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PROBLEMS OF THE EFFICIENCY OF SMALL AND MEDIUM-SIZED BUSINESS OPERATIONS

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ПРОБЛЕМИ ЕФЕКТИВНОСТІ ФУНКЦІОНУВАННЯ МАЛОГО І СЕРЕДНЬОГО БІЗНЕСУ

This paper seeks to identify the main problems affecting the efficiency of small and medium-sized businesses and to substantiate ways to overcome them, taking into account current economic conditions. Drawing on the research results, the essence of small and medium-sized business performance efficiency has been generalized as a complex economic category encompassing financial results of operations, adaptability, innovativeness, competitiveness, and social performance. It has been established that SME efficiency should be assessed through a set of interrelated characteristics that indicate the capacity of business entities to ensure sustainable development amid limited resources and high uncertainty. The study's scientific novelty lies in refining the content of the SME performance efficiency category by systematizing influencing factors and identifying their cause-and-effect relationships. Evidence shows that the development of SME efficiency is driven by a combination of internal and external factors. Internal factors determine a business entity's operational efficiency, particularly the rational use of resources, the quality of management, and the ability to scale. In contrast, external factors shape the business environment, either constraining or expanding development opportunities. Evidence suggests that the major efficiency issues for SMEs arise at the intersection of these factors and are exacerbated by economic instability and geopolitical challenges. It has been proven that SMEs are typically characterized by a situation in which, even in the presence of sufficient internal potential, business performance may significantly decline under the influence of unfavorable external conditions. In parallel, insufficient managerial systematization, a low level of digitalization, and limited financial resources prevent SMEs from fully realizing available market opportunities. The practical significance of the results lies in the fact that the proposed generalizations can be utilized by SME entities to identify weaknesses in their own operations and enhance management efficiency, as well as by public authorities in shaping policies that support small and medium-sized businesses.

Метою статті є визначення основних проблем ефективності функціонування малого і середнього бізнесу (МСБ) та обґрунтування напрямів

їх подолання з урахуванням сучасних економічних умов. У результаті проведеного дослідження узагальнено сутність ефективності функціонування малого і середнього бізнесу як комплексної економічної категорії, що охоплює не лише фінансові результати діяльності, але й адаптивність, інноваційність, конкурентоспроможність та соціальну результативність. Встановлено, що ефективність МСБ доцільно розглядати через систему взаємопов'язаних ознак, які відбивають здатність суб'єктів господарювання забезпечувати стійкий розвиток в умовах обмежених ресурсів і високої невизначеності. Наукова новизна дослідження полягає в уточненні змісту категорії ефективності функціонування МСБ через систематизацію дії факторів впливу із виділенням їх причинно-наслідкових зв'язків. При цьому доведено, що формування ефективності МСБ відбувається під впливом сукупності внутрішніх та зовнішніх факторів. При цьому внутрішні фактори визначають рівень операційної ефективності суб'єкта господарювання, зокрема раціональність використання ресурсів, якість управління та здатність до масштабування, тоді як зовнішні фактори формують середовище функціонування бізнесу та обмежують або розширюють можливості його розвитку. Обґрунтовано, що ключові проблеми ефективності малого і середнього бізнесу виникають на перетині цих факторів і посилюються в умовах економічної нестабільності та геополітичних викликів. Встановлено, що для такого бізнесу характерною є ситуація, коли навіть за наявності достатнього внутрішнього потенціалу ефективність діяльності може суттєво знижуватися під впливом несприятливих зовнішніх умов. Водночас недостатня системність управління, низький рівень цифровізації та обмеженість фінансових ресурсів не дозволяють суб'єктам МСБ повною мірою реалізувати наявні ринкові можливості. Практична цінність отриманих результатів полягає в тому, що запропоновані узагальнення можуть бути використані: суб'єктами МСБ — для ідентифікації слабких місць у власній діяльності та підвищення ефективності управління; органами державної влади — при формуванні політики підтримки малого і середнього бізнесу.

