

Development Priorities for Small and Medium-Sized Enterprises in Georgia: Digitalization, Innovation, and Competitiveness

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ABSTRACT

The rapid development of digital technologies is significantly transforming the conditions for the development of small and medium-sized enterprises (SMEs), positioning digitalization, innovation, and competitiveness as interconnected dimensions of enterprise growth. This issue is particularly important for Georgia, where the SME sector continues to face challenges in translating digital capabilities into productive and innovation-driven outcomes.

This paper aims to identify the key development priorities for small and medium-sized enterprises in Georgia by examining the interrelationships among digitalization, innovation, and competitiveness. The study is based on a comparative and critical analysis of Georgian and international statistical data, government policy documents, and the relevant academic literature.

The findings indicate that access to basic digital infrastructure in Georgia has developed significantly; however, the integration level of digital technologies into business processes and the extent of innovation activity remain limited. Accordingly, the key priorities for the further development of SMEs include deepening digitalization, strengthening digital and managerial skills, supporting innovation, and enhancing integration into international markets. Particular importance should be attached to the productive adoption of e-commerce, data analytics, cloud technologies, and artificial intelligence. The findings of the study can contribute to SME policy improvement and strengthening of enterprise competitiveness in Georgia.

INTRODUCTION

Small and medium-sized enterprises (SMEs) constitute a significant component of the modern economy and play a significant role in employment, entrepreneurship, innovation, and the expansion of economic activity. Their importance is particularly pronounced in small economies, where SMEs represent key sources of economic diversification and regional development. However, the relatively small scale of enterprises often limits their access to financial, technological, and human resources, making it more difficult for them to adapt to a competitive business environment.

Technological change has significantly transformed the conditions for SME development. Digital technologies enable enterprises to improve business processes, expand market access, reduce costs, and develop new products and services. However, access to technology alone does not necessarily ensure improvements in productivity and competitiveness. Achieving such outcomes also requires digital skills, managerial capabilities, financial resources, and an enabling environment for innovation.

This issue is particularly relevant to Georgia. Although the institutional framework for SME support and access to digital technologies in the country has gradually improved, the effective utilization of these technologies and their transformation into tangible business outcomes remain significant challenges. Accordingly, the development agenda is no longer limited to increasing the number of enterprises and encompasses enhancing productivity, innovative capabilities, and international competitiveness.

THE STUDY AIMS to identify the key development priorities for small and medium-sized enterprises in Georgia by examining the interrelationships among digitalization, innovation, and competitiveness, and to assess the major opportunities and challenges affecting the further development of SMEs.

The findings make it possible to identify three major and interconnected priorities for the development of Georgia's SME sector: deepening digitalization, developing innovative capabilities, and strengthening competitiveness. Advancing these areas is important not only for improving enterprise productivity and market positioning but also for fostering a more innovative Georgian economy and strengthening its integration into international markets.

LITERATURE REVIEW

The development of small and medium-sized enterprises (SMEs) is an important area of contemporary economic research, particularly in technological change and intensifying international competition. Recent literature increasingly links SME competitiveness not only to financial resources and firm size but also to technological capabilities, knowledge, human capital, and organizational competencies. In this context, digitalization is regarded as an important opportunity that enables small and medium-sized enterprises to improve business processes, expand market access, and adapt more rapidly to changing customer demands.

Recent studies on the digital transformation of SMEs indicate that digitalization is no longer viewed merely as the process of adopting individual

technologies. Based on a bibliometric and content analysis of Scopus-indexed studies, Elsa et al. (2025) emphasize the importance of digital capabilities, digital literacy, managerial readiness, adaptive leadership, and external support. A similar approach is proposed by Sagala and Őri (2024), who, based on a systematic literature review, associate the success of SME digital transformation with technological, organizational, and environmental factors. Accordingly, the effectiveness of digitalization depends not only on access to technology but also on an enterprise's ability to integrate technologies effectively into its business processes.

