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THE SMES DEVELOPMENT CONSTRAINTS IN TRANSITIONAL AND DEVELOPING COUNTRIES: GEORGIA & ROMANIA

Abstract

Georgia has been the world frontrunner in terms of economic reforms. Its economy experienced a double digit growth before the 2008 crisis and it has been the receiver of a record high volume of the foreign direct investments. However, the small and medium size enterprises of Georgia are among the most inefficient in the world, which prevents the inclusive development of a narrow market thus creating the risks of a spiralling downturn.

Romania too has been among the fastest growing European Union economies. Despite the impressive growth of the national income, Romania experiences severe uneven growth across its regions.

The existing surveys of the small and medium enterprises do not give an answer to such “abnormalities”; however, they give an impression that the current failure is created due to the “transitional process” of the economies of both countries, among other reasons.

The aim of this paper is to research the event in detail through the qualitative methodology, to be able to identify very specific reasons for this deviation and develop a theory based on the empirical findings which would explain or contradict the “transitional” phenomena. Also, to identify the specific drivers – the categories behind the “transitional” process that have strong negative influence over the developments of small and medium size enterprises.

The research used unstructured as well as semi-structured interviewing instruments to identify the positive and negative impact factors. The findings suggest the “transitional” process from the socialist bloc countries to the market economies has strongly negative input in the enterprises development; however the findings also suggest that the relative underdevelopment during the “socialist governance” does not play an important role; it is rather its economic structure prohibiting individual entrepreneurship that is the most negative muddling force. In addition, the in-depth interviews suggest that in both countries the “socialist past” has been an additional disruptive layer to the already existing social-economical texture, thus its sole role might be exaggerated. It also suggests the governments were passive in correcting the “distortion” and the correction or transition process was left on its own, however heavily contributed to by other economic partners. The findings fully support a holistic approach theory. Based on the findings it is possible to conclude that the pro-active "holistic involvement" approach is the only viable solution to improve the development speed of the small and medium enterprises in Georgia and Romania.

Keywords: SMEs, Small and Medium Enterprises, Transitional Economies, Georgia, Romania

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2. Introduction

"Small and medium-sized enterprises (SMEs) and entrepreneurship are essential drivers of economic and social well-being. Representing 99 percent of all businesses, generating about 60 percent of employment and totalling between 50 percent and 60 percent of value added in the OECD[1] area, SMEs are key for delivering sustainable and inclusive economic growth. They are instrumental to ensure that our economies and societies adapt to major transformations, such as digitalisation, globalisation, ageing and environmental pressures": stated by OECD.

While structurally the world economies and especially the OECD and non-OECD member countries differ from each other, the small and medium enterprises still play a major role in all of them, particularly in developing countries where they are crucial for human, social and economic developments. According to the World Bank[2], "Formal SMEs contribute up to 60 percent of total employment and up to 40 percent of national income (GDP) in emerging economies. These numbers are significantly higher when informal SMEs are included". And the role of the SMEs is on the rise together with the increasing world population. The World Bank estimated that "600 million jobs will be needed in the next 15 years to absorb the growing global workforce".

Georgia has made substantial progress in transitioning to an open market economy over the past decade. Georgia is a front runner in the region in overall Doing Business Rankings[3] and through improving its business environment, physical infrastructure, and financial and private sector reforms. It has positioned itself well to take advantage of the opportunities offered by the Association Agreement reached with the European Union, in June 2014, which includes a DCFTA.[4] But to successfully do so, certain remaining legacies need to be overcome.

Georgia's reform legacy has been accompanied generally by a relatively stable growth, but unemployment and low productivity remain persistent. Growth has been supported through the continued implementation of large infrastructure projects, as well as tourism, construction and services. Despite the sustained economic growth and successes in transforming its economy, Georgia has chronically suffered from high unemployment, 22 percent in urban areas, and low levels of productivity compared to its peers. Achievement of inclusive growth has proven to be evasive.

The small and medium enterprises remain extremely inefficient in Georgia. According to the OECD SME Policy Index Eastern Partner Countries 2016,[5] "despite strong economic growth in recent years, the SME sector accounted for only 20 percent of value added and 18.3 percent of total turnover in 2013, while the portion of total employment accounted for by SMEs actually decreased between 2010 and 2013".

The reforms initiated within the framework of the EU accession triggered the increase in productivity and the integration of Romania into the EU economic space. GDP per capita rose from 30 percent of the EU average in 1995 to 59 percent in 2016. Nowadays, more than 70 percent of the country's exports go to the EU, and their added value is increasing. Yet Romania remains one of the poorest members of the European Union. It hosts the largest pool of poor people and the widening disparity in economic development and poverty is still observable.

In 2017, Romania's total domestic product amounted to USD 11,000 per capita (current US dollar rate), while in Georgia it was 4 thousand US dollars, which means that the Georgian economy should be almost three times higher to catch up with the level of Romanian revenue. Considering the purchasing power parity (PPP), the total share of the Romanian economy is up to 27 thousand dollars, and 11 000 dollars, or 2.5 times less than the Georgian one (The World Bank Data, 2019).

While in 1990 the shares of GDP per capita of both countries were equal, at about USD 1,600 (current US dollars), after a 5-year fall in 1995, the GDP per capita of Romanians returned to the USD 1,600, in a same period it has fallen in Georgia to USD 600. What it took five years in Romania, lasted in Georgia until 2005, it took 15 years instead of 5.

Bucharest, the Capital city of Romania, is the richest part of the country. With two million inhabitants, the metropolis enjoys a gross domestic product per capita of EUR 22,000 (2017), more than twice bigger than the national average of EUR 9,600. By this indicator Bucharest has exceeded the EU average income per capita, and many secondary cities are following it, for example Cluj-Napoca and Timișoara. However, access to public services remains restricted for many citizens, particularly in rural areas, and there is a large infrastructure gap.

Eurostat[6] reported that

> Nord-Est (Moldavia), the poorest area in Romania and EU's fifth poorest region, is only 39 percent of EU average in terms of development in 2017, compared with 144 percent for the Bucharest region, 67 percent for the Vest / Banat region (including the rich Timișoara-Arad area), 60 percent for the Central region (southern Transylvania), 56 percent for the Nord-Vest (northern Transylvania), 53 percent for the South-East region (including the rich port of Constanța), 50 percent for South-Muntenia and 45 percent for the South-West-Oltenia region.

Similarly, the small and medium-sized enterprises of Romania are experiencing development problems. The EU SBA 2018 Fact Sheet[7] apprised that

> SMEs account for slightly more than half of the added value and for almost two thirds of employment in Romania's total 'non-financial business economy', posting figures of 51.3 percent and 65.8 percent, respectively. This is lower than the respective EU averages of 56.8 percent and 66.4 percent. The main SME sectors in Romania are wholesale and retail trade

> and manufacturing, together contributing to almost half of the overall SME added value and to more than half of the SME employment.

