

Improvement of the Mechanisms of Effective Use of Investments in Small Business Activities

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Abstract: Small businesses play a pivotal role in economic growth, yet they often face challenges in effectively utilizing investments, including poor financial planning, limited access to capital, and inefficient allocation of resources. Key findings reveal that financial literacy, strategic planning, and diversified funding sources significantly enhance investment efficiency. The paper proposes practical solutions, including adopting financial tools, fostering public-private partnerships, and promoting innovative funding mechanisms like crowdfunding. These strategies aim to empower small businesses, ensuring sustainable growth and resilience in a dynamic economic environment.

Key words: Financial management, funding mechanisms, strategic planning, economic growth, public-private partnerships, financial literacy, diversified funding, sustainable business development.



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INTRODUCTION

Small businesses are the backbone of most economies, contributing significantly to GDP and employment. However, their potential is often hindered by ineffective investment practices. Mismanagement of funds, lack of strategic planning, and insufficient knowledge of market dynamics are among the key challenges. This paper aims to identify and evaluate mechanisms that improve investment efficiency in small businesses, ensuring sustainable growth and profitability. According to Decree of the President of the Republic of Uzbekistan No. PF-5495 of 01.08.2018:

“It should be noted that in order to create the most favorable investment environment for attracting direct investments in the country, liberalization of the economy, reform of public

administration, limitation of interference in the activities of business entities, reduction of licensing and permitting procedures and wide-scale measures have been taken to simplify, provide free access to goods (works and services), as well as create the necessary infrastructure in the regions¹”.

LITERATURE REVIEW

“Nearly 80% of small business owners say their expenses have increased by 6% or more, according to Chase’s Midyear Business Leaders Outlook,” reported Yahoo Finance. “In response to higher costs, raising prices on products and cutting expenses top the list of ways entrepreneurs are trying to limit the effects.”

For many small businesses, inflation has eroded already thin profit margins. Mama Moore's Gourmet Popcorn Founder Debra Moore told Yahoo Finance that inflation has forced her to pay 200% more for some of her essential ingredients. Many are turning to additional financing to fuel growth and stay operational.²

The effective utilization of investments in small business activities is a focal point in contemporary economic research, given the sector's pivotal role in global economic development. Small and medium enterprises (SMEs) account for approximately 90% of businesses worldwide and contribute over 50% of employment opportunities ³(World Bank, 2023). However, literature consistently identifies a significant disparity in their capacity to mobilize, manage, and optimize investments compared to large-scale enterprises, primarily due to structural inefficiencies, resource constraints, and limited financial literacy.

Empirical studies underscore that small businesses often operate under financial fragility, exacerbated by restrictive credit policies, high transaction costs, and insufficient collateral ⁴(Beck, Demirgüç-Kunt, & Levine, 2018). This dynamic is particularly pronounced in developing economies, where the informal nature of many SMEs restricts access to formal funding channels. A meta-analysis by Murro and Peruzzi (2021) found that over 60% of small enterprises in emerging markets rely on informal financing, which often lacks the scalability and accountability required for long-term growth.

The inadequacy of financial literacy further compounds the issue. Osei-Assibey and Bokpin (2020) reveal that poor understanding of investment planning, financial forecasting, and capital allocation among small business owners significantly limits their ability to achieve optimal returns on investment (ROI). Moreover, fragmented market environments and volatility in demand cycles frequently lead to suboptimal investment utilization ⁵(Kang & Heshmati, 2019).

Emerging Mechanisms for Investment Optimization

Innovative financial instruments and technological interventions have emerged as potential solutions for enhancing investment efficiency in small businesses. A study by Zhang et al. (2021) highlights that small enterprises utilizing a blend of traditional and alternative funding sources—such as crowdfunding, angel investment, and venture capital—report an average 18% improvement in ROI. Digital financial management tools have also gained traction, with platforms such as QuickBooks and Xero enabling small enterprises to monitor cash flow, budget allocation, and profitability in real time (Barney, 2020).

¹ No. PF-5495 of the President of the Republic of Uzbekistan dated August 1, 2018

² <https://www.uschamber.com/co/start/strategy/biggest-small-business-challenges>

³ World Bank, 2023

⁴ Beck, Demirgüç-Kunt, & Levine, 2018

⁵ Kang & Heshmati, 2019

Role of Policy and Institutional Support

Governmental and multilateral interventions play a critical role in mitigating systemic barriers to investment efficiency. The European Union’s SME Instrument, which has allocated over €3 billion since its inception in 2014, exemplifies the effectiveness of structured financial support combined with mentorship and infrastructural access ⁶(European Commission, 2023). Similarly, public-private partnerships (PPPs) in regions like Southeast Asia have fostered an ecosystem of shared resources and technical support, contributing to a 25% increase in SME survival rates over five years⁷ (Ghatak et al., 2022).

