



## IMPROVING THE MECHANISMS FOR DEVELOPING THE INNOVATIVE ACTIVITY OF SMALL BUSINESS ENTITIES

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**Abstract.** *This article analyzes the theoretical, methodological, institutional, and practical foundations for improving the mechanisms that foster innovative activity in small business entities. The study argues that innovative activity should be interpreted not only as the creation of new products, but also as a comprehensive system of renewal in management, marketing, services, digitalization, logistics, and cooperation. The author identifies the major barriers slowing the introduction of innovation in small business, including limited financial resources, uneven regional development of innovation infrastructure, insufficient human capital competencies, high market risks, and the lack of a well-established link between science and production.*

**Keywords:** *small business, innovation, innovative activity, competitiveness, digitalization, cluster, financial mechanism, technology transfer, startup, innovation infrastructure.*

### Introduction

In the global economy, small business entities play an important role in creating jobs, supporting regional development, strengthening competitive market conditions, and increasing household incomes. However, in the modern economy, the sustainable growth of small business depends not only on traditional production or trade operations, but also on its ability to generate innovation, adopt new technologies, and adapt to rapidly changing market conditions. In this sense, innovative activity is not only an internal driver of small business development, but also an important instrument for diversifying the national economy, replacing imports, expanding export potential, and increasing the share of high value-added products.

The development of innovative activity in small business entities is usually more complicated than in large corporations. Small enterprises often face limited investment volumes, the absence of dedicated research units, a low capacity to absorb risks, and insufficient access to external market information. At the same time, small business possesses important advantages, such as rapid decision-making, quick product renewal, adaptability to local needs, and the ability to transform entrepreneurial initiative into real economic.



outcomes. Therefore, the essence of the issue lies not in the absence of innovative potential in small business, but in the insufficient maturity of the mechanisms that activate this potential.

In economic literature, the concept of innovation has a multidimensional meaning. It is appropriate to interpret it not merely as the process of invention or the creation of new technology, but as the practical implementation of novelty that generates value. In the Schumpeterian tradition, innovation is viewed as a source of economic development through new combinations, while in modern approaches it is explained as the result of interaction among market demand, technology, management, and the institutional environment. Therefore, for small business, innovation means not only a new product, but also a new business model, a new service format, a digital sales channel, the streamlining of production processes, or the occupation of a new position within a cooperative value chain.


A distinctive feature of innovative activity in small business is the contradiction between high adaptability and limited resources. On the one hand, a small enterprise is generally less burdened by bureaucratic obstacles than large structures, internal decision-making is faster, and sensitivity to market signals is higher. On the other hand, it has fewer resources needed for innovation, such as finance, modern technology, research capacity, highly qualified personnel, and legal consulting. Therefore, the effectiveness of small business innovation largely depends on how supportive the external environment is, including state policy, infrastructure, the financial market, the education system, and cooperative linkages.

### **Priority Directions for Improving the Mechanisms of Innovative Development**

Improving the mechanisms for developing innovative activity in small business entities first of all requires making the institutional and legal environment more stable and incentive-based. In this regard, the mere existence of a legislative framework is not sufficient; what matters is that the rules be clear, practical, and predictable for entrepreneurs. Simplifying the registration of innovative projects, licensing and certification procedures, strengthening intellectual property protection, and enhancing legal guarantees for the commercialization of scientific developments are central tasks in this direction.

The second priority direction is the **diversification of financial and economic mechanisms**. Support for innovation should not be limited solely to bank credit. Grants, targeted subsidies, tax incentives for innovative enterprises, leasing instruments, guarantee funds, startup financing, and partnership schemes that attract private investment should form a complementary system. For these financial mechanisms to be effective, their criteria must be transparent, the selection process open, and monitoring continuous.

The third direction is the **regional expansion of innovation infrastructure**. Business incubators, accelerators, technoparks, prototyping centers, standardization and certification laboratories, and consulting and marketing services should be developed not only in a few central locations, but distributed across economically active territories. Regional infrastructure reduces the transaction costs for entrepreneurs at the entry stage of innovation. For example, if the process from project idea to prototype preparation, testing, market launch,



and connection to export channels is organized on the basis of a “single innovation service chain,” the readiness of small business to innovate will increase significantly.

The fourth direction is the **formation of a digital ecosystem**. Digitalization popularizes innovation not only in the IT sector, but also in traditional industries. Through e-commerce, CRM and ERP systems, online payment and logistics platforms, data analytics, digital marketing, cloud services, and e-government services, small businesses can make internal processes more efficient and transparent. At the same time, integrating finance, education, certification, consulting, and export services through digital platforms accelerates the diffusion of innovation.

The fifth direction is the **strengthening of human capital and entrepreneurial competencies**. Innovation support programs often focus on the technical side, but for small business, skills in innovative thinking, project management, financial planning, market research, branding, and intellectual property management are equally important. Therefore, it is necessary to establish short modular programs, mentoring networks, and sector-specific training systems with the participation of educational institutions, business associations, and practical learning platforms.


The sixth direction is the **development of cooperation and cluster mechanisms**. Small businesses often find it difficult to innovate independently. If they are connected within a chain involving large enterprises, suppliers, universities, logistics companies, service providers, and export operators, the economic efficiency of innovative activity becomes much higher. The cluster approach makes it possible to use resources jointly, exchange knowledge, and reduce market entry costs.

At the first stage, the entrepreneur’s innovation needs are identified: product renewal, process optimization, introduction of digital solutions, export entry, or expansion of cooperation. At the second stage, a package of resources corresponding to these needs is formed: credit, grants, consulting, personnel training, laboratory services, patent advice, and digital services. At the third stage, infrastructure and partner entities are involved for project implementation. At the fourth stage, market entry and commercialization mechanisms are launched. At the fifth stage, results are monitored, and financing and support instruments are readjusted.

The advantage of this model is that it sees innovation not as a one-time action, but as a cyclical and manageable process. If a monitoring system regularly evaluates indicators such as product renewal, production cost, labor productivity, customer segments, export volume, and revenue from digital channels, then support mechanisms will also become more targeted and effective.

If monitoring is established on the basis of these criteria, programs promoting innovative activity will serve not short-term reporting goals, but long-term economic transformation. This, in turn, creates the opportunity to turn small business into a stable point of economic growth.





**Conclusion :** In conclusion, improving the mechanisms for developing innovative activity in small business entities is a strategic task in the conditions of the modern economy. For small business, innovation is not merely technical renewal, but a comprehensive means of modernizing management, adapting to the market, diversifying products and services, and increasing value added.

The findings of the study show that the factors constraining innovative activity manifest themselves in the spheres of finance, infrastructure, personnel, information, and cooperation. Therefore, innovation support must not be one-dimensional; rather, it should be implemented through the interconnected development of institutional-legal, financial, digital, educational, and cluster mechanisms. The most suitable model for small business is not resource-oriented, but result-oriented: an integrated mechanism supported by monitoring and market linkages.

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