

Entrepreneurship in Georgia in the Wake of Pandemic: Old Challenges and New Opportunities

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Abstract

Georgian economy, as an integrated part of global and regional economy, has been hit by the pandemic, triggering the 'coronavirus crisis' in terms of a sharp drop in GDP, mass unemployment, and rocked inflation. The pandemic intensifies the existing systematic issue - country's dependence on external sources of economic growth - FDI, remittances, external trade, tourism, financial assistance of international organizations. Uncertainty and pessimistic expectations demotivate entrepreneurship. The goal of the article is to investigate entrepreneurship in Georgia, as a common and country-specific phenomenon in the wake of global pandemic, focusing attention on challenges and new opportunities. The research method is heavily qualitative due to the exploratory nature of the study. Case study, narrative content analysis and currently available statistical evidence are also applied. The pandemic requires the restructuring of the national economy, opens new opportunities for innovative entrepreneurship. The social distancing has dramatically altered consumers' behavior and habits in their shopping, leisure and travel. Online education, entertainment, sales, healthcare services, remote working, etc. present new opportunities for entrepreneurs. The lockdowns reorient consumers on mass digitalization, they buy more local goods (services) in local markets. Pandemic enhances Georgian young generation's incentives to choose entrepreneurship as a career choice.

Keywords: challenges, COVID-19 global pandemic, entrepreneurship, Georgia, opportunities

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Introduction

Problem statement. Today there is consensus that for any economy entrepreneurship plays a key role by generating jobs, incomes and value-added. At the same time, the literature provides various definitions of entrepreneurship. According to the OECD-Eurostat Entrepreneurship Indicators Program, entrepreneurship and entrepreneurial activity are associated with action rather than intentions (Ahmad & Seymour, 2008). In other words, entrepreneurship activity means that someone is actively engaged in starting or running a new business, and results are startup (creation of a new micro, small or medium sized enterprise (MSME)) or an effective performance of existing organization.

Across the world the COVID-19 pandemic has led to massive layoffs and closures, first of all, of small businesses. On another hand, that are MSMEs that demonstrate high flexibility in a new market environment, interactivity and accountability to the local community wants and needs.

The goal of the article is to investigate entrepreneurship in a particular country, Georgia, as a common and country-specific phenomenon in the wake of global pandemic, focusing attention on challenges and opportunities, that Georgian and entrepreneurs and owners of MSME face.

To achieve this goal, the following **research questions** were formulated:

RQ₁: How does COVID-19 pandemic affect the entrepreneurship nature and role?

RQ₂: What kind of challenges do the Georgian entrepreneurs face?

RQ₃: What are new opportunities (if any) does the global pandemic offer Georgian entrepreneurs?

The reach method applied in the article is heavily qualitative due to the nature of the research which is mainly *exploratory*. We do believe that interpretation of pandemic effects on entrepreneurial activity and special role of entrepreneurship in a 'New normal' are extremely important. This understanding creates a first step toward further qualitative research. Narrative content analysis and currently available statistical evidence are also applied.

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As a case study, entrepreneurship in Georgia is used to identify common as well as a country-specific impacts of the global pandemic.

Limitation. Two years of observation is too short statistical period in order to reveal and analyze precise impacts of pandemic crisis, to identify new trends. The main trends have just emerged. Besides, as usually, case study research cannot provide enough information for generalization but it is valuable for the further research and comparison.

Literature Review on Entrepreneurship Basics

Theories that are dealing with entrepreneurship come mainly from three disciplines: psychology, sociology, and economics. Psychologists interested in identifying the personal characteristics of entrepreneurs. Sociologists have been looking into behavioral aspects of the entrepreneurial personality. Economists traditionally looked at the effect of entrepreneurship on economic development as an application of growth theories within the entrepreneurial context (Schumpeter, 1934).

