

## **BUSINESS ENVIRONMENT AND MICRO AND MACRO FACTORS AFFECTING IT (IN CASE OF GEORGIA)**

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### **ABSTRACT**

Any business entity, whether local or international, operates in a certain business environment. Business environment is a combination of conditions and internal and external factors related to the operation and activity of a business entity. However, the business environment exists outside the business entity and determines the behavior of this entity in the market.

The micro-environment at the level of business entities has a direct impact on the firm's activities and includes: suppliers, customers, employees, competitors, and others.

At the scale of the national economy, the macro-environment of business has a significant impact on the environment of business subjects and includes: the level of economic development of the country, financial and credit institutions, organizational-legal environment of business, scientific-technical progress, public-cultural level. In addition, among the macro-factors affecting business, the geographical location of the country acquires a certain importance. Georgia's unique flora and fauna, its geographical location - which means Georgia's location at the junction of Europe and Asia, in particular, in the Caucasus, acquires great importance in terms of business promotion and development in the country.

The purpose of this study is to analyze the business environment of developing countries, in particular Georgia, it also focuses on how local government and international organizations help

small and medium enterprises to increase their financial stability and export potential, which in turn makes them the main contributors the local and global economy.

**Keywords:** Business subject; Business environment; Micro-environment; Macro-environment; Entrepreneurship.

## **I. Introduction**

It is important to note that the combination of factors affecting local and international business is different, which is caused by the scale of business implementation and the different level of economic and political development between developed and developing countries.

Georgia is located at the ancient transport crossroads that connected and connects the countries of the North and South, West and East. The transport highway connecting Europe-Asia - It is along this route that the Old Silk Road is located.

Georgia belongs to the post-socialist country. During the collapse of the Soviet Union, Georgia regained its independence in 1991, and after a chaotic period caused by a severe economic crisis, the country became relatively stable in the late 1990s. Georgia's active cooperation with international financial and credit organizations, relevant organizations of the European Union, and the parallel rapid economic development have made the country the epicenter of important Eurasian energy projects.

Market reforms have continued since the declaration of independence. The main branches of the economy are agriculture, machine building, metallurgy, hydro resources. Much attention is paid to the restoration of the resort-tourist complex, which previously served 2 million people annually.

In the conditions of a developed market (mixed) economy, the role and importance of business is extremely large. Today, healthy business development conditions determine the level of economic development of any country. That's why business becomes a constituent part of Georgian economy. For many citizens in Georgia, business has already become the main type of work or a secondary form of employment. The business especially attracts the young generation. It should be noted that Georgian business has not yet acquired a modern civilized form and content, many things need to be refined. Therefore, it is very important to train personnel for the business field, who will have to work in enterprises, companies and corporations of different profiles and nature.

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The literature on the foundations of business and the theory of entrepreneurship in Georgia has been experiencing an upward trend over the years. There are numerous studies of Georgian and foreign scientists-practitioners about the business environment and entrepreneurial activities, which emphasize the influence of factors affecting business development in Georgia and other developing countries. The purpose of our research is to develop an argument about the strengthening of the role of Georgian and foreign institutions in the mentioned processes, about the improvement of the business environment of Georgia and the strengthening of capacity.

## **II. Methodology**

First of all, the study evaluated the functioning of business entities in Georgia, namely small and medium enterprises, and the existing micro and macro environment. Assistance and promotion of international institutions in order to improve the country's business environment is also discussed.

In order to use secondary research methods, the data were taken from the official websites of the Ministry of Economy and Sustainable Development of Georgia and relevant non-governmental organizations.

## **III. Business Environment in Georgia and Factors Affecting It**

Modern business depends on complex systems and technologies that are constantly evolving. Many factors influence the business environment in different countries. In other words, the business entity as such serves to meet the needs of the members of society and never functions without it.

Generally, these environments can be divided into two categories. The first is the microenvironment. This category affects the activity of a specific business entity itself and its results, and the second is the macro environment, which affects the activity of all existing business entities. The micro and macro environment includes a number of key factors and has a significant impact on the diversified development of business.

