

DIRECTIONS FOR THE FORMATION OF A SMALL AND MEDIUM BUSINESS STRATEGY IN THE DIGITALIZATION OF THE NATIONAL ECONOMY

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Annotation

The article is researched by the strategic potential of small and medium-sized businesses in the numbering of market economy. The direction of strategy formation for small and medium enterprises is studied in accordance with the strategic potential of the regional economy. Development trends in small business in Uzbekistan are analyzed, and comments on the formation of appropriate strategies.

Keywords

National Economy Numbering, Mortgage, Small Enterprise, Medium Enterprise, Management Strategy, Strategic Maintenance Tools, Valiistic Cycles of Companies.

Introduction

In today's global economic environment, digitalization processes have become a decisive factor for the sustainable development of national economies. The ongoing digital transformation in the world economy is opening new opportunities not only for large corporations but also for small and medium-sized enterprises (SMEs). In particular, the integration of digital technologies into entrepreneurial activities plays a vital role in increasing production efficiency, expanding access to markets, and strengthening competitiveness.

A new stage of economic growth on a global scale – the era of the digital economy – has begun. This process, based on digital technologies, artificial intelligence, the Internet of Things, cloud computing, big data, and other innovative solutions, serves to increase efficiency in all sectors and to create new value chains. Digitalization processes play a crucial role in making national economies competitive and ensuring their sustainable development.

In recent years, the Republic of Uzbekistan has adopted a number of regulatory and legal documents to develop the digital economy. In particular,

initiatives such as the “Digital Uzbekistan – 2030” strategy, the “Electronic Government” system, the “Single Interactive State Services Portal,” and the “Digitalization of Tax and Customs Data” aim to strengthen the institutional foundations of digital reforms. Within these reforms, the role of small and medium-sized enterprises is steadily increasing.

Small and medium-sized enterprises are an important dynamic force in any national economy. This segment plays a critical role in ensuring employment in the labor market, mobilizing local resources, implementing innovations, expanding the tax base, and maintaining social stability. In Uzbekistan, SMEs hold a significant share of the gross domestic product and play a crucial role in strengthening the country’s economic potential.

At the same time, digitalization processes bring not only new opportunities but also a range of challenges and risks for SMEs. These include insufficient digital literacy, intensified competitive environments, regional disparities in digital infrastructure, and limited access to investment resources. In such conditions, it becomes an urgent task to deeply analyze the digitalization process in the national economy and to develop optimal and long-term strategic approaches for SMEs.

When exploring business opportunities in the modern digital market economy, it becomes evident that they can be realized through the use of a professionally competent approach. The emergence of the “World Wide Web” and the resulting development of e-commerce have enabled the execution of goods and services transactions, not only altering products and their value but also transforming entire company business models and facilitating information exchange among economic entities.

However, in a highly competitive environment, unique business ideas alone are not enough in the field of digital prospects for businesses. An essential tool for ensuring the long-term sustainability of companies is the implementation of a strategic management system in the daily operations of small and medium-sized businesses, as well as the development and execution of a strategy. Despite the indisputable importance of applying a strategic approach in business management, this method is mainly used by large companies. Representatives of medium and small businesses generally have only a basic understanding of the process of formulating and implementing a strategy. The main reasons for not applying strategic management are also related to the interpretation of the concept of “strategy.” Despite the abundance of definitions of strategy, it can be generalized as a detailed, comprehensive plan of a company based on situational analysis of the impact of internal and external factors, aimed at forming unique long-term competitive advantages.

A “detailed plan based on situational analysis...” implies the necessity of conducting high-quality global strategic research.¹³⁶

Thus, small businesses generally lack sufficient financial, time, and human resources to carry out strategic management effectively. In addition, the gradual digital transformation of a company through the implementation of digital technologies – which contributes to building competitive advantages “for tomorrow” – is becoming increasingly relevant¹³⁷.

