



# **ANALYSIS OF INTERNAL AND EXTERNAL FACTORS AFFECTING THE SUSTAINABLE DEVELOPMENT OF SMALL BUSINESS ENTITIES**

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## **Abstract**

This article analyzes the key internal and external factors influencing the sustainable development of small business entities. Internal factors such as the level of management, financial resources, innovation potential, and human capital of the enterprise are examined. External factors are studied within the framework of the economic environment, legislative base, competitive climate, and state support policies. The article also presents existing problems and proposes solutions. Based on statistical data from Uzbekistan, an analysis is conducted, and the necessity of a comprehensive approach in ensuring the sustainability of small businesses is substantiated.

**Keywords:** Uzbekistan’s economy, small business, sustainable development, internal factors, external factors, entrepreneurship, economic environment, state support, competitiveness.

## **Introduction**

In today's globalized and increasingly competitive economic environment, small business entities play a crucial role in ensuring the stability of national economies. Small businesses not only create new jobs but also fulfill key functions such as meeting domestic market demand, introducing innovations, and ensuring social stability. Especially during periods of economic crises and growing external threats, the flexibility of small businesses allows them to serve as a vital pillar of economic development.



In the context of Uzbekistan, the development of small entrepreneurship is considered one of the priority areas of state policy. To this end, Presidential Decree No. PF-67 of February 28, 2022, "On measures to further encourage the development of small business and entrepreneurship," outlines specific measures to strengthen financial, tax, and organizational support for small business entities [1]. Similarly, Resolution No. 130 of the Cabinet of Ministers dated March 15, 2023, "On additional measures to support and develop small business and entrepreneurship," aims to promote sustainable growth and enhance export potential [2].

However, in practice, the sustainable development of small businesses is influenced by various internal and external factors. Internal factors are related to the quality of management, financial resources, human capital, and innovation capacity at the enterprise level. External factors include changes in the legal environment, the development level of economic and financial infrastructure, market competition, and government support measures.

This article analyzes the main internal and external factors affecting the sustainable development of small business entities. Based on identified issues, practical recommendations are developed, and scientific perspectives on enhancing the sustainability of small business operations are substantiated.

## **LITERATURE REVIEW**

The factors influencing the sustainable development of small business entities are among the most relevant scientific directions in today's global economy. Research in this field helps to comprehensively understand the stability of small businesses.

David Birch describes small businesses as the main source of employment in the economy. He notes that small firms create more jobs than large ones, especially newly established enterprises, which play a significant role in increasing employment. This idea implies that small businesses directly affect not only economic growth but also social stability. In developing countries, small businesses serve as an important tool to mitigate demographic pressure and unemployment issues [3].

Michael Porter views small enterprises as key actors in enhancing national innovation capacity and shaping competition. He refers to small businesses as "flexible innovators." This approach evaluates small firms as systems capable of strategic thinking and quickly adopting innovations. In today's environment, small businesses



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need to focus on competitive advantages and adapt rapidly to technological transformations [4].

Joseph Schumpeter, in his “innovation economy” concept, describes small businesses as the “engine” of economic development. He introduces the idea of “creative destruction,” arguing that new small businesses revive the economy by renewing old structures. This approach presents small businesses not only as economic agents but also as drivers of systemic reform and renewal. It is suggested that in developing countries, small businesses should be key participants in new economic models [5].

Julian Birkinshaw believes that fostering a culture of “internal initiative” in small businesses enhances sustainability. He emphasizes that encouraging new ideas within the enterprise, autonomy, quick decision-making, and informal leadership are key strengths of small businesses. This approach highlights the role of organizational culture, leadership, and initiative in ensuring resilience. If a positive internal climate is created, small businesses can better withstand competitive pressures [6].

International organizations identify the following factors as critical for ensuring the sustainability of small businesses: financial inclusion – easy access to credit; digital infrastructure – access to technological tools and the internet; adaptation to the green economy – operating in compliance with environmental standards; gender equality – support for women entrepreneurship. These factors help small business entities become more adaptable to the modern environment. Digital transformation and integration into green technologies are especially pressing in developing countries.

A.V. Babkin assesses small businesses as a flexible element that maintains balance in the economic system. According to him, during economic crises, small firms adapt faster than large enterprises and create economic “light zones.” This is particularly relevant in regions with weak economic stability. Through flexibility and low-cost production, small businesses can become a tool for overcoming crises [7].

L.N. Abalkin describes small businesses as a stabilizing component of a market economy. He characterizes their role as a “flexible market structure capable of responding to local needs.” This approach regards small businesses not just as income-generating units but also as structures capable of quickly restoring market mechanisms in the economic system [8].