In both countries, Georgia and Romania, the small and medium enterprises are underdeveloped compared to their peers. In Georgia the SMEs are experiencing "abnormal" underdevelopment compared to the economic profile of progressive countries. In Romania the regional economic disparities are preserved and their trajectory is widening.

There is ample research on the small and medium enterprises of Georgia and Romania. Flagship reviews among them are the Small and Medium Businesses Act (SBA) related reviews: the SBA review and the SME Policy Index. These reviews, together with other scholarly and non-scholarly research, are primarily based on the quantitative methodologies data obtained through questionnaires from a limited pool of companies and the relevant statistical agencies. These papers and the SBA reviews give an excellent picture of the shortcomings of the SMEs development, but they do not cover the drivers behind the events.

This paper tries to answer the following question: "what are the most important positive and negative factors influencing the SMEs development in Georgia and Romania?" and prove or dismiss the widely accepted perception that "transitional" economies are specifically vulnerable because of their transition from socialism to market economies. At the same time, the research aims to identify the specific categories behind the "transitional" factor itself.

The findings of the present research will help industry professionals, academic researchers, policymakers and multi-national organizations' specialists to better design the policy response sets, in order to eliminate the development problems faced by the Georgian and Romanian entrepreneurs.

3. Background Review: SMEs Definition

Small and Medium Enterprises (SMEs) are relatively small companies. There is no unified definition of the SMEs, however there is a unified notion of the SMEs – enterprises less in size than large companies. The SMEs are defined in several ways through quantitative and qualitative approaches.

The predominant definition of the SMEs is based on the quantitative approach considering their turnover and the number of people they employ. Because in any given country S (small), M (medium), and L (large) correspond to the absolute figures based on the size of its economy, it is simply impossible to define a fair average of the absolute threshold measurements, which complicates the universal approach.

Some of the multilateral organizations still use the universal methodology; however, the actual usage of such measurements is limited to the simplified thresholds for the specific cross-country comparisons and program purposes. For instance, the OECD uses the most common definition based on the size of the companies measured by the number of employees.

Because of the lack of a universal definition and the setbacks associated with some definitions used by the international organizations, most of the time the national SMEs definitions are used worldwide, including for cross-country analyses. However, even at the national level the SMEs might be defined in various ways depending on the purpose: statistics, taxes, accounting, state programs, etc. Country-specific definitions are mixed. Largely, they are based on the quantitative methodology, but in many cases the qualitative conditionality is applied.

For empirical purposes this paper uses the definitions of the SMEs approved by the relevant country's state statistical agencies, unless otherwise mentioned.

Policy makers, businessmen, scholars and journalists widely use the qualitative approach when talking about SMEs. Many do not consider the actual quantitative thresholds behind the articles and other thousands of materials published every year about the Small and Medium Enterprises. The self-identification of businessmen about their belonging to large or small and medium size enterprises is based on the mixed categories; the driver is still size and a general notion of "being smaller than large company"; however, several qualitative categorization apply, for example the ownership structure, the role of the owner, etc.

The so-called "Bolton Report 1971"[8] is the ground-breaking reference for the qualitative definition of SMEs for all successive literature in the field. Later, in 2004, the UNIDO,[9] summarized the previous qualitative approaches.

The quantitative definition of the SMEs by size (turnover/number of employed workers) is a more common method of SMEs description, however many countries include other factors, e.g. legal structure of the companies. When SMEs are compared at an international level the workforce-size defined comparison is assumed to be more relevant. This assumption is based on the fact that employment is more universal for certain type of non-financial businesses despite their turnover.

a) Romania

As a member of the European Union (EU), Romania's SME statistics are in-line with the European SME definition which is mandatory for all member states. The EU member state statistics are done by Eurostat, and this paper also uses its data on the EU member states including Romania.

The first European common SME definition was established in 1996, because of the need to target support towards the enterprises affected by market failures. The current definition is in force since 2005. It is an important tool for the EU to collect data and produce statistics; it helps specialists to recommend the precise measures of SME assistance to the politicians.

The definition outlines three different ceilings corresponding to micro, small and medium-sized enterprises, where the enterprises must neither exceed the staff headcount ceiling nor the turnover ceiling or, as an alternative, the balance sheet ceiling. Even though 99 percent of all European businesses fall under the staff headcount ceiling, the other criteria are equally important and need to be assessed based on each specific case.

These ceilings apply to the figures for individual firms only. A firm that is part of a larger group may also need to include staff headcount/turnover/balance sheet data from that group.

Table 1. European Union (Romania) SMEs definition

Company category	Staff headcount	Turnover	or	Balance sheet total
Medium-sized	< 250	≤ € 50 m		≤ € 43 m
Small	< 50	≤ € 10 m		≤ € 10 m
Micro	< 10	≤ € 2 m		≤ € 2 m

Source: European Commission webpage, last updated, 2019.

b) Georgia

The definition of the SMEs in Georgia has been changing over the past years due to the developing economy, and the statistics processing harmonization process with the European Union, therefore the Georgian SME definition is still in a transitional period which complicates the time series data analysis.

Like in other countries, Georgia operates with the several definitions of SMEs based on their purpose. The latest and most up-to-date is the one defined in the "Law of Georgia on Accounting, Reporting and Audit". For empirical reasons, the Geostat[10] used definition is commonly accepted by others too. This paper uses Geostat's data.

Table 2. Georgia, SMEs definition according to the Law on Accounting, Reporting and Audit (the amounts are given in GEL[11])

Enterprise category	Employees Number	Turnover m, GEL	Total assets m, GEL
First category enterprise (Large)	>250	>100	>50
Second category enterprise (Medium)	50-250	20-100	From 10 to 50
Third category enterprise (Small)	From 10 to 49	From 2 to 20	From 1 to 10
Fourth category enterprise (Micro)	0-9	0-2	0-1

Source: Geostat, 2019.

Table 3. Georgia, SMEs definition according to the acting Geostat methodology

Enterprise size	Employees Number	Turnover m, GEL
Large	>100	1,5
Medium	20 - 100	0,5 – 1,5
Small	<20	<0,5
Micro	1	<0,03

Source: Geostat, 2019.

After the signing the DCFTA, the Geostat developed another methodology which is harmonized with the EU and the reports based on the new methodology are now available.

Table 4. Georgia, SMEs definition according to the new Geostat methodology

Enterprise size	Employees Number	Turnover m, GEL
Large	>250	> 60
Medium	<250	≤ 60
Small	< 50	≤ 12
Micro	<10	≤ 2

Source: Geostat, 2019

The new methodology (Table 4.) is based on the Purchasing Power Parity principle and it uses the International Comparison Program 2015. According to it, the PPP conversion factor for Georgian Lari/USD equals 0,89; for the Euro area, the PPP coefficient (EUR/USD) is 0,767. Therefore:

The OECD in its appraisal of the Georgian SMEs sector (SME Policy Index) is using the "acting methodology" (Table 3.), while under the PPP based "new methodology" (Table 4.).

