

Problems Caused by the Impact of COVID-19 on Small and Medium Enterprises Management and its Solutions

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Abstract. The present paper has been made a comparative analysis of Small and Medium-sized Enterprises to determine the impact of the COVID-19 pandemic-related restrictions and lockdown on their activity. At the same time has been analysed pre- and post-pandemic periods. Also, the paper provides opinions about the ways how to mitigate and avoid impact on small and medium enterprises (SMEs) caused by pandemics, which might reoccur in the future. The importance of SMEs in the world and Georgian economy has been estimated in terms of added value, GDP, turnover, manufacturing products, and working place formation. It has been concluded that SMEs can handle some minor and short-term issues by themselves with the elaboration of the business continuity plan and crisis management scenarios, but these still are needed the active involvement of state aid. The latter implies financial support and professional, informational, and technical support as well, such as state internet-platform available for SMEs for interactive coordination and communication between the parties and for rapid action from the state on those fields which has been damaged mostly. Keywords: Small and Medium-sized Enterprises, comparative analysis, COVID-19, pandemic-related restrictions, enterprises management.

1 Introduction

Amid the worsening economic crisis in the context of the negative impact of the COVID-19 pandemic and the imposition of coercive restrictions, governments worldwide are taking unprecedented steps to support economic and business activity and preserve workplaces. COVID-19 became a serious challenge and a threat to Georgia's world economy and economy and other countries as well. The virus has become a global pandemic, which has harmed the world economy; the degree of its ultimate impact remains unknown and

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depends on the ratio of its spreading, the effectiveness of crisis management, social responsibility, and the distribution and effectiveness of the vaccine [1].

As mentioned above, the COVID-19 pandemic hit the world economy; the main subjects are small and medium-sized enterprises (from now on SMEs) and not corporations. The SMEs account for 90% of the total number of companies worldwide, provide 70% of jobs and generate 50% of world GDP.

The importance of SMEs in the global economy is highly recognised, as evidenced by the UN General Assembly Resolution of 2017, which declared June 27 as Micro, Small, and Medium-sized Enterprises Day to raise public awareness of the contribution of SMEs to global economics [2]. The UN pointed out that SMEs may be very resilient to changes in the world, although this makes them highly vulnerable to adverse economic impacts, primarily due to insufficient financial sustainability [3].

The relevance of the research is evidenced by the COVID-19 pandemic-related situation in the world over the past year, which has essentially changed the world economic situation and put humanity and the world's developed countries and their economies in a whole new reality [4]. Especially it is relevant to SMEs, which have faced significant challenges due to the current situation and the various types of restrictions.

This research aims to describe the economic situation caused by the COVID-19 pandemic in SMEs in the world and Georgia, to review the current situation, ongoing processes, and identify the problems that can be avoided or mitigated with state support and on their own.

This research aims to study the situation of SMEs in the world and Georgia, identify and find ways to solve the existing problems, analyse the best world practices, and prevent, mitigate, or minimise potential risks.

2 Research methods

In the process of research has been used methods of analysis, synthesis, and comparison. To achieve the goals have been used complex methods of information obtaining. Bibliographic studies were used to extract, sort, and analyse secondary data. The theoretical part of the research is the existing literature on the topic, particularly scientific articles, research, publications, data obtained from internet sources.

Statistical calculations were carried out during the study based on official sources (Eurostat, Geostat, and others). The primary materials necessary for publication were obtained from the National Statistical Office and various agencies.

3 Literature review

The differences in the criteria for defining SMEs in different countries are due to objective institutional features, differences in the economy's structure, and the goals of state policy, but anyway, they are based on the turnover, capitalisation, or the number of employees. For instance, in the EU, enterprises with less than 250 employees are medium-sized enterprises, with fewer than 50 employees - small, and less than ten employees - micro-enterprises (Figure 1). Additional criteria are the profit of the companies and their book value [4].

	Large Enterprises (≥250 Employees)	Medium-sized enterprises (50-249 employees)	Small enterprises (1-50 employees)
Number of enterprises	0.2	0.9	98.9
Number of employees	33.1	16.9	50.0
Added value of products	44.1	18.6	37.3

Fig 1. Distribution of companies in the non-financial sector of the economy as a percentage of the total number by category [7].