Keywords: *economic conditions; small business; medium-sized business; conditions of economic instability; geopolitical challenges; support policies; market opportunities; limited financial resources.*

Ключові слова: *економічні умови; малий бізнес; середній бізнес; умови економічної нестабільності; геополітичні виклики; політики підтримки; політики підтримки; ринкові можливості; обмеженість фінансових ресурсів.*

Problem statement. Small and medium-sized enterprises (SMEs hereafter) play a key role in ensuring economic development, and amid a significant increase in economic instability, the importance of this sector continues to grow. SMEs are characterized by greater flexibility compared to large corporations. Their smaller scale of operations, simplified organizational structure, and shorter management chains enable such enterprises to quickly adapt to changes in market conditions, implement innovations, and contribute to regional economic development. In times of crisis, this ensures rapid adjustments in business models, product ranges, or distribution channels.

Notably, research conducted by the IER has shown that in Ukraine, small and medium-sized businesses demonstrated higher rates of economic recovery in July–November 2023 compared to enterprises of other sizes (in terms of growth in production indicators—output, sales, new orders, and exports) [6]. Moreover, empirical studies by international organizations (including the OECD and the World Bank) confirm that SMEs play a leading role in economic recovery after crises. In many countries, this sector accounts for over 90% of all enterprises and provides a significant share of employment. In Ukraine, as of 2022, 6.1 million people were employed in the SME sector (or 82% of all employees in business entities) [6].

Thus, amid economic disruptions, SMEs create new jobs faster than large companies and help stabilize the socio-economic situation. In addition, SMEs are a source of innovation. Due to lower levels of bureaucracy and a greater propensity for risk, such enterprises are more likely to implement new technologies, products, and services.

Meanwhile, the efficiency of SMEs remains constrained by a number of systemic problems. These include the instability of the regulatory environment, limited access to financial resources, a high tax burden, and insufficient levels of digitalization and innovation activity among enterprises. Additional challenges include the consequences of economic crises, geopolitical tensions, and increasing competition in both domestic and international markets.

This research is particularly relevant in the context of a transitional economy, where SMEs serve as an important tool for structural transformation and integration into the global economic space. Despite the significant number of academic works devoted to this topic, certain aspects of improving SME performance require further in-depth analysis and generalization.

Actual scientific researches and issues analysis. The problems of small and medium-sized business functioning are currently examined in the works of B. Blaha [1], V. Vasiuta, V. Lobas, O. Zubko [2], Yu. Henzel [3], O.V. Sychova [4], S.O. Tulchynska, and A.P. Shylo [5]. Namely, the researchers mentioned above identify the foundations of the functional impact of SMEs on territorial development under current conditions, as well as key challenges faced by this sector, including limited access to financial resources, instability of the legislative environment, a high tax burden, administrative barriers, insufficient levels of state support, and the influence of external economic factors.

Nevertheless, the issues of SME performance efficiency remain insufficiently addressed in the academic literature. This leads to the absence of a comprehensive approach to assessing the performance of SME entities, complicates the formation of effective mechanisms for their state support, and hinders the development of sound managerial decisions at both enterprise and territorial levels.

Research aim. This paper seeks to identify the main problems affecting the efficiency of small and medium-sized businesses and to substantiate ways to overcome them, taking into account current economic conditions. Achieving this goal involves:

- analyzing the factors influencing SME activities;

- assessing existing development barriers;
- developing recommendations to enhance their competitiveness and resilience.

Main findings of the research. Within the scope of this study, the efficiency of small and medium-sized business (SME) functioning will be considered as a complex economic category reflecting the ability of its entities (individual entrepreneurs and legal entities) to achieve their goals with minimal resource costs and maximum economic and social outcomes. It is also worth mentioning that the concept of efficiency reflects not only financial performance (in particular, profitability and return on investment), and the level of adaptability, competitiveness, innovativeness, and resilience of business entities to external challenges. Concurrently, this refers specifically to businesses that meet a set of criteria presented in Table 1.

Table 1. Basic criteria defining SMEs

Business category	Criterion	Business characteristics
Small business	Staff up to 50 employees, annual revenue up to €8 million (equivalent).	Simple registration and administration (most choose sole proprietorship or LLC); ability to operate under a simplified taxation system.
Medium business	Staff up to 250 employees, annual revenue between €8–40 million.	More complex organizational structure compared to small businesses (these entities often operate as LLCs or joint-stock companies); opportunities to attract loans and investments, including foreign capital; developed management and accounting systems; focus on expanding sales markets, including international ones; higher level of regulation and internal procedures.