Indeed, entrepreneurial activity takes place and is formed in a specific ecosystem that consists of social, cultural, political and economic elements. All of them together and each individually affect national environment for entrepreneurship. The GEM model, for instance, includes nine pillars that can stimulate entrepreneurship activity or constrain it (GEM: Diagnosing, 2020, p.19-20):

- ✓ Access to entrepreneurial finance
- ✓ Government policy (support and relevance; taxes and bureaucracy)
- ✓ Government entrepreneurship programs
- ✓ Entrepreneurship education during schooling and post-schooling
- ✓ Research and development transfers
- ✓ Commercial and professional infrastructure
- ✓ Ease of entry (markets dynamics, burdens and regulations)
- ✓ Physical infrastructure
- ✓ Social and cultural norms

Thus, on one side, only keeping in mind ecosystem as a 'precondition' for entrepreneurship, it is possible to understand people's motivation and decision whether or not to start or be engaged in entrepreneurship. On another, an entrepreneurial activity is also a function of personal characteristics such as demographics (age, gender, education, etc.) and psychological (entrepreneurial talent, self-assessment of entrepreneurial capabilities, level of fear of failure, perceived ease of starting business, ability to spot business opportunities and readiness to act on them, so forth).

It is worth to emphasize that entrepreneurship is a *dynamic* rather than a *static* socio-economic phenomenon which goes through several development phases (GEM: Diagnosing, 2020, p.17):

- Potential entrepreneur (looks for opportunities, accumulates knowledge and skills to make startup decision)
- Nascent entrepreneur (is involved in setting up a business)
- Owner-manager of a new business (up to 3.5 years old)
- Owner-manager of an established business (more than to 3.5 years old)

On each development phase, motivation and goals for entrepreneurial activity are different.

The economic literature traditionally distinguishes between *necessity-driven* entrepreneurship and *opportunity-driven entrepreneurship* (Kelley, Singer, Herrington; 2012) or entrepreneurship ‘of need’ and *entrepreneurship ‘of opportunity’* (Hassid and Komselis, 2007; p.46). Behind the last is the force that pushes the entrepreneur to undertake risk because of financial reasons or might also stem from a need to achieve something like fulfill one’s dreams, ambitions, or to be successful. As for *entrepreneurship “of need”*, entrepreneurial activities result from a variety of reasons, for instance, employment discrimination, that make an individual become self- employed. Self-employment may also be the only choice that remains for the individual to reverse the financial situation under which he or she suffers.

As the statistics evidence, necessity motives (*entrepreneurship “of need”*) often prevalent in lower-income economies, for example, 50% of family entrepreneurs in Egypt, 46% in India, and 38% in Angola started their businesses because there were no better job options. In middle-income economies at least one-third of family start their businesses with necessity motives, while the high-income economies necessity motives are for 10% or less among family entrepreneurs (Kelley, Gartner, Allen, 2020, p.16).

Remarkably, identifying entrepreneurship and entrepreneurial activity, the OECD-Eurostat Entrepreneurship Indicators Program focuses on the last two phases, when entrepreneurs become owner-managers of micro, small or medium sized enterprises (MSMEs) and when the goal of entrepreneurial activity is generation of new value though creation or expansion of economic activity, identification and exploiting of new products, processes, or markets (Ahmad & Seymour, 2008).

In recent decades, there have been attempts to analyze entrepreneurship as a complex socio-economic phenomenon (Timmons & Spinelli, 2009; Luiz & Mariotti, 2011; Hassid & Komselis, 2007). Fayolle (2002) summarising this new trend, offers interesting classification of entrepreneurship models (schools) (Table 1).

Table 1. Classification of Entrepreneurship Models or Schools

Model/School	Focus
Great person	Inborn characteristics of entrepreneurs and their success stories
Personal characteristics	Specific and unique characteristics of entrepreneurs
Classical	Innovation and creativity, identification of opportunities
Managerial	Pursuit of business opportunities and use of appropriate management tools
Leadership	Leadership qualities of entrepreneurs
Intrapreneurship	Entrepreneurship behavior in existing organization

Source: Fayolle, 2002, p. 262

The Impact of Pandemic on Entrepreneurship Motivation

Due to COVID-19, many changes have happened in the world we live in. The pandemic has led to massive layoffs and closures in many countries especially across the developing ones. The results can be expected to accompany any economic shock - for over half of the economies outside of Europe & North America, more than two out of three adults reported loss of job and a decrease in household income (GEM, 2020/2021, p.14).

The negative impact of the pandemic (in terms of increased unemployment, shrink job pool or alternative employment opportunities, reduced incomes, inflation, weaken social security systems, so forth) affected peoples’ attitudes, expectations and intentions. The pandemic increases uncertainty and makes expectations more pessimistic, demotivates entrepreneurship. As a result, the level of Total early-stage Entrepreneurial Activity - percentage of adults aged 18–64 actively involved in starting or running a new business – evidences this negative tendency. For instance, in Europe & North America, the proportion of adults starting or running a new business fell significantly, with 14 out of 20 economies having less than one in 10 adults starting or running a new business (Ibid, p.30).