In Georgia, small and medium-sized enterprises are defined based on the average annual number of employees or annual turnover. From 2017 up to the present, medium-sized enterprises include all enterprises with an average annual number of employees from 50 to 249 and an average annual turnover of 12 million to 60 million Georgian Lari (GEL). Small enterprises with an average annual number of employees do not exceed 49, and the average annual turnover exceeds 12 million GEL [9].

Numerous assessments at the global, regional, and national levels point out the importance of SMEs in the economy, considering their share in the total number of enterprises, number of workplaces, as well as their contribution to the formation of GDP and added value.

According to the UN data, the category of micro, small and medium-sized enterprises includes about 90% of all enterprises globally, employing about 70% of the workforce and accounting for 50% of world GDP [2].

The total number of SMEs reached 22.2 million and accounted for 56% of the total added value in the non-financial sector (3.5 billion euros). The total number of employees in SMEs has reached 83.9 million, which is 67% of the total number of employees from where almost half are employed in only three areas of economic activity: Retail (20.7 million employees, 27% of small enterprises and 19% of medium-sized enterprises), manufacturing (15.8 million people, 14% and 33%, respectively), and construction (10.2 million people, 14% and 7% respectively). According to the 2020 report of the National Statistics Office of Georgia, the added value generated by SMEs in 2019 amounted to 59.3% of the total volume, and the number of employees was 65% [11].

The bi-year statistics report "the EU in the world" declares that labour productivity tends to be higher in large corporations. Thus SMEs tend to have relatively high employment and low-value indexes at the country scale [13].

The lowest employment rates in large industrial enterprises (respectively, higher employment rates in SMEs) during this period were observed in South Korea and Turkey, reaching about 25% and 33%, respectively. The employment rate in large industrial enterprises in Japan, Australia, and the UK is close to the average for the 27 EU member countries and does not exceed 50% [5]. In other countries, these indexes are significantly higher and reach 50% in Brazil (2014), 52.1% in Canada (2016), and 65.2% (2015) in the United States. The largest share of employment at large industrial enterprises was recorded in 2017 in Russia, where it reached 85.2% (Figure 2).

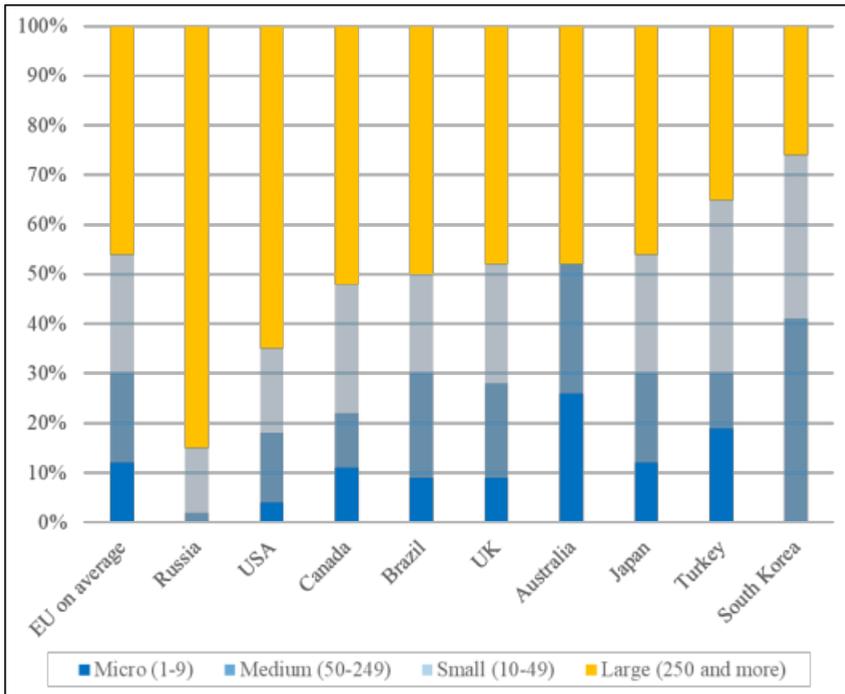


Fig 2. Distribution of industrial companies by workplaces in the percentage of the total number in the industry (2017) [8].

Despite the significant share of SMEs in the structure of the national economy in terms of the number of enterprises, workplace generation, and added value, their participation in foreign trade is less noticeable.

According to the European Commission, most European companies find it challenging to cross national borders even in a single market and equal trade terms. Only 25% of SMEs European businesses are involved in export activities, and even fewer of them - around 600 thousand - go outside the EU [8].