The relationship between digitalization and innovation represents another important area of contemporary research. Based on data from 1,100 German SMEs, Hassan et al. (2024) demonstrate that the diffusion of digital technologies is positively associated with firms' innovation outcomes. Absorptive capacity plays an important role in this relationship, referring to an enterprise's ability to acquire, utilize, and transform new knowledge into economic value. Thus, the adoption of technology does not, in itself, create an innovation advantage; its effects depend on the enterprise's knowledge base, organizational capabilities, and ability to utilize technology effectively (Hassan et al., 2024).

Romero and Mammadov (2025) conceptualize digital transformation as an innovation process within SMEs, integrating its technological, human, and organizational dimensions. Their study demonstrates that digital strategy, managerial capabilities, effective allocation of responsibilities, and a growth-oriented approach play important roles in the success of transformation. Therefore, for small and medium-sized enterprises, digitalization represents not merely a technological upgrade but also a transformation of management practices and organizational processes.

The capacity for digital transformation, in turn, varies according to firm characteristics and the business environment in which enterprises operate. Based on a study of Spanish SMEs, Clemente-Almendros et al. (2024) note that firm size, managerial education, and international activity influence the capacity to adopt digital technologies. Escoz Barragan and Becker (2025), meanwhile, conceptualize digital orientation as a strategic capability that enables enterprises to continually adapt to changes in the digital economy. According to these studies, competitiveness depends not only on the use of digital tools but also on the ability to transform them into strategic capabilities.

Existing studies on Georgia point to both the significant economic role of the SME sector and its structural and technological challenges. Manvelidze et al. (2023) note that a substantial share of Georgia's SME sector is concentrated in traditional activities characterized by relatively low value added and emphasize the importance of developing innovation-driven industries, investing in human capital, and expanding the use of digital platforms. From this perspective, SME competitiveness is associated not only with the diffusion of digital technologies but also with productivity growth and structural economic development.

In comparing the experiences of Georgia and the European Union, Machavariani (2023) considers digitalization an important factor in improving SME efficiency and competitiveness. The author emphasizes the importance of

financial and institutional support, the diffusion of innovation, regional support mechanisms, and cooperation between universities and businesses. Accordingly, the relevance of international experience for Georgia extends beyond the adoption of specific technologies and also encompasses the development of an ecosystem that supports digitalization.

Studies on the digital transformation of Georgia's business environment also point to the interrelationship between technological capabilities and innovation potential (Makasarashvili et al., 2024). In addition, in their analysis of digitalization policy for Georgian SMEs, Giguashvili and Makasarashvili (2025) focus on e-commerce, digital marketing, cloud technologies, customer relationship management (CRM) systems, and the use of artificial intelligence. According to their assessment, digitalization can improve productivity, efficiency, and competitiveness; however, achieving these outcomes requires reducing technological, financial, and organizational barriers.

The development of human capital is also an important prerequisite for digitalization. Focusing on Georgian SMEs, Noniashvili and Janashia (2025) link digital development to continuous employee learning and organizational adaptation. Their study demonstrates that the effective utilization of technological change requires the continuous updating of knowledge and skills. This finding is consistent with the broader international literature, which suggests that the economic impact of digital technologies depends substantially on the enterprise's human and organizational capabilities.

Overall, the analysis of international and Georgian studies demonstrates that digitalization, innovation, and competitiveness are closely interconnected processes. Within the analytical framework of this study, digitalization is viewed as a factor shaping technological capabilities, innovation as a mechanism for leveraging these capabilities, and competitiveness as a potential outcome associated with their effective utilization. This framework does not imply a direct causal relationship among these dimensions, as the study is based on descriptive secondary data analysis. The success of this process depends not only on access to technology but also on absorptive capacity, human capital, managerial competencies, financial resources, international linkages, and a supportive business environment.