4. Reviews Framework

4.1. Major reviews

The SMEs sector are studied and surveyed with some frequency in both Romania and Georgia. Because of their role in the economy, hardly any economic research can take place without having a look on the SMEs. However, the SMEs oriented holistic studies are not many and there is only one which covers both countries, is systematized and takes the review process periodically. It is called the SBA review.

On June 2008, the European Commission adopted a communiqué titled "Communication from the Commission to the European Parliament, the Council, Economic and Social Committee and the Committee of the Regions. Review of the 'Small Business Act' for Europe". Its aim was to provide an SME policy framework to improve competitiveness and promote entrepreneurship. Rather than being a legislative Act, it contains provisions applying to small firms, directed at governments and institutions to "think small first" when establishing policy and law. Its principles are: 1. Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded; 2. Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance; 3. Design rules according to the "think small first" principle; 4. Make public administration responsive to SMEs; 5. Adapt public policy tools to SME needs; 6. Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions; 7. Help SMEs to benefit more from the opportunities offered by the Single Market; 8. Promote the upgrading of skills and all forms of innovation; 9. Enable SMEs to turn environmental challenges into opportunities; 10. Encourage and support SMEs to benefit from growth markets.

The SBA review, published in February 2011, is a major landmark in tracking the implementation of the small business act. SBA review measures the performance of EU members and associated countries in relation to the SBA. In order to harmonize the EU policy approaches within the Eastern European neighbourhood and other developing countries, the EC partnered with the OECD.

The SME Policy Index has been jointly developed by the Organisation for Economic Co-operation and Development (OECD), the European Commission, the European Training Foundation (ETF) and the European Bank for Reconstruction and Development (EBRD) as a benchmarking tool for emerging economies to monitor and evaluate progress in SME development policies. The SME Policy Index is structured around the ten principles of the Small Business Act for Europe.

Romania is measured under the SBA review and Georgia under the SME Policy index.

4.2. Romanian and Georgian SME sector reviews

In Romania, the SMEs account for 99.6 percent of all enterprises, while the same figure in Georgia is 95.3 percent based on the "acting methodology" and 99.7 based on the "new methodology". The SMEs turnover is 59.1 of the total turnover in Romania, while in Georgia it is 17.5 based on the "acting methodology" and 56.7 according to the "new methodology". The Romanian SMEs employ 65.5 of the total workforce engaged with the enterprises, while in Georgia this indicator amounts to 43.1 percent based on the "acting methodology" and 68.3 percent on the "new methodology" (Eurostat, Geostat, 2015 Data).

The OECD in its appraisal of the Georgian SMEs sector is using the "acting methodology" (Table 3.), while under the PPP-based "new methodology" (Table 4.), the SMEs performance looks better and closer to Romanian; however, this result is achieved through the increased threshold which captured additional 3 921 companies thus increasing the overall pool of SMEs to 90 110. Despite this minor increment, the output increased from 20 percent to 57 percent and employment from 43 percent to 68 percent. Therefore, it is still valid to assign the previous OECD judgment to the vast amount of the Georgian SMEs.

Table 5. Number of enterprises, turnover and persons employed and the share of SMEs, 2015

	Enterprises		Turnover, EUR, m		Employees	
	total	<250 persons employed %	total	<250 persons employed %	total	<250 persons employed %
EU-28	23,500,341	99.8	27,309,775	55.8	137,444,935	66.3
Belgium	602,153	99.9	989,197	65	2,769,085	69.3
Bulgaria	326,219	99.8	121,308	69.9	1,911,916	74.8
Czechia	1,001,048	99.8	444,231	56.9	3,591,896	67.6
Denmark	210,726	99.7	479,464	59.3	1,666,048	64.3
Germany	2,408,352	99.5	6,061,400	47.5	28,258,410	62.9
Estonia	68,124	99.7	50,820	77.5	414,763	78.2
Ireland	243,433	-	595,095	-	1,308,019	-
Greece	789,975	-	236,153	-	2,162,572	-
Spain	2,465,540	99.9	1,789,292	62.2	11,109,702	72.8
France	2,908,814	99.9	3,624,869	55.3	14,645,799	61.4
Croatia	146,637	99.7	77,670	60.9	989,598	69.5
Italy	3,683,127	99.9	2,887,615	68.8	14,225,278	78.7
Cyprus	48,329	99.9	25,573	79.9	215,716	83.9

	Enterprises		Turnover, EUR, m		Employees	
	total	<250 persons employed %	total	<250 persons employed %	total	<250 persons employed %
Latvia	109,642	99.8	51,304	77.8	633,450	79.4
Lithuania	186,468	99.8	73,997	68.5	934,440	75.9
Luxembourg	31,926	99.5	151,365	70	255,869	68.3
Hungary	536,610	99.8	277,690	57.1	2,596,236	69.8
Malta	26,059	99.8	18,665	85.1	134,212	79.7
Netherlands	1,092,243	99.9	1,412,433	61.8	5,461,082	65.7
Austria	322,325	99.7	653,111	-	2,742,655	-
Poland	1,606,559	99.8	921,350	56	8,652,063	68.3
Portugal	807,183	99.9	314,227		3,007,264	-
Romania	458,122	99.6	263,366	59.1	3,898,199	65.5
Slovenia	134,727	99.8	83,628	68.3	591,340	73.7
Slovakia	429,524	99.9	180,476	56.7	1,502,912	71.8
Finland	229,096	99.7	365,782	56.1	1,454,614	65.6
Sweden	686,433	99.9	811,397	-	3,102,080	-
United Kingdom	1,940,947	99.7	4,348,297	47	19,209,717	53.5
Norway	293,403	99.8	546,504	-	1,610,874	68
Switzerland	142,775	99.2	1,929,684	-	2,737,720	67.1
Georgia (act)*	86,179	95.3	3,833***	17.5	270,196	43.1
Georgia (PPP)**	90,149	99.7	12,428***	56.7	428,153	68.3
*Acting methodology						
**PPP-new methodology						
***GEL/EUR=2.60 (2015)						

Source: Eurostat and Geostat 2015 data, last updated 2019.

The SME Policy Index (Georgia) and SBA Review (Romania) measure the SMEs performance against the SBA principles as they related to the review pillars. Below is the matrix to show both review findings.