In addition, the share of exports in the turnover of such companies is small - only 7.3% of SMEs had a share of exports more than 10% of the trade turnover, considering that the share of SMEs in the total number of external economic entities of the EU is quite large, e.g., in 2012-2017 accounted for 97.8% of the total number of exporters [8].

Similar statistics are presented for American companies. According to the US International Trade Commission report in 2016, approximately 400,000 SMEs participated in foreign trade, accounting for 98% of exporters, accounting for 33% of the total value of exported goods. According to the US Small Business Administration, the number of SME-exporters in 2018 did not exceed 288 thousand, about 1% of the total number [10].

4 Results

SMEs are highly vulnerable to the adverse economic conditions caused by the COVID-19 pandemic. As indicated by the International Monetary Fund, this is associated with a significant reduction in market supply. Most companies are cutting production due to quarantine and other restrictions and material supply disruptions or labour shortages as employees [11].

At the same time, a sudden and significant decrease in the demand for goods and services leads to a decrease in income, which prevents SMEs from continuing to operate due to a lack of funds. The main reason is the change in consumer habits and behaviour due to fear of infection and a decrease in personal income and wages or layoffs, which ultimately lead to a circular effect. The effect of such social distancing has an especially harmful impact on SMEs [12, 13].

In addition, the statistical review of the Organization for Economic Cooperation and Development (OECD) emphasises that the share of SMEs is highest in those sectors that usually experience more economic problems in the current situation, such as engineering, construction, wholesale and retail, trade, hospitality, catering, real estate, and customer service. The abovementioned areas account for 40% of workplaces in the member countries of the Organization for Economic Cooperation and Development (OECD), with an average of 75% account for SMEs. For reference, this index reaches almost 90% in Greece and Italy [10].

A qualitative analysis of information on the impact of the pandemic on SMEs is possible based on regular surveys conducted by associations, international organisations, research centres, chambers of commerce and banks, e.g. one section of the report of Organization for Economic Co-operation and Development (OECD) contains 40 similar surveys/questionnaires, from which follows that most representatives of SMEs are experiencing the growing negative impact of the coronavirus pandemic and apprehend of closure of their businesses in the coming months [10].

In April 2020, big four audit company "PricewaterhouseCoopers" surveyed 1,938 companies to determine the impact of the spread of the coronavirus on micro, small, medium and large enterprises in Georgia [14]. Also, 33% of the companies surveyed were from the regions of Georgia. Also, 46% of the respondents were micro-enterprises, and 25% were medium-sized enterprises. The study showed that decreased demand in most businesses (about 65%) has already resulted in a loss of more than 50% of revenue, especially suffered hotel and restaurant businesses, and over 75% experiencing significant revenue reduction. By the survey has been identified that 28% of respondents already faced the problem of fulfilling their obligations, and more than 50% of respondents have already made staff cut-offs (the most significant reductions were made in the hotel and restaurant sector, where more than 40% of enterprises laid off staff fully) [9].

Despite the relatively favourable financial conditions in the pre-pandemic period for SMEs, they were insufficient to endure the economic outcomes on their own without government intervention and participation. They were especially funding difficulties expected for the companies with high risks, such as innovative enterprises and start-ups. Trade and supply chain disruptions, reduced revenues, increased unforeseen expenses will result in a liquidity crisis, which requires an additional audit [15]. Consequently, the steps taken by governments are aimed at supporting companies to cope with the severe but temporary liquidity shortages caused by the coronavirus infection.

The World Trade Organization agrees with the assessment that limited financial resources and borrowing capacity are the most significant factors in the vulnerability of SMEs in terms of the pandemic. According to a press release prepared by the WTO's secretariat, many SMEs depend on international trade to sustain their activities, whether they export their goods themselves or through intermediaries or import materials and composite goods into the domestic market for other sales. Moreover, such enterprises dominate precisely those sectors most affected by social distancing measures and transport restrictions [16].

With the advent of COVID-19, publications began to be published describing the harmful effects of the crisis on SMEs and analysing the relief measures and measures taken by the governments of different countries [17-18].

Supporting activities may significantly impact the state budget, the level of internal and external debt. In order to ensure proper governance, it is essential to ensure the transparency and independence of the parties when providing focused support to companies. All government decisions and statements must be cost valued, documented, and monitored. Should be set ways of monitoring and control of the actual risks to guarantees and other commitments. Also, should be considered the measures and ways of risk mitigation.

