

**THE MINISTRY OF EDUCATION OF THE REPUBLIC OF AZERBAIJAN**

**AZERBAIJAN STATE UNIVERSITY OF ECONOMICS**

**INTERNATIONAL GRADUATE AND DOCTORATE CENTER**

**MASTER DISSERTATION**

**ON THE TOPIC**

**“WAYS OF INCREASING THE COMPETITIVENESS OF INDUSTRIAL  
ENTERPRISES IN AZERBAIJAN”**

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**BAKU – 2019**

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**“ \_\_\_\_\_ ” \_\_\_\_\_ 2019**

**MASTER DISSERTATION**

**ON THE TOPIC**

**“Ways of increasing the competitiveness of industrial enterprises in Azerbaijan”**

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# AZƏRBAYCANDA SƏNAYE MÜƏSSİSƏLƏRİNİN RƏQABƏT QABİLİYYƏTİNİN ARTIRILMASI YOLLARI

## XÜLASƏ

**Tədqiqatın aktualığı.** İqtisadi inkişafın yüksək dərəcəsi şəraitində, ətraf mühitin faktorlarının dəyişkənliyi əhəmiyyətli səviyyəyə çatdıqda müəssisələrin, malların və xidmətlərin rəqabət qabiliyyətinin təmin edilməsi vacibdir. Müəssisənin bazar şəraitində əsas iqtisadi məqsədi inkişafın təmin edilməsini, istehsalın səmərəliliyinin artırılmasını, mənfəətin artırılmasını, yeni bazarları fəth etmək və bazar tələbatlarını təmin etməkdir.

**Tədqiqatın məqsəd və vəzifələri.** Bu tədqiqatın məqsədi müəssisənin rəqabət qabiliyyətliliyinin təhlili və qiymətləndirilməsi, rəqabət şəraitində onu təkmilləşdirmək üçün strategiya və taktikanın formalaşdırılması və həyata keçirilməsi üçün bir metodun hazırlanmasıdır.

**İstifadə olunmuş tədqiqat metodları.** Tədqiqatın metodik əsasları müxtəlif müasir metodlara əsaslanır: sistemativ yanaşma, analitik və iqtisadi-statistik təhlil, analoji metod, müqayisəli və ekspert qiymətləndirmə metodları, proqnozlaşdırma, modelləşdirmə və s.

**Tədqiqatın informasiya bazası.** Tədqiqatın informasiya bazası Azərbaycanın hüquqi sənədləri, bir neçə il ərzində Statistika Komitəsinin məlumatları, yerli və xarici alimlərin nəşrləri və digər məlumat mənbələrindən təşkil olunmuşdur.

**Tədqiqatın məhdudiyyətləri.** Tədqiqatın məhdudiyyətləri sırasında əsasən mövzu predmetinin informasiya bazasının, iqtisadi və statistik göstəricilər sisteminin məhdud və konfidensial xarakterliyi önə çəkilir.

**Tədqiqatın nəticələri.** Müəssisənin rəqabət qabiliyyətini müəyyən edən amillər təsnifatı sistemi hazırlanmışdır. Bir müəssisənin rəqabət qabiliyyətinin səviyyəsini inteqrasiya edilmiş ümumiləşdirilmiş qiymətləndirmə üsulu hazırlanmışdır ki, bu müəssisənin rəqabət qabiliyyətinin artırılması üçün strategiya və taktika planlaşdırılmasına imkan yaradır. Müəssisənin rəqabət qabiliyyətini artırmaq üçün hədəflənmiş inteqrasiya olunmuş proqramın yaradılması metodu təklif edilmişdir.

**Nəticələrin elmi-praktiki əhəmiyyəti.** Praktiki tövsiyələrin səviyyəsinə gətirilən bu tədqiqatın nəticəsi, Azərbaycan hakimiyyəti subyektlərinin fəaliyyətində, eləcə də təsərrüfat subyektlərinin operativ və strateji qərarlar qəbul edərkən idarəetmə praktikasında və sənaye müəssisələrinin rəqabət qabiliyyətinin artırılmasında istifadə edilə bilər.

**Açar sözlər:** Rəqabət Qabiliyyəti, Sənaye, Müəssisə, Azərbaycan

## **ABBREVIATIONS**

<b>CIS</b>	Commonwealth of Independent States
<b>GDP</b>	Gross Domestic Product
<b>ICT</b>	Information and Communications Technology
<b>IT</b>	Information Technology
<b>OECD</b>	Organization for Economic Co-operation and Development
<b>R &amp; D</b>	Research and Development
<b>UK</b>	United Kingdom
<b>US</b>	United States
<b>USA</b>	United States of America
<b>WTO</b>	World Trade Organization

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## INTRODUCTION

**The relevance of the research topic.** In conditions of high rates of economic development, when the variability of environmental factors reaches a significant degree, the task of ensuring the competitiveness of enterprises, goods and services becomes important. The main economic objectives of the enterprise in market conditions are to ensure development, increase production efficiency, maximize profits, conquer new markets and meet market needs. At the same time, the influence of the economic risk factor increases. Conducting innovative transformations and developing the competitive potential of an enterprise should be carried out on the basis of introducing the latest technologies, increasing the level of personnel training, knowledge and skills of strategic management, marketing, economics, and developing an organizational culture. All this causes the urgent need to form a new competitive concept that will ensure the survival and sustainable position of industrial enterprises in market relations.

**Level of studying the issue.** The fundamental principles of competitiveness and the general provisions for its assessment and management of the competitiveness of an organization are highlighted in the works of many scientists. The main content of competition as an economic category is covered in the works of such scientists as M. Porter, I. Ansoff, F. Kotler, I. Schumpeter, I. Marshall, D. Ricardo, J. Robinson, F. Hayek and many others. A great contribution to the study of the problem of increasing the competitiveness of industrial enterprises was also made by G.L. Azoev, O.N. Belenov, V.M. Vlasova, E.P. Golubkov, R.A. Fatkhutdinov, A.Yu. Yudanov and others.

Nevertheless, in the specific conditions of modern reality, the problem of increasing the competitiveness of industrial enterprises requires in-depth research and development of appropriate recommendations.

**Purpose and tasks of the research.** The purpose of this research is to develop a method for analyzing and assessing the competitiveness of an enterprise,

the formation and implementation of a strategy and tactics for improving it in a competitive environment.

To achieve this goal, the following tasks was formulated and solved:

- analysis of existing models and methods for assessing the competitiveness of the enterprise;

- research and development of the theoretical and methodological foundations of a comprehensive economic and mathematical analysis and assessment of the competitiveness of industrial enterprises;

- determination of the composition and structure of internal and external factors that have a decisive influence on the competitiveness of an industrial enterprise;

- development of a methodology for the formation of targeted integrated program to ensure the competitiveness of the enterprise.

**Object and subject of research.** The object of research is an industrial enterprise and its competitiveness in the unstable market environment. The subject of research is the system of managerial and organizational-economic relations arising in the process of functioning of an industrial enterprise.

The theoretical and methodological basis of the thesis was the work of domestic and foreign scientists in the field of competitiveness of industrial enterprises in an unstable market environment.

**Research methods.** The methodological basis of the study was based on a variety of modern methods: a systematic approach, analytical and economic-statistical analyzes, the analogy method, methods of comparative and expert assessments, forecasting, modeling, etc. The research methods used in this work are based on the achievements of a complex of economic, sociological and environmental disciplines.

**Research database.** The information base of the research was constituted by legal documents of Azerbaijan, data of the Statistics Committee over a number of years, publications of domestic and foreign scientists, as well as materials of scientific conferences and other information sources.

**Research limitations.** Limited quantity of statistical data on industrial entrepreneurship.

**Scientific and practical significance of the results.** The theoretical and practical significance of the research lies in the fact that its results, brought to the level of practical recommendations, can be used in the activities of the authority subjects of Azerbaijan, as well as in the management practice of economic entities when making operational and strategic decisions and promoting competitiveness of industrial enterprises.

**Structure and volume of dissertation work.** This research consists of an introduction, three chapters, conclusion, 3 tables and 7 figures. In work - 102 pages of text. During the work on the thesis 54 sources were used.



# **CHAPTER I. TENDENCIES OF ECONOMIC DEVELOPMENT OF AZERBAIJAN**

## **1.1. Socio-economic situation in Azerbaijan**

After the state independence was restored in 1991, there was an objective need to transform socio-political and socio-economic system in the Azerbaijan Republic in order to form an independent national economy based on the construction of a democratic state and free market relations. After that, the government has set the following and other very important and crucial tasks: strengthening state independence; building a democratic, legal - secular state; transition to a market economy; ensuring the territorial integrity of the state; improving the security and socio-economic well-being of the people.

The economic development that exists in the country since the period of independence until today can be divided into two main stages. The first period covers 1991-1995 and is a period of chaos or decay. The second period began in 1996 and continues to the present and is a period of macroeconomic stability and dynamic economic development.

At the first stage the situation was aggravated by unprecedented political, military and economic problems faced by the Azerbaijan Republic.

Under political problems we imply the instability of the political situation in 1991-1993. When we talk about military problems we mean Armenia's military aggression against Azerbaijan. 20% of the country's territory is still under occupation of Armenian armed formations.

And finally, under economic problems we understand that in result of the sudden dissolution of mutual exchanges, production and cooperative relations between the former Soviet republics that have been formed for decades, the level of production has decreased significantly, most of the enterprises were forced to limit or completely stop their work, began the mass dismissal of workers and

reduction of wages in real terms, which was the main part of the population's income, the inflation process accelerated. And attempts to increase wages and social benefits to reduce social tensions at this stage, without taking into account the real possibilities of the country's economy, led to the acceleration of inflation and its transformation into hyperinflation.

At this stage, the Azerbaijan Republic begins its economic reforms with the liberalization of international economic activity and prices. Until 1995, the process of liberalization was accompanied by a sharp rise in prices in the country. Prices for consumer goods in 1991, compared to 1990, rose by 2.07 times, while in subsequent years this increase was several times accelerated. Consumer prices in 1992 compared with 1991, rose 10.12 times, in 1993, compared with the 1992th year - 12.3 times, and in 1994, in relation to since 1993 – 17.65 times. ([https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/), 2018)

From the point of formalization of economic reforms at this stage, as another direction can be noted the State Program called "Development of Entrepreneurship in Azerbaijan (1993-1995)", which was approved in 1993. Since serious reforms in the business sector were not carried out until 1993, the adoption of such a program and the beginning of its implementation, created an opportunity to achieve relative success in this sector (the number of small and medium-sized entrepreneurs active in the country increased, and their foreign economic activity has expanded, etc.).

It can be clearly noted that, in result of weak reforms and cosmetic economic measures conducted at the first stage of economic development, negative deviations were observed. Since in 1991 the gross domestic product (GDP) was 2.7 billion manat, then GDP in 1991-1995 decreased every year by 13-20% and as a result of this, the population's money income which is a generalized indicator of the level life of the population, decreased in real terms by 3.6 times and per capita incomes by an average of 1.4 times ([https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/), 2018). As a result of the failure of production sectors, the unemployment rate has increased significantly.

Thus, during the 1991-1995s there was a decrease in the number of employed people among the economically active population.

Since 1991, for 4 years the level of real incomes of the population in wages has decreased by 8.2 times. This situation significantly accelerated the economic decline and at this stage inflation rose to its highest level - the stage of hyperinflation (for example, the inflation rate in 1994 was 1763.5 percent). Inflation accelerated further, because after a sharp decline in production, political instability, economic processes such as the spontaneous functioning of market elements, implementing measures like the increasing of government spending and of the wages level by several times, the granting of benefits to the population in a difficult material condition, and applying fiscal, monetary and foreign trade policies was not consistent with the real economic possibilities of Azerbaijan.