Gaps in Literature

While significant progress has been made in understanding the barriers and solutions to investment efficiency in small businesses, existing studies often lack cross-sectoral and longitudinal perspectives. There is limited exploration of the intersection between digital transformation and investment practices, particularly in the context of artificial intelligence (AI) and blockchain technologies. Additionally, the heterogeneity of small businesses—spanning microenterprises to growth-oriented startups—necessitates a more granular analysis to tailor solutions effectively.



Figure 1. Small business index score 2020 Q4 – 2024 Q3

This quarter, the MetLife & U.S. Chamber of Commerce Small Business Index is 71.2, similar to last quarter’s score of 69.5, and with sentiments from this time last year (69.2).

Most survey measures are consistent with last quarter. Two in three small businesses continue to view their business as being in good health; this measure has hovered around 66% for most quarters dating back to Q2 2022. A similar share (68%) report feeling comfortable with their business’s cash flow—a slight, but not significant, shift from 73% last quarter and a return to attitudes from Q4 2023 and Q1 2024. A greater percentage of small businesses (48%) are negative about the national economy than positive (35%). And 38% rate the economy in their local area as good compared to those who believe their local economy is doing poorly (34%). Neither the cash flow nor local economy changes are statistically significant.

⁶ European Commission, 2023

⁷ Ghatak et al., 2022

⁸ <https://www.uschamber.com/sbindex/summary>

METHODOLOGY

This study adopts a rigorous mixed-methods research design to provide a multidimensional analysis of mechanisms for enhancing the effective utilization of investments in small business activities. By integrating quantitative and qualitative data, the methodology ensures both depth and breadth in addressing the research objectives.

Quantitative Approach

1. Data Collection:

A comprehensive survey was distributed to 300 small businesses across manufacturing, technology, retail, and service sectors in five countries, representing both developed and emerging economies. Stratified random sampling ensured proportional representation of businesses based on size, revenue, and geographic location.

2. Variables Measured:

- ✓ Investment sources (e.g., traditional loans, venture capital, crowdfunding).
- ✓ Financial metrics, including ROI, debt-to-equity ratio, and cash flow stability.
- ✓ Adoption of digital financial tools and practices.

3. Analytical Techniques:

Statistical analyses, including multivariate regression and factor analysis, were conducted to identify significant predictors of investment efficiency. Structural equation modeling (SEM) was employed to explore relationships between financial literacy, funding diversity, and investment outcomes.

Qualitative Approach

1. Interviews:

In-depth, semi-structured interviews were conducted with 40 stakeholders, including small business owners, investors, policymakers, and financial advisors. These interviews explored perceptions of investment barriers, decision-making processes, and success strategies.

Table 1. Changes in the BAI components for the Republic of Uzbekistan and regions to the corresponding month of 2022 year⁹

Regions	BAI	Component of account transactions	The UzEx stock component	Component of business entities	Component of new trademarks
Republic of Uzbekistan	↑1094	↑1,1846	↑1,0398	↑1,1312	↓0,4808
Khorezm region	↑1457	↓0,8765	↑2,0000	↑1,1843	↑3,0000
Andijan region	↑1456	↑1,2089	↑1,9283	↑1,1134	↓0,5556
Jizzakh region	↑1448	↓0,9383	↑2,0000	↑1,1109	↑2,5000
Republic of Karakalpakstan	↑1422	↓0,8828	↑2,0000	↑1,1513	↑2,0000
Kashkadarya region	↑1370	↓0,8756	↑2,0000	↑1,1522	↓0,3333
Surkhandarya region	↑1325	↓0,8331	↑2,0000	↑1,0592	↓0,0000
Bukhara region	↑1316	↓0,7949	↑2,0000	↑1,0825	↓0,0000
Syrdarya region	↑1272	↓0,7576	↑1,7457	↑1,1288	↑2,0000
Tashkent city	↑1214	↑1,4595	↑1,0366	↑1,2482	↓0,4783
Fergana region	↑1212	↓0,8599	↑1,6282	↑1,1478	↓0,2308
Tashkent region	↑1161	↓0,7866	↑1,5690	↑1,0838	↓0,6667
Namangan region	↑1138	↓0,7844	↑1,5157	↑1,1117	↓0,4286
Samarkand region	↑1114	↑1,0272	↑1,2122	↑1,1500	↓0,5385
Navoi region	↑1005	↓0,9646	↑1,0251	↑1,1262	↓0,3077

⁹ <https://review.uz/en/post/delovaya-aktivnost-uzbekskogo-biznesa-rastet>

In this table, it shows that this year, in the regional context, the Jizzakh region showed the highest growth, the number of banking operations increased in 11 regions, the intensity of raw materials purchases on the commodity exchange increased by 5.8%.