In December of 2020, the government of Georgia has adopted a series of fiscal measures to mitigate the economic impacts caused by the pandemic. The total amount of declared measures mentioned above was almost GEL 1.1 milliard (2% of GDP). It included GEL 545 support of citizens and GEL 515 for business support. The latter has been provided supporting activities such as partial withholding tax exemptions on payroll, full property tax exemptions, and subsidy of loans for companies related to tourism, small grants for entrepreneurs, defer bank loans, etc. [9].

The first lockdown in Georgia affected the fiscal outcomes of the country: on June 24, 2020, parliament approved an amendment to the state budget, which included measures of mitigation of the government's Anti-Crisis Economic Action Plan. The supplementary budget increased the budget deficit to 8.5% of GDP.

The Georgian economy faced several problems, such as the depreciation of the national currency, a sharp decline in activity in tourism and restaurants and related services, deterioration in import and export indexes (Figure 3), and reduction in foreign direct investment (Figure 4). It should be mentioned that some figures get better after lifting strict restrictions related to the COVID-19 pandemic and implementing fiscal measures by the National Bank of Georgia increasing of refinancing rate has been strengthened the national currency against the US dollar [19]. Also has been increased export YTD May export volumes as compared to 2020 and even pre-pandemic 2019 period. Worth mentioning that it also increased money transfers from abroad (Figure 5).

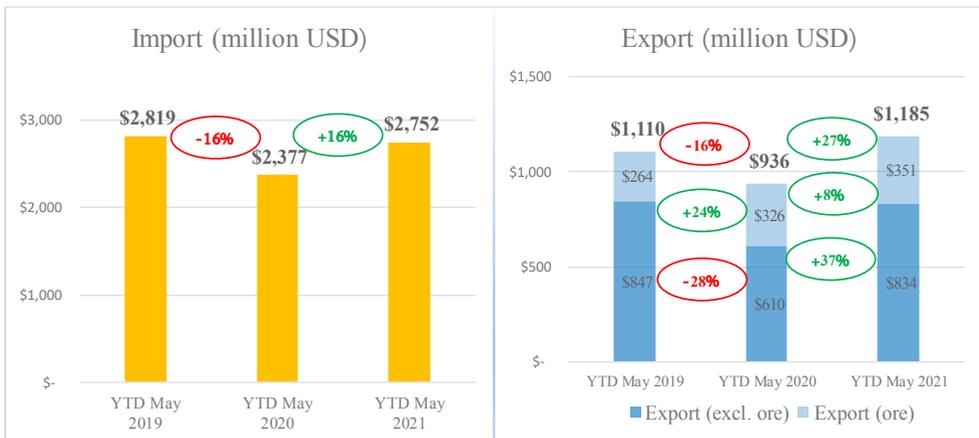


Fig 3. Import/Export figures for 2019 vs 2020 vs 2021 YTD May period [19].

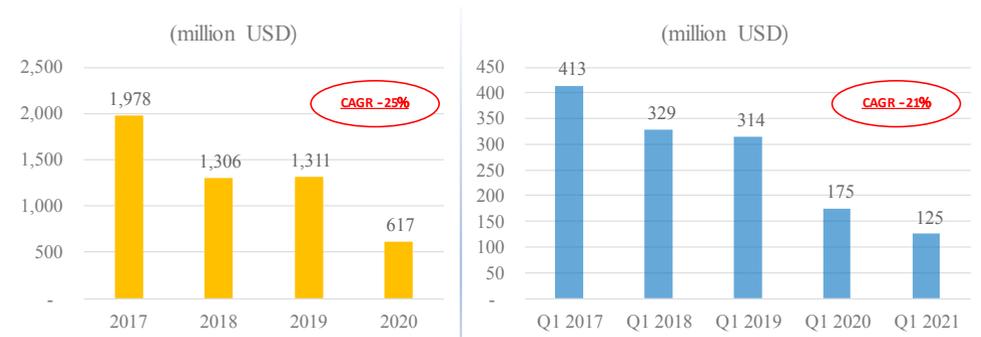


Fig 4. Foreign direct investment (FDI) whole period of 2017-2020 and 1 Quarter period of 2017-2021 [20].

