



FACTORS HINDERING ENTREPRENEURSHIP DEVELOPMENT AND MECHANISMS FOR ELIMINATING THEM

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Abstract. *This paper explores the multidimensional barriers that constrain entrepreneurship development and proposes practical solutions for improving the entrepreneurial ecosystem. It argues that entrepreneurship is shaped not only by the motivation of individual business owners but also by the quality of institutions, access to finance, innovation capacity, workforce skills and the depth of market linkages. A sustainable policy response should therefore combine micro-level capability building with meso- and macro-level reforms.*

Keywords: *entrepreneurial ecosystem, financial inclusion, innovation, human capital, market integration, business resilience*

Introduction

Entrepreneurship is widely recognized as a mechanism for structural transformation, job creation and social mobility. Yet in many developing and transitional economies the growth of entrepreneurial activity remains below its potential. The gap between entrepreneurial intention and entrepreneurial success is often explained by a set of constraints that affect business creation, survival and scaling. These constraints operate across different levels of the economy and should therefore be studied as parts of an ecosystem rather than as isolated technical problems.

A narrow view of entrepreneurship focuses on the individual founder, assuming that persistence and creativity are sufficient for business growth. In reality, however, enterprise performance depends on a broader institutional environment that shapes incentives, transaction costs and access to productive resources. Where regulations are inconsistent, financing is limited, infrastructure is unreliable or market connections are shallow, entrepreneurial energy cannot easily be converted into durable economic value.

The purpose of this article is to identify the major barriers to entrepreneurship development and to formulate a coherent set of policy and managerial responses. The paper uses analytical generalization, comparative reasoning and practice-oriented interpretation of entrepreneurship support mechanisms.



1. Institutional quality and the cost of doing business

Institutional quality determines how easily a potential entrepreneur can enter the market, formalize activity and interact with regulatory agencies. When procedures for registration, licensing, reporting and inspections are time-consuming or poorly coordinated, the cost of compliance increases substantially. Such conditions discourage formal entrepreneurship and may push some actors toward informality, where businesses remain small, vulnerable and disconnected from long-term finance.

Another dimension of institutional quality concerns predictability. Entrepreneurs invest when they are able to estimate future obligations and business risks with reasonable confidence. Frequent changes in administrative requirements, inconsistent enforcement or opaque interpretation of rules make business planning difficult. For small firms with limited reserves, uncertainty itself becomes a barrier comparable to direct financial cost.

Improving institutional quality does not necessarily require reducing the role of the state. Rather, it requires redesigning the relationship between the entrepreneur and public administration. Digital services, interoperable databases, one-stop service centers and risk-based supervision can preserve accountability while lowering the procedural burden on firms.

2. Finance, liquidity and asymmetric access to growth capital

Access to finance remains one of the most persistent obstacles to entrepreneurship development. Early-stage firms often have limited collateral, short credit histories and weak accounting systems. As a result, lenders perceive them as risky and either reject applications or provide financing on expensive terms. This is particularly problematic for enterprises that need working capital to maintain cash flow before revenues stabilize.

The challenge is not only the availability of funds but also the mismatch between financial products and business models. Standardized loans are often ill-suited to seasonal production cycles, project-based services or innovative firms with intangible assets. A business may have strong growth potential but still fail to qualify under conventional banking criteria because its value lies in ideas, digital assets, contracts or future market positioning rather than in physical collateral.

A more inclusive financial architecture should combine bank lending with microfinance, leasing, factoring, credit guarantees, angel investment and phased support for start-ups. Equally important is financial capability. Entrepreneurs need to understand pricing, cash-flow management, debt discipline and investment planning; otherwise, access to funding may increase exposure to risk instead of improving resilience.

3. Infrastructure, innovation capacity and market access

Entrepreneurship grows where infrastructure reduces the cost of production and exchange. Reliable electricity, transport connectivity, storage facilities, digital networks and payment systems are not peripheral conveniences; they are core conditions for enterprise competitiveness. Weak infrastructure forces firms to allocate excessive resources to coping strategies rather than innovation, quality improvement or market expansion.