The non-optimal economic reforms and many unsystematic economic measures carried out during the 1991-1995 period - at the stage of economic decline - led to the following negative consequences:

- the financial and banking system was paralyzed;
- in 1994, the ratio of budget deficit to GDP reached 13 percent;
- the budget deficit as a whole was financed by the National Bank, and this led to an extraordinary increase in the money supply;
- the money emission in 1992-1994 was 40-45 percent of the monetary incomes of the population;
- for 1992-1994 the ratio of the volume of credit to gross domestic product was 55-60 percent;
- in 1994, the interest rate of the National Bank reached 250 percent;
- the national currency, manat, released in circulation in 1992, soon began to depreciate and in 1995 its rate against the Russian ruble fell by ten times, and against the US dollar by 245 times.
- inflation in the country reached a peak level;

- for 1992-1994, the volume of foreign trade turnover decreased by 42 percent;
- until 1994, no any manat was invested in the economy of the country;
- at this stage, real incomes of the population have sharply decreased, etc ([https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/), 2018).

Thanks to the far-sighted policy and hard work of the late President of Azerbaijan, our national leader Heydar Aliyev, in the short historical period after the restoration of state independence, in spite of the initial difficult conditions, very great progress was achieved in the field of the country's socioeconomic development and its integration into the world economic system. And the biggest achievement is that in the process of building an independent state, held at this stage, a new model, the Azerbaijani model of economic reforms and development, was created.

It should be noted that at the second stage of economic development, a number of documents (concepts, strategies and programs) of a large-scale policy were adopted as the official framework for implementing the noted model in the Azerbaijan Republic ("The State Program for Support of Small and Medium Enterprises in the Republic of Azerbaijan (1997- 2000)", "State Program for the Development of Small and Medium-sized Entrepreneurship in the Republic of Azerbaijan (2002-2005)", "State Program for the Development of Machine Building (2002-2005)", "The State Program for the Development of the Agrarian Sector in the Republic of Azerbaijan (2002-2006)", "The Concept of the Demographic Development of the Republic of Azerbaijan", "The State Program for the Development of Tourism in the Republic of Azerbaijan in 2002-2005", "State Program on Poverty Reduction and Economic Development in the Republic of Azerbaijan (2003-2005)", "State Program on Social and Economic Development of the Regions of the Republic of Azerbaijan (2004-2008)", "Employment Strategy of the Republic of Azerbaijan (2006-2015)", "State Program on Poverty Reduction

and Continuous Development in the Republic of Azerbaijan (2008-2015)", "State Program for the Development of the Transport System (2006-2015)", etc.).

The strategic directions of this model, which is based on the logic of continuous and dynamic development, are characterized as follows:

- 1) the formation of a single socially directed, self-developing, free economic system based on free market relations - an independent national economy;
- 2) active involvement in the economic circulation of the existing in the country natural-economic, technical-production and scientific-technical potential;
- 3) ensuring rational integration of the national economy into the world economic system.

Distinctive features of the practice of implementing economic policy in this model are the following:

- conducting work in parallel in each specified direction according to agreed programs;
- adoption of non-standard and bold decisions that take into account the objective laws of economic development and are designed for the future;
- observance of social orientation;
- taking into account the national mentality and the use of world practice.

The successes achieved in the field of social and economic development in recent years in our country are the best proof of the viability and rationality of the Azerbaijan model of economic reforms and development. Since the policy pursued under this model for a short period of time led to fundamental qualitative changes in the country's economy: inflation was tamed (since 1996, the level of inflation in Azerbaijan did not rise above 2-3%, and only in 2004 it was 6.7%), the practice of financing the budget deficit was terminated, the budget deficit was reduced to the level of 1-2% of GDP ([https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/), 2018).

As a result of these changes, already in 1996, in a country that was in an economic crisis, macroeconomic stability was established and beginning with the next, 1997, it became possible to ensure dynamic economic development, since the GDP growth rate in 1996 year was 1.3%, in 1997, 5.8%, and in 1998-2004 this figure was about 10%. In the years 2005-2006. the real growth rates were 26.4 and 34.5%, accordingly (<http://files.preslib.az/projects/azerbaijan/rus/gl4.pdf>, 2017).

One of the most important areas of consistent and systematic economic reforms in the country since 1995 is the privatization of state property and the creation of favorable conditions for the development of free enterprise. From the institutional point of view, land and agrarian reforms have actually been completed. More than 1350 thousand hectares of land were given to peasants, instead of collective and state farms were created farm households. Currently, 99.0% of agricultural products are produced in the private sector. This process, along with the socio-political changes in the country, influenced the growth of the economic rationality in agricultural industries. A striking proof of this is the decline in the level of imports of certain types of food products (for example, meat, milk, potatoes, onions, etc.) in recent years.

During this period, the first stage of the privatization of state property was completed, and the second privatization program was launched, and under this program privatization was offered to the communications, transport, chemistry, machine-building and fuel-energy complex. As a result of the work carried out related to the development of entrepreneurship and the implementation of privatization, the share of the non-state sector in GDP increased, and reached 81% in 2006.

In recent years, investment in the economy of the country has increased significantly. During 2000-2006, more than 26 billion US dollars were invested in the capital fund from all financial sources.

Among the work done in this period, we should especially emphasize the establishment of the Oil Fund in late 1999. This decree, which was approved in a timely manner, indicates the beginning of a new stage in economic development

and it should be evaluated as a result of the long-term economic strategy of the national leader of the Azerbaijani people Heydar Aliyev aimed at benefiting future generations from national wealth and ensuring comprehensive development of the economy. In continuation of this strategy, the “Long-term strategy for managing oil and gas revenues (2005-2025)” decree approved by the President in 2004 had a great importance.

In addition, as a long-term consequence of the implemented economic reforms and measures (above we indicated by which political documents these economic reforms and measures are implemented) in the direction of poverty reduction, improvement of social and economic well-being, provision of regional and sectoral development, the living standard of the population increases with each year, the progress of the economy in the regional and sectoral segment is being realized.

In 2007, the "Concept of socio-economic development of the Republic of Azerbaijan for 2008 and the next three years" was prepared. This document substantiated the state and review budgets of the Republic of Azerbaijan for 2008 and the next three years, determined the main directions and forecasted indicators of the social and economic development of the Republic of Azerbaijan in 2008-2011.

All this shows that the country's economy has already risen to a qualitatively new level. To put the words of the national leader of the Azerbaijani people, the late President Heydar Aliyev, we can say that the transition period in the country has ended, and the state of Azerbaijan, which has an independent political and economic base was built.

The main goal of the new stage was to ensure in the long term the duration of the country's dynamic social and economic development by enhancing the competitiveness of the national economy and its rational integration into the world economic system. The decrees, as well as the economic policy documents approved by the President of the Republic of Azerbaijan, Mr. Ilham Aliyev, determined the necessary tasks for the implementation of this goal. They include

such tasks as strengthening the existing economic potential of the country and the complex rational implementation of this potential, including the development of the non-oil sector (the formation of a strong Azerbaijan economy independent of oil), the full and rational use of the potential of each region, and balancing their development, the creation of conditions for the opening of more new jobs, the development of entrepreneurship, a significant increase in the volume, quality and focus of social services and poverty reduction.

## **1.2. The non-oil sector as the basis of the modern Azerbaijan economy**

It is not a secret for anyone that Azerbaijan uses its oil and gas resources as an effective tool for winning positions in the international arena. The oil and gas projects of Azerbaijan, implemented jointly with partner countries, ensure the energy balance and energy security of many states. And the project of bringing Azerbaijani gas to European markets will expand the geography of participation in the energy market to the European region.

But at the same time modern conditions dictate the need to reduce raw materials dependence of the Azerbaijan Republic. The main task of the Azerbaijani economy is to prevent a gap between itself and the countries of the world in the process of development. First of all, this requires eliminating the existing dependence on hydrocarbon resources in the economy, keeping such an important issue at the center of attention as preventing the threat of transformation into a raw material dependent country and technological "outsider" of the world economy in the medium and long term. In the past decade, the hydrocarbon export factor has been the main driver of economic growth, but the main task at the current stage is to achieve the advanced development of the non-oil sector, to increase the efficiency and competitiveness of the economy, and to ensure its progress on an innovative basis (<https://azerbaijan.mid.ru/torgovo-ekonomiceskie-svazi>, 2017). This is the basis of the reforms carried out in the country over the past few years. It is no coincidence that at the present time, most of the country's GDP is formed by



the non-oil sector. If in 2006-2008, the share of the non-oil sector in the country's GDP was only 40 percent, today this figure reaches almost 70 percent. Although the process of diversification of the economy itself is extremely difficult, with the current instability in the global economy is quite a timely step. And this is just the beginning of the path of modernization of the economic system of the country.

The modern economic policy of Azerbaijan is aimed primarily at diversifying the economy, reducing dependence on the oil sector, and dynamically and sustainably developing the non-oil sector. So, according to the State Statistics Committee of the Republic of Azerbaijan, the share of mineral fuel accounts for 89.5% of the total exports of the country. The prevailing volumes are exports of mineral, oil and products of its distillation (approximately 56% of the value of mineral exports), whose main consumers are Italy, Indonesia, Thailand, Germany, Israel, France, India, Russia and USA.

However, Azerbaijan has been stepping up its non-oil sector in the last few years. Due to this the country avoided the "Dutch syndrome". The Republic of Azerbaijan is pursuing a policy of reorientation from the oil industry to the other industrial sectors and services sector. The share of the oil sector in GDP of year 2017 reached 37.2% (25.9 billion manat), decreased of 5% over the year. At the same time, the rate of growth in the production of services amounted to 3.5%. The results of the diversification policy are reflected in the development of the non-oil sector. The non-oil sector increased in 2017 by 11.5% ([https://www.stat.gov.az/source/system\\_nat\\_accounts/](https://www.stat.gov.az/source/system_nat_accounts/), 2018).

Thus, the development of the non-oil industry and agriculture was chosen as the priorities for the development of the economy of Azerbaijan in 2017. And the results of the first half of 2017 were quite impressive. The non-oil economy in the first six months of 2017 increased by 1.7 percent. At the same time, the non-oil industry grew by 4.4 percent, agriculture - by 2.2 percent. And the country's currency reserves during the reporting period increased by about three billion dollars - up to 40.6 billion dollars.

Indicators of foreign trade turnover also showed growth. In the first six months of 2017, exports grew by 36 percent, including non-oil exports - by 27 percent, imports decreased by 15 percent. In the future, we can expect an even greater increase in the trade surplus due to non-oil exports, as the state implements support measures aimed at developing entrepreneurship in the country and introducing Azerbaijani products to world markets.

Expecting tangible income from these activities in the long term, we are already witnessing changes in the structure of exports of domestic products. In this regard, we can expect the transformation of the non-oil industry and agriculture into the main source of economic growth and exports.

First of all, Azerbaijan can become an active exporter of agricultural products. Hazelnuts, almonds, tobacco, cotton, tea, silk, grain, olives, sugarcane, grapes and products from them will provide great opportunities for entering the international export markets. Moreover, they are also the natural resources of Azerbaijan, which don't grow in many countries of the world, and this can also be used for the good of the country. In addition to traditional markets, in Europe, the Persian Gulf and Asia, there is also interest in Azerbaijani products.

Industrial products of Azerbaijan are also in demand in international markets. Customs statistics of export of certain goods in industrial production is proof of the growing non-oil domestic exports of industrial products. Thus, in the first half of 2017, gold exports increased by 64 percent, electricity - by 300 percent, aluminum - by 30 percent, plastic goods - by 22 percent, equipment, mechanical devices - by 50 percent, copper - by 67 percent, copper ore concentrate - by 100 percent, tar oil - by 56 percent, bentonite clay - by 255 percent, textiles - by 73 percent, stone, gypsum, cement - by 3000 percent, chemical products - by 8 percent, lead - by 123 percent.

The factor that about 80 percent of Azerbaijan's GDP comes from the private sector attracts foreign investors to the country. Today, large investments are already being made into the non-oil sector - in agriculture, in the creation of new industrial sectors. In the first six months of 2017, 5 billion dollars were invested in

the country's economy, and most of them were foreign investments. The creation of industrial parks, industrial zones, agro parks and large farms through foreign and domestic investment can greatly increase export potential of Azerbaijan.