Most (three out of five) of the entrepreneurial respondents from Europe & North America and Latin America & Caribbean was motivated to create a business to “*make a difference in the world*” that means potential future shifts towards more purpose-driven companies in these regions (GEM, 2020/2021, p. 17). There is rather more agreement with the motive “*to build great wealth or very high income*”, with over three out of four starters in these regions and with the highest rate in Kazakhstan (95% of respondents) and the lowest in Norway, with just three in 10.

Thus, the latest statistic is fully consistent with long trend – different economic situation in a country causes different motivations for entrepreneurship, but overall negative impact enhances necessity-driven motivation, especially in developing world. On another side, the pandemic effects on motivation cannot be called unequivocal. Ongoing restructuring of economies opens new opportunities for entrepreneurs and innovative minds, creates additional motivation for establishing new businesses.

Indeed, global pandemic reconfigured daily life. It has changed people's life style, causes consumers to reassess their values and priorities as well as embrace new consumption habits. In response, consumer demand has changed with an initial and ongoing massive consumer demand for sanitizing products and protective personal equipment, followed rapidly by demand for online education and entertainment, then for online sales, healthcare services, others. Unsurprisingly, the demand for pharmaceuticals and the online purchase of takeaway food has skyrocketed.

The final picture of restructuring of economies might be observing in a few years, but the 'New normal' has become a reality. Today it is obvious that many of old industries are declining, resources are shifting away from things consumers no longer want and towards the things they do. The main tendency is that growing sectors are related to new consumer services. Traditionally, in such sectors, small and medium-sized enterprises have been the most competitive and effective. Thus, the global pandemic is opening new opportunities for MSME owners in terms of demand for new consumer services. The lockdowns reoriented consumers to buy more local goods (services) in local markets, thus reevaluating the critical role of local entrepreneurship and small businesses to their societies and healthy lifestyles (Matin, Khoshtaria, & Tutberidze, 2020; Alhalabi & Erguvan, 2021).

Mass digitalization of many services has also opened new pathways and markets for entrepreneurial growth. The development of affordable digital tools and platforms has provided new opportunities in terms of products/services (such as online education, online working, and unmanned delivery) and markets (including foreign) for MSMEs. New data from the *Future of Business Survey*, a joint Facebook-OECD-World Bank collaboration, show that even "just me" entrepreneurs (i.e. self-employed with no employees) can engage in exports as a major activity for their business (OECD, 2017). Close to a third (28%) of just-me entrepreneurs who export indicate that more than 25% of their total revenue comes from international trade. Also, two in three exporting SMEs reported that more than 50% of their international sales depend on online tools, with export activities most common among manufacturing SMEs, followed by retail/wholesale businesses (GEM, 2020/2021, p. 30).

Restructuring of economies causes changes in skills demanded. The research conducted by the McKinsey Global Institute reveals that in beyond the pandemic world the need for manual and physical skills, as well as basic cognitive ones, will decline, but demand for technological, social and emotional, as well as higher cognitive skills will grow (Dondi, et al., 2021). The authors distinguish between 56 groups of skills and attitudes, including entrepreneurship. Four personal characteristics of entrepreneur - breaking orthodoxies, courage and risk taking, driving change and innovation, energy, passion and optimism – are becoming mater (Table 2).

Table 2. Post-Covid Entrepreneurship Characteristics

Element	Definition	Desired proficiency level
Breaking orthodoxies	The ability to identify and expose situation where orthodoxies and conventional wisdom may hinder progress	Individuals often change conventional wisdom and orthodoxies and show alternative views that may lead to progress
Courage and risk taking	The ability to take risks in hope of great achievements, notwithstanding uncertainty and potential loss	Individuals are willing to take risks, if necessary to achieve to achieve something great even in the face of uncertainty and potential loss
Driving change and innovation	The attitudes of aiming for continues improvements through innovation	Individuals believe that there is always a better way to do things and continuously strive for innovation and improvement
Energy, passion and optimism	The ability to keep a positive attitude and gain energy by pursuing a challenging goal	Individuals are able to keep a positive attitude and find the energy to face the challenges and complexity