Table 6. SME Policy Index scores and SBA reviews

	SME Policy (Georgia) & SBA review (Romania) pillars	**GE**	**EaP[12]**
1	**Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded**		
Georgia	Entrepreneurial learning and women's entrepreneurship	2.7	2.52
Romania	Romania performs above the EU average in entrepreneurship — sustaining the substantial achievement it has achieved over the years. In particular, the share of adults who intend to start a business within 3 years was the highest in the EU, exponentially growing from 6.3 % in 2009 to 29.01 % in 2015. However, the country scores particularly low for the share of high-growth enterprises, posting the second worst score of all EU countries.		
2	**Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance**		
Georgia	Bankruptcy and second chance for SMEs	2.94	2.71
Romania	'Second chance' refers to ensuring that honest entrepreneurs who have gone bankrupt get a second chance quickly. Romania continues to score in line with the EU average on this principle.		
3	**Design rules according to the "think small first" principle**		
Georgia	Regulatory framework for SME policy making	3.48	2.95

Romania	Progress in this area has practically stalled during the past 3 years. This stagnation followed an encouraging spurt of reforms starting in 2014, such as the Law for SMEs, approval of the methodology for the `SME test´ and the establishment of a consultative body to assess economic impacts of legislative initiatives on SMEs. However, the 'SME test' is still not used systematically by the public authorities, nor has it been accompanied by an implementation strategy. At the same time, the 'one-in, one-out' principle, which establishes that the introduction of new administrative burdens for SMEs must take place simultaneously with the elimination of existing ones, has not yet been fully put into practice. Nor has the 'only-once' principle been put into practice, as companies are still asked to provide the same information to different authorities.		
4	**Make public administration responsive to SMEs**		
Georgia	Operational environment for SMEs	4.33	4.01
Romania	'Responsive administration' refers to public administration being responsive to the needs of SMEs. In this area, Romania performs in line with the EU average. Although little progress was identified since last year, Romania has made significant progress since 2008 for certain indicators. For instance, the cost of starting a business fell from EUR 112.5 in 2008 to EUR 26 in 2017 and the time to pay taxes fell from 230 hours in 2011 to 163 in 2018. Progress has also been made on the time required to transfer property, which improved from 21 days in 2017 to 16 days in 2018. However, important indicators on the cost of enforcing contracts, on fast-changing legislation, on the complexity of administrative procedures and on the burden of government regulations all remain well below the EU average.		
5	**Adapt public policy tools to SME needs**		
Georgia - 5a	Support services for SMEs and start-ups	3.69	3.13

Georgia - 5b	Public procurement	4.04	3.12
Romania	Romania's performance on state aid & public procurement is below the EU average. On the one side, Romania has one of the lowest average delays in payments from public authorities in the EU. On the other, the share of businesses participating in public tenders is the country's weakest indicator, falling from 30 % in 2013 to 15 % in 2017. Further factors affecting the proper functioning of Romania's public procurement system, such as administrative capacity, transparency, fraud and corruption, are also referred to in the 2018 European Semester country-specific recommendations.		
6	**Facilitate SME access to finance and develop a legal framework and business environment supportive of timely payments in commercial transactions**		
Georgia	Access to finance for SMEs	3.76	3.28
Romania	While Romania's overall performance on access to finance was previously in line with the EU average in 2017, the overall performance is now below the EU average. Overall, the picture is mixed. In contrast with a strong performance on the legal rights index (measuring the degree to which collateral and bankruptcy laws protect the rights of borrowers and lenders), Romania scores poorly on alternative funding, including business angel funding, where it is among the worst performers in the EU, venture capital and equity financing. The overall drop from last year's score is due to strong declines in traditional funding. Respondents to the Survey on the Access to Finance of Enterprises (SAFE) pointed to a deterioration from 201640 to 201741 in: (i) the willingness of banks to provide a loan from 9 % to 9.9 %; (ii) access to public financial support from 8.6 % to 11 %; and (iii) rejected loan applications and unacceptable loan offers, with the percentage of rejections and unacceptable offers rising from 6.4 % to 18.4 %.		

7	**Help SMEs to benefit more from the opportunities offered by the Single Market**		
Georgia	Standards and technical regulations	4.22	3.76
Romania	Romania performs below the EU average for the single market and continues to have one of the lowest scores in this area compared to other EU countries. Romania has the lowest share of SMEs with intra-EU online exports. In addition, the country performs poorly in terms of the timely transposition of the Single Market Directives. However, Romania has intensified its efforts in this area within the last year, reducing the average transposition delay for overdue directives from 11.7 to 9.1 months, which is now broadly in line with the EU average.		
8	**Promote the upgrading of skills and all forms of innovation**		
Georgia - 8a	Enterprise skills	3	2.66
Georgia - 8b	Innovation	2.7	2.57
Romania	Romania's performance in skills & innovation remained poor and below the EU average, posting the lowest score in the EU. All indicators were below the EU average and in many of them Romania was among the worst-performing EU countries. Moreover, overall performance has stagnated since 2008. However, given that the other EU countries improved their performance even faster, Romania's distance to the EU average has increased.		
9	**Enable SMEs to turn environmental changes into opportunities**		
Georgia	SMEs in a green economy	2.48	1.99
Romania	Romania's performance under the 'environment' principle is below the EU average, despite significant recent progress from 2015 to 2017.		
10	**Encourage and support SMEs to benefit from growth markets**		

Georgia	Internationalisation of SMEs	3.6	2.79
Romania	On internationalisation, Romania performs in line with the EU average. The biggest challenge consists in improving trade performance, beyond the EU, not only in traditional exports of goods, but even more so in online exports. In extra-EU indicators, Romania scores among the worst-performing EU countries and has shown only very slow growth since 2008. In contrast, the country has some of the highest scores of all EU countries for the group of trade facilitation indicators, namely information availability, advance rulings and procedural formalities. The one indicator for which Romania is performing poorly is the involvement of the trade community.		

Romania has two apparent shortcomings in innovations and regulatory framework, while Georgia performs better than the EaP average in all pillars. A few pillars close to average are: innovation, Entrepreneurial learning and women's entrepreneurship and Bankruptcy and second chance for SMEs. No critical failures have been assigned to any country by any survey including the SBA related one.

5. Methodology

This part of our paper is based on the qualitative research as a principal methodological tool; however, it uses a mix of methodologies.

Three focus groups have been created based on geographic allocation: Group A for Georgia and Groups B and C for Romania. Each group consisted of up to 15 institutions. The participants were the business support organizations (BSOs), including the chambers of commerce, business associations, institute-based business research organizations, local municipality units responsible for the business development, etc. 13 respondents answered the questions from each country.

For Groups B and C, two locations were identified: Arad-Timișoara counties of Romania, because of their high economic development level, and Iași county because of its districts being one of the least prosperous. Bucharest was excluded because of "administration" leverage. And other relatively better developed cities (e.g. Cluj-Napoca) were excluded due to their geographic location. Apart from having different per capita income, Iași and Timișoara counties are both located at the borders, but at completely different economic frontiers: EU and non-EU, also they share the status of being unofficial capitals of Banat and Moldavia respectively.

Two different qualitative research tools have been used. Tool 1. – semi structured interview for Group A and Tool 2. – unstructured interview for Groups B and C. The semi structured interview was chosen due to the means of interview – the e-mail. The main argument for choosing the semi-structured interview was the inability of continuous questioning by e-mail. For Groups B and C, unstructured face-to-face interviewing was carried out.