The main priority sectors in the development of the non-oil sector in Azerbaijan are ICT, tourism, transport, energy, especially renewable and alternative, processing of agricultural products. International financial institutions emphasize the importance of the agricultural and tourism industries. Thus, approximately 40% of the employed population of the country are working in these areas (taking into account related industries). For this reason, for the development of agriculture in the country, consistent state programs are being implemented, reforms are being implemented, and new technologies are being used. According to the official data, production of agricultural products in the country in 2017 increased by 1.6% compared to 2016. And over the past three years, the growth rate of common agricultural products averaged 2%.

Thus, the main goal of the reforms carried out in Azerbaijan is to make the economy competitive, in order to be characterized by such an indicator as exports of high value-added products to the world market. This will ensure the inflow of foreign currency, strengthen the economy, reliably protect the national currency from devaluation, and will form the conditions for the creation of high-skilled workplaces.

Azerbaijan pursues an open door policy on foreign investment: foreign investors do not need any special permits; they use all the opportunities created for local investors. The results of the investment policy, aimed at developing the non-oil sector and in general, diversifying the economy, can also be judged by the sectoral structure of investments. Thus, out of 120 billion dollars invested in the economy of Azerbaijan for the years of independence, more than \$ 70 billion accounted for the non-oil sector.

In recent years, a sharp increase in investments in the non-oil sectors of Azerbaijan was recorded. If in the past 15 years, investments in the Azerbaijani economy amounted to 100 billion dollars, 60% of them are in the non-oil sector.

Human capital is also one of the most important factors for diversifying the economy and increasing its competitiveness. Therefore, within the framework of the policy of turning "black gold" into "human gold" and the corresponding state program, hundreds of young Azerbaijanis are sent to study in the world's leading universities.

Taking into account the scale of the forthcoming tasks and with the aim of forming a new strategic view on the economy, the country develops the Development Concept "Azerbaijan 2020: A Look into the Future". This policy document reflects all the aforementioned political and economic measures, the implementation of which will achieve the goal set by the Azerbaijani President - to double the GDP in term of 10 years and achieve this growth through the non-oil sector of the economy.

Within the framework of the concept, the development of tourism infrastructure, expansion of the sphere of tourist services that meet international standards, growth of competitiveness of this sector and increase of its share in GDP are envisaged. In order to develop tourism, it is expected to improve legislation and standards in this area, take the necessary measures for the full use of the tourist potential of the Caspian Sea, stimulate tourism in the regions, strengthen information and advocacy, create appropriate tourist routes, taking into account national, historical, cultural, social-economic and natural features. At the same time, various types of tourism are encouraged ([https://president.az/files/future\\_ru.pdf](https://president.az/files/future_ru.pdf), 2012).

Today, the Azerbaijani economy enters a new stage of development. For a number of objective reasons, factors that have provided high growth rates in the past are no longer capable of performing the same functions in the future. The obvious reality is that competition in world markets is increasing, and relatively low-cost imports are pressing on the domestic market. To maintain sustainable development rates, it is necessary to use new growth factors that will lead to the transformation of the socio-economic model that meets the needs of the modern

world economy. The greater part of GDP is formed by the non-oil sector, and in the near future the dependence on oil will disappear altogether.

The priority areas should include non-oil industry sectors that need state support. There are reasons to assert that industry in the republic is a very important part of its economic potential. This circumstance should be taken into account in the development and implementation of the perspective concept of the Azerbaijan economy's development, because this will contribute to strengthening the orientation towards the development of the non-oil sector; the direction of the republic's resources on the development of regions; satisfaction of the needs of the population of foreign countries in industrial products, which will become a tangible source of income of the republic, and will increase the role of Azerbaijan in the global market.

### **1.3. Strategies of structural modernization in Azerbaijan**

Economic modernization is not only an essential component, but also a support, as well as a driving force for the modernization of the country and society as a whole. Economic modernization is subject to certain laws. Back in the 70s of the last century, the American scientist S.P. Huntington (He, 2010, <http://www.ek.puet.edu.ua/files/prep191214.pdf>, p. 93) noted that “*the modernization process has the following main features:*

- 1) *modernization is a revolutionary process;*
- 2) *modernization is a complex process;*
- 3) *modernization is a systematic process;*
- 4) *modernization is a long-term process;*
- 5) *modernization is a progressive process.”*

When embarking on modernization, it should be remembered that neglecting any of these principles condemns it to failure. Economic modernization is always aimed at a radical increase in the productivity of growth factors and an increase in

the efficiency of using resources, and this can only be done by switching to high-performance equipment and innovative technologies.

The experience of the 20th century convincingly showed that successful modernization of a backward country is possible only with an innovative technological breakthrough, when in the course of 20-25 years the economy develops at an average annual rate of 8-10%. It is precisely due to the innovation and technological breakthrough Japan in 1950-1973's provided the average annual growth rate of its economy equal to 10% and was able to eliminate the hundred-year gap from the United States and other developed Western countries and obviate the technological gap. Thanks to the desire for leadership in new technologies, Japan was able to take a strong position in the traditional sectors of the industry like the steel, shipbuilding and automotive industries in the 1950s and 1970s. The Republic of Korea went the same way from the 1970s to 2000s, when the average annual growth rate of the economy was over 10%. China, which took the path of modernization in the 1970s, has been building its economy at an average annual rate of 9.8% for 30 years. Thus, a genuine innovation and technological breakthrough in the economy is accompanied by extremely high rates of GDP growth, measured in double digits. Therefore, Azerbaijan also needs to repeat the indicated path and achieve stable high rates of economic growth equal to 8-10% over two or three decades, and then Azerbaijan will be guaranteed a high place in the world economic table of ranks. With the vigorous implementation of the modernization plan, Azerbaijan could reach the economic growth rate of 7-8% in 2-3 years, and develop in the twenties at a rate of 9-10%.

First of all, let us clarify the content of the concepts "innovation" and "modernization", because they are often confused, and sometimes perceived as synonymous. Innovation is novelty, the result of creative activity, aimed at developing, creating and distributing new types of products, technologies and materials, introducing new organizational forms of production and management and so on (Большая Российская энциклопедия, 2003, p. 646). The implementation of scientific and technical innovation, especially radical, usually

requires the participation of many research and development organizations (R & D), enterprises (associations), etc. Thus, modern innovations are born in the field of R & D and their commercialization opens up new industries and new markets.

Modernization - improvement, development, renovation of an object, bringing it in line with new requirements and norms, technical conditions, quality indicators (Райзберг, Лозовский & Стародубцева, 2017, p. 345). Mainly machines, equipment, technological processes are being modernized. The goal of modernization, therefore, is to accelerate development, and not to achieve radical change, like a revolution. Modernization of a country is usually understood as a process of positive and systemic changes in society, leading to accelerated development. Historical experience shows that technological modernization, which implies large-scale changes in the social, political and cultural spheres, serves as the basis for accelerated development of the economy, society and the state.

So, modernization is mainly associated with the improvement of the existing productive forces of the country, with a radical increase in the technological level of industry, technological re-equipment of traditional sectors of the economy based on high and medium-high technologies (according to OECD classification). The total share of high- and medium-high-tech industries in a developed economy should exceed 50%, whereas in the Azerbaijani economy it is only about 15%. About half of the fixed assets need to be updated, and in some sectors of the economy this figure reaches 80%. Therefore, the industrial modernization program should provide for the renewal of fixed assets with an annual growth rate of 10-12%, whereas today the pace of renewal is about 3%, which is extremely insufficient, given that the annual deterioration is 6-8%. Innovative activity and technological level of the manufacturing industries are closely related; they cannot be considered in isolation from each other. An economy with a low technological level is insensitive to innovation activity.

This is clearly illustrated by the Table 1, which is compiled according to the classification of the World Bank. The table shows that there is not a single country in the world with a low technological level of economy capable of developing

medium and, moreover, high innovative activity. There is also no country with an average technological level of the economy that has shown a high level of innovative activity.

**Table 1. Clusters of economic development of countries (innovative technological matrix)**

Technological level	Innovative activity		
	Low	Medium	High
Low	Azerbaijan		
Medium	Turkey, Mexico, Czech Republic, Hungary, South Africa, New Zealand, Poland, Indonesia	China, Canada, India, Brazil, Malaysia	
High	Greece, Spain, Italy, Portugal	Australia, Norway, Belgium, Germany, Denmark, United Kingdom, France, Ireland, Switzerland	USA, Japan, Republic of Korea, Sweden, Finland

**Source:** Table compiled by author according to data, retrieved from "World Bank Open Data", <https://data.worldbank.org/topic/science-and-technology> (15.01.2019)

Thus, Azerbaijan first of all needs to raise the technological level of the manufacturing sectors of the economy so that it becomes receptive to innovation. Otherwise, as the table shows, with a low technological level, the path for innovative development of the economy is closed. This is the weak point of Azerbaijan's advanced development strategy. Azerbaijan first of all needs to proceed with the modernization of the economy and the technological re-equipment of the manufacturing industries.

As a rule, in accordance with the “catching-up development” model, this is accomplished by massively and effectively borrowing advanced western technologies that have proven their high productivity in practice, the so-called broad-use technologies. Japan, South Korea and other “Asian Tigers” did this in their time and achieved impressive successes in social and economic development.

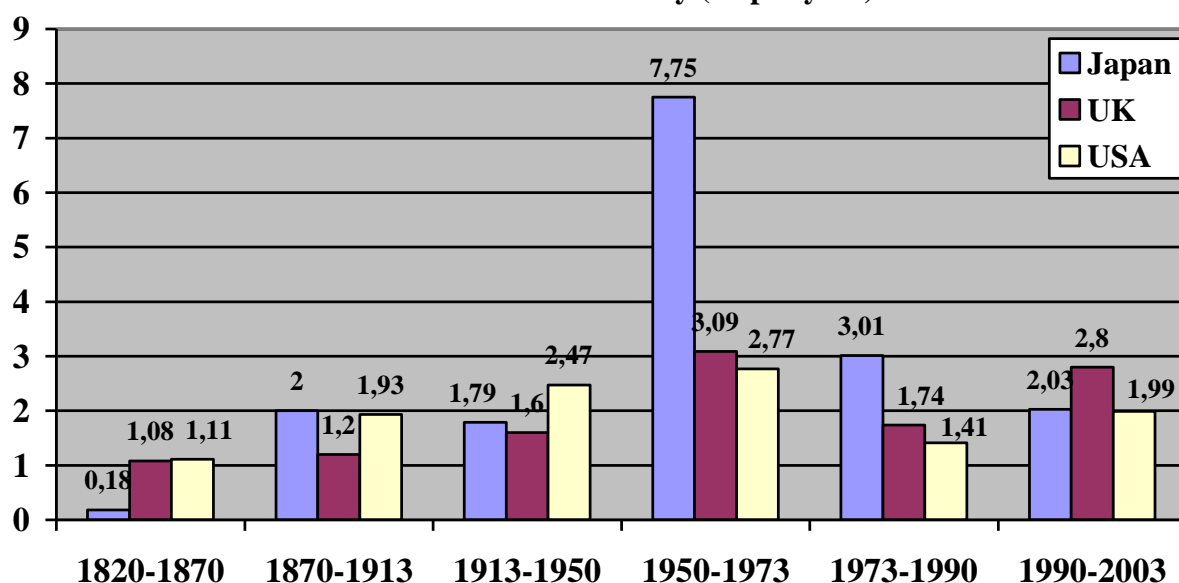


In recent decades, the two largest Asian countries, China and India, have successfully advanced along this path. It is also expedient for Azerbaijan, in order to implement the modernization of its economy as soon as possible, to actively purchase new equipment and technologies, train engineers and technicians and thereby rapidly increase the technological level of the industry. This, in fact, is the task of the new industrialization stage of the Azerbaijani economy.