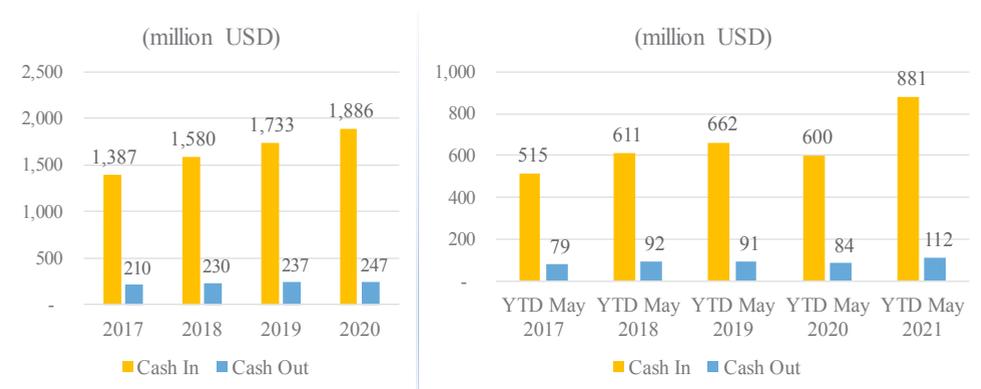


Fig 5. Money transfers the whole period of 2017-2020 and YTD May period of 2017-2021 [20].

According to the National Statistics Office of Georgia, for 2020, the turnover of SMEs in 2019 amounted to 44.5% of the total turnover. Noteworthy that 39.4% of the total turnover, which includes large, medium, and small businesses, comes to wholesale and retail trade, in which the share of SMEs is more than 50% [9].

According to the data, the share and structure of products manufactured in Georgia, 58.4% of the total value of products manufactured by enterprises in 2019 falls on SMEs.

According to the 2020 report of the National Statistics Office of Georgia, in 2019, the share of SMEs in added value was 59.3%, the share of employees was 65%, the turnover was 44.5%, and the share of output was 58.4% in total turnover. These numbers show how important SMEs are for the Georgian economy.

5 Conclusions

Beginning December 2019, events around the world related to the new coronavirus pandemic have clearly shown that the world was not ready for such challenges, and even developed and strong economies were unable to withstand the economic pressures caused by global disruptions in the supply chain. Small and medium-sized enterprises were especially vulnerable in this situation, resulting in production interruptions, temporary suspension, layoffs of employees, and change of the central business.

Although small and medium-sized enterprises are pretty "flexible" and can rapidly respond to external factors, they are remaining vulnerable and cannot overcome the crisis period independently and require active involvement and assistance from the government.

Since in the world and Georgia, a significant share of the economy falls on small and medium-sized enterprises and even more critical on the number of employees, delays in providing state aid to enterprises can cause significant losses and recession for the country's economy.

In addition to the fact that the leading countries of the world and their economies, as well as the economy of Georgia, were not ready for such a global challenge, which had a shocking effect all over the world, it should be noted that the private sector, especially in Georgia and especially in SMEs faced a new reality, after which they had to handle digitalisation of their services and offer remote services to their customers. Unfortunately, a crisis management system has not yet emerged in Georgia, and mostly the companies do not have an action plan for business continuous operating. In this regard, companies should identify risks raised and develop an action plan for their settlement. Foreign companies in developed countries have good experience in those mentioned above. Most of them have developed an action plan for business continuity and data recovery, which is also regulated by one of the International Organization for Standardisation standards, namely ISO: 22301. As per such a plan, companies simulate specific scenarios that identify significant risks and the economic and financial implications associated with them. Also, within the framework of this plan, it is possible to introduce a completely different activity to avoid complete cease of activity, such as a temporary "survival" plan, which the company will carry out in case the company cannot fulfil due to a decrease in demand.

In our opinion, besides the timely state financial aid for SMEs also is needed professional and technical support, in the symbiosis should be the companies' involvement to develop crisis management, risk assessment, and business continuity plan. In this regard, the state should provide SMEs with all the necessary information, which will raise the awareness of these enterprises and help them act rapidly and in agreement with the state in tandem, which will significantly simplify the process for both parties and the actions will be maximally coordinated. This will be relatively easy to achieve in Georgia, due to preconditions and essential elements for managing these processes already exist in the country, such as a precise classification of small and medium enterprises, as well as defining the main activities of enterprises with NACE codes and access to the Revenue Service web-portal for all registered taxpayers. By the mentioned web portal, it is possible to establish communication between the enterprise and the state. In addition to the above, since SMEs do not have enough financial, material-technical, and human resources to digitalise their services, it would be advisable if the state provides for SMEs with the internet platform, through which the companies could continue their activities and provide services to their customers via the Internet.

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