In both cases the participants were provided detailed information about the research in which they were asked to participate and measures were taken to ensure that they fully understood what their participation would entail, including any possible exposure.

For un-structured interviews, only one open-ended question was used - "what are the factors influencing the SMEs in the region, positively as well as negatively". For semi-structured interviews the same discourse was used, with a few securing sub-questions to make sure all possible aspects would be covered by the respondents.

The language for the unstructured interviews was English, however, with less than half of the respondents the interview process was run in Romanian, with the assistance of an English translator. For semi-structured interviews, the Georgian language was used.

All interviews were run from April to May 2019.

The reason for choosing the qualitative methodology was to ground-up the theory through in-depth interviews with professionals familiar with the research subject. Another reason for choosing the qualitative methodology was the fact that the existing research on the Georgian and Romanian SMEs is based on the quantitative research, using data collected from SEMs via questionnaires. And the quantitative analysis does not explain the abnormal development. Therefore, the interview process could not have been a proving exercise of the given theories; rather it was assumed as the data generator to develop the theories behind already measured results.

The data coding process took several steps. During step one, the data driven larger-text categories were developed. The second step included the assigning of the short categories based on the text instead of imposing them. Such categories were identified based on the frequency and relevance of the descriptions used during the interviews. Under the third step, the "high-level" categories were developed through the absorption process while keeping them emerging from the text too. During the forth step, the categories were systematized under the dimensions and the connections in-between them were established and prioritized.

In total, 23 categories were identified: territorial location, transport infrastructure, cross-border connectivity, state trade policy, institutions, cultural context, education, skills, youth engagement, affordable workforce, government, judiciary, state interference, regulations, internal political turbulences, business environment, legislation (tax & procurement), red-tape, corruption, nepotism, investments, access to finance and others.

The categories were grouped in three blocks: (i) access to markets: territorial location, transport infrastructure, cross-border connectivity, state trade policy; (ii) access to skills: cultural context, education, skills, youth engagement, affordable workforce; (iii) access to public services: government, judiciary, state interference, regulations, internal political turbulences, business environment, legislation (tax & procurement), red-tape, corruption, nepotism; (iv) access to finance: access to finance; three categories were left out of the category blocks: institutions, investments and other.

The "access to markets" block refers to the actual access to primarily cross-border trade possibilities; however, it does not exclude the access to the local market either. The categories under these blocks were used in the following senses:

Table 7. Categories

Block	Category	Explanation
access to markets	territorial location	actual location of the business which benefits or prohibits its market access
	transport infrastructure	the means of transport that benefit or prohibit the business access to the markets
	cross-border connectivity	the general connectivity assuming the location, infrastructure, cultural, and racial connectivity and any other type of connectivity benefiting or prohibiting the business access to the markets except for the cases when two above categories are specifically involved
	state trade policy	trade policy which can benefit or prohibit business access to some specific markets abroad
access to skills	cultural context	set of historical events that are perceived as contributing to the formation of the current skills or abilities to better perform entrepreneurial activities, but not related to business only
	education	education at large which benefits or prohibits the acquiring of business-making skills
	skills	skills that enable or disable business making
	youth engagement,	youth engagement or disengagement, or youth motivation or demotivation which influences the generational ability to obtain the necessary business-making skills
	affordable workforce	existence of skilful workforce which is also affordable

Block	Category	Explanation
access to public services	government	general perception about a government in terms of efficiency
	judiciary	general perception about the judiciary in terms of efficiency
	state interference	extreme inefficiency of the government when government negatively interferes into the businesses
	regulations	enabling or disabling role of regulations
	internal political turbulences	internal political process which influences the business environment negatively or positively
	business environment	government services that influence business operations on the ground daily
	legislation (tax & procurement)	enabling or disabling effect of legislation with accent on fiscal and public procurement legislations
	red tape	government bureaucracy in terms of efficiency
	corruption	government bribery
	nepotism	businesses need to rely on the connections within the government to operate
access to finances	access to finance	affordability of different types of finances

Block	Category	Explanation
non assigned	institutions	series of historical events or developments those turn into institutionalized behaviour that impacts access to skills and access to finances
	investments	foreign investments that do not involve financing only, but rather include knowledge transfer (access to skills) and foreign networking (access to markets)
	other	other categories, those with low frequency; however, they were not absorbed

6. Empirical results

6.1. Data findings

6.1.1. General data

In total the identified categories were used 269 times in a negative context vs. their use in a positive context – 172.

In Georgia, the negative use reached 137, while the positive amounted to 23. In Romania: negative – 132, positive – 149. While in Iași: negative – 81, positive – 47 and in Arad-Timișoara: negative – 51, positive – 102.

In terms of frequency, top categories were identified in the following order: 1 - cultural context (86), 2 – skills (62), 3 - transport infrastructure (48), 4 – territorial location (35), 5 – education (31), 6 – government (30), 7 – cross-border connectivity (24), 8 – investments (24), 9 – institutions (22), 10 – access to finance (19), 11 - Internal political turbulences (16), 12 – red tape (13), 13 – affordable workforce (12), 14 – legislation (12), 15 – business environment (11), 16 – youth engagement (11), 17 – corruption (10), 18 – state trade policy (9), 19 – state interference (9), 20 – regulations (7), 21 – nepotism (6), 22 – judiciary (5).

Table 8. Categories frequency

	Territorial location	Transport infrastructure	Cross-border connectivity	State trade policy	Institutions	Cultural context	Education	Skills	Youth engagement	Affordable workforce	Government	Judiciary	State interference	Regulations	Internal political turbulences	Business environment	Legislation (tax & proc)	Red tape	Corruption	Nepotism	Investments	Access to finance	Other
All	35	48	24	9	22	86	31	62	11	12	30	5	9	7	16	11	12	13	10	6	24	19	35
Georgia	9	11	5	9	2	24	11	20	0	2	14	5	9	7	5	7	6	4	1	0	1	6	17
Romania	26	37	19	0	20	62	20	42	11	10	16	0	0	0	11	4	6	9	9	6	23	13	18
Iași	13	25	10	0	5	20	9	16	5	10	8	0	0	0	11	1	3	6	6	6	2	8	8
Arad-Timiș	13	12	9	0	15	42	11	26	6	0	8	0	0	0	0	3	3	3	3	0	21	5	10

Two categories were identified as having a frequency of more than 10 percent: cultural context (16 percent) and skills (10), both from the Access to Skills Block. For Georgia, the leading categories are: cultural context (frequency - 24) and skills (20); for Romania: cultural context (62), skills (42) and transport infrastructure (37); for Iași: transport infrastructure (25) and cultural context (20); for Arad-Timișoara: cultural context (42), skills (26) and investments (21).