The process of digital transformation is facilitated through the development of a digital strategy. However, this innovative concept can be considered from at least two perspectives: first, as a plan for achieving a company’s digital transformation, and second, as a plan for achieving company goals through the implementation of digital technologies. In the first case, transitioning the business to a digital format becomes the primary objective, whereas in the second case, digital technologies function as a tool to achieve established goals.

Despite this inconsistency in defining a digital strategy, scholars regard both interpretations as valid, since the gradual and continuous implementation of digital technologies in a business delivers significant economic benefits and ultimately leads to the complete transformation of the enterprise. If the essence of a digital strategy is considered from these two interpretations, then in the first case, the digital strategy acts as the company's overall corporate or business-level strategy; accordingly, lower-level strategies such as competitive, functional, and tactical strategies are unified by the single goal of digitalization.

The second interpretation implies that digitalization is implemented at the level of specific structural divisions or at the functional strategy level within the company – for example, in terms of marketing, customer acquisition, or the optimization of production processes. Despite the inconsistency in defining a digital strategy, scholars consider both concepts valid, as the continuous and gradual integration of digital technologies into business operations produces significant economic results, ultimately resulting in the full transformation of the business.

Choosing between these options depends on:

- awareness of the need for digital transformation in the business;
- the planning horizon for the strategy;

¹³⁶ □ Golikova, G.V., Lomanova, Yu.M., & Brazhnikov, S.A. (2019). *Comparative Analysis of Assessing a Company's Digital Maturity*. Financial Economics, No. 12, pp. 553–557.

□ Zolotukhina, Yu.V., Adamenko, A.A., & Kryzhanovskaya, O.A. (2021). *Identifying the Competencies of Participants in Information Interaction in the Digital Economy*. In: *Research of the Innovative Potential of Society and the Formation of Directions for its Strategic Development*. Proceedings of the 11th All-Russian Scientific and Practical Conference with International Participation. Editorial Board: M.G. Klevtsova (Editor-in-Chief). Kursk, pp. 223–229.

¹³⁷ Ansoff, I. (1989). *Strategic Management*. Moscow: Ekonomika. 563 pages.

- the company's resource capabilities;
- whether the business belongs to the SME sector or to large enterprises;
- the level of impact and risks associated with digitalization for the entire business.

Analysis of the Literature on the Topic

A logical question arises regarding the formation of a company's strategy: is it truly necessary to develop a growth strategy for small and medium-sized enterprises (SMEs), and under the conditions of regional economic digitalization, which practical approaches are more applicable for developing such companies? To answer this question, it is necessary to review existing strategies for SMEs, analyze the standard structure of strategies, exclude activities that are infeasible for SMEs, and determine the direction for shaping a "small" strategy that considers digitalization.

It should be noted that, compared to standard approaches to strategic management, there is a relatively small number of studies specifically devoted to the strategic management of SMEs. These studies generally focus on applying the general principles of long-term management, taking into account the individual capabilities and resource potential of each company. According to F. Analoui and A. Karami, the formation of an SME strategy includes the following stages:¹³⁸

1. Analyze the external and internal environment of the business:

- External environment analysis (PEST analysis);
- Analysis of the main characteristics of the industry: competition analysis, identification of strategic groups, and determination of key success factors (KSFs) using Porter's Five Forces model;
- Analysis of strengths, weaknesses, opportunities, and threats (SWOT analysis);
- Analysis of company resources.

2. Define the company's vision, mission, and objectives.

3. Choose a competitive strategy:
Focus on differentiation, segmentation, cost focus, or cost leadership (depending on feasibility for SMEs).

4. Define the SME's corporate strategy – determine the business scope: Specialization and diversification, internationalization, and vertical integration/subcontracting system.

5. Strategy implementation process:
Include the following elements: organizational structure, management, human

¹³⁸ Adamenko, A.A., & Mikhalev, I.I. (2023). *Strategy of Digital Transformation of an Organization*. Natural and Humanitarian Studies, No. 45 (1), pp. 10–16.

resources, management of organizational structure, and budgeting. An alternative is to use the McKinsey 7S model.