Source: Dondi, et al., 2021, p. 16

Challenges and Opportunities of Modern Entrepreneurship in Georgia

A nature of an entrepreneur has both common and a country-specific features or local characteristic, which are shaped in country's ecosystem and within those specific communities. Assessing the impact of COVID-19 pandemic on Georgian economy, instead of term 'economic slowdown' researchers use 'coronavirus crisis' to highlight its devastating results for the economy as a whole and for particular sectors (IMF, 2021a; Eradze, 2020). The major reason is that the pandemic intensifies the existing systematic issue - country's dependence on external sources of economic growth such as FDI, remittances, external trade, tourism, others (Papiashvili & Ciloglu, 2015). Overall, major sectors such as energy, manufacturing, tourism and services experienced double-digit drops (IMF, 2020). In particular, the share of FDI in GDP in 2019 was 7.5% and it shrunk to 3.9% in 2020; during the year gross external debt to GDP increased from 106.6% to 127.7% (www.nbg.gov.ge). In 2020 compare to the previous year remittances decreased about 6.5%, revenues from international visitors declined by more than 83% (NBG, 2021). The financial assistance of international organizations (first of all, IMF and the WB) is still very welcome (IMF: Georgia, 2021b). All these has made Georgian economy particularly vulnerable to any external shock and the pandemic, in particular.

Overall consequences of the pandemic are observed though the dynamic of the main macroeconomic indicators – GDP, inflation and unemployment rate. As Figure 1 reveals, sharp decline in GDP started from the beginning of 2020, reaching a record decline of 13.2% in the second quarter. Accelerating unemployment and inflation rate, complete the picture (Figure 2).

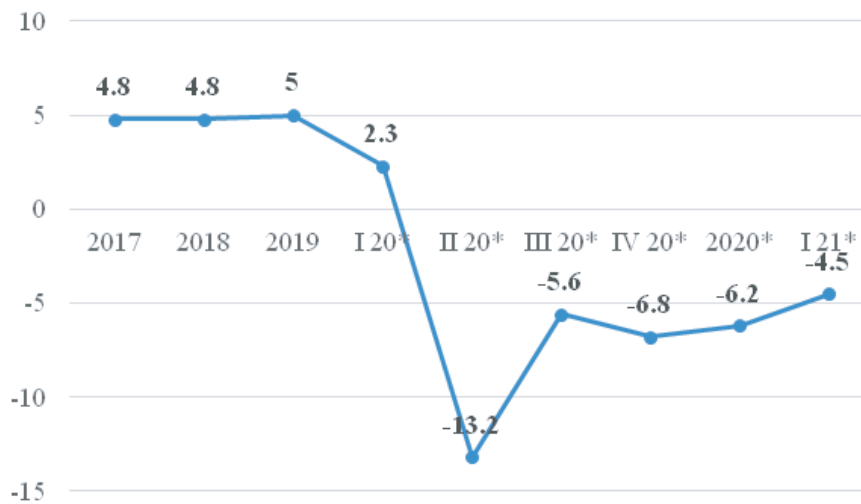


Figure 1. GDP Real Growth (% change)

Source: developed by the authors based on data: www.georstat.ge

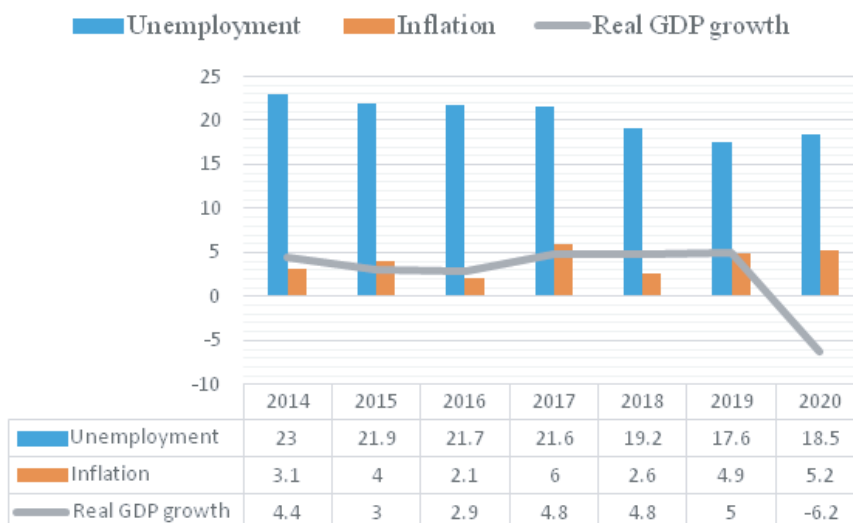


Figure 2. Unemployment, Inflation and Read GDP Growth Rate (%)

Source: developed by the authors based on data: www.georstat.ge

To understand Georgian entrepreneurs' incentives and motivations to start a new business in a 'New normal' or a pandemic reality, deeper analysis of labor statistics is essential (Figure 3).