Therefore, the category blocks were defined as following, in order of importance: access to skills (202), access to markets (116) and access to finances (19). While same categories for Georgia sequenced in the following order by importance: access to skills (57), access to markets (34) and access to finances (6); Romania: access to skills (145), access to markets (82) and access to finances (13); Iași: access to skills (60), access to markets (48) and access to finances (8); Arad – Timișoara: access to skills (85), access to markets (34) and access to finances (5).

The categories were grouped under the timeline as well, referring to their occurrence in time: (i) before 1990, (ii) 1990 – 2019 and (iii) 2019 -. Most of the occurrences are related to the current times 1990-2019 (317) followed by historical, before 1990 (89), and possible future occurrences, after 2019 (11). In Georgia, the time distribution is the following: 7, 146, 1; in Romania 82, 171, 10; in Iași: 19, 103, 5; in Arad-Timișoara 63, 68, 5.

The categories were then assigned to the 10 principles of the SBA.

Table 9. Categories distribution across the SBA 10 principles

	Entrepreneurship	Second chance	Think small	Administration	State aid & proc	A to Finance	Single market	Skills & Innov.	Environment	Internationalization
	1	2	3	4	5	6	7	8	9	10
All	78	1	28	93	16	54	72	131	1	68
Georgia	13	0	9	45	4	6	20	35	1	30
Romania	65	1	19	48	12	48	52	96	0	38
Iași	41	0	11	38	8	7	24	29	0	24
Arad-Timiș	24	1	8	10	4	41	28	67	0	14

The SBA principles corresponding to the maximum number of categories are in the following order: 1 – skills and innovations (131), 2 – administration (93), 3 - entrepreneurship (78), 4 – single market (72), 5 – internationalization (68), 6 – access to finance (54), 7 – think small (28), 8 – state aid and procurement (16), 9 – second chance (1), 10 - environment (1).

6.1.2. Positively related data

In total, the categories were used 171 times in a positive context.

In Georgia, the positive use reached 23; in Romania – 149. While in Iași – 47 and in Arad-Timișoara – 102.

In terms of frequency, 19 categories were identified in the following order: 1 - cultural context (37), 2 – skills (25), 3 – investments (20), 4 – education (17), 5 – territorial location (16), 6 – institutions (15), 7 – affordable workforce (12), 8 - transport infrastructure (10), 9 – cross-border connectivity (9), 10 – access to finance (6), 11 – regulations (4), 12 – business environment (4), 13 – legislation (4), 14 – corruption (4), 15 – state trade policy (3), 16 - Internal political turbulences (3), 17 – red tape (2), 18 – youth engagement (1), 19 – government (1).

Table 10. Categories frequency: positive

	Territorial location	Transport infrastructure	Cross-border connectivity	State trade policy	Institutions	Cultural context	Education	Skills	Youth engagement	Affordable workforce	Government	Judiciary	State interference	Regulations	Internal political turb.	Business environment	Legislation (tax & proc.)	Red tape	Corruption	Nepotism	Investments	Access to finance	Other
All	16	10	9	3	15	37	17	25	1	12	1	0	0	4	3	4	4	2	4	0	20	6	15
Georgia	1	0	0	3	0	0	0	0	0	2	0	0	0	4	0	4	3	0	1	0	0	1	4
Romania	15	10	9	0	15	37	17	25	1	10	1	0	0	0	3	0	1	2	3	0	20	5	11
Iași	2	3	0	0	1	1	9	11	1	10	0	0	0	0	3	0	0	2	3	0	1	1	7
Arad-Timiș	13	7	9	0	14	36	8	14	0	0	1	0	0	0	0	0	1	0	0	0	19	4	4

Two categories were identified as having a frequency of more than 10 percent: cultural context (18 percent) and skills (12), both from the Access to Skills block. For Georgia, the leading categories are: regulations (frequency - 4) and business environments (4); for Romania: cultural context (37), skills (25) and investments (20); for Iași: skills (11) and affordable workforce (10); for Arad-Timișoara: cultural context (36).

Therefore, the category blocks were defined as following, in order of importance: access to skills (92), access to markets (38) and access to finances (6). While same categories for Georgia sequenced in the following order by importance: access to markets (4), access to skills (2) and access to finances (1); Romania: access to skills (90), access to markets (34) and access to finances (5); Iași: access to skills (32), access to markets (5) and access to finances (1); Arad – Timișoara: access to skills (58), access to markets (29) and access to finances (4).

The categories were grouped under the timeline as well, referring to their occurrence in time: (i) before 1990, (ii) 1990 – 2019 and (iii) 2019 -. Most of the occurrences are related to the current times 1990-2019 (106) followed by historical, before 1990 (62), and possible future occurrence, after 2019 (8). In Georgia, the time distribution is the following: 0, 21, 0; in Romania 62, 85, 8; in Iași: 5, 39, 4; in Arad-Timișoara: 57, 46, 4.

The categories were then assigned to the 10 principles of the SBA.

Table 11. Categories distribution across the SBA 10 principles

	Entrepreneurship	Second chance	Think small	Administration	State aid & proc	A to Finance	Single market	Skills & Innov.	Environment	Internationalization
	1	2	3	4	5	6	7	8	9	10
All	14	0	4	17	1	38	26	70	0	16
Georgia	1	0	3	9	0	0	3	1	0	4
Romania	13	0	1	8	1	38	23	69	0	12
Iași	4	0	1	5	1	2	2	23	0	3
Arad-Timiș	9	0	0	3	0	36	21	46	0	9

The SBA principles corresponding to the maximum number of categories are in the following order: 1 – skills and innovations (70), 2 – access to finance (38), 3 – single market (26), 4 – administration (17), 5 – internationalization (16), 6 - entrepreneurship (14), 7 – think small (4), 8 – state aid and procurement (1), 9 – second chance (0), 10 - environment (0).

6.1.3. Negatively related data

In total, the categories were used 269 times in a negative context.

In Georgia, the negative use reached 137. In Romania – 132. While in Iași – 81 and in Arad-Timișoara – 51.

In terms of frequency, 22 categories were identified in the following order: 1 - cultural context (48), 2 – skills (39), 3 - transport infrastructure (38), 4 – government (29), 5 – territorial location (19), 6 – cross-border connectivity (15), 7 – education (14), 8 – access to finance (13), 9 - Internal political turbulences (12), 10 – red tape (11), 11 - youth engagement (10), 12 – state interference (9), 13 – legislation (8), 14 – institutions (7), 15 – business environment (7), 16 – state trade policy (6), 17 – corruption (6), 18 – nepotism (6), 19 - judiciary (5), 20 – investments (4), 21 – affordable workforce (3), 22 – regulations (3).

