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**INNOVATIVE DEVELOPMENT OF HUMAN POTENTIAL AS A KEY FACTOR  
IN INCREASING THE COMPETITIVENESS OF SMALL AND MEDIUM-SIZED  
BUSINESSES IN UKRAINE**

*The article explores the role of human capital as a key driver of innovative development and resilience in small and medium-sized enterprises (SMEs) under conditions of crisis and multi-level instability. It is emphasized that employees are no longer merely performers – they are becoming sources of innovation, adaptability, and strategic thinking. Particular attention is paid to fostering an innovative corporate culture that encourages creativity, initiative, and self-directed learning. The study argues that without a supportive organizational environment – one that is open to new ideas and tolerant of mistakes – investments in education and digitalization are unlikely to yield sustainable results. Within the framework of digital transformation, the article highlights the importance of developing employees' digital competencies and critical thinking skills as essential prerequisites for effective technology integration. It also addresses the persistent mismatch between educational programs and labor market needs, which hinders the integration of graduates into the entrepreneurial environment. Proposed solutions include the implementation of dual education models, business–education partnerships, and mentoring programs. Special attention is given to the financial and organizational barriers faced by SMEs in developing their workforce. Due to limited resources, many enterprises underinvest in professional development, leading to rapid obsolescence of skills and reduced competitiveness. The article underscores the importance of government support – including training vouchers, co-financing mechanisms, and the establishment of regional competence centers. Regional priorities are differentiated: for rural areas, the focus should be on stimulating entrepreneurship through local initiatives and business incubators; for urban areas, emphasis should be placed on enhancing digital literacy, managerial competencies, and innovation-focused acceleration programs. The author advocates for a shift in management paradigms within SMEs – from control-based models to trust, delegation, and leadership development. In conclusion, the article asserts that the innovative development of human potential must be pursued through a synergy of educational reform, business initiatives, and state policy, taking into account regional specificities, digital challenges, and modern management approaches.*

**Keywords:** human potential; SMEs; innovative culture; digital transformation; professional development; education; human capital management; competitiveness; decentralization; mentoring.

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**ІННОВАЦІЙНИЙ РОЗВИТОК ЛЮДСЬКОГО ПОТЕНЦІАЛУ ЯК КЛЮЧОВИЙ  
ФАКТОР ПІДВИЩЕННЯ КОНКУРЕНТОСПРОМОЖНОСТІ МАЛОГО ТА  
СЕРЕДНЬОГО БІЗНЕСУ В УКРАЇНІ**

*У статті досліджено роль людського капіталу як ключового чинника інноваційного розвитку та стійкості малого і середнього бізнесу (МСБ) в умовах криз і багаторівневої нестабільності. Підкреслено, що працівники перестають бути лише виконавцями - вони стають джерелом інновацій, адаптивності та стратегічного мислення. Особливу увагу приділено формуванню інноваційної культури, яка стимулює творчість, ініціативність і самонавчання. Доведено, що без сприятливого корпоративного середовища - відкритого до ідей та толерантного до помилок – інвестиції в освіту або цифровізацію будуть*

малоефективними. У контексті цифрової трансформації акцент зроблено на розвитку цифрових компетенцій та критичного мислення працівників як необхідних передумов ефективного впровадження технологій. Розкрито проблему розриву між освітою та ринком праці, що обмежує інтеграцію випускників у підприємницьке середовище. Запропоновано напрями вдосконалення підготовки кадрів, включаючи дуальну освіту, партнерство з бізнесом, менторство. Особливої уваги потребують фінансові та організаційні бар'єри розвитку персоналу в МСБ. Через обмежені ресурси підприємства рідко інвестують у підвищення кваліфікації, що спричиняє швидке старіння знань працівників і зниження конкурентоспроможності. В статті наголошується на необхідності державної підтримки – від ваучерів на навчання до створення регіональних центрів компетенцій. Окреслено регіональні пріоритети: для сільських громад – розвиток підприємництва через локальні ініціативи; для міст – цифрова грамотність та управлінські навички. Також обґрунтовано необхідність оновлення управлінської моделі у МСБ – від контролю до довіри та розвитку лідерства. Узагальнено, що інноваційний розвиток людського потенціалу має відбуватись на основі синергії освіти, бізнесу та держави, з урахуванням регіональних особливостей, цифрових викликів і нових управлінських підходів.

