

SMALL AND MEDIUM-SIZED ENTERPRISES: ANALYSIS OF TRENDS AND ASSESSMENT OF PREREQUISITES FOR ENHANCING INNOVATIVE DEVELOPMENT

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The key trends in the development of the entrepreneurial environment of small and medium-sized businesses are analysed. The prerequisites for enhancing the innovative development of small and medium-sized enterprises in modern economic conditions are assessed. Three groups of countries differing in the parameters of the representation of performance indicators of the small and medium-sized enterprises sector in the overall results of the national economy have been identified. The validity of the assumptions about the predominant orientation of domestic entrepreneurs in the innovation sphere, primarily to the implementation of innovative solutions, which are determined by a relatively short-term horizon of implementation prospects, reduced needs for the necessary capital investments, and, as a result, limited potentially achievable positive results from implementation, has been confirmed. It is noted that problems in the field of innovative development of the domestic business sector are determined by the long-term and systemic nature of manifestation. The basic properties inherent in the processes of digitalisation of small and medium-sized businesses in modern economic conditions are defined. It is noted that it is at the entrepreneurial level of the economic system a conscious request of small and medium-sized businesses for the generation of innovations should be formed, the introduction of which, in order to strengthen the competitive advantages of national producers, will determine the need to create appropriate institutional, organisational and other prerequisites for enhancing innovative development at the sectoral and regional levels. It is determined that one of the key tasks for intensifying innovation activity is to ensure a high level of receptivity and readiness of small and medium-sized businesses to generate, select, implement and successfully use innovations.

Keywords: business, small and medium-sized enterprises, trends, prerequisites, enhancing, innovative development.

МАЛЕ ТА СЕРЕДНЄ ПІДПРИЄМНИЦТВО: АНАЛІЗ ТЕНДЕНЦІЙ ТА ОЦІНКА ПЕРЕДУМОВ АКТИВІЗАЦІЇ ІННОВАЦІЙНОГО РОЗВИТКУ

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Проаналізовано ключові тенденції розвитку підприємницького середовища малого та середнього бізнесу. Здійснено оцінку передумов активізації інноваційного розвитку малих та середніх підприємств в сучасних умовах господарювання. Виділено три групи держав, що розрізняються за параметрами представництва показників результативності діяльності сектору малих та середніх підприємств у загальних підсумках функціонування національного господарства. Підтверджено справедливості припущень стосовно переважного орієнтування вітчизняних підприємств в інноваційній сфері перш за все на впровадження новаторських рішень, які визначаються відносно недалекого горизонтом перспектив реалізації, скороченням потреб у необхідних капітальних вкладеннях, а також, як наслідок – обмеженістю потенційно досяжних позитивних результатів від втілення. Зазначено, що проблеми в сфері інноваційного розвитку вітчизняного підприємницького сектору визначаються тривалим і системним характером виявлення. Визначено базові властивості, що притаманні процесам цифровізації малого та середнього бізнесу в сучасних умовах господарювання. Зазначено, що саме на підприємницькому рівні економічної системи має бути сформовано свідомий запит малого та середнього бізнесу щодо генерації інновацій, впровадження яких для зміцнення конкурентних переваг національних виробників буде визначати необхідність створення належних інституціональних, організаційних та інших передумов для активізації інноваційного розвитку на галузевому та регіональному рівні. Встановлено, що одним з ключових завдань для активізації новаторської діяльності стає забезпечення високого рівня сприйнятливості та готовності підприємств малого та середнього бізнесу щодо генерації, відбору, впровадження та успішного використання інновацій.

Ключові слова: бізнес, малі та середні підприємства, тенденції, передумови, активізація, інноваційний розвиток.

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STATEMENT OF THE PROBLEM

The development of small and medium-sized enterprises is an important element of supporting economic growth, ensuring quality satisfaction of a wide range of consumer needs, preserving social order in society. The growth of negative trends associated with the spread of manifestations of unfavourable conditions for conducting economic

activities in Ukraine during the pre-war decade naturally led to significant difficulties and obstacles to innovative business activity. However, it should be noted that the accumulation of crisis phenomena in the innovation sector was a reflection of much deeper problems, primarily related to structural disproportions and imbalances in the development of the national economy.