They distinguish between the micro and macro environment of business. The microenvironment is the environment that directly affects the operation of the business. It is related to the specific field in which the company operates and can directly affect all business processes and performance results. They can affect the daily activities of business entities and the general operation of the company. However, the effect they have is not long-lasting. The microenvironment includes customers, suppliers, resellers, competitors, and the general public.

The macro environment includes all the factors surrounding the business that are outside of the organization and can affect performance and results. It is characterized by a wide environment. The factors that make up the macro environment are economic factors, demographic factors, technological factors, natural and physical factors, political and legal factors, and social and cultural factors.

Interaction with the external environment of a business can affect its development internally. The impact of macro-environmental factors on business can be both positive and negative. For example, the use of technological innovations in production can lead to economic growth of the enterprise, but the economic crisis in the country will bring negative consequences. Let's briefly consider the macro factors affecting business. The macro environment also includes the level of business infrastructure development, in particular, the functioning of the institutions that operate in the country.

In Georgia, Small and Medium-sized Enterprises (SMEs) are important for promoting employment and economic growth. However, they often face obstacles such as limited access to finance, difficulties in entering new markets and strict legal regulations. Business entities (enterprises) registered in Georgia are divided as follows: Small, medium, large. Small and medium-sized enterprises include "all enterprises with an organizational-legal form, in which the average annual number of employees and whose annual turnover does not exceed the following threshold amount: for a small enterprise - 50 employees and 12 million GEL; for medium enterprises - 249 employees and 60 million GEL" [1]. And in the case of a large enterprise, the number of employees and the annual turnover exceed the similar indicators of an average enterprise. This gradation has been in effect in Georgia since 2017. To register a business, the potential owner must first pay the registration fee, register the company with the Entrepreneurial Register, and obtain an identification number and certificate of state and tax registration.

According to the data of the National Statistical Service of Georgia, the economic indicators of recent years look as follows:

**Table 1. MAIN ECONOMIC INDICATORS OF ENTREPRENEURIAL SPHERE**

	2018	2019	2020	2021	2022
Number of registered enterprises, unit	670269	711982	747604	791943	859672
Number of active enterprises, unit	151117	160506	160698	171021	200098
Turnover, mln. GEL	86625.1	109024.3	114348.5	150414.9	181765.5
Output, mln. GEL	41649.2	47494.7	46227.3 5	57613.8	71778.3
Value added, mln. GEL	20726.9	23296.0 2	22263.0	27843.7	36153.7
Intermediate consumption, mln. GEL	20922.4	24198.8	23964.3	29770.2	35624.6
<b>Total</b>	33754.5	36785.1	38730.8	44737.3	46822.6
Number of employees, person	734215	756852	703874	744256	779418
Average monthly salaries and wages, GEL	1101.3	1161.7	1222.9	1347.6	1605.9
<i>source:</i> compiled by authors from Business sector in Georgia. <a href="https://www.geostat.ge/media/58576/Business-sector-in-Georgia-2023.pdf">https://www.geostat.ge/media/58576/Business-sector-in-Georgia-2023.pdf</a>					

As can be seen from the table, in 2018-22, a growth trend can be observed in Georgia in terms of the number of registered enterprises, the volume of products produced, as well as the number of employees and their remuneration.

#### **IV. Institutions and Entrepreneurship in Georgia**

Improvement of the entrepreneurial environment, development of the private sector, promotion of the investment climate of Georgia, promotion of exports are the main goals of the activities of the Ministry of Economy and Sustainable Development "Make in Georgia". Promotion of small and medium-sized businesses of the Agency "Make in Georgia" is carried out through various supporting mechanisms, namely:

- Micro and small business support component, which provides financial support (grant program) and consulting to micro and small entrepreneurs throughout Georgia;
- Credit-guarantee mechanism, which helps small and medium-sized entrepreneurs to get a loan on preferential terms in the conditions of the high interest rate currently on credit in Georgia;
- Export support - the goal of the agency in this direction is to increase the export potential of business entities (enterprises) in Georgia and to increase the competitiveness of Georgian products and to diversify export markets;

- The direction of attracting investments involves familiarizing foreign investors with the investment environment of Georgia, attracting foreign investments in Georgian business and re-investment.

The macro and micro environment of a business affects its performance and results. Understanding and adapting to these factors are key aspects of running a successful business.

