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REPUTATIONAL SECURITY OF SMALL AND MEDIUM-SIZED ENTERPRISES IN GEORGIA: CHALLENGES AND KEY MANAGEMENT AREAS

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Summary. *In today's competitive and digital business environment, the resilience of small and medium-sized enterprises (SMEs) no longer depends solely on financial and material resources. For SMEs, reputation is one of the most sensitive assets, influencing consumer trust, partnerships, employee attitudes, and business competitiveness. The aim of this study is to examine the state of reputational security among SMEs in Georgia, identify key reputational risks, and evaluate methods for managing them.This research is based on an analysis of academic literature and relevant sources, as well as a quantitative survey of representatives from SMEs operating in Georgia. The study covers various sectors, including food service, retail, tourism, the beauty industry, and technology.*

The findings indicate that the primary sources of reputational issues are perceived to be flaws in internal organizational processes, the online environment, negative customer reviews, and a lack of proactive crisis management mechanisms.The results demonstrate that ensuring reputational security for Georgian SMEs requires not only crisis response but also the development of preventive management mechanisms. The study concludes with recommendations aimed at the early detection of reputational risks, digital monitoring, service quality improvement, and the systematization of crisis communication.

Keywords*: reputational security, small and medium-sized enterprises, reputational risks, corporate reputation, crisis management, digital risks, intangible assets.*

Introduction

Today, there is no doubt that a company's market value is determined by more than just its buildings, equipment, or bank accounts. In the current economic landscape, intangible assets play a crucial role, with corporate reputation occupying a central position. Research indicates that, on average, corporate reputation

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accounts for more than 25% of an organization's market value [2]. These figures underscore the role of reputation as a key determinant of business value and explain why protecting and managing it should be viewed as a strategic priority for an organization.

The importance of reputation is particularly evident in the small and medium-sized enterprise (SME) sector. Compared to large corporations, small businesses often possess fewer financial, human, and technological resources to weather crises. Consequently, a loss of customer trust, service quality issues, negative online reviews, or cybersecurity incidents can rapidly impact their operations.

Reputation and financial performance are closely linked. A positive reputation boosts customer trust, drives repeat business, mitigates risks in partnerships, and facilitates access to capital. For SMEs, therefore, reputation is not merely a matter of image; it must be regarded as a vital factor in financial stability.

The evolution of the digital landscape has further complicated the task of managing reputational risks. Social media, online reviews, and digital communication channels enable users to disseminate information about a company instantly. Yet, SMEs often lack the resources required for the systematic management of digital risks.

In the context of Georgia, examining reputational security is of particular importance, given the significant role SMEs play in the country's economy. However, considering the specific characteristics of the Georgian business environment, empirical studies on reputational risk management practices remain limited. This work is devoted precisely to this question.

Research Objectives.The research aims to study and analyze the state of reputational security of small and medium-sized businesses in Georgia, identify the main sources and types of reputational risks, and develop practical mechanisms for managing and preventing reputational risks relevant to the Georgian business environment.

The scientific significance of this work stems from its examination of reputational security within the Georgian business environment, given that many approaches found in international literature rely primarily on the experience of large organizations. The study's value lies in its analysis of various sources of reputational risk—such as internal organizational processes, service quality, the digital environment, customer feedback, cybersecurity, and management decisions—within a unified analytical framework.

Corporate reputation can be defined as the overall assessment of an organization formed by stakeholders over time. It is shaped by the organization's past performance, current conduct, the quality of its products and services, and the nature of its interactions with customers.

Reputational security is an organization's ability to maintain stakeholder trust, as well as its business reputation and image, while simultaneously minimizing the likelihood and severity of events that could trigger a negative assessment of its activities.

Potential threats capable of negatively affecting customer trust, partnerships, employee relations, or the organization's economic performance are classified as reputational risks.

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Reputational risks can be categorized into several main groups.

Internal reputational risks are linked to the organization's internal processes, staff behavior, service standards, management decisions, corporate culture, and workflow organization.

External reputational risks stem from external environmental factors and include negative customer feedback, unfavorable media coverage, issues with partners, risks associated with the competitive landscape, and other external factors.

Operational and service risks relate to product or service quality, delivery timelines, customer service levels, compliance with sanitary standards, and other operational processes.

Digital reputational risks include the spread of negative information on social media, the appearance of negative online reviews, errors in digital communications, and cybersecurity incidents. The significance of digital risks is particularly high for small and medium-sized enterprises, as they often have limited resources to establish effective protection mechanisms.

Financial-ethical risks — are associated with non-fulfillment of obligations, dishonest behavior towards a customer or partner, lack of transparency, and violation of ethical standards.

Based on this classification, it is possible to consider reputational security as a multidimensional system, the sustainability of which depends on both the quality of internal management and the effectiveness of the organization's relationship with the external environment.

Literature Review

In recent years, the issue of reputational risk has increasingly been viewed as part of an organization's overall risk management system. However, there is significantly less research on this topic regarding small and medium-sized enterprises (SMEs) than there is for large companies. This is particularly relevant for small businesses, where the reputations of the owner, the employee, the service provided, and the business itself are often closely intertwined.

Drawing on an extensive review of existing research on corporate reputation, Walker (2010) notes that reputation is a multifaceted concept that is difficult to measure using a single indicator. Reputation is shaped by an organization's activities, its interactions with stakeholders, and the public's perception of those activities. Consequently, measures to protect it cannot be limited merely to advertising or public relations activities.

The relationship between reputation and an organization's economic performance is also examined in a study by Gatzert (2015). The author’s analysis demonstrates that reputational damage can have financial consequences, as it influences stakeholder attitudes and behavior. This further confirms that reputational risk is not simply a matter of corporate image.

This issue is of particular importance for small and medium-sized businesses. Ambroise and Prim-Allaz (2017) note that for enterprises in this sector, reputation is linked not only to customer relationships and the quality of goods and services but also to the personal reputation of the business leader. This connection is especially pronounced in small businesses, where customers often interact directly with the

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owner or a specific employee. Accordingly, the behavior of even a single individual can influence the perception of the business as a whole.

Research by Portman-Smith and Harwood (2015) is also of interest in this context. The authors examined reputational risk management in small enterprises and among sole proprietors; They demonstrated that small business owners often do not view reputation as a distinct risk. Nevertheless, they are well aware of how customer reviews and their own behavior affect their business's reputation. This distinction is important: the problem is not always a failure to grasp the significance of reputation—often, it lies in the absence of concrete mechanisms for managing it.

Digital technologies have also altered the nature of reputational risks. Today, customer dissatisfaction can spread rapidly via social media, online reviews, and other digital channels. An OECD report (2021) notes that small and medium-sized enterprises (SMEs) often lack the resources, knowledge, and specialized expertise required to manage digital risks. In the event of a cyber incident, the damage can extend beyond technical systems and financial standing to affect consumer trust and the company's reputation.

This line of research is complemented by the work of Sukumar et al. (2023), which focuses on cyber risk assessment in small online businesses. The authors demonstrate that cybersecurity risk is not merely a technical issue; it encompasses human, organizational, and technological factors simultaneously. Given the resource constraints faced by small businesses, these risks can be interconnected, ultimately resulting in both financial and reputational damage.Thus, a review of existing literature indicates that reputational risk arises from a combination of interconnected factors.

These factors may include service quality, employee behavior, management decisions, customer relations, the digital environment, cybersecurity, and ethical considerations. However, there is a lack of comprehensive research examining these factors within the context of small and medium-sized businesses in Georgia. This study aims to address that specific gap in knowledge.

Research methodology

Given the purpose of the study, a quantitative research method was used. The target group of the study was represented by owners of small and medium-sized enterprises operating in Georgia, as well as senior managers. The selection of respondents was carried out using the principle of purposeful sampling in order to directly involve those individuals who are involved in organizational decision-making and risk management processes. A total of 50 respondents were interviewed, representing various business sectors (food establishments, retail, tourism, beauty services, IT and cybersecurity). A structured questionnaire was used to collect data.

Research Results

The research results showed that for the surveyed small and medium-sized businesses, the issue of reputational security is related to several key problems.

- The impact of internal processes on reputation

68% of respondents indicated that reputational problems are often related to problems in the organization's internal processes.

This result deserves attention, because the customer often sees only the final result that he receives when receiving a service. What happened inside the company

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is less important to him. If an employee failed to provide information, an order was delayed, the service was not performed at the proper level, or the problem was not resolved in a timely manner, the customer's assessment extends to the business as a whole.

• Social media and online environment

82% of surveyed businesses identified social networks and the online environment as one of the main problem areas for reputation.

This result is natural in today's business environment. Users can share their experiences with other people in a matter of minutes. A positive review is good advertising for a business, while a negative comment, especially when not responded to in a timely manner, can lead to a negative attitude.

• Lack of a crisis plan

Another important result of the study is that only 14% of surveyed businesses have a predetermined action plan in case of a reputation crisis.

This indicator indicates that the management of reputation problems in the majority of surveyed businesses is more reactive. That is, after a specific problem arises, a decision is made about what to do. A pre-prepared plan does not necessarily imply a complex document. Even for small businesses, it is possible to define a few simple rules: who is responsible for crisis communication, how to respond to a customer complaint, when an official statement should be made, and how to assess the problem further.

• Sectoral characteristics

According to the survey results, the nature of reputational risks varies depending on the field of activity.

In catering establishments — cafes, bars, restaurants and fast food outlets — the quality of products and services, hygienic conditions and customer relations are of particular importance.

In beauty salons and flower shops, reputation is often associated with the work of a specific employee or specialist. In such cases, the professionalism of the employee and the culture of customer relations are directly reflected in the overall assessment of the business.

In tourism companies, the reliability of service partners, the fulfillment of promised services and the correct management of customer expectations are important for reputation.

For cybersecurity companies, technical reliability, data protection and professional reputation are especially important.

Discussion of results

The results of the study show that the reputation security of small and medium-sized businesses is related to the organization of daily activities, service quality, employee behavior, and especially the presentation of the business in the digital environment.

The high share of internal organizational problems in the enterprises participating in the study indicates that the cause of reputational risk should often be sought in the organization itself. Instability of service quality, incorrect communication of employees, delayed response or improper management of customer problems ultimately affect the external assessment. Accordingly,

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reputation protection cannot be ensured by controlling social networks alone. It is necessary to regulate those processes that directly affect customer assessment.

The role of social media and online space is particularly important. For modern small businesses, digital channels are one of the main means of communicating with customers, but at the same time they increase the speed of the spread of reputational risk.

One of the important results of the study is the absence of a crisis plan. Only a small part of the surveyed businesses have a predetermined action plan. This circumstance indicates that many small and medium-sized businesses begin to respond to reputational problems after they arise. Such an approach increases the risk of both the spread of the problem and the loss of customer trust.

The results of the study showed that the nature of reputational threats varies significantly depending on the field of business activity. From a sectoral perspective, it was revealed that reputational threats in cafes, bars, restaurants and fast food outlets are mainly related to sanitary conditions and quality of service. In beauty salons and flower shops, the professional image of specific employees and service providers and the quality of customer relations have a particularly significant impact on the reputation of the business. In tourism companies, the reliability of partner facilities and service providers was identified as an important determinant of reputation, while in cybersecurity companies, data confidentiality, technical reliability and quality of service are given special importance.

The above results indicate that ensuring the reputation security of SMEs should not be limited to a single approach and it is necessary to take into account the specific risks of each sector.

Thus, the results of the study indicate that effective reputation security management in SMEs should be based on two directions: prevention of problems and timely, consistent response to them. In times of crisis, action alone is no longer enough; it is necessary to establish practices in everyday activities that will reduce the likelihood of reputation problems.

Recommendations

Based on the research results, the following practical recommendations can be formulated for Georgian small and medium-sized businesses:

-Streamlining internal processes.Businesses should clearly define basic service standards, employee responsibilities, and procedures for responding to customer complaints. This is especially important in areas where direct contact with customers occurs.

-Employee training. To reduce reputational risk, employees must know how to talk to customers in difficult situations, how to respond to complaints, and when to escalate the issue to their manager. For small businesses, this can be done through short internal briefings and practical training.

-Regular monitoring of online reputation. It is necessary to periodically check social networks, customer reviews and online comments. The goal should not be only to delete negative comments; it is more important to understand the cause of the problem and provide an appropriate response to the user.

-Develop a simple crisis plan. A small business does not need a complex and voluminous document. It is enough to determine in advance: who makes the

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decision, who communicates with the customer, who disseminates official information and at what stages the management should be involved.

-Identify a responsible person. In the event of a reputation problem, the uncertainty of responsibility can hinder the response. Therefore, it is advisable for each business to have a specific employee or manager who will coordinate actions in such a situation.

-Use customer feedback. A negative rating is not always just a threat. Properly analyzed feedback helps the business to detect and correct service deficiencies. Such an approach connects reputation risk management with the process of daily improvement.

-Maintaining minimum standards of digital and cyber security.

Businesses should pay special attention to protecting customer data, account security, password management, and employee awareness. A digital security problem can quickly turn into a reputational problem.

-Periodic self-assessment. It is advisable for businesses to assess their reputational status several times a year: what problems have recurred, what feedback they have received from customers, how the response mechanism has worked, and what needs to be improved.

Conclusion

The study clearly shows that in the modern Georgian economic reality, reputational security for small and medium-sized businesses is no longer a secondary, auxiliary managerial function or marketing tool — it is a fundamental strategic necessity for the survival, competitiveness and long-term sustainability of the enterprise. In an environment where digital technologies and social media provide instant dissemination of information, the trust of customers and partners becomes the most dynamic and at the same time the most vulnerable intangible asset.

The empirical analysis conducted within the framework of the study revealed a serious systemic gap between the understanding of reputational risks and practical mechanisms for their management. Despite the fact that business owners and managers realize the importance of a positive reputation, the local SME sector still maintains a passive model of situational management (post-facto management practice) - managing not risks, but already established crisis outcomes.

Combining theoretical and practical analysis allows us to conclude that Georgian SMEs need to change both their attitude to reputation and their organizational approaches to its management. Businesses should abandon the "fire-fighting" model and move to proactive management, which implies strict adherence to internal quality standards, improving employee qualifications, constant monitoring of the digital space and transparent communication. Reputation can be damaged in an instant, due to a single mistake, while restoring lost trust requires years of hard, resource-intensive and often fruitless work.

Ultimately, every resource invested in reputational security is not an operating expense, but a high-return investment in long-term business stability and national economic sustainability.

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РЕПУТАЦІЙНА БЕЗПЕКА МАЛИХ І СЕРЕДНІХ ПІДПРИЄМСТВ У ГРУЗІЇ: ВИКЛИКИ ТА КЛЮЧОВІ НАПРЯМИ УПРАВЛІННЯ

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Анотація. *У сучасному конкурентному та цифровізованому бізнес-середовищі стійкість малих і середніх підприємств (МСП) більше не залежить виключно від фінансових і матеріальних ресурсів. Для МСП репутація є одним із найбільш чутливих нематеріальних активів, що впливає на довіру споживачів, партнерські відносини, ставлення працівників і конкурентоспроможність бізнесу. Метою цього дослідження є вивчення стану репутаційної безпеки малих і середніх підприємств у Грузії, визначення ключових репутаційних ризиків та оцінювання методів управління ними. Дослідження ґрунтується на аналізі наукової літератури та відповідних джерел, а також на кількісному опитуванні представників малих і середніх підприємств, що здійснюють*

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діяльність у Грузії. Дослідження охоплює різні сектори, зокрема громадське харчування, роздрібну торгівлю, туризм, індустрію краси та технологічну сферу. Результати дослідження свідчать, що основними джерелами репутаційних проблем вважаються недоліки внутрішніх організаційних процесів, ризики онлайн-середовища, негативні відгуки клієнтів і відсутність проактивних механізмів кризового управління. Отримані результати демонструють, що забезпечення репутаційної безпеки малих і середніх підприємств у Грузії потребує не лише реагування на кризові ситуації, а й розроблення превентивних механізмів управління. У роботі сформульовано рекомендації, спрямовані на раннє виявлення репутаційних ризиків, цифровий моніторинг, підвищення якості обслуговування та систематизацію кризових комунікацій.

Ключові слова: *репутаційна безпека, малі та середні підприємства, репутаційні ризики, корпоративна репутація, кризове управління, цифрові ризики, нематеріальні активи.*

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