Source: created by the author based on [1; 3; 6]

Indeed, the effectiveness of SME activity is reflected in a range of key characteristics that show how successfully such entities operate, develop, and utilize their resources. Specifically, it can be viewed through the lens of: stable profit generation and business value growth; efficient use of financial, labor, and material resources; the ability to respond quickly to changes in the market environment; the introduction of new technologies, products, or management approaches; and the capacity to maintain or expand market positions.

O. V. Sychov [4] also argues that an important dimension is social efficiency, which is manifested in job creation and the development of local communities.

Characteristics that determine the effectiveness of SME functioning are presented in Figure 1.

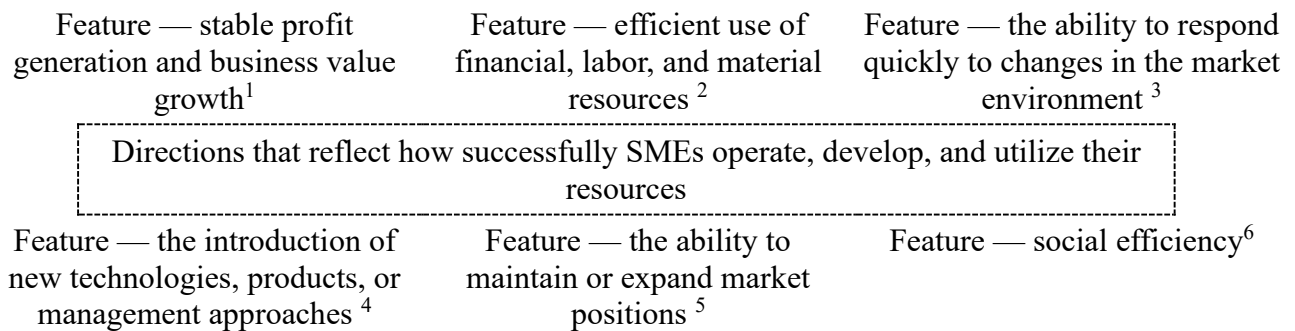


Figure 1. Characteristics that determine the effectiveness of SME functioning

Note:

1. This feature indicates that SMEs operate on a consistently profitable basis, increase their market value, and maintain a sustainable development model. It is a key indicator that the business is financially successful and attractive to investors.
2. This feature reflects operational (production) efficiency, meaning that SMEs achieve maximum results with minimal costs, effectively organize labor and processes, and avoid resource overuse.
3. This feature represents adaptability (flexibility), showing that SMEs quickly adjust to new conditions, effectively respond to competition and changes in demand, and are able to modify their strategies and processes.
4. This feature refers to innovativeness (innovative activity), meaning that SMEs develop through innovation, enhance their competitiveness, and seek new solutions for growth.
5. This feature indicates business competitiveness, meaning that SMEs successfully compete in the market, maintain or increase their market share, and hold strong positions among other companies.
6. This feature refers to social performance, meaning that SMEs create jobs, ensure decent wage levels, improve working conditions, adhere to social responsibility, and contribute to community development.

Source: created by the author based on [1; 3; 5-6]

The formation of the outlined characteristics is extremely important, as the effective functioning of small and medium-sized businesses has a significant impact at both the micro level (people, communities) and the macro- or meso level (the national or local economy) [5].

At the level of an individual small and medium-sized enterprise, it ensures financial stability, opportunities for development, and survival in a competitive environment. At the macro or mesoeconomic level, it contributes to GDP growth, higher employment, innovation development, and the formation of a competitive market [1-2; 6]. Especially in conditions of economic instability, an effective SME

sector serves as an important factor of economic stabilization and recovery. For example, during the full-scale war in Ukraine, many small and medium-sized enterprises were able to adapt more quickly to new conditions compared to large corporations. In particular, some manufacturing and service companies promptly relocated to safer regions, resumed operations in an online format, or reoriented themselves toward new sales markets [6].

Given the broad and complex nature of the category of SME performance efficiency, it is shaped by a combination of internal and external factors. At the same time, even a high level of internal efficiency does not guarantee success in an unfavorable external environment, while weak management does not allow a business to realize its potential even under favorable market conditions.