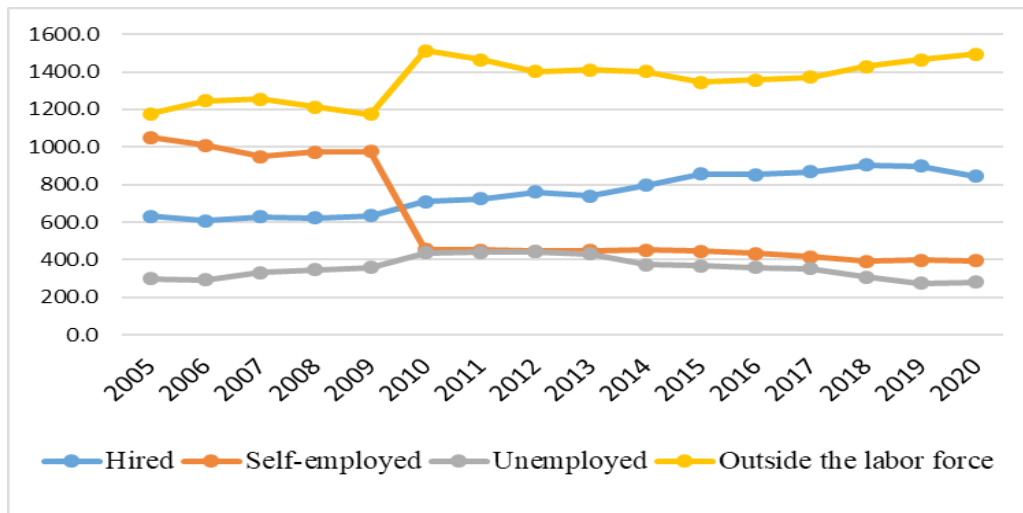


Figure 3. Labor Force Indicators in Georgia (thousand persons)

Source: developed by the authors based on data: www.georstat.ge

As the statistics depicts, during the observed period in Georgian labor market the most serious changes happened during the global financial crisis of 2008-09, when the number of self-employed fell dramatically and the number of outside the labor force increased. Since these years, the number of hired workers has slight upward trended and unemployment tended to decrease. Remarkably, the number of people who are outside the of labor force trends to grow. So, 'growth paradox' or economic growth without employment is still observed in the country (Papiashvili, 2013).



Figure 4. Labor Force Indicators in Georgia by Age Groups (thousand persons), 2020

Source developed by the authors based on data: www.georstat.ge

Intentions to be an entrepreneur is essential for young generation. As Figure 4 presents, in Georgia young people (15-24 years old) have strong incentives to choose entrepreneurship as a career choice as their share in self-employed and outside of labor force is significant, and the unemployment rate is the highest (Figure 5).