Innovation capacity is another decisive factor. Many small firms operate with limited technology adoption and minimal exposure to research-based solutions. Without links to universities, laboratories, incubators or technology transfer channels, they struggle to move from routine production to differentiated, higher-value activities. This confines businesses to low-margin segments and makes them highly sensitive to external shocks and price competition.

Market access problems reinforce these limitations. Entrepreneurs may produce acceptable goods or services but still fail to identify target customers, adapt products to demand, build brands or enter broader distribution channels. Digital marketplaces and export platforms can help, but only if firms possess the skills and information necessary to use them strategically.


Table 1. Major barriers to entrepreneurship and policy-response logic

No.	Barrier	Typical consequence	Recommended response
1	Regulatory complexity	Delayed market entry, higher compliance costs	Digital procedures, one-stop services, coordinated regulation
2	Weak access to finance	Low investment capacity and unstable cash flow	Credit guarantees, diversified finance, financial literacy programs
3	Infrastructure gaps	High logistics cost and reduced service reliability	Targeted infrastructure investment and cluster-based support
4	Low innovation capacity	Dependence on low-value activities	Incubators, university-business cooperation, technology extension
5	Limited market integration	Weak sales growth and poor scalability	Market intelligence, branding support, e-commerce and export mentoring

4. Human capital, managerial capability and entrepreneurial culture

Even in a supportive ecosystem, businesses require capable people to convert opportunities into outcomes. Human capital constraints appear in several forms: shortage of technically skilled workers, weak managerial competence, low productivity discipline and insufficient experience in strategic planning. In small firms one person often combines multiple roles, from operations to marketing and finance, which creates overload and weakens decision quality.





Entrepreneurial culture also matters. Sustainable entrepreneurship is not simply the pursuit of quick profit; it involves disciplined experimentation, contractual responsibility, customer orientation, learning from failure and investment in long-term reputation. Where entrepreneurial culture is underdeveloped, firms may prioritize short-term turnover over systems, standards and innovation. This undermines business durability.

Therefore, entrepreneurship support should not be limited to subsidies or tax relief. Training systems must become more practice-based. Mentoring, peer-learning networks, sector-specific bootcamps, business clinics and incubator programs can strengthen managerial capability more effectively than purely theoretical courses.

5. Integrated solutions for a resilient entrepreneurial ecosystem

The most effective response to entrepreneurship barriers is an integrated ecosystem strategy. At the macro level, governments should improve regulatory clarity, ensure policy continuity and invest in infrastructure. At the meso level, business associations, incubators, banks, training centers and local authorities should create accessible support channels. At the micro level, entrepreneurs must professionalize management practices and adopt digital and financial tools more systematically.

An ecosystem approach also changes the way success is measured. Instead of counting only the number of newly registered firms, policymakers should examine survival rates, productivity growth, export readiness, innovation uptake, tax discipline and the capacity of firms to move up value chains. Such metrics reveal whether support measures merely increase the quantity of business activity or actually improve its quality.

Finally, entrepreneurship policy should be territorially sensitive. Barriers differ across regions depending on infrastructure, sector specialization, labor markets and market proximity. Tailored interventions are therefore more effective than fully standardized programs. What a rural agro-processing business needs is not always what a digital service start-up in a city requires.

Conclusion: Barriers to entrepreneurship development are systemic and mutually reinforcing. Regulatory friction, restricted access to finance, infrastructure weaknesses, low innovation capacity, limited market integration and human-capital constraints collectively reduce the probability that firms will survive and scale.

Overcoming these barriers requires more than isolated policy tools. It calls for a coordinated agenda that combines institutional reform, diversified financing, innovation support, infrastructure development and practical capability building for entrepreneurs and managers.

When such measures are aligned, entrepreneurship can become not only a source of self-employment but also a driver of productivity, competitiveness and inclusive economic development.





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