

## MECHANISMS FOR FORMING AND DEVELOPING A COMPETITIVE SMALL BUSINESS MODEL

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**Abstract.** *This article presents a theoretical and practical analysis of innovative approaches aimed at enhancing the competitiveness of small business entities. It explores the conceptual essence of competitiveness, outlines its fundamental levels, and discusses its significance within the context of the contemporary economic environment. Based on an in-depth review of academic literature, the paper emphasizes the crucial role of innovation, information technologies, and intangible assets in fostering competitive advantages. Furthermore, it substantiates strategic approaches necessary for small business enterprises to achieve sustainable success and effectively compete in both national and global markets. Drawing upon best international practices, the study offers practical recommendations for the implementation of a robust and dynamic small business development model.*

**Keywords:** *small business, competitiveness, innovation, market strategy, intangible assets, information technology, competitive advantage.*

### I. Introduction

In the context of a rapidly evolving and highly competitive global economy, the competitiveness of small business entities has emerged as a critical determinant of their long-term viability and growth. The urgency of this issue is particularly evident in markets characterized by a broad and diverse assortment of goods and services, where consumer preferences are continually shifting and market entry barriers are gradually being lowered. Under such conditions, the ability of small businesses to maintain and strengthen their competitive positions becomes not merely an advantage, but a necessity for survival and development [1].

Small businesses—due to their inherent flexibility, adaptability, and proximity to local markets—are uniquely positioned to respond swiftly to market demands. However, they often face structural and resource-based constraints that limit their capacity to compete with larger enterprises. This situation necessitates the continual search for innovative approaches in enterprise management, particularly those aimed at enhancing strategic positioning, improving operational efficiency, and increasing customer value [2]. Entrepreneurs must therefore actively pursue novel models of organizational leadership, product and service differentiation, and market engagement to elevate their competitive standing.

A critical component of this process is the systematic analysis of customer needs and competitor strategies. Through such analytical efforts, small business operators can effectively identify their internal strengths and weaknesses, assess external opportunities and threats, and formulate robust competitive strategies that align with long-term business objectives. Understanding the competitive landscape enables firms to leverage their unique competencies, build sustainable competitive advantages, and create value propositions that resonate with target markets [3].

Moreover, as market competition intensifies—fueled by globalization, technological advancement, and digital transformation—entrepreneurs are

increasingly compelled to engage in proactive competitive positioning. This includes not only defending existing market shares but also seeking new market niches, innovating in product and service offerings, and aligning business models with emerging trends in consumer behavior and technology adoption. Thus, the enhancement of competitiveness in small business is not a one-time initiative but a continuous strategic process [4]. It requires an integrated approach encompassing market research, innovation, capacity building, and adaptive management. This research aims to contribute to the academic and practical understanding of how small businesses can systematically develop and implement competitiveness-enhancing mechanisms within their organizational and strategic frameworks.

In the modern global landscape, particularly within the evolving economic environment of our country, the mere production of competitive goods no longer serves as a sufficient guarantee of success in the struggle for market leadership. While the quality and affordability of products remain important, they are no longer the sole determinants of a company's competitiveness. Today, the challenge of enhancing corporate competitiveness has become increasingly urgent and complex, necessitating continuous adaptation to the ever-changing dynamics of the market [5].

In this context, improving a company's competitive position requires more than traditional business strategies—it demands innovative thinking, strategic flexibility, and a deep understanding of market trends, consumer preferences, and technological advancements. The ability to respond promptly and effectively to these changes is now a fundamental requirement for sustainable development and long-term success.

A comprehensive analysis of a company's competitiveness—its current capabilities, market position, and external operating environment—is essential for identifying key strategic priorities. Formulating these priorities enables firms to develop focused action plans that strengthen their market advantage and resilience [6]. This topic is of critical importance, as only companies that maintain a strong competitive edge are able to operate efficiently and achieve sustainable performance in a market-based economy. Consequently, the development of a strategic framework for evaluating and enhancing competitiveness is not merely an academic exercise, but a practical necessity for any enterprise seeking to thrive in today's highly competitive and innovation-driven global economy.