ANALYSIS OF RECENT RESEARCH AND PUBLICATIONS

The issues of innovative development of small and medium-sized enterprises have been the subject of the works of many reputable foreign and domestic scholars: L. Vasylieva, M. Kyzym, A. Kuznetsova, S. Bridge, K. O'Neill, S. Cromie, R. Hillary, S. Ketels, G. Lindqvist, O. Solvell, F. Janszen, E. Rogers, V. Vovk, O. Vozniuk, I. Sydoruk, M. Khursa and others.

FORMULATION OF THE GOALS OF THE ARTICLE (STATEMENT OF THE TASK)

The article is aimed at analysing the trends in the development of the entrepreneurial environment of small and medium-sized businesses and also assessing the prerequisites for enhancing the innovative development of small and medium-sized enterprises.

PRESENTATION OF THE MAIN MATERIAL OF THE STUDY WITH A FULL JUSTIFICATION OF THE OBTAINED SCIENTIFIC RESULTS

Three groups of countries can be distinguished, differing in the parameters of the representation of performance indicators of the small and medium-sized enterprises (SMEs) sector in the overall results of the functioning of the national economy. Thus, the economy of Germany, as one of the most industrialised countries in the world, is characterised by the fact that in the SMEs segment (represented by more than 99% of business entities) in 2018-2021 63.2%-57.8% of employed workers produced only 39.0%-38.5% of sold products respectively, which was obviously a reflection of the high level of concentration of productive capacities inherent in this country. On the other hand, it should be noted that despite the high level of economic development in Germany, the share of SMEs in creating value added remained at a relatively moderate level (54.6%-48.5%). The second group of national economies (characterised by a lower, but rather significant level of production concentration) includes some Eastern European countries (Poland, Slovakia, the Czech Republic), where a high level of employment in the SMEs sector (67%-72% on average) allowed them to produce from 54% to 57% of the volume of goods and services sold provided that a roughly similar share of added value is created. Finally, the third group of countries according to SMEs parameters includes economic systems of countries with a low level of production concentration (Bulgaria, Estonia, Latvia, Lithuania), where the involvement of the bulk of the employed population (75%-80% of employees) made it possible for small and medium-sized businesses to sell most of their products (68%-80%), which accounted for approximately the same share of the created added value.

For Ukraine, despite the rather high level of concentration of production capacities achieved in the past (partially or completely lost by now due to moral and physical deterioration, as a result of bankruptcy or re-profiling of many large industrial enterprises, as well as destroyed during hostilities) in the pre-war period, belonging to the characteristics of the third group was inherent: when engaged in employment in the SMEs sector in 2017-2021 respectively from 80.8% to 81.8% of all employees, SMEs produced from 64.8% to 66.3% of the volume of sold products, which contained from 62.6% to 70.2% of the newly created added value (in terms of production costs). At the same time, in absolute terms, in recent years Ukraine has seen a decline in business activity in both the structural (quantitative characteristics of SMEs) and process (by the achieved performance results) aspects.

It should be noted that the long-lasting nature of the manifestation of the negative trend of gradual restriction of economic activity of SMEs is also reflected in the reduction of the vast majority of performance indicators both in this sector and in the national economy as a whole. In addition, as an extremely negative manifestation of the described crisis trend, it is worth noting a rather rapid reduction in the number of entities engaged in economic activity in the areas of economic activity in which the creation and initial adoption of technological innovations that could strengthen the competitive advantages of national business should take place. Changes in the number of entities engaged in entrepreneurial activity in research and experimental development in natural and technical sciences, biotechnology, etc. were also characterised by a negative trend.

It is necessary to note that innovation-oriented economic activities in 2013-2023 were characterised by a noticeable outstripping (compared to other sectors of business activity) reduction in productive capacities for value added creation. At the same time, the growth rates of nominal sales volumes of manufactured products (goods, services) in 2010-2022 not very noticeable but lagged behind the similar indicators of value added growth cited above. On the other hand, in the context of growing requirements to intensify innovation activities aimed at creating breakthrough innovative solutions, the tendency towards a significant limitation of the growth rate of sales of products manufactured in the field of research and development (during the periods indicated, the increase in this indicator in general by type of activity was 2.10 times and 1.39 times, including 1.23 times and 0.67 times for small enterprises) in relation to more applied in terms of commercial orientation operations involving technical testing and research

(4.52 times and 4.12 times for the whole, 3.72 times and 4.74 times for medium-sized enterprises, 5.40 times and 3.45 times for small businesses) requires caution.

This information provided confirms the validity of the assumptions about the predominant focus of domestic entrepreneurs in the innovation sphere primarily on the implementation of innovative solutions, which are determined by a relatively short-term horizon of implementation prospects, reduced needs for the necessary capital investments, and, as a result, limited potentially achievable positive results from implementation (mainly in the form of unstable or temporary competitive advantages).

The identification of these negative trends was naturally determined (and in a perspective context, even significantly intensified) by a noticeable deterioration in the state of human resources for business activities. Identifying the dynamics of changes in research economic activities is associated with significant difficulties due to the lack of appropriate information, access to which is protected by confidentiality requirements. However, even the study of the available data allows to make assumptions about the destructive nature of the impact of the crisis in industrial development (and the associated stagnation of demand for innovative developments) on the state of human potential of enterprises that carried out research-based economic activities.

In addition, studying the dynamics of identifying trends in reducing the number of personnel in enterprises that carried out research-based economic activities allows to convincingly confirm the assumption that customers of innovations are focusing their attention on acquiring relatively less productive, but cheaper to implement, purely applied developments. In particular, the number of employees of medium-sized enterprises operating in the field of technical testing and research decreased only slightly (by 7.0%) in 2010-2022, while in the pre-war period (2010-2021) this indicator even increased by 19.0%. Changes in the staffing of small businesses in this area were similarly directed, with a relatively significant increase in the number of employees in 2010-2021 (by 16.0%), which turned into a 3.0% decrease with the outbreak of war. For medium-sized enterprises engaged in research and development, the number of employees decreased by 52.08% in 2010-2016 alone. In addition, even small businesses operating in this area were unable to fully unleash their potential for flexibility and adaptability to unfavourable operating conditions. For example, the number of employees of small businesses engaged in research and development decreased by 61.0% between 2010 and 2022 (including, for the pre-war period 2010-2021 – by 54.0%).

The manifestations of certain crisis phenomena in the development of the business sector of Ukraine were naturally reflected in the volatility of the financial performance of business entities. Thus, during the pre-war period of 2010-2021, domestic enterprises carried out unprofitable activities three times (in 2013-2015), and for small businesses, business activity was unprofitable for a much longer period (2010-2017). However, it is worth noting as a somewhat positive trend that despite the fact that enterprises in the field of professional and scientific activities relatively more often (relative to the overall performance indicators of the business sector) carried out unprofitable activities, technical testing and research entities were characterised by positive business performance (including by small and medium-sized enterprises). However, the sphere of scientific research and development itself was characterised by the same trends regarding the negative impact of insufficient demand from potential consumers for capital-intensive innovation projects on the formation of the results of the activities of enterprises that carried out innovation-oriented economic activities.

The structural distribution of business entities by the profitability of operations should also be considered indicative of the identification of unfavourable factors of the business environment. Thus, in general, the share of enterprises that demonstrated the ability to maintain break-even operations gradually increased throughout the period 2010-2021 (from 57.3% to 72.9%), while even in 2022 the share of profitable business entities decreased slightly, remaining at 65.8%. At the same time, the share of profitable large and medium-sized enterprises able to demonstrate high efficiency of concentrated production through the use of economies of scale did not greatly exceed the value of the same indicator for small businesses, which was obviously achieved to a greater extent due to the success of the dynamic implementation of more flexible business strategies, with in-depth segmentation of target markets, due to increased production specialisation, through the development of various forms of cooperation, etc. In addition, it should be noted that in innovation-oriented areas of economic activity (machine building, scientific and technical activities in general, and in particular, technical testing and research, scientific research and development), the share of profitable business entities remained at an average level or even slightly exceeded the overall values of indicators for the entire business sector throughout the period under review.

On the other hand, the amount of profit earned by the vast majority of enterprises in 2010-2022 did not allow for a sufficiently high level of profitability to accumulate the funds needed to intensify innovation and investment processes. Thus, in the pre-war period of 2010-2021, the values of operating profitability indicators fluctuated significantly, showing, however, a tendency towards gradual growth (from 4.0% to 12.6%), despite a significant decline in 2013-2015 (up to a loss level of -4.1% in 2014). However, the profitability of ordinary activities was characterised by a much lower level of profitability, the low value of which was obviously due to significant unproductive expenses of enterprises for non-operating activities. It should also be emphasised that small and (to a lesser extent) medium-sized enterprises were more vulnerable to the negative impact of crisis phenomena on economic development, primarily related to force majeure (political instability, epidemiological situation, etc.). It was in this sector of the national economy that the decline in profitability and the increase in losses had the most significant impact on the formation of economic activity results. However, even in this context, the ability of enterprises engaged

in innovation-oriented activities to create significant amounts of new value was the basis for obtaining higher than average profitability of operations, despite all the negative manifestations of crisis phenomena and processes.

The limited ability of business entities to achieve high financial results, in turn, determined the negative nature of changes in the value of the cost of fixed assets and intangible assets of the business in 2010-2022. The extremely high level of depreciation of fixed assets and intangible assets achieved in 2013-2021 should be considered as evidence of the unsatisfactory state of the material and technical base of economic activity of Ukrainian enterprises. It should be noted that the improvement in depreciation achieved in 2013-2014 was mainly artificial, due to the revaluation of fixed assets and intangible assets.

At the same time, the introduction of innovative solutions focused on the comprehensive digitalisation of business processes is becoming a prerequisite for boosting the economic growth of the national economy in the current global context of digital business transformations. Among the main goals of digitalisation, the leading positions are occupied by improving the digital infrastructure, providing the vast majority (95%) of the population with access to high-speed Internet connections, creating comfortable conditions for doing business in Ukraine, digitalising public services, increasing basic digital literacy of the population, integrating into the EU digital space.

The main properties inherent in the processes of business digitalisation include the following: firstly, the concentration of operations in a certain digital environment, through the means of interaction within which the communication convergence of producers and consumers is achieved, with a high level of personalisation of service; secondly, the formation of a specific system of innovative normative regulation of economic activity carried out with the help of digital tools; thirdly, an extraordinary expansion of the productive potential of serving consumer needs through personalisation of marketing interaction and direct customer service for material products needs; fourthly, individualisation of any acts of economic interaction, the implementation of which becomes possible without the use of long chains of interaction, avoiding unnecessary intermediaries, etc.

Increased specialisation in innovation activity deserves a very controversial assessment. On the one hand, indeed, the involvement of professional staff of enterprises in the development of innovations can ensure a more targeted orientation of innovation research to solve the actual problems of a given business, can reduce the time and costs of direct implementation of innovative solutions and production preparation, professional development of employees involved, etc. However, on the other hand, the generation of critical innovations that can significantly strengthen the sustainability of the manufacturer's competitive position in the market usually requires the mandatory involvement of highly qualified personnel. Staffing of personnel capable and able to put forward original innovative proposals, in turn, requires significant training and professional development costs, and may also be associated with the need to either maintain individual specialised scientific and technical units or with additional financial losses due to the increased need to divert certain employees from full or partial performance of their main duties (for the period of participation in the preparation of innovative solutions). In addition, even a temporary unification of efforts of representatives of different services and departments of the enterprise, in this case, may also be accompanied by an undesirable aggravation of inter-functional conflicts, contradictions and inconsistencies, which, in turn, may lead to increased internal resistance to the introduction of innovations, etc.

At the same time, it should be emphasised that in the formation of the staffing of innovation activities in Ukraine during 2010-2022, there were obvious negative trends in the significant and continuous reduction of the number of employees involved in research and development, and, above all, in key research positions.

It should be noted that the problems in the field of innovative development of the domestic business sector are determined by the long-term and systemic nature of their manifestation. At the same time, although there are certain differences among scientists in identifying the key causes of negative trends in this area, there is a consensus of opinion regarding the complex origin of obstacles and restrictions to the intensification of the process of innovative development of national business.

It is at the entrepreneurial level of the economic system that a conscious business demand for generating innovations should be formed, the implementation of which, in order to strengthen the competitive advantages of national producers, will determine the need to create appropriate institutional, organisational and other prerequisites for intensifying innovation development at the sectoral and regional levels. It should be noted, however, that the processing of such a request has so far been extremely difficult due to the above reasons for the stagnation of innovative activities of business entities, as well as the limited financial, economic, organisational, human resources and other capabilities of enterprises in this area.

The urgency of the need to intensify innovation activity is also convincingly evidenced by the almost complete absence of intangible assets on the balance sheet that would indicate the ability of these enterprises to generate new knowledge and competences, as well as to relay these intellectual achievements into specific projects and measures to update the process and technological base of production activities. Another significant sign of stagnation in innovation activity is the dynamics of the value of unfinished investments and the cost of acquiring non-current assets of enterprises, as well as the structural proportions that characterise the ratio of these capital investments to the initial value of non-current assets in general.

The limited ability of these SMEs to intensify innovation processes and make large-scale capital investments necessary to upgrade the material base of production was primarily determined by the almost complete impossibility of attracting external sources of financing (long-term liabilities and collateral) with a rather limited level of current

liabilities and collateral. At the same time, internal business opportunities to finance innovative development remained quite limited due to the intermittent and unstable nature of income from the sale of commodity products as the main activity and the corresponding changing dynamics of financial results of enterprises. Thus, despite the predominantly positive nature of the business performance, the achieved business profitability indicators still did not allow accumulating sufficient funds to implement the necessary innovation and investment projects.

The most significant constraints on the accumulation of the necessary financial resources from internal sources for these enterprises were the unfavourable dynamics and irrational structure of business operating expenses, the formation of which was obviously due primarily to a rather high level of depreciation of fixed assets and, as a result, a high and growing level of unproductive losses of raw materials and supplies.

The irrationality of the cost structure was primarily determined by a gradual, but steady, increase in the material intensity of operating activities with a marked reduction in the share of labour costs in operating expenses. These slow changes in the cost structure of enterprises were not only associated with the continuation of the negative trend of maintaining a rather high level of costs per 1 UAH of commercial products, but could also indicate both a lack and limited motivational impact of the existing mechanism for incentivising staff to improve economic efficiency, including through and on the basis of intensified innovation.

The volatile dynamics of administrative expenses, the growth of which in certain periods at some enterprises contradicted the reduction of sales expenses, which are more important for the financial performance, should also be considered as a certain confirmation of the limited effectiveness of the existing motivational mechanism for ensuring the efficiency of economic activity and preventing unproductive losses. Similarly, it should be noted that the share of sales expenses in the operating expenses of enterprises also remained at an extremely low level in the analysed period, which was in no way adequate to the current complexity of the tasks of intensifying the marketing and sales activities of enterprises. In addition, the identification of the manifestations of these structural imbalances in the formation of enterprise costs also indicates the urgency of innovative updating of the technological and organisational foundations of business processes of operational activities, in particular in the following areas: the introduction of new solutions in engineering and technology of production to reduce unproductive costs of raw materials, materials, staff labour; optimisation of management operations both through the development of more rational schemes and modes of cross-functional interaction and through the use of digitalisation tools in the field of administration to prevent unjustified increases in relevant costs not directly related to the creation of new value; increased use of various marketing tools for communication impact and reflective interaction with consumers to increase the efficiency of sales costs, etc.

CONCLUSIONS

Thus, the targeted implementation of such innovative measures for small and medium-sized enterprises will almost certainly be hampered not only by the lack of necessary free financial and investment resources, but also by the limited organisational, human, technical and other capabilities, the lack of which is objective for these business entities. Therefore, one of the key tasks for intensifying innovative activity in such conditions is to ensure a high level of receptivity and readiness of enterprises to generate, select, implement and successfully use innovations.

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