Internal factors (which directly determine the operational efficiency of a business, i.e., how rationally an enterprise uses its resources [1-2]) include:

- Smaller scale of operations — this provides business agility but simultaneously limits access to resources and scaling opportunities.
- Simplified organizational structure — facilitates faster decision-making and reduces administrative costs.
- Short management chains — increase responsiveness to changes.
- Level of staff qualifications — determines labor productivity and the capacity for innovation.
- Financial condition of the enterprise — affects investment capacity and resilience to risks.
- Quality of management — includes strategic planning, marketing, and cost management.

On their own, these factors are not problems, but create the conditions within which typical weaknesses of SMEs emerge, the content of which is outlined in Table 2.

Table 2. Internal problems of SME performance efficiency

Internal factor	Specific manifestation of the problem	Possible ways to overcome the problem
Smaller scale of operations	Limited access to financial resources (difficulty in obtaining loans and investments); absence of economies of scale (higher production costs); low bargaining power in relation to suppliers and partners; difficulty in entering new markets and scaling the business; dependence on a narrow customer segment.	Diversification of funding sources and cooperation with other businesses; outsourcing to reduce costs; expansion of the customer base; entry into online channels.
Simplified organizational structure	Unclear distribution of duties and responsibilities; employee overload (one person performs multiple functions); lack of specialization (weak marketing, finance, and HR functions); informal business processes, which complicate growth; risk of managerial chaos during business expansion.	Clear definition of roles and responsibilities; implementation of basic business processes; delegation of tasks; gradual functional specialization; use of CRM/ERP systems.
Short management chains	Excessive dependence on the owner or manager; subjectivity of managerial decisions; lack of a system of checks and balances; risk of incorrect decisions due to insufficient analytics; limited strategic vision (focus on short-term tasks).	Implementation of data-driven decision-making systems; establishment of a control system; engagement of consultants; development of strategic planning; delegation of authority.
Level of staff qualifications	Shortage of highly qualified personnel due to limited financial capacity, mobilization, migration, and demographic changes; low level of managerial and digital competencies; absence of staff training and development systems; high employee turnover; weak innovative capacity of the enterprise.	Investment in staff training; online courses and training programs; development of a motivation system; engagement of freelancers; development of corporate culture.
Financial condition of the enterprise	Insufficient working capital; limited access to credit and investment; dependence on short-term revenues; low level of financial planning; high sensitivity to crises and demand fluctuations; liquidity and solvency problems..	Financial planning and budgeting; creation of reserves; cost optimization; search for investors; revenue diversification; cash flow control.
Quality of management	Lack of strategic planning; weak or intuitive marketing; inefficient cost management; absence of KPI systems and performance monitoring; low level of digitalization in management; limited use of modern management tools.	Development of a growth strategy; implementation of KPIs; use of modern management tools; digitalization of processes; development of data-driven marketing.

Source: created by the author based on [1-2; 6]

Most internal problems of SMEs are associated not only with limited resources, but also with insufficient systemic management. For example, the shortage of personnel, if it is not a temporary issue but a structural challenge, can significantly

hinder innovation and business scaling [6]. It is precisely the combination of small scale, informal processes, and a weak financial base that creates key barriers to improving efficiency, including: (i) lower profitability and difficulty in scaling; (ii) high initial efficiency that declines as the business grows; (iii) low workforce qualification, and consequently low added value of products; (iv) insufficient funding and the related constraints on development and high vulnerability; (v) weak management and inefficient use of available resources.

External factors (which determine the conditions in which a business operates [3-4; 6]) include:

- Economic conditions — demand levels, inflation, access to credit
- Government policy — tax burden, regulatory environment, state support
- Competitive environment — level of market competition and barriers to entry
- Technological changes — access to innovation and digital tools
- Social factors — population income levels, consumer preferences
- Geopolitical conditions — instability, war-related risks, and external economic restrictions

These factors directly affect SME performance outcomes, regardless of the internal quality of management. Therefore, they often represent sources of systemic constraints over which business entities have limited influence (see Table 3).

External factors create an environment of increased uncertainty in which SMEs are forced to operate, including: (i) even efficient businesses may lose profits due to economic downturns or other external shocks. Namely, as a result of the Russian military invasion of Ukraine, approximately 4.9 million Ukrainian refugees received temporary protection status in European countries (mostly women with children), according to the UN.