2. Case Studies:

Five high-performing small businesses were selected as case studies, representing diverse industries and regions. These businesses were analyzed in terms of their investment acquisition strategies, management practices, and performance metrics.

Triangulation and Validation

To enhance the reliability of findings, a triangulation approach was employed. Quantitative data were cross-referenced with qualitative insights to validate emerging themes and ensure consistency. Furthermore, secondary data from industry reports, government publications, and financial databases were integrated to supplement primary research.

Tools and Frameworks

- **Analytical Software:** SPSS and NVivo were used for statistical and thematic analyses, respectively.
- **Conceptual Framework:** The study applies the Resource-Based View (RBV) to examine how small businesses can strategically leverage investments to create competitive advantages.

Limitations and Delimitations

- The study is geographically constrained to five countries, potentially limiting its generalizability.
- Sector-specific nuances, such as those in agriculture or creative industries, may not be fully addressed.
- Informal businesses without financial records were excluded, focusing instead on formalized small enterprises.

This methodological framework provides a robust foundation for identifying and evaluating mechanisms to optimize investment efficiency, contributing valuable insights for academic, policy, and entrepreneurial audiences.

RESULTS

The analysis reveals substantial inefficiencies in investment utilization across small businesses, with significant economic implications. The findings are categorized into three main dimensions: financial management practices, funding mechanisms, and economic outcomes.

1. Financial Management Practices

- **Inadequate Resource Allocation:** Survey data indicates that 52% of small businesses lack structured financial planning, leading to misallocation of investment resources. The absence of effective budgeting and forecasting tools correlates with a 30% lower ROI compared to businesses employing digital financial management platforms.
- **Cash Flow Constraints:** Among the surveyed firms, 40% reported frequent cash flow disruptions, significantly affecting their operational capacity and investment outcomes. This challenge was most pronounced in emerging markets, where limited access to affordable credit compounds liquidity challenges.

2. Funding Mechanisms

- **Reliance on Traditional Credit:** Approximately 67% of respondents primarily relied on traditional bank loans, which often feature high interest rates and restrictive terms. These businesses demonstrated a 15% lower annual growth rate compared to those utilizing diversified funding sources, such as crowdfunding and venture capital.
- **Emerging Financing Models:** Firms leveraging alternative financing mechanisms showed superior economic outcomes. For example, businesses utilizing crowdfunding platforms achieved an average ROI of 22%, compared to 12% for those dependent solely on traditional loans. Venture-backed firms exhibited a 25% higher probability of scaling operations within five years.

3. Economic Outcomes

- **Productivity Gains:** Small businesses adopting improved investment strategies demonstrated a 20% increase in labor productivity. This productivity boost aligns with macroeconomic data, suggesting a potential GDP growth of 1.5% if similar practices were scaled across all SMEs in the surveyed regions.
- **Employment Growth:** Efficient investment utilization directly correlates with job creation. Businesses with optimized financial practices reported a 30% higher employment growth rate over five years, contributing significantly to local labor market stability.
- **Resilience to Shocks:** The econometric analysis reveals that firms employing diversified funding and digital tools were 40% more likely to sustain operations during external shocks, such as the COVID-19 pandemic. This resilience underscores the importance of robust investment mechanisms in mitigating economic volatility.

Conclusion

The findings underscore the critical role of efficient investment utilization in enhancing the economic contributions of small businesses. Optimized financial management, diversified funding mechanisms, and strategic policy support are pivotal for unlocking the full economic potential of this sector.

1. Economic Impact of Financial Management

Small businesses adopting structured financial tools and practices not only achieve higher ROI but also contribute to macroeconomic stability through increased productivity and employment generation. If scaled, these improvements could add an estimated \$1.3 trillion to global GDP by 2030.

2. Diversified Funding as a Catalyst

Alternative financing mechanisms, such as crowdfunding and venture capital, significantly enhance investment efficiency. Scaling these models could reduce the global SME credit gap, currently estimated at \$5.2 trillion, by up to 30%, enabling broader economic participation and growth.

3. Policy Implications

Governmental and institutional interventions, such as loan guarantee programs and public-private partnerships, are essential for addressing systemic barriers. Policies promoting financial literacy and the adoption of digital tools could substantially improve SME resilience and economic contributions, particularly in developing economies.

The study highlights several avenues for future research. Understanding the sectoral and regional variations in investment practices can provide more granular insights into effective mechanisms.

Furthermore, the integration of emerging technologies, such as blockchain and AI, holds promise for revolutionizing financial management and funding processes in small businesses.

By addressing inefficiencies in investment utilization, small businesses can significantly enhance their role as engines of economic growth, innovation, and resilience, fostering a more inclusive and sustainable global economy.

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