**Ключові слова:** людський потенціал; малий і середній бізнес; інноваційна культура; цифрова трансформація; професійний розвиток; освіта; управління персоналом; конкурентоспроможність; децентралізація; менторство.

**Problem statement.** In the current conditions of socio-economic changes, exacerbated by the full-scale war, digital transformation, and shifts in the labor market, it is especially important to focus on the development of human potential in small and medium-sized enterprises (SMEs) in Ukraine. This sector is one of the main drivers of the economy, creating jobs, supporting regional development, and ensuring the flexibility of national production. However, the success of SMEs largely depends on the qualifications of employees, their ability for continuous learning, innovation implementation, and adaptation to changes.

Currently, the development of human potential in SMEs faces several challenges. Firstly, there is a significant gap between the skills acquired by graduates and the real needs of businesses. Young specialists often lack practical knowledge necessary for work in an innovative environment. Secondly, most small and medium enterprises do not have sufficient financial resources to invest in staff training, leading to rapid moral obsolescence of professional knowledge and a decline in competitiveness.

Moreover, the war and instability in the country cause mass labor migration, especially from certain regions, worsening the staffing situation. It is particularly difficult in remote and rural areas due to limited access to modern educational programs and digital resources. Insufficient digital literacy and the lack of IT solutions in business processes also hinder innovation development.

Equally important is the issue of insufficient innovation culture within SMEs. Employees often lack internal motivation for self-development, active participation in innovation implementation, and idea generation. The absence of systemic incentives, as well as a weak corporate culture oriented toward knowledge and innovation, impede human potential development. Additionally, entrepreneurs rarely participate in shaping state educational policy, complicating effective interaction between business and the education system.

Thus, the formation of innovative human potential in the SME sector is a complex, multifaceted problem requiring a systemic, comprehensive approach. Without such a strategy, achieving long-term competitiveness and sustainability of this important economic segment is impossible.

**Analysis of literature sources.** The development of human potential is considered a key factor of economic growth in the works of human capital theory classics, particularly G. Becker [13], T. Schultz [14], and A. Toffler [15]. They emphasize the necessity of continuous skills upgrading to stimulate innovation breakthroughs and productivity.

Among domestic scholars who studied the impact of education on innovative development of small business in Ukraine are S. Kalenyuk, O. Amosha, I. Lukinova, and O. Romanenko [4]. Special attention is paid to the formation of innovative culture in SMEs by I. Petrova [7], N. Rebrik [9], as well as the development of digital competencies by T. Vasilyeva and A. Kolot [2, 6].

Analytical reports by the OECD, the International Labour Organization (ILO), the European Centre for the Development of Vocational Training, and the World Bank confirm that investments in human potential – especially digital literacy, entrepreneurial skills, and professional mobility – are decisive factors in increasing SME competitiveness [16, 17]. At the same time, Ukraine shows some lag in forming institutional mechanisms to support these processes.

Therefore, the existing scientific and analytical potential creates a solid foundation for further research on the innovative development of human potential in Ukraine's SME sector. However, it requires deeper adaptation considering complex and unpredictable challenges related to the war situation, post-war reconstruction, and digital transformation to effectively contribute to increasing the competitiveness of this important economic sector.

**The purpose of the article.** The study aims to identify key problems and define strategic directions for forming innovative development of human potential to enhance the competitiveness of small and medium-sized businesses in Ukraine.

**Main material of research.** Innovative development of human potential is not only a tool to increase enterprise efficiency but also a key condition for their resilience in crisis periods. Especially under conditions where Ukrainian SMEs operate in a multi-level unstable environment, human capital's role extends beyond purely productive functions. It becomes the basis for the ability to change, innovative thinking, and strategic vision.

SMEs act as catalysts for economic growth by providing employment and regional development, but their effectiveness largely depends on the quality and innovativeness of human capital [13, 14]. However, in Ukraine, their efficiency is constrained by the lack of an effective institutional system for human potential development, leading to a shortage of qualified personnel even in the most promising enterprises, outdated curricula, and a lack of sustainable dialogue between the labor market and education.