Table 12. Categories frequency: negative

	Territorial location	Transport infrastructure	Cross-border connectivity	State trade policy	Institutions	Cultural context	Education	Skills	Youth engagement	Affordable workforce	Government	Judiciary	State interference	Regulations	Internal political turb.	Business environment	Legislation (tax & proc.)	Red tape	Corruption	Nepotism	Investments	Access to finance	Other
All	19	38	15	6	7	48	14	39	10	3	29	5	9	3	12	7	8	11	6	6	4	13	19
Georgia	8	11	5	6	2	24	11	20	0	0	14	5	9	3	5	3	3	4	0	0	1	5	13
Romania	11	27	10	0	5	24	3	19	10	3	15	0	0	0	7	4	5	7	6	6	3	8	6
Iași	11	22	10	0	4	18	0	7	4	3	8	0	0	0	7	1	3	4	3	6	1	7	1
Arad-Timiș	0	5	0	0	1	6	3	12	6	0	7	0	0		0	3	2	3	3	0	2	1	5

Three categories were identified as having the frequency of more than 10 percent: cultural context - 15 percent and skills (13) and transport infrastructure (12). For Georgia top leading categories are: cultural context (frequency - 24) and skills (20); for Romania: transport infrastructure (27) and cultural context (24); for Iași: transport infrastructure (22); for Arad-Timișoara: skills (12).

Therefore, the category blocks were defined as follows, in order of importance: access to skills (114), access to markets (78) and access to finances (13). While same categories for Georgia sequenced in the following order by importance: access to markets (55), access to skills (30) and access to finances (5); Romania: access to skills (59), access to markets (48) and access to finances (8); Iași: access to skills (32), access to markets (43) and access to finances (7); Arad – Timișoara: access to skills (27), access to markets (5) and access to finances (1).

The categories were grouped under the timeline as well, referring to their occurrence in time: (i) before 1990, (ii) 1990 – 2019 and (iii) 2019 -. Most of the occurrences are related to the current times 1990-2019 (28) followed by historical, before 1990 (212) and possible future occurrence, after 2019 (3). In Georgia the time distribution is the following: 7, 125, 1; in Romania 21, 87, 2; in Iași: 15, 65, 1; in Arad-Timișoara: 6, 22, 1.

The categories were then assigned to the 10 principles of the SBA.

Table 13. Categories distribution across the SBA 10 principles

	Entrepreneurship	Second chance	Think small	Administration	State aid & proc	A to Finance	Single market	Skills & Innov.	Environment	Internationalization
	1	2	3	4	5	6	7	8	9	10
All	64	1	24	76	15	16	45	61	1	52
Georgia	12	0	6	36	4	6	17	34	1	26
Romania	52	1	18	40	11	10	28	27	0	26
Iași	37	0	10	33	7	5	22	6	0	21
Arad-Timiș	15	1	8	7	4	5	6	21	0	5

The SBA principles corresponding to the maximum number of categories are in the following order: 1 – administration (76), 2 - entrepreneurship (64), 3 – skills and innovations (61), 4 – internationalization (52), 5 – single market (45), 6 – access to finance (16), 7 – state aid and procurement (15), 8 – think small (1) 9 – second chance (1), 10 - environment (1).

7. Discussion of Results

In Georgia, respondents tend to repeat the business influencing factors exceedingly in a negative context (137), rather than a positive one (23), while in Romania it is vice-versa, negative – 132 and positive 149; however, it is driven by the economically-developed Arad-Timișoara area, negative – 51 and positive – 102 (twice as much), while in Iași, negative accounts - 81 and positive – 47. It is not as extreme as in Georgia, but certainly it is different from the Arad-Timișoara area.

In terms of total frequency 1 - cultural context (86) and 2 – skills (62) amounted two exclusively leading positions. And this finding corresponds to the initial hypothesis that the current quantitative surveys do not fully capture the specifics of the transitional countries, because in none of them was the "cultural context" identified as a separate dimension.

The cultural context is the most frequently repeated category in positive context – 37, followed by – skills (25), and investments (20). However, its distribution across the areas is very different. Its lead in the positive context is driven by Arad-Timișoara – 36, while in Iași – 1 and 0 in Georgia. All events and cases named under the cultural context took place before 1990 and before the creation of the united Romanian state.

> Maria-Teresia [18c] brought better institutions, openness, curiosity here [Arad], that makes us now better entrepreneurs.

It is one of the citations and its context has been repeated several times by all the respondents from the Arad-Timișoara area.

Skills are driven by Romania only and the frequency is almost similar in Arad-Timișoara – 14 and Iași – 11, in both cases the respondents refer to the formal education system which delivered professional skills driven by the respective universities, while the entrepreneurial skills are not counted under the positive context.

The investments category is solely driven by Arad-Timișoara – 19. Contextually, the investment category is more connected to the territorial location category than to access to finances. The respondents assume the investments were driven by their close proximity to Western Europe.

> we are the entry gate to Romania; we are easy to reach and when someone [an investor] comes to Romania, they first stop here [in Banat].

After this initial analysis it is obvious that the cultural context is perceived as the driving force behind the success of the private entities from Arad-Timișoara; by this logic, any part of Romania which did not experience the Habsburg rule and Georgia entirely would be less developed if there had been only this category.

This concept fully corresponds to the already mainstream theories that there is a strong impact of historical legacy on economic performance and political developments as it was discussed by North (1990). A growing number of scholars underline the persistence of influence of the historical events because of formal institutions and cultural norms transmitted through the generations. After 2000, there is a rising number of scholarly articles covering this phenomenon, such as La Porta, et al (1998), Bisin and Verdier (2000), Acemoglu, et al (2001), Nunn (2009), Comin, et al (2010), Voigtlaender and Voth (2012), Grosfeld et al (2013).

In terms of the negative context, by frequency the leading categories are: 1 - cultural context (48), 2 – skills (39) and 3 - transport infrastructure (38). Cultural context is frequented negatively evenly in Georgia – 24 and Romania – 24, however in Romania it is led by Iași – 18 and it naturally resonates with earlier findings.

In terms of negativity, the respondents refer to the Ottoman, Russian and Soviet empires.

> Impact of the past [negative] – it influenced almost equally Georgia and Latvia. However, Georgia has been kept under the Soviet system longer than Baltic countries, that mirrored in the generations [of entrepreneurs].

Or

> Phanariotes were buying their domains here [Moldavia] and then they were selling the government positions to make money. Kickbacks was a culture [was referring to the Ottoman rule over Moldavia].

These findings further strengthen a theory of the influence of historical events on the economy through the cultural norms.

From the very beginning, Iași and Georgia are grouped vs. Arad-Timișoara in terms of cultural context. The data suggests the socialist past has a negative impact on the current business skills; however, it is only a part of other historical layers. Nevertheless, it is obviously a strong force as it is perceived such in Georgia.

It is interesting that the socialist past is blamed not only for the absence of the modern business skills. It is also named as a reason for the lower industrial development:

> Ceaușescu was hesitant to build anything in Moldovia because he was afraid the Russians would invade, so he built all factories in the South.

Or

> "The Communist rule was different here [Transylvania], the land cadastre created by the Habsburgs was kept and it took less time to reintroduce it when they were gone"

this is how respondents from Timișoara explained the early access to the landing capital for the local entrepreneurs.