Based on the type of SME strategy, the following classifications are distinguished in economic literature:

1. By degree of independence from large firms:
 - Independent (sovereign)
 - Dependent (symbiotic)
2. By operational tactics:
 - Imitation strategy (product or entire business model)
 - Strategy of using the advantages of large firms (franchising, licensing, agency)
 - Participation in large firms' products/subcontracting
 - Optimal scale strategy (small-scale, niche markets not attractive to large companies)

Based on the characteristics of SMEs and the specific approaches to strategic management in this sector, the authors propose the following roadmap for developing an SME strategy in the context of digital transformation of the economy:

1. The content of strategic management in SMEs depends on the stage of the company's current life cycle, its category, its capacity for expansion, and its potential to move into higher categories. Therefore, the following planning horizons are recommended:

- For microbusinesses, due to the lack of significant resources needed for strategy development, it is recommended to apply operational planning for a period of 1 year, but with a mandatory plan to increase the resources necessary for implementing strategic management.

- For small businesses, a planning horizon of up to 3 years is appropriate.
- For medium-sized businesses, a planning horizon of 3 to 5 years is recommended.

2. The stages of strategy development essentially remain unchanged:

- Analyze factors influencing the business;
- Define goals and plans;
- Select strategic alternatives;
- Implement the strategy and adjust actions as necessary.

3. Strategic tools for analyzing the external and internal environment (the depth of analysis depends on the degree of external factors' impact on the business) include:

- PEST analysis;

- Competition analysis;
- Analysis of key success factors in the industry and evaluation of the company's position relative to these KSFs;
- SWOT analysis (assessing strengths and weaknesses, focusing actions only on the most critical aspects);
- Analysis of digital threats and opportunities;
- Resource analysis for the following elements: finance, customer relationship system, product, employees (structure and competencies), production, corporate culture, key partners, and management system.

4. Define the company's vision and mission:

- Identify the desire and ability to go beyond the current state, the SME's category, intentions to expand, projected dates for transitioning to other business categories, and clarify the company's future.
- Develop key objectives for a specific period based on company size (using the balanced scorecard framework): finance, customers, product, employees and competencies, level of digitalization.

5. Choose the strategy according to its type:

- a) Corporate strategy: according to the level of independence from other companies (sovereignty or symbiosis); according to operational tactics (imitation, leveraging advantages of large companies, optimal scale, participation in product); and by development stage (growth, stability, decline).
- b) Competitive strategy: marketing strategy (cost reduction, differentiation, focus); digitalization strategy (selecting the area of focus: product or customer).
- c) Functional strategy: action plan for each structural division according to each goal element.

6. Strategy implementation:

- Break down objectives, develop KPIs, create a reporting and control system, select tools, and adjust actions as needed.

Research Methodology

The directions of digital transformation are defined, including creating and developing new business models, implementing a new approach to data management, and shaping the digital environment. The article demonstrates the features of using a process approach to strategic management of SMEs under market digitalization conditions. The principles for developing a company's digital strategy and digital transformation roadmap are aimed at analyzing the impact of changes arising from business development on achieving goals in the market digital environment. Matrix methods were used for this analysis, and the results of

internal monitoring of strategy implementation are reflected in rapid reporting based on the outcomes of strategy execution.

Analysis and Results

When studying the formation of SME strategies from the perspective of their capabilities and precise methodology, it is necessary to outline the key characteristics of SMEs. As of January 1, 2025, the number of active small businesses and microfirms was 3,581,000. In 2024, by type of economic activity, the largest number of small businesses and microfirms operated in trade (28,005), industry (12,889), other services (9,459), and agriculture, forestry, and fisheries (9,099).¹³⁹

In recent years, as a result of the implementation of resolutions and decrees issued by the President of the Republic of Uzbekistan aimed at supporting small business entities and qualitatively improving the business environment, a total of 445.4 thousand new small enterprises and microfirms were established during 2020–2024.