At the same time, existing Georgian studies have largely examined SME digitalization, innovation, human capital, and policy instruments separately. Less attention has been paid to how these factors interact with the latest empirical indicators of Georgia's SME sector. The present study addresses this gap by examining digitalization, innovation, and competitiveness within an integrated analytical framework and assessing their interrelationships, using the latest available data on Georgia's business sector and the digital and innovation activity of enterprises. This approach identifies not only the current state of the SME sector but also the key areas in which development policies should be further strengthened.

METHODOLOGY

The study is based on the descriptive, comparative, and critical analysis of secondary quantitative and qualitative data. The main data sources include the National Statistics Office of Georgia (Geostat), OECD/EBRD, and relevant international and Georgian studies. The selection of literature and policy documents was based on their relevance, topical appropriateness, and reliability.

The unit of analysis comprises enterprises operating in Georgia, while the SME-specific assessment is based on indicators available by enterprise size. It should be noted that some Geostat indicators cover enterprises in the business sector as a whole and are not always disaggregated specifically for SMEs.

The analysis was conducted across four interconnected dimensions: economic significance; digitalization; innovation activity; and the business environment and government support. Georgian indicators were compared with previous-period data and, where applicable, with Eastern Partnership averages and relevant international assessments. Conclusions and recommendations were derived through data triangulation, based on the comparison and synthesis of statistical indicators, international assessments, and academic literature. The study does not establish causal relationships and relies on the descriptive and comparative interpretation of available data.

RESULTS AND DISCUSSION

The assessment of small and medium-sized enterprise (SME) development in Georgia is based on four interconnected dimensions: the sector's economic significance, the adoption of digital technologies, innovation activity, and the support provided by the business environment and government policy. Examining these dimensions jointly assesses the extent to which digital capabilities are being transformed into drivers of productivity and competitiveness.

Georgia's business sector has maintained a growth trajectory in recent years. According to data from the National Statistics Office of Georgia (Geostat, 2025), the turnover of the business sector amounted to GEL 228.5 billion in 2024, representing an 11.6% increase compared with the previous year, while the value of production reached GEL 90.5 billion, increasing by 16.3% year-on-year. During the same period, small enterprises accounted for 17.5% of total business-sector turnover, medium-sized enterprises for 14.9%, and large enterprises for 67.6%. In terms of production value, small enterprises accounted for 31.1%, while medium-sized enterprises accounted for 25.1% (Geostat, 2025). These figures confirm the significant role of the SME sector in economic activity while indicating substantial opportunities to increase productivity and value added. Accordingly, the assessment of SME development should not be limited to turnover growth; greater emphasis should be placed on transitioning toward activities with higher technological intensity and generating greater economic value from existing resources.

From a digitalization perspective, a significant gap can be observed between access to technologies and their integration into business processes among Georgian enterprises. According to Geostat (2026a), in 2025, 94.9% of enterprises

had access to the internet, while 74.7% used fixed internet connections. At the same time, only 15.3% of enterprises had a website. This gap indicates that access to basic digital infrastructure is already widespread, whereas transformation in commercial and managerial capabilities remains limited. Particularly for small enterprises, websites, e-commerce, digital marketing, and online customer communication can serve as important instruments for expanding markets and establishing new sales channels.

A comparison between policy frameworks and actual enterprise practices reveals a different picture. According to the OECD/EBRD (2023) SME Policy Index, Georgia's composite score for SME digitalization policy was 3.96, compared with an average of 3.54 across the Eastern Partnership countries. The score for the general framework conditions for digital transformation was 4.02, compared with a regional average of 3.61. Relatively strong areas included support for e-commerce, digital financial services, and services supporting the digital transformation of SMEs. This indicates that Georgia has already established an institutional foundation for digitalization; however, a gap remains between the policy framework and the extent to which its intended outcomes are reflected in enterprises' day-to-day practices.