It is important to note that the business environment is gradually changing and becoming global. In today's competitive business world, which of the following environments affects business? a. The competitive environment; b. The global environment; c. The technological environment; d. The economic environment; e. All of the above" [2, Pp. 27].

Georgia, located at the crossroads of Western Asia and Eastern Europe, has made sweeping economic reforms since 1991 that have produced a relatively well-functioning and stable market economy. At the modern stage of Georgia's economic development, with the help and efforts of the country's government and international institutions, including the European Union, promotion of local business development and its scale growth is carried out.

Start and Expand your Business Enterprise Georgia – Business Division implements various support mechanisms to develop entrepreneurship in Georgia. These mechanisms include: Micro and Small Business Support; Business Universal; Government Program – Mortgage Subsidy; Credit Guarantee Mechanism; Tourism Development; Film in Georgia.

According to the Bloomberg's 2022 annual global Study of Foreign Direct Investment Flows, "Georgia stands out as a popular investment destination, ranking 13th for investment among major global economies, including the US, China, and the UK [3].

Therefore, in the conditions of globalization and integration of the world economy, the growth of trade and economic relations with the European Union is especially important for Georgia. In cooperation with the European Union, Georgia must ensure the safe and sustainable development of the country, including promoting the functioning and development of business.

"The new initiative of the European Union "Eastern Partnership" envisages the conclusion of agreements on a new type of association, long-term integration into the economy of the European Union, agreements on deep and comprehensive free trade, and one of its platform provisions is economic integration and rapprochement with the politics of the European Union.

"Improving the business environment, developing the private sector, promoting the investment climate of Georgia, promoting exports are the main goals of the activity of the Ministry of Economy and Sustainable Development's "Make in Georgia" activity.

To ensure dynamic economic development, the agency combines three components, three interrelated layers of economic development: business (local production), export and investment" [4].

Georgia's cycle of reforms - top reformer since 2003 -51 reforms were implemented in the country in terms of improving both the institutional and regulatory environment.

**Important reforms are:**

- reducing the number of licenses and permits;
- "One window principle" and "Silence is a sign of consent" were created for license applications;
- With the simplified tax code, only 6 taxes remained out of 21 taxes. [5]

In order to support women's leadership in business, the United Nations Development Program (UNDP) and the Bank of Georgia signed a memorandum of understanding. As part of this collaboration, they will provide unprecedented support to up to two hundred start-ups created by women, which will help change the rules of the game in the small and medium business environment.

The "Women Entrepreneurs Program", which will be established within the framework of this partnership, offers women entrepreneurs the best opportunity to develop their businesses. "This unique model envisages a full cycle of support for a newly created enterprise and includes four main areas - theoretical education, building practical skills, access to financing and creation of a strong partnership network". [6]

It is important to note that the European Union is the biggest supporter of private sector development in Georgia. This support includes access to finance and markets, as well as the sharing of their expertise. Since 2009 the EU has been supporting SMEs in Georgia through our EU4Business Programme. With almost 50 different projects active with a total budget of over EUR 320 million, the EU is proud to be the largest foreign supporter of private sector development in Georgia. These efforts are bringing results – in 2019 alone, over 36,000 SMEs in Georgia were supported, resulting in an estimated 30,000 new jobs and generating an estimated EUR 400 million of extra income. [7].

Finally, the interaction of a business with its external environment can affect its development internally. The impact of macro-environmental factors on business can be both positive and negative. For example, the use of technological innovations in production can lead to economic growth of the enterprise, but the economic crisis in the country will bring negative consequences.

## **V. Conclusion**

In a country, especially in a developing country, it is quite a difficult, long and time-consuming way to form and develop the business environment.

Within the framework of association with the European Union, Georgian legislation is approaching the European one, which creates new standards and requirements for business. The private sector is currently unprepared to meet all the standards needed to absorb the new market. In order for business in Georgia to comply with international standards, it is necessary to strengthen the influence of micro and macro factors, such as: increasing access to finance; improvement of tax legislation; Promotion of the development of the Georgian stock exchange and smooth flow of capital between business entities in this direction.

Any successful business requires constant analysis, monitoring and adaptation to changes in the macro and micro environment. Taking these micro and macro factors into account will allow business to minimize possible risks and make the business environment attractive and successful for both local and foreign business entities.

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