D.T. Dlimbetov identifies management culture as a key internal factor influencing the sustainability of small businesses. He criticizes the underdeveloped management experience, marketing strategies, and business planning in small firms. This problem



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is widespread across regional economies and highlights the need to strengthen professional training, consulting services, and government support [9].

A.M. Aganbegyan points to excessive bureaucracy and legal ambiguities in tax regulations as major external barriers to small business development. He states that excessive state intervention pushes small businesses toward informal activity. This issue is especially relevant in developing countries, where the risk of expanding the "shadow economy" increases [10].

V.V. Radaev emphasizes the importance of "social capital" – trust, network relationships, and social culture in the business environment – in ensuring the sustainability of small businesses. He argues that without cooperation among small enterprises, sustainability cannot be maintained. This is directly linked to the low level of clustering and cooperation, highlighting the need for the state to promote collaborative clusters [11].

M. Baymuratov suggests that enhancing export orientation is key to increasing the sustainability of small businesses. He emphasizes the importance of foreign currency earnings, market access, and technological updates for exporters. Overreliance on the domestic market negatively affects small business growth. Therefore, expanding access to grants, trade fairs, and digital trade platforms is essential [12].

A.Kh. Khojayev highlights the regional economic development role of small businesses, stressing the importance of local infrastructure, transport-logistics systems, and energy supply for their sustainable operation. He advocates for a differentiated approach to eliminate regional disparities. In areas with insufficient infrastructure, the sustainability of small businesses tends to be low, making regional equality a priority in state policy [13].

B.K. Ergashev considers financial stability a major internal factor for small businesses. He points out that limited access to credit resources, poor cash flow management, and lack of investment hinder sustainable development. Financial issues constrain both short- and long-term planning, while high interest rates and strict collateral policies reduce financial security [14].

N. Khudaybergenov identifies underdeveloped human capital and low personnel capacity as critical internal factors affecting the sustainability of small businesses. Many enterprises struggle due to a shortage of qualified managers and specialists. Highly skilled personnel are essential for introducing technologies, maintaining



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competitiveness, and applying innovations. Therefore, retraining staff, mentoring, and developing management practices are important [15].

International organizations note that climate change, digital transformation, gender equality, and financial inclusion are increasingly impacting the sustainable development of small businesses. These issues are also relevant in developing countries, where limited access to digital infrastructure, underdeveloped women's entrepreneurship, and delayed adaptation to the green economy are key challenges. Thus, the concept of sustainability must be reconsidered in light of modern demands and threats [16].

In conclusion, the sustainable development of small business entities is a complex and multifaceted process that is closely linked to internal resources (financial management, human capital, management) as well as external factors (legal environment, infrastructure, state policy, and foreign economic relations). Each approach has analyzed one or more of these factors in depth, creating a solid scientific foundation for studying this topic on a broad scale.

## **DISCUSSION AND RESULTS**

Small business is considered a crucial pillar of socio-economic development. The operation of small business entities under the influence of internal and external factors is of great importance in ensuring the sustainable growth of a country's economy. Therefore, attracting investments to equip small businesses and entrepreneurial entities with modern technology and equipment, establishing new enterprises, and producing competitive and export-oriented products that meet market demand are among the key conditions for sustainable development.

Among internal factors, access to financial resources, management capacity, innovation activity, and employee qualifications play a significant role in small business development. External factors, including investments, stability of the legal environment, state support, market conditions, and economic infrastructure, have a direct impact on the development of small business entities.

In the context of Uzbekistan, the 2025 socio-economic development program outlines goals such as the absorption of \$3.1 billion in investments, implementation of hundreds of investment projects, increased employment, and expansion of export volumes. President Shavkat Mirziyoyev has issued instructions to implement modern



infrastructure projects and increase employment and income levels as part of efforts to ensure the sustainable development of small businesses.

From this perspective, analyzing the internal and external factors affecting the sustainable development of small business entities, identifying existing problems, and developing effective measures are of great importance in ensuring economic stability, creating new jobs, and increasing household incomes.

The interaction between internal and external factors is critical for the sustainable development of small businesses. Internal factors — such as managerial competence, financial resources, innovation activity, and human capital — define the internal capacities of a business. External factors include investments, the legal environment, state support, and market conditions. The table below provides a detailed analysis of these internal and external factors and their impact on the sustainable development of small businesses.