When assessing the economic impact of digitalization, indicators of innovation activity are important. According to the Geostat (2026b) survey, in 2025, only 7.6% of enterprises introduced new or significantly improved goods, while 7.9% introduced new or significantly improved services. Of these innovations, 65.2% were new to the enterprise itself, whereas 34.8% were new to the market. This distribution indicates that a substantial share of innovation activity is associated with the adoption and adaptation of existing practices and technologies - the potential for developing products and services that are new to the market remains largely underutilized.

By type of innovation activity, relatively higher rates were recorded in information processing and communication (8.4%), the production and supply/development of goods and services (8.3%), and product promotion, packaging, pricing, placement, and after-sales services (8.2%) (Geostat, 2026b). These results indicate that digital technologies are already associated with certain innovative and organizational changes within enterprises; however, the scale of such transformation remains limited.

The findings are consistent with the main conclusions of international research. Based on data from German SMEs, Hassan et al. (2024) demonstrate that digitalization is positively associated with firms' innovation outcomes. A key determinant of this relationship is the enterprise's ability to acquire, absorb, and utilize knowledge. Accordingly, the mere presence of digital technology does not, in itself, guarantee innovation outcomes. Romero and Mammadov (2025) likewise emphasize that the digital transformation of SMEs should be viewed as an integrated process encompassing technological, human, and organizational changes. The evidence from Georgia provides empirical support for this perspective: despite widespread internet access, the rates of development of innovative products and services remain relatively low.

Sagala and Öri (2024) and Escoz Barragan and Becker (2025) emphasize the importance of human and organizational factors in the successful implementation of digital transformation. The former study associates the effectiveness of digital transformation with technological, organizational, and environmental factors; the latter conceptualizes digital orientation as a strategic capability that enables enterprises to adapt to changes in the digital economy. Accordingly, digitalization policy for Georgia's SME sector should encompass not only access to technologies but also the strengthening of managerial competencies, digital skills, and organizational adaptability.

Studies conducted in the Georgian context further confirm the multidimensional nature of this challenge. Manvelidze et al. (2023) identify the high concentration of enterprises in low-value-added activities as one of the major challenges to the development of Georgia's SME sector and emphasize the importance of strengthening innovation, human capital, and digital capabilities. Based on a comparison of Georgian and European Union experience, Machavariani (2023) considers digitalization an important condition for improving SME efficiency and competitiveness and emphasizes the importance of cooperation among businesses, government institutions, and universities.

Studies on the digital transformation of Georgia's business environment also demonstrate that technological change is gradually becoming an important component of SME development. In examining trends in digital transformation within Georgia's business ecosystem, Makasarashvili et al. (2024) focus on the diffusion of digital technologies and the development of innovation capabilities. Giguashvili and Makasarashvili (2025), in their assessment of digitalization policy for Georgian SMEs, identify technological areas such as artificial intelligence, cloud technologies, customer relationship management (CRM) systems, e-commerce, and digital marketing. According to their assessment, the digitalization of business processes can improve productivity and competitiveness; however, achieving these outcomes requires reducing technological and organizational barriers.

In terms of government policy, Georgia's position is relatively positive. According to the 2024 assessment of the OECD/EBRD (2023) SME Policy Index, Georgia's score for SME internationalization was 4.52, while the scores for business development services and SME skills were 4.22 and 4.12, respectively. The score for SME innovation policy was 3.44, exceeding the Eastern Partnership average of 3.09. At the same time, the innovation policy score calculated using Comparable Methodology increased from 2.38 in 2020 to 2.73 in 2024. This progress indicates an improvement in the policy framework; however, the gap between actual enterprise-level innovation activity and institutional policy assessments points to the need for further improvements in implementation effectiveness.

In this regard, the so-called "last mile" problem becomes particularly important: how can government support be transformed into concrete technological, productivity, and commercial outcomes at the enterprise level? Financial support for technology acquisition is likely to be more effective when accompanied by employee training, consulting services, business process

improvements, and monitoring outcomes. The OECD/EBRD (2023) also emphasizes the importance of strengthening SME digital transformation, developing digital competencies, and improving mechanisms for assessing and certifying digital skills.