On the other hand, with low innovation activity, even a high technological level does not guarantee sustainable development of the economy. As can be seen from up-given table, the countries with the specified combination of characteristics - Greece, Spain, Italy and Portugal - are all in poor condition today. Innovative activity for the economy is similar to speed, which gives stability to cycling. In addition, high innovation activity determines the demand for domestic scientific and technological potential, since innovations are developed in the field of domestic R & D. We can cite examples of many countries that have been building a strategy for catching-up development solely on borrowing technologies and have been successfully developing for quite a long period, but could not make an economic breakthrough and join the vanguard countries; moreover, then they lost their positions due to the underdevelopment of their own technological base, because their modernization strategy was based mainly on the borrowing of Western technologies and methods of management. On the other hand, it is extremely important for Azerbaijan to master its own innovative technologies and form an effective national innovation system. Only simultaneous innovative development on the basis of own and borrowed technologies creates a synergistic effect, which gives a steady acceleration to the pace of technological progress. The development of own technological base allows the state to be kept in orbit with vanguard countries when the process of borrowing technology from the outside is completed. Such strategy of innovation and technological development allows the real breakthrough and ensuring the economic rise of a developing country into the orbit of vanguard countries.

The crucial question is how much innovation and modernization, or proprietary and borrowed technologies contribute to the resulting rate of economic growth. No country can ensure the pace of technical progress exceeding 3% only due to exclusively own technologies. This is graphically demonstrated by the diagram shown in Figure 1. below, which characterize productivity growth rates in Japan, the USA and the UK over a more than a hundred-year period. The diagrams show that Japan in 1950-1973, when it made an economic breakthrough (take-off), by simultaneously very efficiently borrowing technology in the USA and large-scale development of its own R&D base, reached an unprecedented rate of technical progress equal to almost 8%, which ensured average annual growth rate of the economy in 1950-1973 for about 10%. Almost the same was done by South Korea in 1970-1995, when the average annual growth rate of the Korean economy was over 10%, and the pace of technical progress, as in Japan, was over 7%. In the past 20 years, China has shown similar growth rates in the economy, which also follows the path of simultaneously successfully borrowing technologies and large-scale development of its own technological base.

**Figure 1. Average annual growth rates of labor productivity in the USA, Japan and the UK in the 20th century (% per year)**



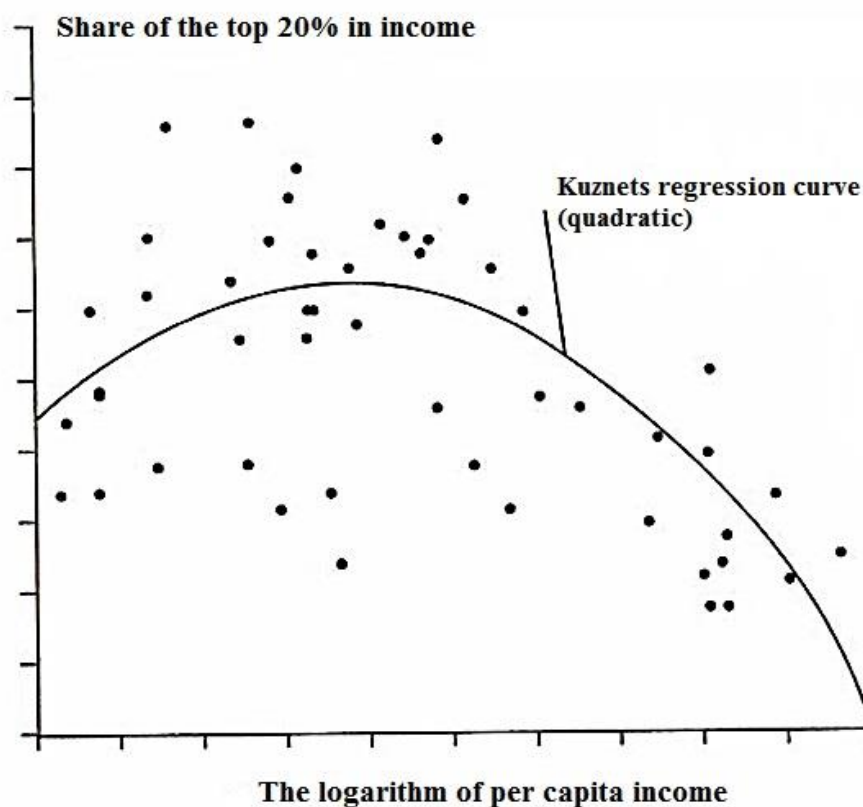
**Source:** Compiled by author according to data, retrieved from "World Bank Open Data", <https://data.worldbank.org/indicator/sl.gdp.pcap.em.kd> (23.01.2019)

However, when in the 1970s, Japan became one of the technological leaders in the world and began to develop mainly due to its own innovative technologies, it was no longer able to ensure technological growth rates exceeding 3%, and in the 1990s they dropped to 2 %. The diagrams in this figure also show that the growth rates of labor productivity (approximately equal to the rates of technical progress) in Great Britain and the USA, which were the technological leaders in the world in the 19th and 20th centuries, respectively, were approximately 1, 2 and 3% at different stages, but did not exceed 3.1%. Consequently, in the case of Japan, the contribution of borrowed technology to the overall growth rate was about 5%. Something like this happened for other countries that had made a successful innovation and technological breakthrough in the 20th century. Thus, the contribution of own and borrowed technologies to the resulting rates of economic growth is 1/3 and 2/3, respectively. Hence, the main engine for the catch-up economy is still the borrowing of advanced consumer technologies abroad. But this borrowing will be effective in the long term only for a country that is actively developing an own innovative component.

It was emphasized above that modernization is closely related to development. *“Development is the accumulation of human capital in its most effective form, when the necessary prerequisites are created for its practical implementation in the national economy”* (Hypreeв, 2008, p. 95). Indeed, in the modern era, human capital has become the main factor of economic growth. Therefore, in recent decades, investment in humans has grown rapidly, especially in developed countries, the total investment in human capital today is several times higher than investment in physical capital. Human capital is a person’s stock of health, knowledge, skills, abilities, and motivations that contribute to the growth of his labor productivity and affect income growth. The main forms of investment in a person usually include: education, upbringing, health care, as well as the full range of costs associated with preparing a person for production activities. Equitable income distribution in society plays a key role in the development of human capital.

One of the first, the role of “human capital” as a factor of economic growth, was revealed by the Nobel Prize Winner S. Kuznets. He investigated the problems associated with population growth, as well as the effect of economic growth on income distribution. He found that with an increase in per capita income, caused by economic growth, income inequality first increases, then after reaching a certain level of per capita income (turning point) decreases (Kuznets, 1955). This statement was called the “Kuznets curve”, thus emphasizing that the distribution of income in the long run is characterized by a curve that has the shape of an arc or an inverted Latin letter U (Figure 2).

**Figure 2. “Kuznets curve”, constructed according to the distribution of the share of the top 20% population income per capita in 60 countries**



**Source:** Ahluwalia, 1976, p. 311.

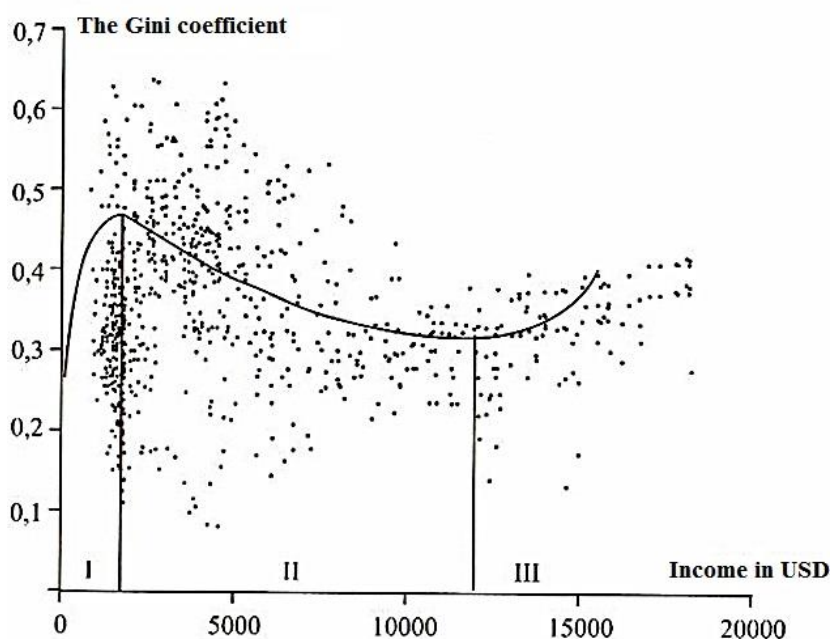
He also found that the growth of the country's national product inevitably involves deep structural changes in the economy. These transformations affect many aspects of the economic and social life of society.

In particular, structural shifts are caused by changes in the relative share of population groups engaged in specific areas of production, which inevitably causes a deterioration in the relative positions of a number of population groups trapped in rearguard sectors of the economy. The prolonged deterioration of the existing relative positions of several groups of the population, coupled with rising income inequality in society, can cause social conflicts. Modern economic growth is possible only if these conflicts are resolved without excessive losses and without a long-term weakening of the political system of society. The modern state plays a crucial role in the peaceful resolution of conflicts caused by economic growth.

S. Kuznets considered the connection shown above as a change in the distribution of income caused by economic growth, as its consequence. He found that with an increase in the rate of economic growth, the inequality of income distribution first increases, then - after reaching a certain level of per capita income - decreases. He explained this phenomenon from the point of the transition from traditional agrarian technology to industrial. Thus, the "Kuznets curve" assumed a connection between growth and unequal distribution of income only at a transitional stage from an agrarian economy to an industrial one. However, for a long time, the Kuznets hypothesis was considered as an undeniable stylized fact. Therefore, it later formed the basis of a liberal economic policy, according to which in countries that are modernizing the economy, rising income inequality is inevitable and is a natural phenomenon. Consequently, such countries must choose between limiting the growth of inequality and economic growth. As economic growth progresses, income inequality stabilizes, and then decreases to a scale close to that of developed countries, and poverty due to high inequality will automatically be eliminated. However, S. Kuznets himself did not think so, on the contrary, he strongly argued that *"... modern economic growth based on frequently emerging innovations with a shortening period of their spread should be accompanied by a relatively wide range of negative consequences"* (Кузнец, 2005, p. 146) and recommended that as soon as the unexpected negative effects of growth show up, the full potential of material and social technologies should be

used to reduce or eliminate them. It should also be noted that the Kuznets hypothesis was formed during the period when social-democratic ideals dominated in developed capitalist countries and were prioritized the goals of building a model of a social state, also known as the model of the state of universal prosperity. In the past few decades, in most developed countries of the West, the departure from this model has become increasingly noticeable under the impact of the increasing political influence of liberal ideas. In many respects because of this, the realities of changes in the social structure of society in these countries began to contradict S. Kuznets's theory - the gap in the level of well-being of various social groups began to grow. Recent studies have shown that, at a high stage of development, income inequality is again growing.

**Figure 3. S-shaped Kuznets curve of three segments, constructed from the initial panel ratio of the Gini coefficient and the level of per capita income in 71 countries, 892 observations over the period 1961-1992**



**Source:** List & Gallet, 1999, p 202.

The Kuznets Curve has transformed into an S-shaped curve. An empirical negative dependence of economic growth on indicators of the uneven distribution of income was also found.

From consideration of Figure 3. it is clear that at this level a new growth of inequality begins, which may cause social discontent. As A.Yu. Shevyakov and A.Ya. Kiruta have discovered, structural indexes of inequality and poverty have strong relationships with demographic indicators (Шевяков & Кирута, 2009). They showed that with decreasing excess inequality, the birth rate increases, and the death rate decreases according to a quadratic law. Thus, through the optimal redistribution of income, it is possible to reduce inequality and achieve both social stability and demographic growth.

The prominent American researcher C. Freeman argued that employment plays the decisive role of a switch in a long wave. Since during periods of crisis and depression there is a high level of unemployment and low wages and, at the same time, basic innovations are launched, it is obvious how important social innovations are. Social and technological innovations must go hand in hand. Therefore, K. Freeman wrote: *“The task of a reasonable economic and social policy is to find ways to stimulate technical innovations, combine them with relevant social changes and thereby shorten the duration of the depression.”* (Freeman, 1996, p.145)

The lack of agreement on this issue is one of the global obstacles to economic recovery. There is a kind of trilateral relationship between social values and goals, political tools and technological innovation. If society has reached an agreement between these three categories, then favorable conditions are created for innovative technological breakthrough and social well-being. In connection with the said above, in the phase of depression, large-scale and effective government measures are required to support the financial system of the economy and the social sphere, and also to launch basic technological innovations. Thus, the depression phase turns out to be the right time to advance the strategy of a powerful state - the ruler of economic development, when the role of state regulation increases.