An analysis of the newly established enterprises and microfirms by sector shows that the largest number of new entities was in the trade sector – 169.5 thousand (38.1%), followed by the services sector with 111.7 thousand (25.1%), the industrial sector with 81.1 thousand (18.2%), agriculture, forestry, and fisheries with 57.2 thousand (12.8%), and the construction sector with 25.9 thousand (5.8%).

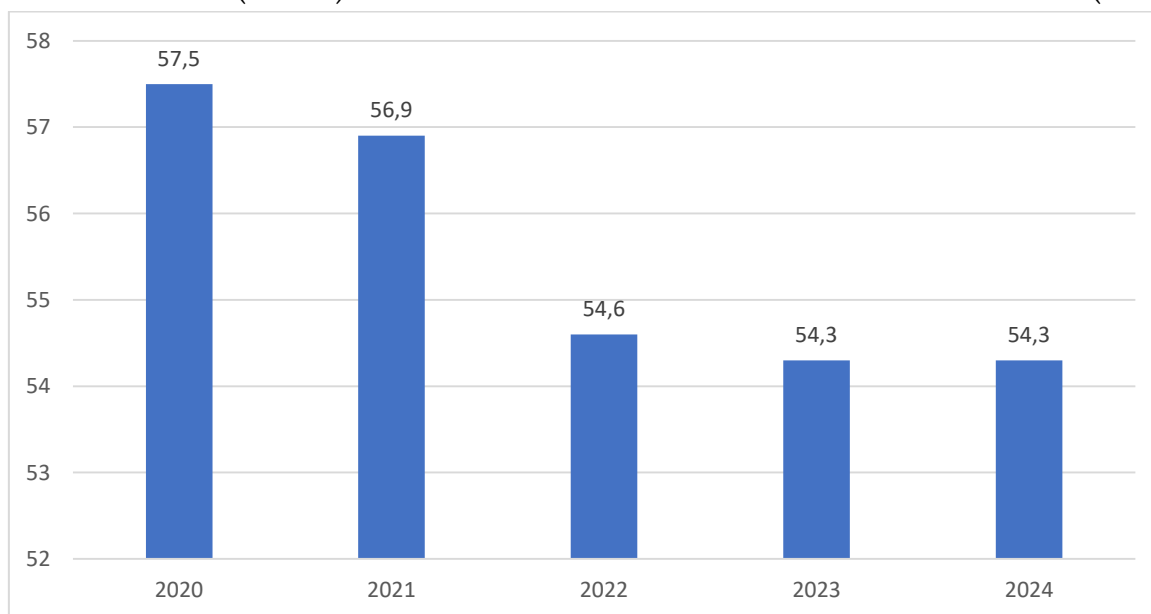


Figure 1. Dynamics of the share of small business entities in GDP

In 2024, the share of small business entities in GDP amounted to 54.3%, remaining unchanged compared to 2023 (Figure 1). By type of economic activity,

¹³⁹ Data from the State Committee of the Republic of Uzbekistan on Statistics under the President // www.stat.uz

the highest share of small business entities in GDP in 2024 was in agriculture, forestry, and fisheries – 95.8%; in construction – 78.4%; in services – 49.8%; and in industry – 25.9% (Table 1).

In 2024, by region, the highest share of small business entities in Gross Regional Product (GRP) was observed in Surkhandarya region at 77.8%, Jizzakh region at 74.4%, Namangan region at 73.4%, Fergana region at 73.1%, Bukhara region at 73.0%, Samarkand region at 72.3%, and Khorezm region at 72.3%.

Table

1.

Share of small business entities in GDP by type of economic activity¹⁴⁰

Economic activity types	2020	2021	2022	2023	2024
Agriculture, forestry, and fishing	96,6	96,5	95,6	95,4	95,8
Construction	79,8	78,4	77,9	80,2	78,4
Services	49,2	50,3	48,3	47,9	49,8
Industry	27,4	25,1	22,7	23,8	25,9

According to the data of the Statistics Agency of the Republic of Uzbekistan, the volume of retail turnover can be calculated based on the main indicators of the micro and small sector of the economy.