The second most frequent negative category is skills. It has almost the same weight in both countries, Georgia – 20, Romania – 19, but unlike the cultural context, it is more frequent in Arad-Timișoara – 12 than in Iași – 9.

In all three areas the lack of business and professional skills is associated mainly with the Socialist past. This assumption is supported by the historical evidence that the entrepreneurship was largely prohibited in the Socialist era, therefore there is no surprise the skills category is among the top negative factors.

The third important negative narrative is the lack of transport infrastructure – 38, it is entirely led by Romania – 27 and within Romania it is Iași – 22, a place where the absence of highways and the low quality of the railways is assumed to be a leading negative factor in the SMEs development.

> we lose 7 percent of our income because of transportation. We have to sell everything by this discount to be competitive because the logistics is more expensive here [Iași] compared to western Romania, by that exact amount.

This assumption of the respondents is well supported by the competitiveness report. Romania ranks 92 among 140 countries, next to Sierra Leone (91), while Turkey itself is on the 31st place, neighbouring Luxembourg (32) in the Road sub-component of the WEF's Global Competitiveness Report 2018.

The offsetting mechanisms of the cultural context are not effective in any of the countries either. On the contrary, the government category is among the leading negative influence factors; other related categories saturate the negative perceptions about the government. In Romania, it is the legislation, mainly the frequent changes of the fiscal legislation coupled with the internal political situation; while in Georgia it is the government interference into the business sector and the problems with the judiciary.

In both counties, instead of correcting the distortion brought by the socialist period, the governments are in passive role. The Arad-Timișoara area was lucky enough to inherit another layer from the Habsburg Empire and its close proximity to Western Europe.

While in Poland or, let's say, the Czech Republic, it is different, as they created institutions which were able to deal with the socialist past and correct the "norms".

The findings explain the Georgian "abnormality" too. The broad assumption of the professionals is driven by the fact that Georgia implemented business-friendly reforms, therefore the SMEs must have had the easier path. In fact, this is not supported by this research. The improvements made by the reforms are among the categories positively influencing the SMEs: regulations (4) and business environment (4) but its weight against the negative categories is too small. This finding also suggests the necessity of the holistic approach.

The research shows the shortcomings of the existing surveys.

Most of the surveys, including the SBA reviews, are based on the quantitative research methodologies. Their data is derived from the highly structured quantitative surveys performed among a limited number of entrepreneurs. The structured questionnaires do not create a chance for the respondents to deviate from the systematized answers, thus prohibiting the emergence of any theories different from the one narrative given in a survey/research.

These surveys and research are driven by the experience of the market economies, which is logical because of their prevalence and economic domination. This narrative simply excludes the categories important for the transitional countries from the former Socialist bloc.

Also, it is difficult to justify data obtained from the qualitative research by the statistical data because it simply does not exist. As a matter of fact, the SMEs were largely prohibited in the Socialist bloc countries, specifically in Georgia and in Romania under the Communist party.

Obviously, the cultural context does not determine the economic development, neither the SMEs development, it is the factor of negative influence (Georgia and Romania's communist past); however, it could be corrected through the replacement of the institutions. In other words, the cultural category is important as far as other categories (e.g. the government) are among the negative series.

Furthermore, the surveys do not capture the magnitude of the relative underperformance. In the SBA review, Romania has two leading underperforming dimensions: innovations and regulatory framework. It would not have resulted in a very low performance in Iași but for other connected categories: skills and culture would not have been among the negative series. In other words, the underperformance in those pillars, connected to other critical categories hidden in the surveys, can mislead and distort the review significantly as it is obvious in the case of Georgia and in the case of Romania's regional disparities.

8. Conclusion

The cultural context has a significant impact on the SMEs in transitional countries. However, its impact can be mitigated through other categories. The persistence of the cultural context is driven by the lack of progress in other pillars (e.g. the government). The creation speed and the quality of the institutions are low and they are unable to replace the distorting cultural norms generated from the historical layers.

The leading surveys do not support the fair evaluation of the SME sectors in post-socialist, transitional countries. Their paradigm does not capture the magnitude of the challenges faced by these countries. The methodologies used by these surveys do not support the emergence of other theories either, thus creating "imitating" results instead of fair and factual ones.

This research shows the transitional countries need to design more comprehensive reviews in response to their specific realities. It also strongly supports the holistic approach, showing that the success in all SBA pillars still cannot guarantee the real success of the SMEs because there might be ten times more negatively influencing factors and those are not captured by the reviews, but their cumulative impact is higher than the one from SBA successes.

Furthermore, the research suggests skills to be the most essential category. It also shows that the market access is an equally important category in the higher block-category dimension. Contrary to the SBA survey, the research shows a severe negative impact of the limited market access to the SMEs because the SBA does not capture its essential part – infrastructure.

NOTES

1 The Organisation for Economic Co-operation and Development, an intergovernmental economic organisation with 36 member countries, founded in 1961 to stimulate economic progress and world trade. As of 2017, the OECD member states collectively comprised 62.2 percent of global nominal GDP.

2 Formed in 1945 the World Bank is an international financial institution that provides loans and grants to the governments of poorer countries for the purpose of pursuing capital projects.

3 The Doing Business project, launched in 2002 by the World Bank Group, looks at domestic small and medium-size companies and measures the regulations applying to them through their life cycle. Based on this measurement it produces the world rankings in "Doing Business" by countries.

4 Georgia and the European Union signed Deep and Comprehensive Free Trade Area (DCFTA) in 2014 along with Association Agreement. Georgia took several commitments, including the statistics harmonization with the EU.

5 OECD SME Policy Index Eastern Partner Countries 2016 is the OECD, EC, EBRD review of the progress of the Eastern European Neighbourhood countries performance related to the SBA pillars.

6 Eorostat is the statistics agency of the European Union.

7 The small business act (SBA) is an overarching framework for the EU policy on small and medium-sized enterprises (SMEs). The SBA review, first published in 2011, is a major landmark in tracking the implementation of the small business act. The EU members are apprised annually through reviews and a similar process applies to the emerging countries through the joint review process of the EU and OECD.

8 Summary of the report of the Committee of Inquiry of the United Kingdom on Small Firms 1971.

9 The United Nations Industrial Development Organization (UNIDO) was formed in 1966. It is a specialized agency within the United Nations. The mission of UNIDO is to promote and accelerate inclusive and sustainable industrial development.

10 Geostat is the national statistics agency of Georgia.

11 Georgian national currency – Lari, its international denomination is GEL. Its exchange rates could be checked at the official webpage of the central bank of Georgia, at: https://www.nbg.gov.ge/index.php?m=2&lng=eng

12 Eastern Partnership (EaP) EU and six partner countries (Armenia, Azerbaijan, Belarus, Georgia, the Republic of Moldova and Ukraine) established in 2009 the Eastern Partnership (EaP), a joint initiative building also on bilateral relations.

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