One of the most important remaining competitive advantages for Azerbaijan in terms of innovative development is human capital. Coverage of the entire

population of basic education, one of the first places in the world in terms of the proportion of people with higher education, a good level of higher education in science and engineering specialties. However, the problem is that there is a tendency to reduce the quality of education at all levels - from basic to university. There is no desire to learn throughout life, as it was in the best periods of the Soviet era, whereas in countries with high innovative activity the percentage of people involved in lifetime education is quite high: Great Britain - 37.6%; Germany - 41.9%; Finland - 77.3%. To remedy the situation, it is necessary to invest more in the development of education and health care, to increase investment in science and technology. Investing in human capital is investing in the future of Azerbaijan.

In the government strategy project of development of Azerbaijan for the period up to 2020 ([https://president.az/files/future\\_ru.pdf](https://president.az/files/future_ru.pdf), 2012), the key task of innovative development rightly sets the goal of creating conditions for the formation of citizens' competences necessary for innovative activity. The indispensable competences of the innovation community should be:

- the ability and willingness to continuous education, continuous improvement, retraining, self-study, professional mobility, the desire for the new;
- ability and readiness for reasonable risk, creativity and enterprise, ability to work independently and readiness to work in a team, to work in a highly competitive environment. In this regard, the task is to fully build up human potential in the field of science and education, technique and technology, in order to form an "innovative person" who is able not only to use the achievements of science and technology, but also to create innovations and introduce them into all spheres of public life.

The current financial and economic crisis has forced the governments of developed countries to think about the diversification of the economy - with a greater share of industry and less influence of the financial sector. Many economists recommend to reduce the impact of the financial segment as an engine



of growth, since this segment turned out to be too volatile, and an economy with a large influence of the financial sector is unsustainable.

Sustainable development of the economy is ensured by a balanced industry structure, where the share of processing industries should be at least 20%, i.e. obey the "one-fifth rule". For example, the share of the manufacturing industry in the structure of US GDP today is about 13% compared with 23.4% in 1970, and in the UK - 11% compared with 32% in 1970. The last financial and economic crisis exposed all the risks of such structural imbalance. The economies of the United States and Great Britain were the least resilient to crisis. The US economy was characterized by sharp growth in the financial sector and slow growth in the manufacturing industry, and the share of the financial sector disproportionately increased from 19.1% in 1970 to 35% in 2008. This led to a structural crisis of the US economy, which was magnified many times over by the crisis of 2007-2008. On the contrary, South Korea, where the share of the manufacturing industry is 27%, also with a large influence of the financial sector, as in the USA and the UK, relatively easily overcame the crisis. A distinctive feature of the South Korean economy among other economies of the OECD countries turned out to be that there the growth rates of the manufacturing industry outpaced the GDP growth rates, which gave stability during the crisis. Thus, industrial production remains the locomotive of technical and economic development, giving it stability. Problems in industrial production began in the 1980s due to the wrong notion that vanguard countries should become centers of a "post-industrial" economy, i.e. focus on the development of services and innovations, primarily financial ones, and less attractive work on the production of the final consumer product should be done by developing countries. However, the post-industrial world does not mean a world without industry. On the contrary, despite the decline in the share of industry in the structure of the economy of developed countries, in most of them a well-functioning high-tech industry is successfully operating, capable of providing at least 2/3 of the population with high-quality industrial goods. This is reminiscent of the decline in the share of agriculture over the past 200 years. Today, its share in

the structure of developed economies is only 1.5-2%, but it can feed not only its own population, but also provide a significant part of the products for export to developing countries. This became possible due to the fact that it is saturated with high-performance equipment and innovative technologies, as well as being so well-adjusted that it is capable of self-organization and self-development. This is what industry should be in the post-industrial world. Examples include well-established industrial sectors in the economies of Germany, Sweden, Finland and other developed countries. Therefore, even in the United States, where the phrase “industrial policy” has become almost abusive, the need to form a new industrial policy and create special financial mechanisms designed to ensure the expanded development of manufacturing industries as part of a more balanced economy is already being actively discussed. The UK has already begun implementing a government industrial strategy in 2002 (Department of Trade and Industry, 2002) immediately after the previous global economic crisis of 2000–2001, which, however, did not produce noticeable results without being a priority. The new British cabinet shows high industrial activity and plans to actually implement the re-industrialization of the British economy. He is already planning to allocate additional significant resources in order to provide the scientific base and qualification level of workers necessary for modern industry. British experts believe, that if the task of re-industrialization cannot be resolved, then not only economic, but also political risks for Great Britain will increase in the near future. So, industrial policy returns. The main advantage of industrial policy is that it stimulates economic growth through the acceleration of structural changes, through innovative breakthroughs. Meanwhile, the main problems of many economies are the presence of deep structural imbalances, as, for example, has developed in the economy of modern Azerbaijan. Therefore, today Azerbaijan needs precisely an effective industrial policy aimed at deep technological modernization of traditional sectors of the economy along with an innovative breakthrough intended to serve as a catalyst for economic modernization.

Modernization of the Azerbaijani economy on the basis of advanced technologies and the transition to innovative technologies of a new way will require large-scale investments in the development of these technologies. Under these conditions, the role of the financial and banking system, which has the ability to concentrate the required amount of capital and meet the mass demand in the lending of modernization projects of all active entrepreneurs, increases many times. In this regard, the second key task is the advanced development of the financial and banking system.

From the experience of most successful developing countries, it is also known that it is the rapid growth of industry that usually provides the necessary structural transformations and a stable long-term economic recovery. Azerbaijan should have, as part of its economy, a predominantly high-tech, competitive, competitive industrial sector that would not allow de-industrialization of the economy. Competitiveness in manufacturing industries that directly compete with import products, as well as a significant increase in the share of high-tech industries in total exports will be key to Azerbaijan's global competitiveness in the modern world. Therefore, it is necessary for Azerbaijan to ensure, before all, the accelerated development of the manufacturing industries on a high-tech basis, which is exactly what is being incarnated with the innovation-technological strategy for the development of the economy. Thus, the Azerbaijani government, first of all, is faced with the task of developing and urgently implementing an effective industrial policy aimed at technological modernization, first of all of the processing industries, at creating competitive export-oriented industrial productions, creating points of innovation growth, as well as large-scale implementation of innovative technologies in traditional basic industries. Only an active industrial policy can ensure the sustainable development of the Azerbaijan economy in the long term and make it possible to gain time in the beginning competitiveness race, as well as overcome the economy's dependence on raw material export.

## **CHAPTER II. COMPETITIVENESS OF AN ENTERPRISE: ESSENCE, METHODS OF EVALUATION AND MECHANISMS FOR INCREASE**

### **2.1. Factors of enterprise competitiveness**

Currently, the task of preserving and strengthening the market positions of enterprises is relevant for the Azerbaijani economy. Expanded access to the domestic market for imported goods may significantly aggravate competition within the country in many product positions, since in the process of entering the world market, Azerbaijani enterprises enter into competitive relations with the best global manufacturers. It actualizes the issues of studying the approaches to systematization of factors of competitiveness of enterprises and the selection of those that contribute to the competitiveness of local producers.

The study of foreign and domestic economic literature allows us to state that it contains various classifications of the key factors of enterprise competitiveness. Professor of the Harvard Business School, M. Porter, suggests systematizing all factors affecting the competitiveness of an enterprise on the basis of three approaches. Within the framework of the first, he connects the factors of competitiveness of an enterprise with the factors of production, presenting them in the form of several large groups (Поптер, 2005):

1. Human resources - the quantity, qualifications and cost of labor.
2. Physical resources - the quantity, quality, availability and cost of sites, water, minerals, forest resources, sources of hydropower, fishing grounds; climatic conditions and geographic location of the country of location of the enterprise.
3. Knowledge resource - the sum of scientific, technical and market information affecting the competitiveness of goods and services and concentrated in academic universities, state-owned research institutes, private research laboratories, data banks on market research and other sources.

4. Monetary resources - the quantity and cost of capital that can be used to finance industry and an individual enterprise. Naturally, capital is not uniform, it has such forms as unsecured debt, secured debt, stocks, venture capital, speculative securities, etc. Each of these forms has its own conditions of functioning. Given the different conditions of their movement in different countries, they will largely determine the specifics of the economic activities of subjects in a given country.

5. Infrastructure - the type, quality of the existing infrastructure and payment for its use, affecting the nature of competition. These include the transport system of the country, the communication system, postal services, the transfer of payments and funds from bank to bank inside and outside the country, the health and cultural system, housing and its attractiveness in terms of living and working.

The basis of the second approach to the classification of factors of competitiveness of an enterprise, proposed by M. Porter, is the degree of their specialization. In accordance with this, Porter divides all factors into two types:

1. General factors, which include the system of highways, debit capital, staff with higher education. As a rule, they can be used in a wide range of industries and provide the enterprise with limited benefits.

2. Specialized factors include highly specialized personnel, specific infrastructure, databases in certain branches of knowledge. These factors create a more significant long-term basis for ensuring the competitiveness of enterprises.

The third approach of M. Porter is based on the division of factors of competitiveness of an enterprise into two types:

- The main factors that combine natural resources, climatic conditions, the geographical location of the country, unskilled and semi-skilled labor, debit capital;

- Developed factors, including modern information exchange infrastructure, highly qualified personnel (specialists with higher education, personal computer specialists) and university research departments dealing with complex high-tech disciplines.

It should be noted that the main factors exist objectively or for their creation requires minor public and private investments. Developed factors, as factors of a higher order, are much more important for ensuring the competitiveness of enterprises. For their further development, significant, often long-term investments of capital and human resources are required. In addition, a necessary condition for the creation of developed factors is the use of highly qualified personnel and high technology. Developed factors are often built on the basis of the main factors that, while not being a reliable source of enterprise competitiveness, at the same time should be of sufficient quality so that they can be used to create related developed factors.

According to French economists A. Olivier, A. Dianne and R. Urse, the key factors of an enterprise's competitiveness should be eight:

1) the concept of the goods and services on which the activity of the enterprise is based;

2) quality, expressed in accordance of the product to a high level of products of market leaders and detected through surveys and comparative tests;

3) the price of the goods with the possible markup;

4) finance - both own and borrowed;

5) trade - in terms of commercial methods and means of activity;

6) after-sales service, providing the company with a permanent clientele;

7) foreign trade of the enterprise, allowing it to positively manage relations with the authorities, the press and public opinion;

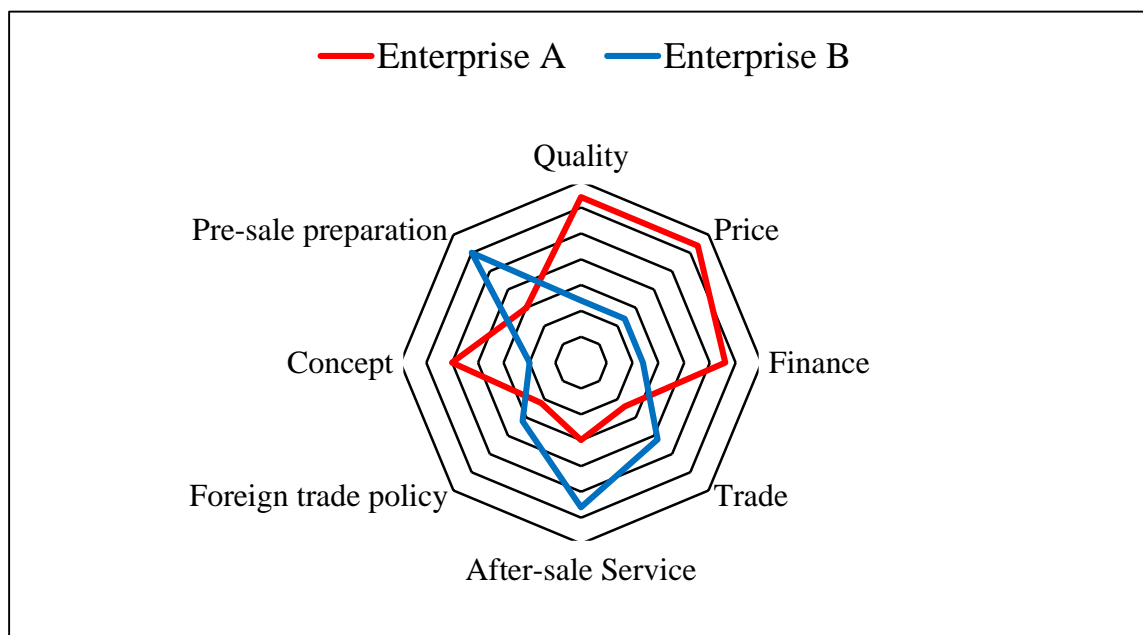
8) pre-sale preparation, which demonstrates the ability of the company not only to anticipate the needs of future consumers, but also to convince them of their exceptional ability to meet these needs. (Оливье, Дайан & Урсе, 1993)

Assessing the capabilities of an enterprise based on these factors allows building a "hypothetical polygon of enterprise competitiveness" (Figure 4).