Modern researchers emphasize that human potential development in SMEs must occur not only through upgrading employee qualifications but also by forming an innovative culture that stimulates creativity, initiative, and self-learning ability [7,9]. For example, Rebrik [9] notes that enterprises with a high level of innovative culture demonstrate greater adaptability to market changes and can implement new technologies faster.

Thus, innovative culture is formed through daily management work with personnel, creating conditions for self-realization, supporting creativity, and tolerance for mistakes. Without this, any investment in education or digitalization will have only a temporary effect.

Vasilyeva and Kolot [2, 6] highlight that in the context of digital transformation, special attention must be given to developing digital competencies as a necessary condition for successfully integrating innovative technologies into business processes. According to OECD [16] and ILO [17], investments in digital literacy and entrepreneurial skills enhance employee mobility and create conditions for sustainable SME development. It is important to understand that digital transformation is not an end in itself; its effectiveness directly depends on the level of critical thinking and ability to interpret new knowledge.

World Bank studies [11] indicate a significant gap in Ukraine between the education system and business needs, especially in practical skills and modern technologies. Additional challenges include war, social instability, and labor migration, which particularly exacerbate the shortage of highly qualified specialists in the regions.

Overcoming these challenges requires coordinated actions from both the state and business, implying implementation of a holistic strategy to support human potential development. Creating regional platforms to enhance professional competencies, introducing modern learning forms such as online education, dual programs, and short-term courses are advisable. Intangible motivation tools that encourage innovative activity, such as feedback, support for initiatives, and participation in creative contests, also play an important role.

Moreover, it is necessary to stimulate horizontal interaction between enterprises – exchanging best practices, participating in cluster associations, joint team training – which expands SMEs' resource base and compensates for their limited personnel training capacities. Such approaches contribute to forming a knowledge-based corporate environment that increases employee engagement and efficiency.

Today, one of the key obstacles to forming innovative human potential in the SME sector is the gap between the education system and current labor market demands. Graduates often lack necessary practical skills, complicating employment and integration into innovative enterprise environments [9]; World Bank [10]. This highlights the need to update educational programs closely cooperating with business representatives by implementing dual education, internships, practice-oriented courses, and cross-sector partnerships. Without changing the philosophy of staff training, sustainable SME growth in the digital economy is unattainable.

Another significant problem is the limited financial and organizational resources of enterprises hindering systematic professional training of staff. Consequently, employees' knowledge and skills rapidly become outdated, negatively impacting companies' competitiveness [1]. Addressing this requires state support: introducing training vouchers, co-financing retraining programs, creating regional competence centers. Investments in knowledge should be regarded not as expenses but as a strategic business resource.

Furthermore, in 2023, the World Bank noted that the war's consequences and intensified labor migration cause the loss of highly qualified employees, especially in regions, deepening the personnel imbalance. Therefore, emphasis should be placed on developing remote employment forms and stimulating digital entrepreneurial activity, maintaining connections with personnel even abroad. Infrastructure for involving the Ukrainian diaspora from various countries in domestic SME development through online mentoring, investments, and knowledge transfer should also be established.

A separate threat is the low level of digital literacy among SME employees and the lack of digital tools in business processes, hampering innovation development [16]. Without digitalization, it is impossible to ensure SME efficiency, transparency, and scalability in the long term. Thus, mass implementation of digital education programs, including free online courses, micro-qualifications, and promotion of CRM, ERP, and analytical systems use even among the smallest enterprises, is necessary.

Equally important is forming an innovative corporate culture, often lacking in domestic SMEs. The absence of internal motivation, initiative, and a system of intangible incentives slows human potential renewal [5, 9]. Cultivating trust, recognition, and freedom of action can unlock employees' real potential. Therefore, creating a favorable environment for creativity, supporting employees' ideas, regular feedback, and innovation contests are effective tools to activate human resources.

At the same time, it is essential to change the management philosophy of enterprises themselves, overcoming the traditional view of employees as mere executors. Introducing approaches based on trust, flexibility, delegated responsibility, and leadership development must become part of SMEs' personnel strategies. The new type of manager should be a facilitator of change, not a controller, creating conditions for others' development. Today's employee is not just a bearer of labor functions but a carrier of knowledge, values, and experience, potentially a source of internal innovations.

