refine their tax policies to ensure they capture the value created in their jurisdictions effectively and equitably.

It is important to note that the concept of value creation goes beyond the mere pursuit of profit. It includes broader aspects such as improving products and services, strengthening customer relationships, developing innovation, and making a positive contribution to society and the environment.

We can understand the main effects of the value creation process on the economy through the graph below. Let's take a closer look at them. (graph 1)







graph 1

**graph 1. The main incentives of the tax concept based on value creation.<sup>3</sup>**

- Promote social and environmental impact. By considering the economic and social value created, such as job creation, community development, environmental sustainability and innovation, businesses can be encouraged to adopt more responsible practices that benefit society as a whole.
- Sustainability. By shifting the focus to the value created, businesses can be more inclined to invest in research and development, employee training,

<sup>3</sup> Mechanism of innovative development of small business and entrepreneurship in the modernization of the economy. Dissertation written for obtaining the academic degree of Master. Fozilov V.A. 2023/Chapter 3. 77 p.

infrastructure development, and sustainable practices. This can ensure long-term growth and sustainability while taking into account the wider impact on society.

- Supporting small enterprises. A taxation system based on value creation can level the playing field by recognizing and rewarding the economic and social value created by small businesses. This can stimulate entrepreneurship, innovation and job creation in local communities, stimulating economic development at the grassroots level.
- Encourage innovation and entrepreneurship. In doing so, companies strive to create new solutions and products that meet the needs of society. Ultimately, this can stimulate economic growth, increase competitiveness and lead to technological progress.
- Transparency and accountability. A taxation system based on value creation may require businesses to provide detailed information on their economic and social impact. This can increase transparency and accountability, allowing stakeholders to assess company contributions beyond financial performance.
- Develops infrastructure. Operations based on value creation have a direct impact on the development of the country's infrastructure. Because of the fact that in this system, enterprises place the main emphasis on value creation. For example, they increase the types of services, create jobs, start to engage in several types of activities, etc.

In the digital economy, value creation is not confined to the production of physical goods but extends into the realms of data, digital platforms, intellectual property, entrepreneurship, and network effects. Understanding and harnessing these unique aspects of value creation are critical for businesses and entrepreneurs looking to thrive in the digital age. As the digital economy continues to evolve, value creation will remain at its core, shaping industries, fostering innovation, and driving economic growth in unprecedented ways.

### **So we may face difficulties in creating value?**

Creating value can be a complex and multifaceted process, and various challenges and barriers can hinder individuals, businesses, and organizations in this endeavor. Some common challenges and barriers to creating value include:

- Resource Constraints. Limited financial, human, or technological resources can impede the ability to invest in value-creating activities, such as research and development, innovation, or infrastructure improvements.



- **Market Competition.** In competitive markets, it can be challenging to differentiate products or services and demonstrate their unique value proposition. Intense competition may lead to price wars, reducing profit margins.
- **Changing Customer Preferences.** Shifts in customer preferences and behaviors can impact the perceived value of products and services. Adapting to changing customer demands requires agility and responsiveness.
- **Technology Disruption.** Rapid technological advancements can disrupt existing business models and render previously valuable assets or skills obsolete. Businesses must continuously adapt to stay relevant.
- **Risk Aversion.** Fear of failure or aversion to risk can deter individuals and organizations from pursuing innovative or value-creating initiatives. Creativity and experimentation may be stifled.
- **Lack of Expertise.** Insufficient knowledge or expertise in a particular domain or industry can limit the ability to create value. Access to the right skills and competencies is essential.
- **Cultural and Organizational Barriers.** Organizational culture, hierarchies, and resistance to change can impede value creation efforts. A culture that does not foster innovation may hinder creativity and progress.
- **Global Economic Factors.** Economic downturns, trade tensions, or global economic instability can impact the overall economic environment and affect businesses' ability to create value.

Overcoming these challenges and barriers to value creation often requires a combination of strategic planning, innovation, adaptability, risk management, and a commitment to continuous improvement. Businesses and individuals who can navigate these obstacles effectively are more likely to create enduring and sustainable value in their endeavors.

## CONCLUSION

Value creation is a dynamic and essential process that underpins economic growth, innovation, and societal progress. It is not confined to a single domain but extends across industries, economies, and individual endeavors. Recognizing and harnessing value creation opportunities, overcoming barriers, and aligning efforts with evolving market dynamics are essential steps in fostering success and prosperity in today's





complex and interconnected world. Value creation remains a driving force for positive change, economic development, and the betterment of societies worldwide. By incentivizing R&D, protecting intellectual property, regulating transfer pricing, and adapting to the changing economic landscape, governments can create an environment where value thrives, benefiting both businesses and society as a whole. In a world where value creation is paramount, smart and strategic tax policies are more critical than ever.

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