Table 3. External problems of SME performance efficiency

External factor	Specific manifestation of the problem	Possible ways to overcome the problem
Economic conditions	Instability of demand for products and services; high inflation rates, which increase costs and reduce purchasing power; limited access to credit resources due to high interest rates; exchange rate fluctuations affecting imports and pricing; declining customer purchasing power during periods of crisis.	Diversification of products and markets; flexible pricing strategies; hedging of currency risks; creation of financial reserves; targeting different customer segments.
Government policy	High tax burden; frequent changes in legislation and regulatory instability; complex administrative procedures (registration, licensing, reporting); insufficient level of state support or its limited accessibility; corruption risks and bureaucratic barriers.	Tax planning; use of available government support programs; legal support; automation of reporting processes; participation in business associations to protect interests.
Competitive environment	High competition from large companies; price dumping and displacement of SMEs from the market; difficulty in forming a unique competitive advantage; barriers to entry into new markets; limited opportunities for large-scale advertising and promotion.	Development of a unique value proposition; focus on niche markets; brand development; digital marketing; improvement of product and service quality.
Technological changes	Limited access to modern technologies due to their high cost; low level of digitalization of business processes; lack of digital skills among employees; rapid technological obsolescence; difficulty in integrating innovations into current operations.	Digitalization; use of affordable SaaS solutions; staff training; cooperation with IT partners; attracting grants for innovation.
Social factors	Low population income levels; instability of consumer sentiment; changes in consumer preferences to which businesses fail to adapt in time; labor outflow (migration); shortage of qualified workforce in the local labor market.	Adaptation of products to market needs; flexible pricing offers; development of an employer brand; remote employment; funding for employee training.
Geopolitical conditions	War-related risks and physical threats to business operations; destruction of infrastructure and disruption of logistics chains; restrictions on export and import activities; overall economic and political instability; increased investment risks and reduced business activity.	Diversification of suppliers and markets; relocation or decentralization of business operations; creation of safety stocks; development of online channels; risk insurance.

Source: created by the author based on [3-4; 6]

Consequently, SMEs targeting women aged 20–40 experienced a decline in their customer base, leading to reduced revenues and contraction of relevant business segments [3]; (ii) complex regulations increase costs and reduce efficiency; (iii) competition may either drive efficiency growth or lead to market displacement; (iv) digitally underdeveloped businesses become uncompetitive; (v) sharp increases in

costs and uncertainty, and in some cases, the physical impossibility of conducting business operations. For instance, in the context of the Russian military invasion of Ukraine, there are such problems as active hostilities, occupation, missile strikes, and power outages. In this situation, Ukrainian businesses can only relocate to safer regions in order to partially mitigate these risks.

Conclusions. Drawing on the research results, the essence of small and medium-sized business performance efficiency has been generalized as a complex economic category encompassing financial results of operations, adaptability, innovativeness, competitiveness, and social performance. It has been established that SME efficiency should be assessed through a set of interrelated characteristics that indicate the capacity of business entities to ensure sustainable development amid limited resources and high uncertainty.

The study's scientific novelty lies in refining the content of the SME performance efficiency category by systematizing influencing factors and identifying their cause-and-effect relationships. Evidence shows that the development of SME efficiency is driven by a combination of internal and external factors.

Internal factors determine a business's operational efficiency, particularly the rational use of resources, the quality of management, and the ability to scale. In contrast, external factors shape the business environment, either constraining or expanding development opportunities. Evidence suggests that the major efficiency issues for SMEs arise at the intersection of these factors and are exacerbated by economic instability and geopolitical challenges.

It has been proven that SMEs are typically characterized by a situation in which, even in the presence of sufficient internal potential, business performance may significantly decline under the influence of unfavorable external conditions. In parallel, insufficient managerial systematization, a low level of digitalization, and limited financial resources prevent SMEs from fully realizing available market opportunities.

The practical significance of the results lies in the fact that the proposed generalizations can be utilized by SME entities to identify weaknesses in their own

operations and enhance management efficiency, as well as by public authorities in shaping policies that support small and medium-sized businesses.

Areas for future research is recommended to focus on the development of methodological approaches to the quantitative assessment of SME efficiency. In parallel, it is important to consider the limitations of the study related to the generalized nature of the analysis of problems (without reference to specific economic sectors).

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