On each axis, the level of values of each researched factor is displayed, as a result, as French scientists believe, the larger the area, the higher the competitiveness of the enterprise.

The polygon uses a specific measurement scale, often in the form of scoring. By depicting the levels of the factors of competitiveness for different enterprises on one polygon figure, it becomes possible to analyze their competitiveness by different factors. As a result of this study, you can identify the strengths and weaknesses of the enterprise (ОЛИВЬЕ, Дайан & Урсе, 1993).

**Figure 4. Polygon of enterprise competitiveness**



**Source:** ОЛИВЬЕ, Дайан & Урсе, 1993, p. 479.

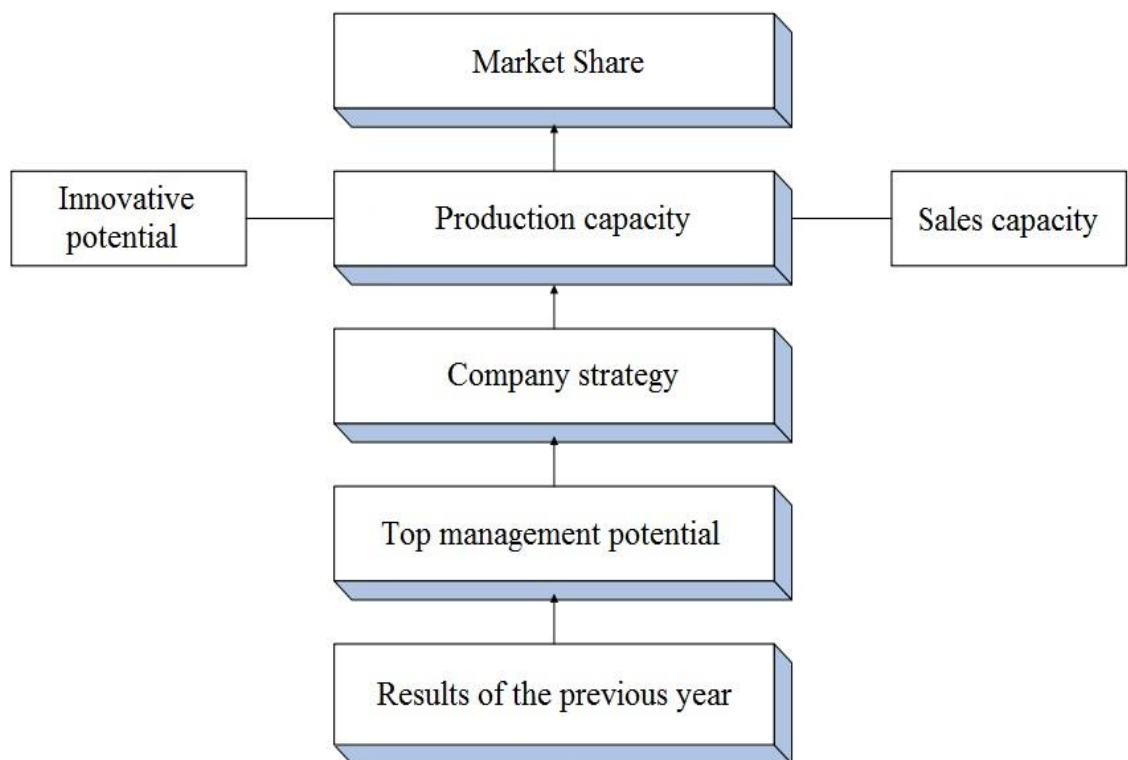
The advantage of this method of research capabilities of the enterprise is its visibility. To the disadvantages of this approach, it is possible to attribute the lack of forward-looking information regarding the extent to which a particular competitor is able to improve its operations.

Japanese experts distinguish a five-level hierarchy of factors of enterprise competitiveness (Figure 5) (Качалина, 2006).

Market share (first level) - the goal and the end result of management, at the second level of the hierarchy, according to scientists, competitiveness must be supported by the ability to develop the potential of production, innovation and marketing capacities of the enterprise. At the third level of the hierarchy, competitiveness is determined by the choice of an enterprise strategy. The strategy

of competition is aimed at improving or maintaining the position of the enterprise in the market - the proportion of goods it has sold, long been produced or new. Competitiveness at the fourth level of the hierarchy is determined by the ability of the company's top management to make such decisions that put into practice the three specified factors of competitiveness of an enterprise. The fifth level is represented by the results of the company's activity in the previous period.

**Figure 5. Factors of competitiveness of an industrial company, identified by Japanese researchers**



**Source:** Качалина, 2006, p 214.

Here, according to Japanese researchers, the profit of the enterprise as a source of resources for the struggle for the market is especially important. As a result, they derive the following dependence: the more profits, the higher the competitiveness, and the higher the competitiveness, the greater the profits.

Arthur A. Thompson Jr. and A. J. Strickland propose to highlight the following key factors of an organization's competitiveness (Thompson & Strickland, 2003):



- quality and product characteristics;
- reputation (image);
- production capacity;
- use of technology;
- dealer network and distribution opportunities;
- innovative opportunities;
- financial resources;
- costs compared to competitors;
- customer service.

David Cravens believes that the company's management should prioritize key competencies that are determined by competitive advantages, versatility (competitive advantage in various situations), and duplication complexity (Цапев, 2015). He proposes the grouping of competencies (factors) to be carried out according to the directionality of functional processes - external, directed from the external environment into the organization, internal, organizations coming from within, and bilateral. External processes connect the organization with its external environment, providing feedback with it and forming external relations. External processes also set the direction to the competences of the organization, determined by internal and bilateral functional processes. Internal processes are aimed at meeting the needs of consumers. In turn, the above processes are characterized by a multitude of competencies (factors).

A significant contribution to the study of the problem of classification of factors of competitiveness of the enterprise was also made by Russian scientists. E.P. Golubkov proposes to use 16 performance factors in his marketing research to assess the competitiveness of an enterprise, which he details and complements due to the factors of product competitiveness and the effectiveness of the company's marketing activities. He considers the organization's image, concept and quality of products (their level of conformity to the world level), the total market share of the main types of business, the power of research, design and production base, the level of diversification of types of business, the stability of the financial and

economic position of an enterprise. in the market, marketing activities (advertising, level of sales promotion, depth of research), level of pre-sales and after-sales service, the policy of the organization in the external business environment (Голубков, 1999).

The whole set of factors affecting the competitiveness of the enterprise is proposed by I.U. Zulkarnaev and L.R. Ilyasova to be divided into three groups:

goals that the enterprise sets itself;

resources available to the company;

environmental factors. (Зулькарнаев & Ильясова, 2001)

In turn, D. Hasbi states that the competitiveness of an enterprise is determined by the quality of products, its relative price, the promotion of products to markets, the power of the distribution network (Хасби, 1998).

As criteria determining the competitiveness of an enterprise, N.K. Moiseyeva proposes to take into account the criterion, which reflects in dynamics the degree of customer satisfaction, and the time criterion of production efficiency (Моисеева & Анискин, 1993).

V.L. Belousov groups possible factors of enterprise competitiveness into separate elements of the marketing mix (product, price, bringing the product to the consumer, product promotion to the market or marketing communications), and also takes into account the business activity and organizational effectiveness (Белусов, 2001).

The main factors of enterprise competitiveness I.V. Maksimova considers the efficiency of his production activities, financial position, efficiency of the organization of sales and promotion of goods on the market, the competitiveness of products (Максимова, 1996).

The most popular in the economic literature received an approach on the basis of which all factors of enterprise competitiveness are combined into two main groups depending on the ability of an enterprise to influence them. This classification includes external factors, the manifestation of which to a small extent depends on the enterprise, and internal, almost entirely determined by the

management of the enterprise. This approach to grouping the factors of competitiveness of an enterprise is the most acceptable, since an enterprise should be considered as an open system, which is influenced by environmental factors, which, in turn, are divided into factors of direct and indirect influence. In addition, the company has an internal environment consisting of interrelated variables that affect its operation.

Under the external factors of direct impact, it is necessary to understand suppliers, science and technology, the state, intermediaries, trade unions, competitors, consumers, the type and capacity of the market. External factors of indirect impact, from our point of view, should include: the state of the economy, political and legal factors, climatic factors, scientific and technical progress, the demographic situation, sociocultural factors. The internal factors determining the competitiveness of an enterprise that it can directly influence should include the quality management system, marketing activity, management quality, management system, economic security, reputation (goodwill) of an enterprise, financial, innovation, investment activity, corporate culture, personnel, competitive strategy, technologies, scale of application of outsourcing, production processes, sales (dealer) network. The factors identified can have a different impact on the competitiveness of an enterprise, therefore, studying their influence reveals the strengths and weaknesses of the enterprise, the opportunities and threats to its development.

## **2.2. Problems of increasing the competitiveness of domestic enterprises**

In modern conditions, many Azerbaijani enterprises are excluded from the system of global international competitive relations, as enterprises focused mainly on the market of their region turn out to be low-profitable and uncompetitive, which leads them to innovative passivity and low activity in the field of restructuring.

In some enterprises of Azerbaijan, the moral and physical aging of equipment reaches an average of 80%, as a result, there is a total wear of technological schemes, which are replenished exclusively by import substitution. It is necessary to carry out reconstruction taking into account more stringent than domestic, European standards, since until now, production in Azerbaijan gives twice more environmentally harmful emissions than Western. Particular attention should be paid, above all, to reducing energy intensity, since the energy costs of producing a unit of industrial output are, on average, 30% higher than Western ones.

Despite the fact that in Azerbaijan there are many existing natural resources, the efficiency of production remains very low, which leads to an increase in cost and loss of competitiveness in the international market. The existing scientific, technical and personnel potential of Azerbaijan is high, but so far in many respects it is not in demand both inside the country and abroad.

The export of Azerbaijan is dominated by products of low technological structures, intended for intermediate consumption, mainly imports high-grade processing of investment and especially consumer goods. The low level of development of Azerbaijani companies and their regional isolation highlight the problem of the low level of competitiveness of domestic products and bring up the challenge of improving the competitiveness of domestic enterprises as a whole.

There are many approaches to understanding the competitiveness of an enterprise, within which this economic category is viewed as:

- an object capable of surviving in a competitive market in a particular market;
- the level of development of the company in comparison with the level of development of competitive firms in the degree of satisfaction of the needs of consumers with their products and the effectiveness of production activities.

In addition, many researchers believe that the competitiveness of an organization is manifested in the process of quantitative and qualitative growth of its potential and is formed under the influence of environmental factors.

Competitiveness is also linked to the market share captured by the enterprise, as well as to the enterprise's ability to produce, market and develop, and achieve the goals have been set.