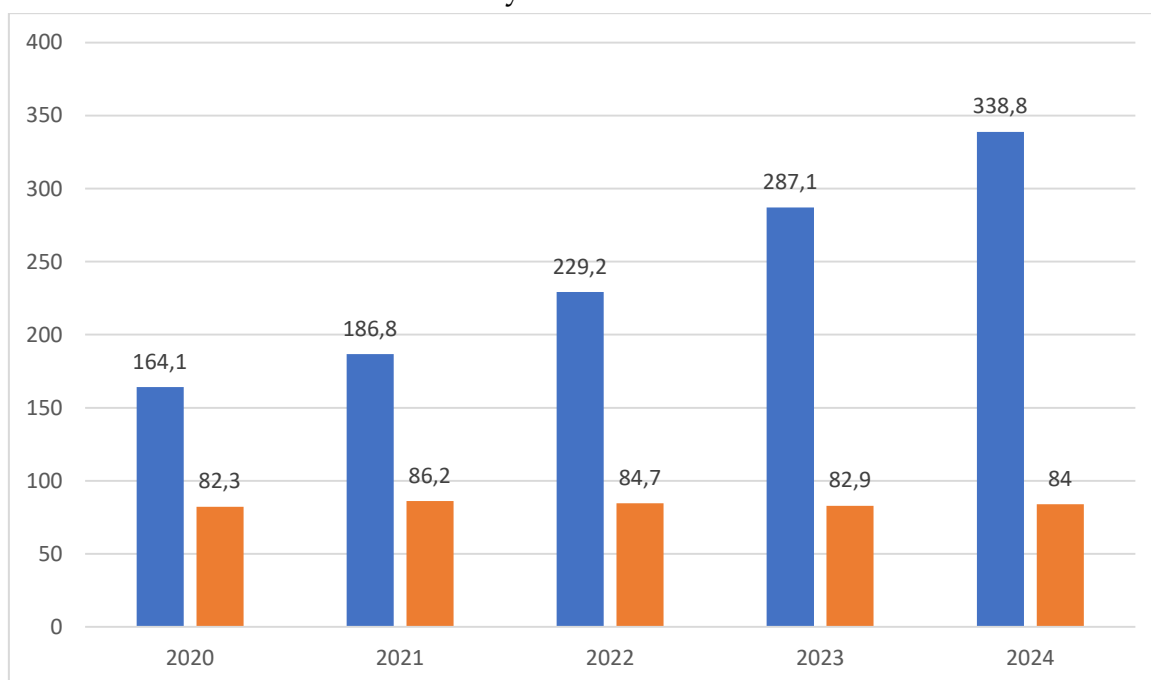


Figure 2. Volume of Retail Trade Turnover of Small Business Entities and Their Share in Total Turnover¹⁴¹

As shown in Figure 2, the retail trade turnover volume of microfirms and small enterprises amounted to 338,802.6 billion soums, accounting for 84.0% of the total retail trade turnover. In the fourth quarter of 2024, among small enterprises

¹⁴⁰ Data from the State Committee of the Republic of Uzbekistan on Statistics under the President // www.stat.uz

¹⁴¹ Data from the State Committee of the Republic of Uzbekistan on Statistics under the President // www.stat.uz

and microfirms participating in the survey, the highest share of businesses that assessed their economic situation as having improved over the next three months by type of economic activity was in trade (50.4%), construction (50.1%), and industry (49.1%) (Table 2).

Table2

Assessment of the Business Confidence Environment in the Fourth Quarter of 2024, in percentage¹⁴²

	Changes in the current period compared to the same period in 2023		
	Increase (improvement)	No change	Decrease (deterioration)
Total turnover of the company	42,5	47,6	9,9
Number of employees	25,6	67,8	6,6
Price for sold products (goods, works, and services)	36,6	58,3	5,1
Financial resources (own, credit, and borrowed funds)	28,6	65,9	5,5
Financial resources (own, credit, and borrowed funds)	39,5	56,5	4,0

In these companies, the likelihood and capability of applying strategic management is at the lowest level. Of course, medium-sized companies have greater financial and human resources, but such enterprises are statistically very few, and before becoming representatives of medium business, entrepreneurs typically need to start as a microfirm. That means the transition period from one category to another deprives the company of the opportunity to apply standard strategic management due to the above factors.