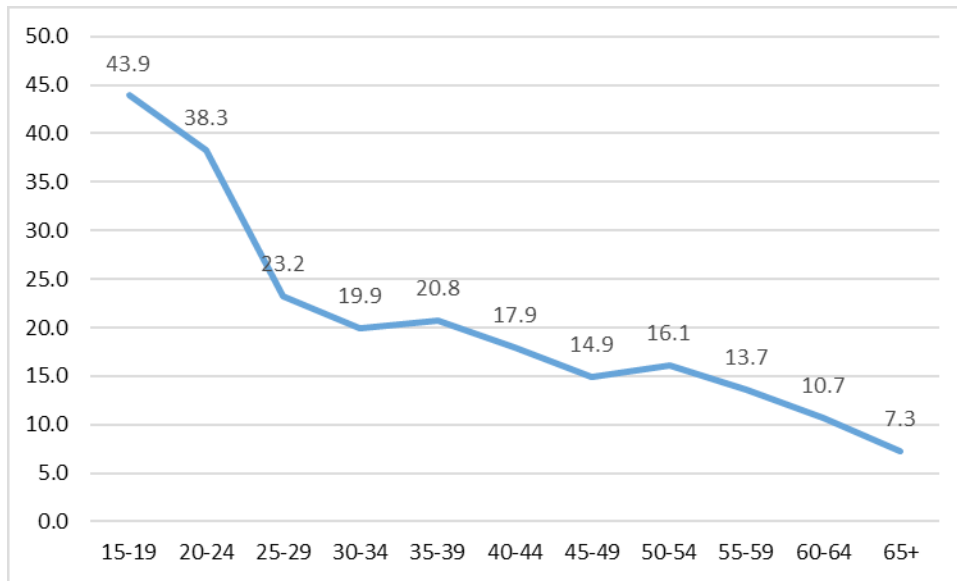


Figure 5. Unemployment Rate in Georgia by Different Age Groups, 2020 (%)

Source: developed by the authors based on data: www.georstat.ge

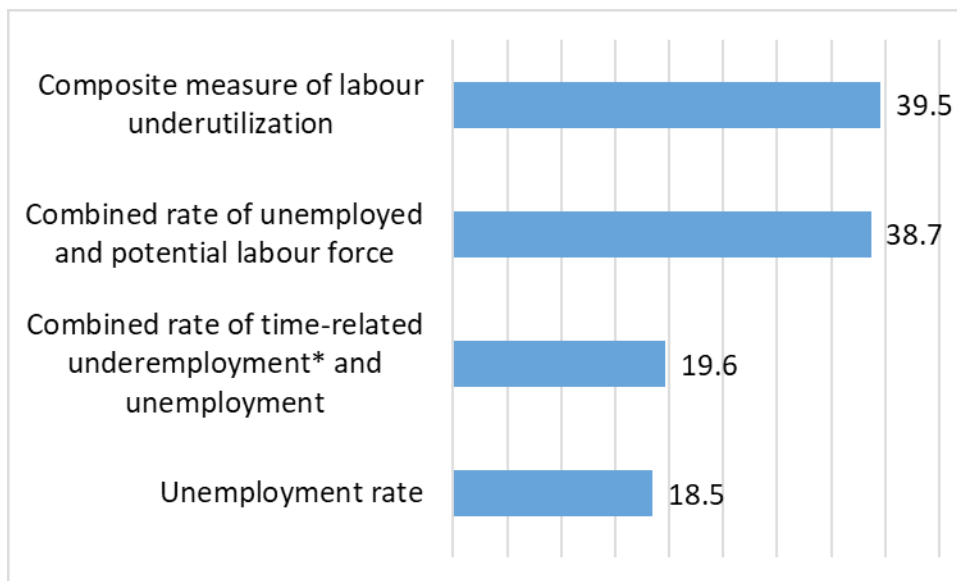


Figure 6. Indicators of Labor Underutilization in Georgia, 2020 (%)

Source: developed by the authors based on data: www.georstat.ge

The data in Figure 6 finalizes the picture. Particular, in 2020, the year of the second wave of the pandemic, the situation in Georgian labor market deteriorated significantly. Unemployment rate rose, each fifth Georgian of working age was underemployed (worked part-time, or looked for additional or other paid work, or tried to start own business) or was unemployed. The composite measure of labor underutilization reached 39.5%. Adding to the picture rocketing inflation rate (in 2021) - 12.8 % vs. 3% as a target rate, one can conclude that, despite the coronavirus crisis, self-employment and entrepreneurship is still a promising alternative for many Georgians. It should be underlined once again, in developing countries like Georgia, where income and wealth distribution is highly unequal and unemployment is high, most part

of micro and small businesses are established in order to earn some income and to fight poverty rather than to exploit opportunities. Indeed, as Table 3 shows the latest available data, even though the share of individual entrepreneurs in total number of registered enterprises down trends, it is still high – more than 60%.

Table 3. Statistics on Registered Enterprises in Georgia

	2016	2017	2018	2019
Number of registered enterprises, unit	596337	638994	681376	723067
Number of registered enterprises, %	100	107	107	106
Share of individual entrepreneurs, %	66.3	64.6	63.1	62.1

Source: developed by the authors based on data: Business sector in Georgia 2020, p. 23, 25

In July 2021 the number of newly registered enterprises increased by 8.5% compare to the same period of the previous year (National Statistics Office of Georgia, July 2021) that proves rising intentions of Georgians to become individual entrepreneurs. Moreover, the country has had a solid base for future entrepreneurship development in terms of human resources - long tradition of higher education including business education - as well as an army of self-employed and numerous micros, small and medium enterprises and their growing contribution to the national economy (Papiashvili & Saksonova, 2019).