**Table 1 Internal and External Factors Affecting the Sustainable Development of Small Businesses**

Factor Group	Factors	Definition, Analysis and the Situation in Uzbekistan
Internal factors	Management and Workforce Qualifications	Many small entrepreneurs in Uzbekistan lack sufficient skills in business management, which hinders development. Trainings are being organized by both government and non-governmental organizations, but the coverage is insufficient.
	Innovative Activity and Technologies	Bank loans are often difficult for small businesses to access due to high interest rates. There is a need to expand microfinance institutions. Government grants are available, but they are limited.
	Financial Resources	Bank kreditlari ko‘pincha kichik biznes uchun qiyin, foizlar yuqori. Mikrofinans tashkilotlarini kengaytirish lozim. Davlat tomonidan ajratiladigan grantlar mavjud, ammo cheklangan.
	Entrepreneurship and Social Capital	Mutual trust and cooperation in the small business sector are underdeveloped. The number of cooperatives and clusters is increasing, but they are unevenly distributed across regions, leading to isolation.
	Internal Management System and Business Planning	The culture of business planning is weak. Many entrepreneurs work with short-term goals, which complicates long-term sustainability.



External Factors	Legal and Tax Environment	Reforms are being implemented in the tax system, but the burden remains high for small businesses. Bureaucracy and the complexity of obtaining permits discourage entrepreneurs. Uncertainties often push businesses toward informal activity.
	Government Support	The government is developing programs to support small businesses. There are preferential loans, grants, and training programs available, but their effectiveness varies across regions.
	Market Conditions and Competition	The domestic market is large enough for small businesses, but competition differs by sector. There are broad opportunities in agriculture and service industries. However, some sectors exhibit monopoly-like conditions.
	Export Opportunities	The export potential of small businesses is low. There are few competitive products, and support for international marketing and logistics is weak. The government needs to provide more support for export-oriented small businesses.
	Economic and Financial Environment & Crisis Resilience	The country's economic stability creates a favorable environment for small businesses. Government support during the pandemic was crucial, but overall resilience to crises remains low.

In the context of Uzbekistan, the sustainable development of small business entities largely depends on internal factors, particularly the need to improve management skills and innovative capacity. At the same time, further simplification of state policy and legislation, and reduction of bureaucratic barriers encourage legal business activity.

Expanding the system of financial support and creating favorable conditions for small businesses are also essential. In particular, to enhance export opportunities, it is necessary to strengthen public-private partnerships and promote the production of competitive products for the international market.

In addition, improving cooperation among small businesses and increasing social capital can enhance their stability. This can be achieved through the formation of clusters, cooperatives, and business networks.

Overall, the internal and external factors influencing the sustainable development of small business entities are closely interrelated, and their balance and effective



management are crucial. Internal factors—such as management capacity, financial resources, and innovation activity—determine business growth and competitiveness. External factors—such as investments, the legal environment, state policy, and market conditions—play a significant role in strengthening the stability of small businesses.

In Uzbekistan, a comprehensive analysis of these factors and the development of appropriate measures can significantly improve the competitiveness of small businesses, ensure economic stability, and create new jobs. Therefore, improving the support system for small businesses, taking into account both internal and external factors, can make a substantial contribution to the sustainable development of the national economy.

## **CONCLUSION**

The findings of the study show that the sustainable development of small business entities depends on the coordinated interaction of internal and external factors. Internal factors such as management skills, financial resources, the introduction of innovations, and workforce qualifications determine the growth potential of small businesses. External factors such as the volume of investments, the legal environment, government support, and economic and market conditions are key in ensuring the sustainability of small businesses.

In Uzbekistan, improving both internal and external factors that affect the development of small businesses can help ensure economic stability, create new jobs, and increase export potential. Therefore, comprehensive support for small business entities is essential for the rapid development and competitiveness of the national economy.

## **RECOMMENDATIONS**

1. *Expand the financial support system:* Meet financial needs by developing systems of preferential loans, subsidies, and grants for small businesses.
2. *Improve workforce qualifications:* Strengthen internal capacity through entrepreneurship and management training programs and courses.
3. *Promote innovation:* Develop infrastructure and consulting services to encourage the widespread adoption of new technologies and innovative solutions.



4. *Improve the legal and regulatory environment:* Adopt laws and regulations that simplify small business operations and reduce bureaucratic barriers.
5. *Enhance government support:* Develop small businesses through government programs, improve market infrastructure, and expand export opportunities.
6. *Attract investments:* Create favorable conditions for attracting domestic and foreign investments into small businesses.

If these recommendations are implemented, favorable conditions for the sustainable development of small businesses will be created, making a significant contribution to the overall growth of the national economy.

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