## **II. Literature Review**

An analysis of theoretical and methodological approaches presented in both scientific and practical literature reveals that enhancing the competitiveness of small innovative business entities is increasingly recognized as a critical factor in fostering innovation-driven economic development. Within the academic discourse, the need to strengthen the competitive capabilities of such enterprises is viewed not only as a response to market challenges but also as a mechanism to stimulate innovation ecosystems at the national and regional levels. Numerous scholars have contributed significantly to this field, offering detailed recommendations aimed at improving the strategic and operational performance of small businesses. Their works underscore the

importance of integrating innovation management, market responsiveness, and organizational agility as foundational components of competitiveness.

Among researchers from the Commonwealth of Independent States (CIS), Y.V. Zakharova and N.S. Somenkova have conducted extensive studies on the determinants influencing the competitiveness of small enterprises. Their research emphasizes the necessity of adapting contemporary models of competitiveness to the structural transformations occurring within modern economies. These scholars argue that achieving and sustaining competitiveness in the small business sector requires a dynamic approach—one that accounts for economic diversification, sectoral shifts, and the evolving demands of globalized markets. The findings from such studies serve as a valuable foundation for the development of comprehensive policy measures and business strategies aimed at ensuring the sustainable growth of small enterprises. Moreover, they provide a conceptual framework for aligning entrepreneurial practices with long-term national innovation agendas.

D.B. Audretsch is widely recognized for his influential research at the intersection of entrepreneurship, innovation, and economic development. He highlights the pivotal role played by small enterprises in driving innovation and facilitating structural transformation within the economy. According to Audretsch, small firms are not merely peripheral actors but are in fact central to fostering technological dynamism and ensuring adaptability in rapidly evolving economic systems.

Meyer-Stamer, on the other hand, focuses on the concept of systemic competitiveness, emphasizing the significance of local economic development and the imperative for small businesses to adapt to global economic transformations. He advocates for the creation of context-specific development strategies, particularly in developing countries, that reflect the unique challenges small enterprises face in these regions. His framework integrates institutional, social, and economic dimensions to support a more inclusive and sustainable model of competitiveness.

Kevin Ibeh’s research is centered on the internationalization of small and medium-sized enterprises (SMEs), with particular attention to how they enter and compete in global markets. He underscores the importance of strategic frameworks and policy environments that support the expansion of small businesses beyond national borders. Ibeh argues that targeted strategies—such as export promotion, capacity building, and integration into global value chains—are essential to enhancing the global competitiveness of small firms and unlocking their potential as drivers of international economic integration.

Together, these scholarly contributions form a multidimensional understanding of small business competitiveness, emphasizing innovation, adaptability, and international strategic positioning as key levers of success in both domestic and global contexts.

## **II. Research Methodology**

This study employs a set of classical scientific research methods, carefully selected to ensure a comprehensive and methodologically sound analysis of the topic. Among the primary methods utilized by the author are scientific abstraction, analysis and synthesis, observation, comparison, and generalization. Each of these methods

contributed to different stages of the research process, enhancing both the theoretical and empirical foundations of the study. The method of scientific abstraction enabled a deep and critical examination of theoretical approaches relevant to the concept of competitiveness in small business development. Through this method, key theoretical constructs were isolated from specific empirical contexts, allowing for the identification of essential patterns and underlying principles.

The analysis and synthesis methods were applied to systematize data and findings from a diverse range of academic and practical sources. By dissecting complex information and subsequently integrating it, the study was able to formulate evidence-based conclusions that reflect both theoretical consistency and practical applicability. The methods of observation and comparison were instrumental in examining current real-world practices and identifying successful international experiences. These approaches allowed the research to discern similarities and differences across case studies, thereby highlighting adaptable strategies that could be relevant to small business environments in transitional or emerging economies.

Additionally, the study made use of a systemic approach, which facilitated the examination of competitiveness as a multifaceted phenomenon shaped by interrelated economic, institutional, and social factors. Historical analysis was also employed to trace the evolution of competitiveness frameworks and assess their relevance within the contemporary economic context. This helped to determine the enduring significance of small business competitiveness in current conditions marked by globalization, technological disruption, and structural economic change. Collectively, these methodological tools provided a robust foundation for investigating the mechanisms through which competitive small business models can be developed and strategically positioned for long-term success.

### **III. Analysis Results**

Competitiveness is one of the most critical economic categories that characterize the effective functioning of small business entities under market conditions. It encompasses a complex set of economic characteristics, including both the intrinsic attributes of products within specific sectors and the broader organizational and production-related factors that influence a firm's ability to manufacture and market its goods effectively. As such, competitiveness is not a static or isolated concept but a dynamic, multidimensional construct that reflects a firm's capability to maintain and enhance its market position over time.