In addition, it should be considered that each entrepreneur, for subjective reasons, may not aim to grow from small to large business. A lack of understanding of the essence of digitalization often leads to the chaotic implementation of digital technologies, which do not produce the necessary transformational effect and result in high costs. Even companies that decide to switch to digital systems using a systematic approach face many difficulties, including:

- lack of necessary knowledge and skills by company management and unwillingness to change a time-tested business model;
- the existence of numerous software solutions on the market with multifunctionality, sometimes complex interfaces and configurations;

¹⁴² Data from the State Committee of the Republic of Uzbekistan on Statistics under the President // www.stat.uz

- ensuring continuity in the digitalization process, understanding that it is not a one-time action but a new economic reality;
- employee resistance to digital transformation due to fear of losing jobs and unwillingness to acquire new skills;
- insufficient free funds for studying, developing, and implementing new technologies.

At the same time, the lack of a clear transition strategy for digitalization is a consequence of the still undeveloped theoretical and practical foundations of new concepts and processes such as “organizational digitalization”, “digital strategy”, “digital competitiveness”, “business digital transformation”, and “digitalization of business processes”.

Let us consider that each stage corresponds to the classical model of company life cycle development, consisting of five stages depending on the SME type, as shown in Row 1 of the life cycle table. This implies systematic growth and transition from one stage to the next, simultaneously changing the SME classification category.

At the start-up stage, the organization usually has microenterprise status, with an annual turnover not exceeding 1 billion soums; the transition to the next stage takes about 1 to 2 years. In the next stage — growth — the company, within 2 to 5 years, reaches the level of a small business with revenues up to 10 billion soums. The maturity stage is implemented at the medium business level and lasts from 5 to 8 years. However, not all companies can reach the medium business level, and for various reasons, some may remain microenterprises throughout their operation.

Each stage of the life cycle has special features associated with the business category. For a newly established company, the main priority at the initial stage is to survive in tough competitive conditions, build a target audience, and offer a unique value proposition, which further contributes to growth. At the initial stage, the enterprise has a simple organizational structure; decisions are made by the owner; there is a lack of personnel, and employees often perform multiple functions simultaneously. Formulating a strategy is complicated by the lack of relevant competencies of the entrepreneur and employees, as well as financial constraints. Most efforts and resources are directed toward solving operational problems.

At the growth stage, the organizational structure expands, the business owner engages in strategic planning, part of their authority is delegated to middle managers, business processes and regulations are formed, active sales growth is observed, and there is almost no shortage of personnel. During the growth stage, the transition from microfirm status to small business status is expected.

However, even at the growth stage, the likelihood of implementing strategic management remains low because, as calculations show, the average number of employees in microfirms ranges from 1–10 people regardless of industry, while in small businesses it ranges from 11–100 employees in industry and construction, 11–50 in agriculture, and 11–30 to 50 in trade and services.

Conclusion

A company's maturity is characterized by stable sales, slowed growth, prompt control over core processes, the emergence of bureaucracy, and the presence of sufficient human and financial resources. At the peak of transitioning to the growth and maturity stages, a company has a real opportunity to develop and implement a strategy, but by then it must have built sufficient financial strength, attracted qualified personnel, and the owner must learn to delegate authority.

As a result, it can be concluded that SMEs, due to their specific characteristics, do not always have the resources to apply a strategic management approach. However, representatives of microbusiness, due to limited staff and revenues, should develop and implement an annual operational plan to achieve their goals, especially at the initial stage. In the context of digitalization, small and medium-sized entrepreneurs are paying special attention to implementing functional strategies for improving products during interactions with customers. In line with their management system's strategic potential, it is advisable to develop a roadmap for formulating small and medium business strategy.

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