Besides, Georgian households are quite well equipped with information and communication technologies (ITC) which are so required by a new economy. According to the results of the National Statistics Office study, the share of households with Internet access in urban and rural areas amounted to 91.4% and 78.9%, respectively, or it increased by 0.7 percentage points for urban and by 4.4 percentage points for rural areas, respectively. Over the past three months, 77.4% of the country's population over six years old used the Internet, which is 3.4% more than in the reporting period last year. It is noted that 91.7% of the country's residents aged 15 and over logged on to the Internet daily or almost every day, 7.2% - at least once a week, 1.1% - used the Internet even more often (National Statistics Office of Georgia, 2021).

Revealingly, among the population aged 15 years and older, who used Internet within the last 3 months, the main reasons for using were: finding information about goods and services (38.5%), internet banking (36.4%), downloading software or applications (other than games software) (17.0%) and looking for a job or sending/submitted a job application (12.3%) (Ibid).

Thus, not surprisingly that Georgia's e-commerce market has boosted during the pandemic, as lockdowns encouraged many to purchase online for the first time or increase the frequency of online purchases (Khoshtaria, Matin, Mercan., & Datuashvili, 2021). The lockdowns also forced Georgian companies to expand their online offerings. In Georgia e-commerce increased more than threefold year-on-year in 2020 to nearly \$45million, a Galt & Taggart report states (Georgia Country Report, 2021).

Conclusion

There is no doubt that entrepreneurs play a crucial role in economic growth and development of any country.

The global lockdowns of mid-2020 and beginning-2021 created the biggest challenges for consumers, governments and national economies, especially in developing world, in terms of sharp drop in GDP, mass unemployment, and rocked inflation.

The pandemic increases uncertainty and makes expectations more pessimistic, demotivates entrepreneurship. The most vulnerable sector of economy – micro, small and medium-sized enterprises (MSMEs) – suffers the most.

In response to global pandemic, restructuring of economies and 'New normal' have become a reality. The required social distancing has dramatically altered consumers' behavior and habits in their shopping, leisure and travel. Online education, entertainment, sales, healthcare services as well as remote working present new opportunities for entrepreneurs and innovative minds, the fields in which MSMEs are the most efficient and competitive.

'New normal' also requires deeper digital and technology skills, data literacy, critical thinking, creativity and innovation. Reskilling and upskilling the workforce open new breaks for entrepreneurs. This is exactly where small and medium business owners' strengths lie. Indeed, in times of crisis, small businesses always demonstrate its high flexibility, resiliency and responsiveness which help them to adapt to new reality.

Therefore, the pandemic has reoriented consumers to buy more local goods (services) in local markets, thus reevaluating the critical role of local entrepreneurship and small businesses to their societies and healthy lifestyles.

The Georgian economy is an integrated part of global and regional economy. The negative effects of pandemic cause 'coronavirus crisis' are common for most developing economies. At the same time, the pandemic intensifies the existing systematic issue - country's dependence on external sources of economic growth such as FDI, remittances, external trade, tourism, financial assistance of international organizations. As a result, scale and depth of this external shock has made Georgian economy particularly vulnerable, and restructuring of the economy was even more dependent on external financing. Paradoxically, pandemic enhances Georgia young people (15-24 years old) incentives to choose entrepreneurship as a career choice due to the lack of any other real alternative. Certainly, their share in self-employed and outside of labor force is significant, and the unemployment rate is the highest. Nowadays in Georgia *necessity-driven* entrepreneurship or entrepreneurship 'of need' has been actual as never before. Statistic evidences this positive trend.

Moreover, the country has had a solid base for future entrepreneurship development in terms of human resources - long tradition of higher education including business education - as well as an army of self-employed and numerous micro, small and medium enterprises and their growing contribution to the national economy. Georgian households and young generation, in particular, are quite well equipped with information and communication technologies, which are so required by a new economy. Not surprisingly that Georgia's e-commerce market has boosted during the pandemic.

Further research: The academicians are just beginning their researches of pandemic effects on society and economy. There are a lot of ways in which this study can be continued, improved and expanded. The restructuring of the economy that has begun on the basis of its digitalization opens up new opportunities for entrepreneurship and its research.

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