It is advisable today to develop internal learning systems, where experienced employees pass knowledge to younger colleagues through mentoring, coaching, or joint innovation development. This not only saves on external consultations but also increases staff loyalty and cohesion. At the same time, human potential must be viewed as an asset capable of creating long-term competitive advantages rather than just a resource to be trained or replaced.

Considering significant regional differences, human capital development policies must be decentralized. For example, rural communities should prioritize supporting entrepreneurial activity through business incubators, mentoring programs, and local educational initiatives. Cities should focus on intensive development of digital competencies, managerial skills, and acceleration programs for innovation teams. Regionalization of strategies will avoid stereotypical solutions and ensure targeted support.

To increase human potential management effectiveness, it is necessary to introduce an evaluation system including not only traditional indicators – staff turnover, satisfaction level, or training volume – but also innovative indicators: the number of ideas implemented by employees, level of horizontal interaction, speed of adaptation to changes.

Thus, innovative human potential development in SMEs should be seen as a multivector process encompassing education modernization, digital transformation, management paradigm shifts, activation of regional policy, and implementation of motivation systems. Its implementation requires synergy of efforts from the state, business, and educational community.

Forming a modern, flexible, and innovation-oriented human potential is not only part of a successful business strategy but a prerequisite for the long-term competitiveness and sustainability of Ukrainian small and medium enterprises amid global transformations.

Innovative development of human potential is a key factor in the stability and success of SMEs in changing conditions. Human capital in SMEs plays a strategic role - ensuring adaptability, innovativeness, and development.

Among main problems are outdated education, lack of digital skills, insufficient resources for staff training, and brain drain. Overcoming these barriers requires cooperation among the state, business, and education, implementation of dual education, online learning, and mentoring.

Digital transformation must be combined with employee competency development and updating management approaches. Regional differences should be taken into account: supporting entrepreneurship in rural areas, digital and managerial skills in cities.

Human potential should be considered a strategic asset, and changing management culture is a necessity. A comprehensive approach to personnel development will ensure SME competitiveness in the long term.

**Conclusions and prospects for further research.** Thus, human potential development is a fundamental factor in ensuring sustainable growth and competitiveness of small and medium-sized businesses (SMEs) in Ukraine. An analysis of the current literature shows that continuous professional development of employees, the formation of an innovative culture and the development of digital skills are the basic components without which it is impossible to achieve qualitative changes and effective implementation of innovative solutions.

Despite the existing scientific and practical potential, the real conditions for SMEs are complicated by a number of factors, including the military conflict, socio-economic instability, and the gap between labour market needs and existing educational programmes. These challenges lead to a shortage of skilled personnel, slow down the process of adaptation of enterprises to changes and reduce their innovation activity.

Overcoming these challenges requires coordinated action by the government, business and educational institutions. It is crucial to introduce flexible and adaptive learning models that take into account the specifics of SMEs, as well as to develop dual education, mentoring and distance learning systems. Such approaches will not only help to improve the professional skills of employees but also to create internal motivation for self-development and innovation.

The development of digital competencies is of key importance, as it opens up wide opportunities for automating business processes, improving management efficiency and expanding sales markets. Investments in digital literacy facilitate staff mobility, which is especially important in the face of current challenges related to labour migration and changing work formats.

It is also important to pay attention to creating a favourable corporate environment that supports creativity, initiative and tolerance for risk and mistakes. Creating an innovative culture requires targeted work by the management of enterprises focused on developing leadership skills, delegating responsibility and creating an open communication space.

Given Ukraine's regional peculiarities, decentralised approaches to human potential development should be implemented, which will allow for local needs to be taken into account and a more targeted support system to be created. In rural areas, this could include the development of entrepreneurial activity through business incubators and educational initiatives, while in urban areas it could include intensive training in digital technologies and management skills.

In general, human potential in SMEs should be viewed as a strategic asset that creates a long-term competitive advantage. A corresponding change in management philosophy – from control to facilitation and support of employee development – will be the key to success in a fast-paced and dynamic business environment.

Thus, the formation of innovative human potential development in Ukrainian SMEs is a multidimensional and complex process that includes modernisation of education, digital transformation, changes in corporate culture, and intensification of regional strategies and motivational systems. Only a systematic and coordinated approach will ensure that SMEs are more efficient, adaptable and resilient in the challenging conditions of the modern economy.

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