Of course, all of the above definitions have the right to exist, since the goal of each company is to maximize profits that can be achieved in the process of quantitative and qualitative production and realizing its potential assets through the development of an effective company strategy. The company's strategy should take into account such factors as satisfying consumer preferences, optimal use of the organization's resources (production, financial, labor, etc.), adapting to rapidly changing environmental factors (macro environment, business environment), which will keep (increase) market share and win the competition.

However, the competitiveness of an enterprise is a relative concept: one and the same firm can be recognized as competitive within the industry, but not within the global market sectors. The base for comparison are similar indicators of competitiveness of competitors' enterprises, or ideal (reference) enterprises (Чайникова, 2007).

At the same time, competitiveness is a complex concept that includes several levels of competitive advantage that can be achieved through the use of a strategic management tool. It is the competitive advantages that a company has in comparison with others in one industry, in one market or market segment that determine the level of competitiveness.

Traditionally, it is believed that the competitive advantage of the manufacturing enterprise is based on either low costs or product differentiation. J.J. Lambin defined a competitive advantage as characteristics and properties of a product (brand) that create for the organization a certain superiority over its direct competitors. These characteristics can be very different and relate both to the product itself (basic service) and to the additional services accompanying the basic one, to the forms of production, sales or sales specific to the enterprise or product (Ламбен, 1996).

In modern conditions of development of the theory of marketing, scientists interpret a competitive advantage as a distinctive feature of an enterprise that makes it possible to transcend its competitors. Formation of competitive advantages is based on the study of their sources, the analysis of which allows you to choose the most attractive potential forms of competitive advantage.

**Sources of competitiveness of the company.** Sources of competitive advantage can be divided into internal and external. Internal sources of competitive advantage are enterprise resources. In identifying competitive advantages, emphasis is usually placed on the two components of their sources: the material and non-material resources of the enterprise. However, many enterprises achieve significant success in the market, using marketing, technological and managerial resources as sources of competitive advantages (Table 2).

External sources of competitive advantages - socio-economic and organizational relationships, allowing the company to create products that are more attractive by price and non-price characteristics. These include:

- government measures;
- economic nature (depreciation, tax, financial and credit policy, investment policy, participation in the international division of labor);
- administrative nature (development, improvement and implementation of legislation, demonopolization of the economy, the state system of standardization and certification, legal protection of consumer interests);
- the main characteristics of the market itself for the activities of this enterprise (its type and capacity, availability and capabilities of competitors);
- activities of public and non-state institutions;
- foreign economic policy of the state;
- economic, political, marketing, socio-cultural, ecological, demographic situation in the country and the world;
- the degree of integration of the country's economy into the international economy.

**Table 2. Competitive advantages based on enterprise resources**

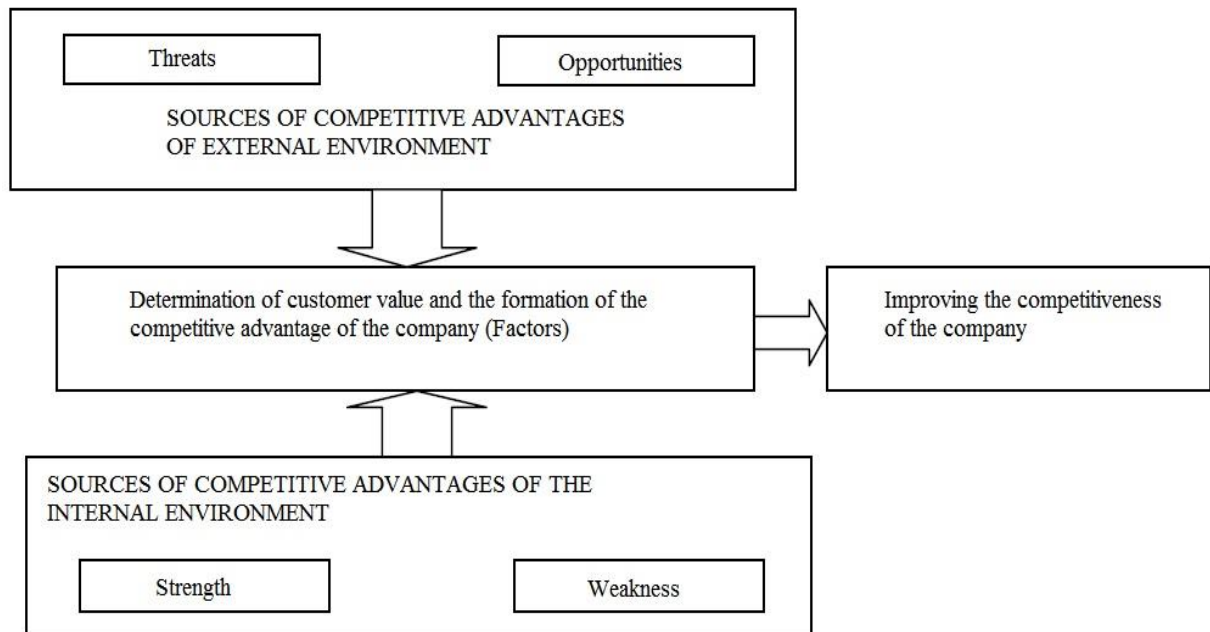
Enterprise resources	Type of competitive advantage	Source of competitive advantage
Material	Based on material resources	Fixed capital Working capital
Non-material	Based on non-material resources	Patents Staff qualifications Image of the enterprise, etc.
Administrative	Based on administrative resources	Outsourcing
Technological	Based on technological resources	IT
Marketing	Based on marketing resources	Segmentation Product policy Price policy Sales Policy Communication policy

**Source:** Иванова. 2002, p. 23.

Based on the synthesis of internal and external sources, the company's competitive advantages are formed (Figure 6). Problems of increasing the level of competitiveness of an object lie precisely in their underdevelopment, lack of economic efficiency. Thus, the presence of conditionally negative sources of competitive advantage can lead to a deterioration in the competitive position of the company.

The competitiveness of an enterprise is determined by the most significant factors: the quality of products and services, an effective marketing strategy, personnel and management qualifications, the technological level of production, the tax environment in which the enterprise operates, the availability of funding sources.

**Figure 6. Synthesis of internal and external sources of competitive advantage**



**Source:** Ivanova. 2002, p. 24.

The traditionally low quality of domestic goods is not a consequence of the national inability of the industry to create and produce quality products. Indeed, if the technological potential of an enterprise does not allow creating a competitive product on its own, then in business practice it is quite natural to appeal to other enterprises leading the market with a proposal to purchase a license. The success of such treatment is demonstrated by China, South Korea and other countries.

The quality of products and services of Azerbaijani enterprises directly depends on the level of technological equipment. However, the lack of modern equipment (in the open market and the possibilities of outsourcing) does not allow directly affect to the quality of the product. Ensuring product quality control at all stages of its production is more of an organizational and management problem, rather than a technical one.

Innovation potential can serve as a source of ideas and new products for industry, the basis for the development of marketing strategies of the enterprise. At the same time, attracting capital for the idea of a new product is obviously less successful than the possibility of an industrial enterprise planning to master the



production of a new product with experience, production capacity and qualified personnel. Thus, the problem of product quality of Azerbaijani enterprises can be solved, first of all, by means of exclusively organizational and managerial measures at the micro level.

To ensure the competitiveness of Azerbaijani enterprises, a clear strategy is needed, focused on specific target groups of consumers and developed taking into account competitive advantages and existing opportunities. The enterprise's lack of a strategy and a specific action plan automatically levels its capitalization process, turning the company into a simple set of assets burdened by obligations. Consequently, the presence of corporate strategy ensures the formation of the market value of the enterprise.

One of the most important factors determining the competitiveness potential of Azerbaijani enterprises is the level of staff qualification. A high level of basic education and adherence to the concept of lifelong learning ("lifelong learning") contributes to the rapid training of specialists, the development of new professions and the acquisition of the skills necessary to work in a highly competitive market. Thus, the availability of qualified personnel is a significant advantage, contributing to the competitiveness of local enterprises.

A special role in ensuring the competitiveness of enterprises is also played by the level of management skill. The best way to solve the problem of management qualification may be the retraining of existing managers and the creation of mechanisms for the natural rotation of personnel, despite the fact that this is a more evolutionary and lengthy process.

The ability to produce high quality products at low cost is determined by the level of technology development in the enterprise. In this regard, the problem of reinvestment is particularly acute. Thus, many Azerbaijani enterprises use not all of the available production facilities. Therefore, for them technological renewal, despite the high moral and material depreciation of fixed assets, is not always a top priority. It is necessary to ensure the effective use of the assets at the enterprises in accordance with the goals and objectives. This problem can be solved by

restructuring the enterprise. Leasing becomes an effective tool for solving this problem. Speaking on the one hand, the most appropriate way of long-term financing, the company on the other, creates effective demand for products of domestic equipment manufacturers.

An important factor ensuring the competitiveness of domestic enterprises is the current tax system. The degree of influence of various taxes on the activities of the enterprise should be analyzed in terms of its ability to generate a sufficient amount of free funds necessary to ensure its operating activities. The taxation system suppresses enterprises, leaving them with an opportunity not only for development, but also simply for a stable existence. On the other hand, the fiscal withdrawal of all available funds results in a loss of attractiveness for investors.

Surveys of company managers show that there are thresholds for tax rates, which increase leads to massive tax evasion. The most striking example is the level of payroll deductions. This type of taxes and deductions is one of the most sensitive factors affecting the total amount of enterprise tax payments. The role of the tax system in ensuring the competitiveness of Azerbaijani enterprises cannot be reduced to fiscal functions, since the tax system is one of the most important factors determining the country's investment climate.

For several years, the irrational customs policy almost destroyed the potential of the Azerbaijani electronic, electrical and a number of other industries, the competitiveness of which and the quality of the products largely depend on the quality of components and raw materials. The experience of countries in a state of reform shows that customs regulation should stimulate the development of production of competitively priced and quality consumer goods in the territory of their own country. At the same time, raw materials, materials, components and technological equipment ensuring the competitiveness of goods in the territory of Azerbaijan should be exempted from any customs duties and fees.

The variability of funding sources is also one of the most important factors in the competitiveness of Azerbaijani enterprises.

The peculiarity of the Azerbaijani economy is that the state budget continues to be the main financial instrument ensuring the competitiveness of domestic enterprises based on innovations. State budget funds dominate the structure of domestic expenditures for research and development. At the same time, the share of state participation in the financing of applied research is significantly higher than the share of basic science financing, which indicates a lack of interest on the part of the private business sector to potentially commercialized areas and the replacement of expenditures by means of the state budget.

Approaches to financing enterprises producing innovative products and enterprises operating in traditional market segments should differ. The first, of course, require significant budgetary allocations and system financing, since they contribute to the production of innovative goods and services. The latter are more focused on the production of noncompetitive products, therefore, the market sector should be involved in financial reimbursement of the costs of their production.

A more sophisticated competitiveness factor seems to be the program-targeted toolkit for stimulating the production of innovative products and services, since the format of its use implies a transition from resource planning to results planning, strengthening investment and innovation orientation of budget expenditures. In the modern Azerbaijani economy, the priority and fairly stable part of the budget allocations under these programs are the costs of innovative development and modernization of the Azerbaijani economy.

The financing of enterprises by program-targeted methods encounters a number of limitations and problems associated with the generic features of managing a rent-oriented economic system.

For a significant number of existing programs there is a problem of goal setting. The vagueness of the goals and objectives, the incorrect formulation in some cases makes them unverifiable and unattainable. The postulation of a number of tasks (for example, in the field of energy saving) implies a catch-up technological development, meaning the absence of new technological platforms,

new markets, the release of new products, the development of breakthrough technologies.

Segments stimulating competitiveness are not clearly defined, and often are distorted.

The order and tools of monitoring state programs are not clearly defined. The system of reporting on the implementation of the program is also not focused on analyzing the effectiveness of state programs, since the reports submitted by government customers do not give a clear idea of the economic content of program costs. In the overwhelming majority of cases, they do not contain an analysis of the fulfillment of the tasks set in the program, but represent a factual record of the measures implemented. Control mechanisms focus exclusively on the distribution of funds.