Historically, traditional views on competition underwent significant reassessment at the turn of the 19th and 20th centuries. Notably, the Austrian economist Joseph Schumpeter introduced a transformative perspective on competition, arguing that it could only meaningfully exist within the structural framework of a functioning state system. According to Schumpeter, the idealized model of perfect competition—where all economic activities operate without restrictions—is theoretically untenable in the absence of state-imposed limitations. He posited that the state's role in regulating and constraining market dynamics is essential to maintaining the conditions under which competition can function effectively. In the 20th century, particularly during

periods of capitalist crisis, classical economic theories that advocated for minimal state intervention in market equilibrium were increasingly called into question. These disruptions revealed fundamental weaknesses in laissez-faire models and gave rise to the need for new theoretical approaches that acknowledged the necessity of regulatory frameworks in stabilizing and guiding market economies.

The issue of competitiveness began to attract heightened academic and policy interest during the past 30–35 years, reflecting the intensifying dynamics of globalization, technological innovation, and structural economic change. A pivotal contribution in this domain was made by Michael Porter, whose empirical research between 1970 and 1987 culminated in the development of the concepts of competitive advantage and national competitiveness. Porter’s framework emphasized the strategic importance of industry structure, firm behavior, and the external business environment in shaping competitive outcomes. His model, known as the Five Forces Framework, systematically analyzed the forces driving competition in an industry—namely, the threat of new entrants, bargaining power of suppliers and buyers, threat of substitute products, and the intensity of rivalry among existing competitors. Additionally, his work on the value chain and diamond model of national advantage provided analytical tools for understanding how firms and economies can create and sustain competitive advantages in the global market.

These evolving perspectives underscore the increasingly complex nature of competitiveness as both a microeconomic and macroeconomic phenomenon. For small business entities in particular, competitiveness must be understood not only in terms of internal operational efficiency but also in relation to external market forces, institutional environments, and innovation ecosystems [7].

Theoretical Approaches to the Concept of Competition in Economic Literature. In the economic literature, the concept of “competition” has been approached from four distinct theoretical perspectives, each offering a unique lens through which the phenomenon can be understood:

- The Behavioral Approach focuses on the conduct of market participants—particularly firms and consumers—in shaping competitive dynamics. It emphasizes strategic behavior, decision-making under uncertainty, and the interaction between rivals within market structures.

- The Structural Approach is rooted in industrial organization theory and examines how market structure—such as the number and size distribution of firms—affects the intensity and outcomes of competition. This view is often linked to the Structure–Conduct–Performance (SCP) paradigm.

- The Functional Approach defines competition in terms of its role in ensuring market efficiency, resource allocation, and consumer welfare. It highlights how competitive processes stimulate innovation, reduce prices, and improve product quality.

- The Institutional Approach considers the broader regulatory, legal, and cultural frameworks that shape competitive behavior. It underscores the role of institutions—formal and informal—in enabling fair competition and market access.



Synthesizing various Western scholarly perspectives on competitiveness, the author of this study arrives at the following comprehensive definition:

Competitiveness is the capacity of an enterprise to interpret and anticipate market dynamics, and to apply this knowledge toward the production and promotion of goods that not only meet consumer demand but also distinguish themselves among similar products in the marketplace. This is achieved while minimizing production costs to the greatest extent possible. This definition underscores that competitiveness is not solely about cost-efficiency or product differentiation in isolation—it is a multidimensional capability that integrates market intelligence, strategic foresight, innovation, and operational effectiveness. In an increasingly volatile and competitive global environment, this integrative ability becomes essential for small businesses striving to maintain relevance, capture market share, and ensure long-term sustainability.

Table 1

Definition of competitiveness by Western scholars

Economists	The given definition
E. Chamberlin	Competitiveness is not only the ability to compete with competitors, but also the ability to avoid conflicts with them by developing markets through product differentiation.
I. Shumpeter	Competitiveness is the ability to create new markets, ideas, and technologies.
M. Porter	Competitiveness is the characteristics of products and services and the ability of a market entity to participate in the market on equal terms with similar products and services of competitors. The introduction of innovations into the production process is a key factor ensuring the competitiveness of an enterprise at the national level.
O. Uilyamson	Competitiveness is characterized by lower production costs achieved through the use of more efficient production methods.
K. Praxaladd	Competitiveness is the ability to anticipate the future state of the market based on previously acquired experience, leadership, and skills.

Key Dimensions of Competitiveness. An analysis of various scholarly perspectives leads to the conclusion that a firm can be considered competitive if it is capable of operating effectively in the marketplace and offering products that meet consumer expectations in terms of quality, price, and value. In other words, a competitive enterprise is one that not only maintains operational efficiency but also successfully delivers goods or services that are perceived as superior or distinct compared to those of its rivals.

Competitiveness is a multi-layered concept and can be assessed at different levels within the economic system. The main levels of competitiveness are as follows: Product-level competitiveness – refers to the ability of a specific product to satisfy consumer needs better than competing products, based on attributes such as quality, price, functionality, innovation, and brand value.

Firm-level competitiveness – reflects a company’s overall capacity to maintain profitability, respond to market changes, adopt innovations, and sustain customer loyalty in a dynamic competitive environment.

Industry (sectoral) competitiveness – assesses the competitive strength of a particular industry or sector within an economy, often based on factors such as productivity, technological capacity, investment intensity, and market access.

Regional competitiveness – indicates the ability of a geographic region to attract investment, support innovation, and provide a conducive environment for businesses to grow and compete, influenced by infrastructure, human capital, institutions, and policy frameworks.

National competitiveness – encompasses the macroeconomic and institutional capacity of a country to ensure sustainable economic growth, productivity, and prosperity for its population, often measured through indicators like the Global Competitiveness Index (GCI).

Understanding these interconnected levels of competitiveness is essential for formulating effective policies and business strategies that support long-term development and competitive advantage at both micro and macroeconomic scales.

The Impact of Globalization on Enterprise Competitiveness. The globalization of international markets has significantly intensified competition among enterprises, reshaping the strategic priorities of businesses across all sectors. In this new competitive landscape, the ability to maintain and enhance competitiveness has become a fundamental concern for enterprises seeking long-term development and sustainability. Competitiveness is no longer a marginal advantage but a core strategic requirement for survival in the global economy.

From an operational perspective, enterprise competitiveness refers to the ability of a firm to create, produce, and market goods and services whose price and non-price attributes—such as quality, innovation, design, and after-sales support—render them more attractive to consumers than comparable offerings from competitors. This multidimensional concept emphasizes not only cost efficiency but also the added value that distinguishes a firm's offerings in increasingly saturated and fragmented markets.

Competitiveness, by its nature, is relative and can only be assessed within the context of comparison—specifically among firms operating within the same industry or producing similar goods and services. These comparisons can occur at both the national and international levels, allowing for assessments that reveal competitive positioning in global value chains, export markets, and sectoral productivity rankings.

Historically, during the early phase of industrialization, a firm’s success was primarily determined by its capacity to optimize resource utilization and capitalize on economies of scale [8]. The emphasis was on maximizing output while minimizing unit costs. However, as the global economy entered the late 20th century, technological innovation began to play an increasingly decisive role in defining competitive advantage. It became evident that firms which were able to successfully integrate new technologies into their production and management systems were better positioned to differentiate themselves and gain market dominance. In fact, the successful adoption and diffusion of advanced technologies became a key factor in strengthening enterprise

competitiveness. Technologically adaptive firms not only improved efficiency and productivity but also enhanced their capacity for innovation, market responsiveness, and customer satisfaction—all of which are critical components of sustained competitive advantage in the modern knowledge-driven economy [9]. Thus, in the era of globalization and rapid technological change, enterprise competitiveness must be viewed through a strategic and integrative lens—one that encompasses cost leadership, product differentiation, innovation capability, and the ability to align operations with global market trends.

**The Role of Intangible Competitive Advantages in the Digital Era.** In the current era marked by the widespread proliferation of information technologies, achieving and maintaining a stable competitive position in the market through the rapid adoption of new production technologies has become increasingly challenging. As technological innovation cycles shorten and global competition intensifies, the capacity of firms to differentiate themselves solely through tangible assets or cost advantages is diminishing.

Under such conditions, a more sustainable and reliable pathway to enhancing enterprise competitiveness lies in the formation and effective management of intangible competitive advantages. These intangible assets—though not physically measurable—play a decisive role in securing long-term market relevance and strategic superiority. When strategically cultivated and utilized, they contribute to a firm's resilience, adaptability, and value creation capacity in dynamic market environments.

The formation of intangible competitive advantages supports enterprises in achieving the following strategic outcomes:

Strengthening customer relationships and maintaining brand loyalty by cultivating trust, personalized engagement, and consistent value delivery. This, in turn, enables firms to retain existing market segments while simultaneously penetrating new ones more effectively.

Introducing high-demand, innovative products and services within target market segments, driven by superior knowledge of customer needs, trends, and evolving expectations.

Delivering high-quality goods and services at competitive prices and ensuring timely delivery, thereby enhancing customer satisfaction and market responsiveness.

Motivating and mobilizing human capital, encouraging continuous learning and the development of advanced skills, which are essential for innovation and operational excellence.

Integrating advanced information technologies and digital systems into business processes, facilitating smarter decision-making, operational efficiency, and data-driven strategic planning.

Building a robust organizational knowledge base, including intellectual property, process know-how, institutional memory, and market intelligence, which serves as a foundation for innovation and sustained growth.

These intangible assets—ranging from brand reputation, corporate culture, and human resource capabilities to digital infrastructure and knowledge capital—have become core drivers of competitive advantage in the knowledge economy. Therefore,



enterprises must adopt a long-term strategic approach that prioritizes not only technological investment but also the systematic development and integration of intangible assets into their overall competitiveness framework.

#### **IV. Recommendations**

In order to strengthen the competitiveness of small business entities in the context of a rapidly evolving global economy, the following strategic recommendations are proposed:

1. Promotion of Innovation Activities. It is essential to expand programs that support the integration of scientific and technological advancements within small enterprises. This includes fostering innovation ecosystems that facilitate the development of new products and services, and providing incentives for the commercialization of research and development outcomes.

2. Utilization of Information and Digital Technologies. Enhancing competitiveness requires the broader application of digital solutions such as Customer Relationship Management (CRM) systems, electronic commerce platforms, and other advanced information technologies. These tools improve operational efficiency, enable personalized customer engagement, and open access to broader markets.

3. Strengthening Consumer Engagement Strategies. To foster customer loyalty and penetrate new market segments, marketing approaches must be modernized and made more data-driven. Emphasis should be placed on personalized communication, market analytics, and customer satisfaction metrics to ensure lasting client relationships and market expansion.

4. Development of Human Capital. Continuous professional development of personnel is vital. Regular training programs, upskilling initiatives, and knowledge-sharing platforms should be institutionalized to improve employee competencies and contribute to a firm's innovation capacity and adaptability.

5. Strategic Management of Intangible Assets. Small businesses must prioritize the formation and effective management of intangible assets such as brand equity, customer databases, organizational knowledge, and innovative capacity. These resources should be integrated into long-term strategic planning and protected through appropriate intellectual property management mechanisms.

6. Competitive Environment Monitoring. It is recommended that firms systematically monitor competitors' strategies and market behavior. This will enable them to adapt proactively to external changes, identify emerging opportunities, and mitigate potential threats in both domestic and international markets.

7. Enhancement of State Support Mechanisms. Policymakers should intensify support for innovative small business entities through a range of instruments, including tax incentives, innovation grants, participation in technology parks and incubator programs, and access to subsidized financing. A well-structured public support framework is critical to fostering a favorable environment for sustainable small business development.

#### **V. Conclusion**

Enhancing the competitiveness of small business entities has emerged as one of the most critical challenges in the modern economic environment. This issue holds

strategic importance not only at the enterprise level but also across industries, regions, and the national economy as a whole. As such, the competitiveness of small businesses is increasingly recognized as a key driver of sustainable economic development and structural transformation.

The findings of this research demonstrate that the achievement and sustainability of competitiveness require the adoption of innovation-oriented approaches, the formulation of adaptive market strategies, and the implementation of systematic analyses of consumer demand and competitor behavior. These elements collectively serve as essential foundations for ensuring a firm's strategic agility and market responsiveness. Furthermore, the study underscores the growing importance of developing and managing the intangible dimensions of competitiveness—such as brand value, customer loyalty, organizational knowledge, and innovation capacity. These non-material assets are proving to be increasingly vital in enabling small businesses to offer differentiated, high-value products and services that meet evolving consumer expectations and outperform those of competitors.

Ultimately, the strategic cultivation of both tangible and intangible competitive advantages represents a decisive factor in ensuring the long-term success, adaptability, and resilience of small business entities. As market dynamics continue to evolve, the role of small businesses as engines of innovation, employment, and inclusive growth will be heavily dependent on their ability to navigate competition through forward-thinking, technology-driven, and knowledge-based strategies.

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