An overall assessment of the research findings demonstrates that the main challenge facing Georgia's SME sector is no longer limited to access to the internet or basic digital infrastructure. The more important challenge is transforming existing digital capabilities into business value. Given the high level of internet access, the relatively low prevalence of enterprise websites, and the limited level of innovation activity, the next stage of digital transformation should move beyond technological infrastructure and link technology use directly to improvements in productivity, innovation, and market positioning.

In this context, digitalization, innovation, and competitiveness should not be treated as independent areas. Digitalization creates technological capabilities; innovation enables their productive utilization, and competitiveness represents the economic manifestation of the resulting outcomes. Weaknesses in any one link of this chain limit the effectiveness of the other two dimensions.

For Georgia, it is particularly important to move from **"digital access" to "digital productivity."** This entails using e-commerce, cloud technologies, CRM systems, data analytics, automation, and artificial intelligence to address concrete business challenges. At the same time, the adoption of technological tools should be accompanied by the development of employee skills and managerial capabilities.

Based on the findings, three interconnected priorities can be identified for the development of small and medium-sized enterprises in Georgia: deepening digitalization, developing innovation capabilities, and strengthening competitiveness. Implementing these priorities requires investment in human capital, financial and consulting support, stronger cooperation between universities and businesses, and more active integration of SMEs into international value chains.

Ultimately, the development challenge for Georgia's SME sector lies in transforming technological capabilities into tangible economic outcomes. The available evidence demonstrates that the foundations of digital infrastructure are already in place; the next stage of development should be based on more intensive and productive use of technologies. Accordingly, establishing a competitive SME sector in Georgia requires an integrated policy approach to digitalization and innovation that focuses not only on access to technologies but also on improving productivity, creating new value, and strengthening enterprises' positioning in international markets.

CONCLUSION AND RECOMMENDATIONS

The findings of the study demonstrate that the further development of small and medium-sized enterprises (SMEs) in Georgia is increasingly linked to digitalization, innovation, and enhanced competitiveness. Although the country has established a significant institutional foundation for SME support and access

to digital technologies has improved, challenges remain in effectively utilizing these technologies and translating them into tangible business outcomes.

The main conclusion of the study is that digitalization should not be viewed solely as the development of technological infrastructure. Its economic impact depends on enterprises' innovative and managerial capabilities, human capital, the effective utilization of knowledge, and integration into international markets. Accordingly, digitalization, innovation, and competitiveness should be treated as interconnected priorities within Georgia's SME policy framework.

The following measures are recommended for the development of small and medium-sized enterprises in Georgia:

- Promote the adoption of digital technologies, including e-commerce, cloud technologies, data analytics, and artificial intelligence;
- Strengthen the digital and innovation-related skills of SME employees and managers;
- Expand financial and advisory support for the development of innovative products and services;
- Strengthen cooperation among universities, research organizations, and businesses;
- Facilitate SME export development and integration into international digital markets;
- In evaluating government programs, complement quantitative indicators with measures of productivity, innovation, exports, and digital transformation outcomes.

Ultimately, strengthening the competitiveness of Georgia's SME sector requires a shift from access to digital technologies to their productive, innovation-driven use. A consistent policy approach in this direction will contribute not only to the development of individual enterprises but also to the emergence of a more innovative, resilient, and internationally integrated business sector.

ADVANCED RESEARCH

Recommendations For Further Research

Further research could extend the present analysis through firm-level empirical studies examining the relationships among digital technology adoption, innovation performance, productivity, and competitiveness of Georgian SMEs. Primary survey data and econometric methods could be used to test whether and to what extent digitalization and innovation are associated with improved enterprise performance. Future studies could also examine differences across firm size, economic sectors, and regions, as well as the role of digital skills, managerial capabilities, access to finance, and participation in international markets. Such research would complement the descriptive findings of the present study and provide a stronger empirical basis for evidence-based SME policy.

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