Thus, the system of state financing of Azerbaijani enterprises is effective only in the segments of the production of innovative products and services; in the rest, the system of tax incentives for competitiveness is most acceptable.

The reasons for the low competitiveness of Azerbaijani enterprises are not so much technological problems or lack of sources of financing, but low management efficiency of enterprises, as well as imperfect tax legislation, poor efficiency of measures of financial state support for domestic producers. The state policy of industrial development aimed at improving the competitiveness of enterprises should ensure the solution of two major tasks: reforming enterprises in order to improve the quality and efficiency of their management and develop measures of state regulation stimulating the development of domestic producers.

### **2.3. Strategies for increasing the competitiveness of Azerbaijani enterprises**

Competitiveness, the ability to effectively compete is the main characteristic of an economic entity that determines the success of its activities in a market economy.

Competitiveness of a company should be considered in two ways: as a comparative assessment of a company's activities in a competitive environment at a certain point in time, that is, operational efficiency, and as a company's potential ability to maintain a strong market position in the long run — that is, strategic competitiveness. Our attention will be directed to considering the most effective ways for a company to achieve high competitiveness in the long term.

Factors affecting the intensity of competition in the market and the degree of competitiveness of a company have varying degrees of predictability for its managers. Consequently, the firm's management system must have such tools that would allow it to successfully adapt in case of unexpected changes in environmental conditions, correctly formulate and adjust long-term goals, and effectively coordinate its resources and capabilities with the tasks set. Opinions of most theorists agree that the most effective tool for managing the competitiveness of a company that operates in a competitive environment and sets long-term development goals is strategic management.

*“Strategic management is the provision of a strategic position that will ensure the future viability of an organization in changing conditions”* (Ансофф, 1989, p. 23). The strategic level of organization management implies that management decisions made at this level determine the company's competitiveness standards in the future and ways to achieve them. The specificity of strategic management is largely determined by its object - the company's competitiveness and its temporal characteristic - long-term competitiveness. The functional difference between strategic management and other types of management lies in the fact that senior management personnel are responsible not only for formulating the overall competition strategy (which is implemented during the implementation of the first stage of strategic management - strategic planning) and the company's development, but also for the full implementation chosen strategy in practice.

So, the result of the first stage of strategic management - strategic planning is a clearly formulated strategy, which is a plan of action to achieve the company's competitiveness in the long term. The well-known theorist of strategic

management I. Ansoff defines the strategy "*as a set of rules for making decisions that guide the organization in its activities*" (Ансофф, 1989, p. 26).

In the scientific literature there are numerous descriptions of various competitive strategies. But, since the formation of a strategy is a complex and individual process for each company, it is possible to identify several of the most common options that can be taken as a basis for creating a strategy for a particular company. Let us dwell on the classifications of competitive strategies developed by G. L. Azoev, V. P. Gorev, V. V. Krivorotov, M. Porter, N. Sarith and A. Yu. Yudanov.

The universally recognized authority in the field of competition research and competitive strategy M. Porter, in his book *Competitive Strategy*, argues that an effective strategy should protect the company as much as possible from all five competitive forces: competing companies, manufacturers of substitutes (substitute goods) competitors, supplier forces (production factors) and customer forces (demand parameters). The author identifies three basic strategies (or strategic approaches), the use of which individually or in combination allows the company to achieve significant superiority over competitors for a long time - that is, strategic competitiveness. These strategies are called: "absolute leadership in costs", "differentiation" and "focusing" (Поптер, 2005).

Absolute leadership in costs is a variant of the strategy in which "*lower costs in comparison with competitors become the goal of the whole strategy*" (Поптер, 2005, p. 33). In this case, the company achieves its main goal - absolute industry leadership in costs - through the use of a set of special economic measures. M. Porter considers such measures as the creation of production facilities of a cost-effective scale, cost reduction based on accumulation of experience, tight control over production costs and overhead costs, refusal of small transactions with clients, minimization of costs in the field of research and development, maintenance, distribution systems, advertising etc. The application of these measures, on the one hand, requires the company to have a clear organizational structure, a large initial investment, as well as a willingness to bear initial losses, on the other hand, it

ensures the company to conquer a large market share. The high market share, in turn, makes it possible to use the effect of economies of scale, which leads to a significant increase in net profit. As a prerequisite for maintaining such a position in the market, the author points out regular reinvestment of part of the profits in the improvement of equipment and production technologies.

The position of the leader in costs provides the company with protection from the impact of all five competitive forces identified by M. Porter:

- from competitors, as low costs allow the company to make a profit even when rivals suffer losses;
- from buyers, as they are able to reduce prices only to the level of less successful competitors;
- from suppliers, because low costs allow the company to be more flexible when changing the cost of input resources;
- from the threat of the emergence of new competitors, as the position of low costs creates high barriers to entry into the industry;
- from substitutes, since such a position creates more favorable conditions than competitors have for competing with substitutes.

In addition to describing the key benefits and conditions for companies to apply basic strategies, M. Porter also determines the main risks associated with their implementation. In this case, he refers to the following:

- the possibility of technological changes that depreciate past investment or experience;
- successful copying of this strategy by competitors;
- the discrepancy between the manufactured goods and the constantly changing needs of the market, to which the heightened concern of the management of the company with the reduction of costs may lead;
- inflation costs, resulting in lower compared with competitors' prices.

The basis of the next variant, highlighted by M. Porter, - the strategy of differentiation - is the idea of creating a unique one, differentiated product. Differentiation can be carried out according to various criteria, for example:

according to the prestige of the design or brand, according to the production technology used, according to the functionality, the quality of customer service, the developed dealer network, etc. M. Porter considers the most effective option to differentiate at once by several criteria. (Поптер, 2005)

The implementation of the differentiation strategy, unlike low costs, does not provide for the company to achieve a large market share, although it also requires significant investments. They are necessary to implement such necessary measures for the implementation of the strategy, such as large-scale fundamental research, design development, the acquisition of high-quality materials, and intensive work with the client base. In addition to these procedures, in order to successfully differentiate a company, it is necessary to have such resources and characteristics as extensive industry experience, appropriate positioning, a system of sales channels, the ability to attract skilled labor and creative personnel, and a specific organizational structure that allows the R & D and marketing units to work closely.

The result of the successful implementation of the differentiation strategy is, in the opinion of M. Porter, the formation of a high level of customer loyalty, which becomes the company's main competitive advantage and allows it to achieve profits above the industry average. Thanks to this competitive advantage, the company is able to successfully withstand the main competitive forces:

- competitors, since consumer loyalty to the product reduces their sensitivity to its price;
- the invasion of new competitors, since the uniqueness of the product forms a high barrier to their entry into this market segment;
- to suppliers, since customer loyalty to a differentiated product provides the company with high profits, even in the case when suppliers sharply raise prices;
- to buyers, as they do not have worthy alternatives to a unique product, and they cease to be sensitive to its price;



- substitutes, since it will be difficult for manufacturers of potential substitute products to offer customers an alternative value to unique products that already have high customer loyalty.

However, like any other, the strategy of "differentiation" encompasses certain risks. According to M. Porter, in this case the main risks for the company are:

- the possibility of reducing customer loyalty due to a significant reduction in the difference in costs between the manufacturer and its competitors;
- the possibility of reducing the significance of the factor of differentiation among buyers with the accumulation of consumer experience;
- the probability of successful use by competitors of a similar strategy, which significantly reduces the effectiveness of the differentiation carried out.

Focusing is the third basic strategy developed by M. Porter, which involves focusing the company's activities on any aspect of the market: a group of customers, a product, a geographic segment, etc. The principal difference of this strategy from the previous two is that, in accordance with it, the company's strategic goals do not apply to the entire market, but to a certain part of it.

*"... If the focusing strategy does not lead to low costs or differentiation from the point of view of the market as a whole, it allows to achieve one of two or both of these positions in the space of a narrower target market" (Поптер, 2005, p. 45).*

The author believes that the measures listed above for the implementation of the first two basic strategies can be successfully used depending on the goals set and in the implementation of the focusing strategy. It protects the company from the impact of competitive forces in the same way and in the same way as the use of other options for basic strategies. In addition, the author calls the company's ability to choose goals and markets that are least exposed to competition as one of the main advantages of focusing.

M. Porter points to the following risks associated with the implementation of the focusing strategy:

- elimination of the advantages of a company pursuing a focusing strategy in the event of an increase in the differences between its costs and those of competitors operating throughout the industry;

- the possibility of reducing the differences between products circulating in the industry market and products circulating on its target segment chosen by the company for focusing;

- the ability of competitors to focus on an even narrower segment of the company's targeted strategic market.

The strategies described by M. Porter are the most common ways of competing and can be taken by companies as a basis for choosing the direction of their development. Subsequently, the authors involved in strategic management, continued to develop a classification of competitive strategies.

For example, V.P. Gorev shares the opinion of M. Porter regarding the universality of the three basic competitive strategies and insists on the need for a strategic positioning of the company in the industry, which it defines as the implementation of activities that are different from those of competitors or similar activities, but in other ways (Горев, 2002). The author identifies three main areas of strategic positioning of the company: positioning focused on the breadth of the nomenclature, positioning oriented to needs and positioning oriented to access (Горев, 2002).

Positioning focused on the breadth of the nomenclature involves the production by the company of many different types and subspecies of goods and services. *“In this case, the firm, in the struggle for consumers, relies on the opportunity to offer them a wide range of goods”* (Горев, 2002, p. 93).

Needs-oriented positioning focuses the company on serving some or all of the needs of a particular group of customers. Such positioning is advisable to use in a market where there are several groups of consumers with different needs. It is relevant for firms carrying out several activities that can best meet these needs.

The use of an access-oriented positioning by a company implies first of all *“segmentation of consumers in accordance with various ways of access to them”*.

This approach is effective in a situation “*when the needs of customers are similar, but the degree of access to different groups of customers is different*” (Гореv, 2002, p. 96).

According to A.P. Gorev, the concept of basic strategies, supplemented by three types of strategic positioning, makes it possible to most fully describe the concept of strategy: “*Strategy is the creation of a unique and advantageous position that provides for a specific set of activities*” (Гореv, 2002, p. 32).

A different interpretation of the concept of basic competition strategies was proposed by G. L. Azoev. Describing his vision of this issue in “*Competition: Analysis, Strategy and Practice*” (Азоеv, 1996), he considers it necessary to supplement M. Porter’s classification with two more strategies - a strategy of introducing innovations and a strategy of immediately responding to market needs. The strategy of introducing innovations he calls that strategy, in which the company focuses its “*efforts on finding fundamentally new efficient technologies, designing the necessary, but still unknown types of products, methods of organizing production, sales promotion techniques, etc.*” (Азоеv, 1996, p. 88). The main purpose of this strategy is to find a market niche that has not yet been mastered by competitors and to occupy a leading or monopolistic position there. In case of successful implementation of such a strategy, the firm gets not only access to super-profits, but also reliable protection against the emergence of substitute products and entry into this market segment of competitors. In addition, when introducing innovations in the market, the company has a chance to create a positive image of itself as an innovator in the field of customer satisfaction.

However, it is obvious that, unlike the three basic concepts proposed by M. Porter, the innovation strategy cannot protect the company from all five competitive market forces at once. Due to the presence of numerous destabilizing factors in 80 cases out of 100 this strategy leads to bankruptcy. To such factors G.L. Azoev attributed the lack of readiness of the market to the perception of innovation, high initial costs, lack of experience in implementing innovations, the lack of adequate distribution channels, illegal imitation of innovations by

competitors, etc. The most significant factor on which the success of the application of this strategy depends is the “power” of buyers, more precisely, the degree of their readiness to perceive innovation.

Nevertheless, despite the high risk of venture capital, the desire of many companies to high profits and dominance in new market segments, according to G.L. Azoev is stronger than the fear of uncertainty of results. It cannot be denied that under certain environmental conditions and the characteristics of the organizational structure of a venture company (such as high scientific and technical qualification of personnel and project management structure) the strategy of introducing innovations can be very effective.

The next strategy proposed by G.L. