

Impact of Covid-19 on Digital Transformation and Resilience of Small and Medium Enterprises: The Case of Azerbaijan

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Abstract:- Currently, the digital economy has a huge impact on the development of the economy and the financial system in various countries of the world. Covid-19 has affected lives, businesses, economies, and the world at large. The virus has had a profound impact on business operations in many areas around the globe and more so if we look closely into what is happening now in Baku, Azerbaijan. This essay focuses on how Covid-19 may affect Baku's digital transformation and resilience of small and medium enterprises. The first section deals with the introduction of technology in Azerbaijan and its current status, while the second part provides an analysis of how Covid-19 is affecting them. Lastly, the third section deals with future implications of these developments. The relevance of the chosen topic is expressed in the fact that the modernization of the domestic economy of states today is impossible without effective management of the development of the digital economy, which has a significant impact on the development of the financial system and business structures. The experience of foreign countries shows that the digitalization process, understood as the introduction of information and telecommunication technologies into economic processes, is objectively necessary and is accompanied by progressive changes in various areas of economic and social life. Due to the increase in the level of digitalization, the efficiency of the functioning of the business sector and individual sectors of the economy, as well as the financial system as a whole, increases. Among the tasks that modern commercial organizations face is to increase the efficiency of work and the level of competitiveness in a constantly changing market environment.

It is possible to increase the efficiency of commercial activities by optimizing business processes, introducing modern equipment, using automation tools, and training personnel in new techniques and technologies for performing work.

The article examined the impact of the pandemic on the digital transformation of small and medium-sized enterprises in Azerbaijan, as well as assessed the use of digital technologies in small and medium-sized businesses and their effectiveness during the pandemic. As a result of the study, it was revealed that the pandemic had a significant impact on the acceleration of digital transformation in most countries of the world, including the economy of Azerbaijan.

The aim of the research work is to study the impact of the pandemic on the digital transformation and sustainability of small and medium-sized enterprises using the example of Azerbaijan.

Key-words: Pandemic, Digital transformation, Medium and small enterprises, Business environment.

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1 Introduction

Currently, for the majority of both domestic and foreign companies, technological progress is a

strong competitive advantage, especially with the accelerated development of digital transformation.

On a global scale, digital transformation

accelerated precisely during the spread of the coronavirus infection, which ensured the acceleration of the development of technological processes.

Covid-19 has completely changed the familiar world and everyday life of not only the population, but also the business environment. Currently, many companies are increasing interaction with regular customers through online communication and the use of social networks. Thanks to a new way and the development of the digital economy, small and medium-sized companies stay afloat during the financial crisis. In addition, due to digital transformation, the unemployment rate is reduced due to the transfer of employees to remote work. Globalization in the face of uncertainty leads to various market changes that can make it difficult for medium and small enterprises, especially in times of financial crisis.

The rapid transformations in technology in Azerbaijan have brought with it a range of opportunities for both local and international players to create value and make profits out of this opportunity [1]. However, for some of the most significant change in technology in Azerbaijan's history, Covid-19 has been the greatest challenge to the society [2]. A number of individuals who were close to their customers and involved in various aspects of business lost their jobs. For example, as a result of the pandemic, many individuals had to shift from places such as Yerevan and Kyiv to places like Dubai and Berlin or even London to accommodate their work-related problems. Therefore Covid-19 has significantly impacted all forms of social interaction by creating significant changes among individuals in the society. As a result, those people affected may be forced to make choices that will require adequate planning. They may have to decide which mode of communication must they rely upon and how to handle certain types of clients and colleagues. It is important to understand the circumstances under which each individual was exposed and the effects that these decisions have had on their daily life. In such situations, individuals are faced with numerous critical decisions that must be made in order to meet their needs [1].

These kinds of decisions can prove to be complex and take time in nature. Individuals may be faced with a lot of uncertainty and fear of getting infected, so some of them may choose to face off against other people rather than face up to the risks that come with Covid-19. Others might seek refuge in virtual spaces where they interact and interact with others. When people are

confronted with a choice between several alternatives, it is vital to consider all the outcomes in detail before making the decision.

With the development of an unstable environment, on the one hand, the financial development strategies of business entities should be aimed at developing new technologies, due to which small companies remain on the market. On the other hand, SMEs must have the necessary financial capabilities to introduce modern technologies into business processes [3].

Today, during a pandemic that has swept the whole world, almost 92% of companies are updating their business in accordance with market changes dictated by digital transformation. According to research in the United States, about 30% of the population today use video chat, and 54% of consumers use online broadcasting services. Thus, the transition to a new level of economic development, through the use of digital communications and information technology, allows you to get additional benefits necessary to maintain competitiveness and survive in the market.

Research objectives: Consider the benefits of digital transformation for small and medium-sized businesses;

Explore the impact of the pandemic on the development of digitalization in the Azerbaijan economy.

Analyze trends in the effectiveness of digital transformation for the sustainability of small and medium-sized businesses in Azerbaijan.

The object of the study was digital transformation.

The subject of the study is the features of digitalization for the development and sustainability of SMEs.

2 Research Methods

The methodological basis of the study is made up of general scientific methods, which include system analysis, general legal synthesis, system modeling and forecasting, and the dialectical method. In addition, special scientific methods were used in the work - the theoretical and legal method, the method of generalizing indicators, as well as the graphical method, the method of comparison, induction and deduction.

Presented Methods research helps not only to collect facts, but to check them, systematize them, identify non-random dependencies and determine causes and effects. Thanks to these research methods, the goals and objectives of the research

work are achieved, conclusions and results are summarized. The reliability and validity of the research results were ensured by general theoretical principles and their correlation with practical results, representativeness of the sample, the use of valid tools and statistical data processing with subsequent interpretation.

3 Literature Review

The information base will be textbooks, expert articles in journals and opinions of experts in the field of financial system research.

A number of authors paid attention to the study of the digital economy and its integration into the world space. Garnov and Bykova [4,5], Trofimova and Lomovtseva [6], in one of their papers, they considered the problems and prospects of the digitalization of the economy and in another - how the digital economy is integrated into the modern world. Also, this issue was investigated by Zavyalov and Zavyalova [7], Buro., Kapitonova and Kaibalina [8]. considering the digital economy in terms of commodity circulation and prospects, problems of its development. Akbulaev, Aliyev and Ahmadov have researched ways to finance social enterprises to ensure competitiveness in providing the highest quality services and improving the living standards of the population [9].

Aliyeva in her study of emphasized that people and organizations who know that they exist in the modern world need to understand the ways of coping with the competitive environment of information and communication technologies and electronic digitalization by using the information society [10].

Akbulaev's [11] study identified some problems that arise in the activities of taxi companies: a constant price reduction that forces competitors out of the market, a decrease in the quality of service for companies providing services through mobile taxi ordering applications, and a decrease in companies' income. using traditional taxi services. To do this, it is necessary to integrate modern ways of doing business into the daily activities of enterprises engaged in taxi transportation.

At present, when competition around the world has increased as a result of globalization, countries are doing everything possible to increase their competitiveness in order to gain more space in the world market. Today, the growing importance of domestic business and its formation as an integral part of society in Azerbaijan imposes certain obligations. [12].

4 The Importance and Significance of Digital Transformation for Small and Medium-sized Businesses

Currently, digital technologies are developing at a fairly rapid pace. Due to the high level of development of digital transformation, the development of business structures in various areas of economic activity is ensured. Digital transformation is gaining immense popularity in the business environment as a result of the large-scale changes caused by the coronavirus infection. Thanks to digital technologies, which are being massively introduced into various companies, doing business is facilitated, since most business processes are simplified and carried out automatically.

The success of any business lies in the ability to adapt to the changing demands and trends in the market. To succeed, a company must keep abreast with technological developments in order to remain relevant. Furthermore, competition has become stiffer as companies try to outdo each other. Consequently, companies are increasingly adopting innovative technologies that make them more competitive. In spite of these changes, there is always room for improvement. When a company fails to incorporate technology, it eventually loses its competitiveness.

In fact, small and medium-sized enterprises (SMEs) have undergone several transformations over the years. This paper will focus on how SMEs can use information and communication technology (ICT) to improve their operations. These firms can embrace ICT to streamline internal processes and provide them with efficiency such as increased productivity and accountability. Indeed, by using this approach, they can achieve high organizational performance.

At present, the process of digital transformation has reached such a scale that commercial organizations, especially medium and small enterprises, need to constantly apply modern technologies in order to be a successful and competitive company that increases profits, because customers currently prefer those companies with which they have enough easy to operate.

However, a business cannot independently implement digital transformation, as this is a rather laborious process that requires certain knowledge and a serious approach. Among the main advantages of digital transformation, the advantages presented in Figure 1 should be highlighted.

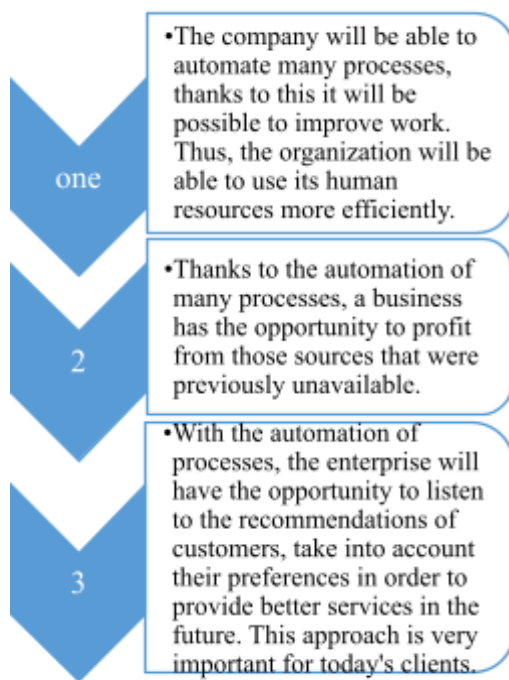


Fig. 1: Benefits of digital transformation for business entities [13,2]

Thus, digital transformation plays a huge role in the development of small and medium-sized businesses, as it has a lot of advantages, so today businesses need to introduce new technologies in order to increase their competitiveness and attract new customers.

5 Analysis of the Effectiveness of Digital Transformation and Sustainability of Small and Medium-sized Enterprises in Azerbaijan

Currently, more and more states are interested in large-scale digitalization of the economy, especially during a pandemic, as the digitalization of the economy has certain prospects for business development. The coronavirus infection has changed the rules of the game for the development of the global economy, and most of the classic forms have gone forever, while they have been replaced by new formats and tools that have developed in rapidly changing market conditions.

Azerbaijan has been working for several years on the development of digital potential, which is being actively introduced not only into large, but also medium and small businesses. Digital

transformation allows a firm to create new products and services via Internet. A company can implement online marketing strategies, develop an electronic customer database, perform financial transactions online, and analyze performance data. Such a strategy makes a large number of organizations easily accessible and affordable. It also helps to increase brand recognition and loyalty in the mind of customers.

The application of internet technology ensures fast delivery of goods and services in all parts of the world. Therefore, many people around the globe can access quality services and goods at low costs. On the same note, these firms have adopted advanced business models to meet their needs. They include corporate social responsibility (CSR), global expansion and localization, lean systems, outsourcing, etc. Moreover, most organizations have embraced cloud computing and IT solutions. Thus, the need for efficient storage structures becomes critical.

In addition, when a business deals with multiple operational units, this can be done through collaboration among different entities or groups. As a result, it can acquire the necessary skills.

At the same time, the emergence of e-business also provides ample opportunities for SME's to sell their products and services across borders. Currently, the state has a Strategic Roadmap for the development of financial services in Republic of Azerbaijan, which was approved by the President on December 6, 2016. This strategic roadmap defines the prospects for the development of financial services, not only in the banking system, but also in the business environment. The pandemic has contributed to the acceleration of the digital transformation of the Azerbaijani economy, thanks to digitalization, not only online sales have increased, but also the use of information and communication technologies in small and medium-sized enterprises in various fields of economic activity has increased.

In addition, Azerbaijan currently has an action plan for the development of the domestic economy and entrepreneurship, which was approved by the Cabinet of Ministers in 2020 to implementation of the Decree of the President of Azerbaijan, covering three points:

Support for economic growth and entrepreneurship in the state;

Ensuring employment and social security;

Ensuring the development of the domestic economy and finances by attracting foreign investment to the state.

According to the State Statistics Committee of Azerbaijan, more than 99% of business entities in the state are small and medium enterprises. So, at the beginning of 2021, 92% of microbusiness enterprises were registered, 5.3% are small enterprises and 2.1% are medium enterprises [14,17,2].

Figure 2 shows the structure of registered enterprises in the territory of Azerbaijan according to the State Statistics Committee.

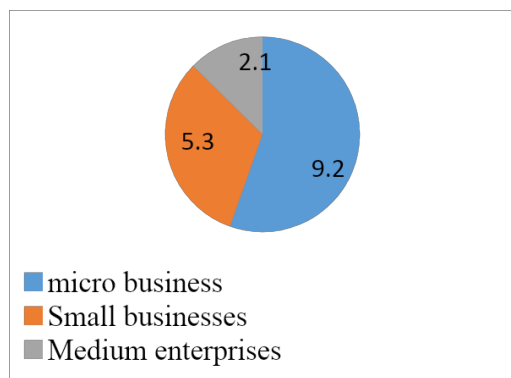


Fig. 2: Structure of SMEs in Azerbaijan in 2020, % [14,17,2]

The number of individual entrepreneurs who are registered to engage in entrepreneurial activities in the state is increasing annually, so at the beginning of 2021 their number in the country exceeded 1 million people. Currently, most business entities are engaged not only in trade and services, but also in construction, processing industry, agriculture and other types of business.

During the pandemic, the state has developed various mechanisms to support small and medium-sized businesses. At present, measures to support the sale of products of small and medium-sized businesses, especially in retail chains, have been expanded, the production of non-oil products is being stimulated, and import-substituting industries are being created.

In 2020, an online sales platform was launched to expand sales opportunities for small and medium-sized businesses and promote their goods and services not only in the state, but also in foreign markets.

During the pandemic, more and more businesses began to use information and communication technologies (ICT). Figure 3 shows the dynamics of the number of SMEs in Azerbaijan with access to the Internet.

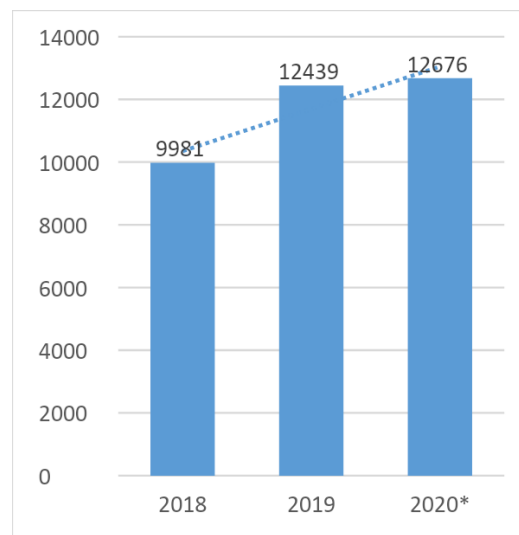


Fig. 3: Number of SMEs in Azerbaijan with Internet access [14,17,2]

Thus, more and more companies began to use modern information technologies to increase turnover and attract new customers. During the spread of coronavirus infection in Azerbaijan, more than 50% of entrepreneurs switched to online sales.

Before the spread of the pandemic in the country, only 10% of entrepreneurs carried out online sales of goods, but today the number of online merchants has increased fivefold. These figures show that the transition to online sales in the country is producing effective results.

6 Discussion of the Positive and Negative Aspects of Digital Transformation and the Sustainability of Small and Medium-sized Enterprises in Azerbaijan

The introduction of new technologies is also primarily a priority for entrepreneurs, as digital technologies expand the boundaries of business.

The creation of a digital economy opens up significant opportunities for consumers, the state and society as a whole. Singapore, China, South Korea, New Zealand and Denmark are among the leading countries in the implementation of the digital economy in the world.

For 12 months of 2020, compared to 2019, the turnover of e-commerce in the state increased by 3.1 billion manats, which is 2.4 times more than in 2019. At the same time, the retail trade turnover increased from 39391.7 million manats to 40166.5 million manats, or by 2.1% compared to 2019 (Fig. 4).

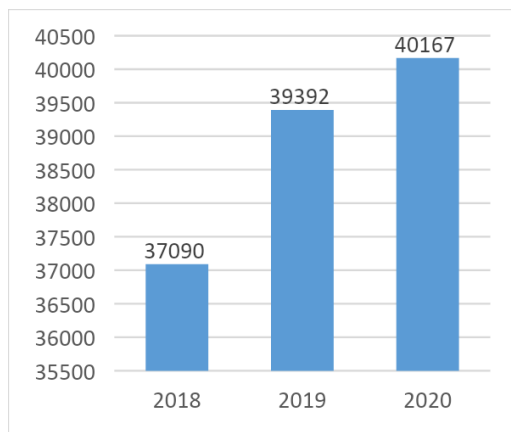


Fig. 4: Turnover of retail trade of SMEs in Azerbaijan from 2018-2020, million manat [14,17,2]

Azerbaijan will be able to develop more intensively in the future, using its advantageous geographical position (Regional Energy Center, Center for East-West, North-South Transport Corridors), rich natural and human resources, as well as introducing new world trends in the field of ICT in the country.

Thus, digitalization and building a digital economy can open a new window for the sustainable development of the country.

Today's CIOs are challenged to change their mindset as the rules of the game change. A common strategy is to find an outside consultant from a third party or organization that specializes in a particular need.

However, the transition to digital technologies is not so easy, as many entrepreneurs point out. The main problems faced by managers are lack of funds, budget constraints (24%) [15].

The digital transformation of small and medium enterprises does not necessarily require a radical transformation of the business model; transformation can be carried out gradually and at different levels of change. The implementation of digital transformation has made companies more agile, which has led to a more flexible allocation of resources. However, this flexible implementation is considered costly and the survival of the enterprise is at risk if it is not flexible. In addition, there is no "one-size-fits-all solution", so companies must develop their own individual digital transformation path, considering "what strategy" to use and "where it should be applied".

The choice of strategy and the success of digital transformation depend on various factors, such as existing digital capabilities of firms,

learning culture, history of digital adoption, ability to grow with supporters, etc.

7 Conclusions and Recommendations

Thus, the rapid transformation of digital technologies provides a promising competitive advantage, which is associated with high risk. However, in a digital environment, this competitive position will not last long, as there is room for imitation by competitors. This type of transformation requires companies to create a digital foundation. This is coupled with digital vision and strategy development supported by a culture of learning and achieving a certain level of digital literacy [4].

The pandemic has accelerated the transition from physical intermediaries and asset owners to digital platform producers that exclude intermediaries from the transaction chain. Competition on Russian digital platforms has already increased compared to the beginning of 2020. SMBs that haven't started this transformation process are reducing their opportunities for effective collaboration and business success in the future, as the rules of the game won't change.

Over the years, SMEs have been gradually moving towards digital technologies, gradually adapting to the changing behavior of their customers. Now the pandemic has accelerated the need to go digital. Simply put, organizations must have a digital presence to remain relevant to customers and competitive in the marketplace.

The evolution of e-business activities also enhances the role played by the employees and other stakeholders at both local and international level. Generally, this movement tends to shift from traditional 'one-to-many' operation model to 'many-to-many' operation model [16]. The move will require the restructuring and adaptation of traditional processes to ensure efficiency and flexibility. Nonetheless, many organizations believe that the current economic environment has presented new challenges [17]. Further studies indicate that we need to consider the concept of sustainable business development. Sustainability entails the consideration of economic, environmental, social and cultural factors.

The legacy of the poet Nizami touched on economic relations. Nizami considered it necessary to act in conditions of mutual assistance and assistance with nature. the social nature of economic relations between people, reminds us that they depend on each other, and as a result, all together create wealth and serve each other [18].

Such factors should guide the decisions made by modern scholars, companies, etc. The future of business is uncertain, but organizations should take steps to mitigate risks associated with uncertainty. Notably, these firms should adopt effective approaches to sustain the industry since they are unable to predict what will happen in the near future. Companies should therefore be ready to deal with change, stay successful, and grow along the way. However, it is imperative to know what has worked for others, learn from them, and act in concert with them to achieve optimal results in the long run.

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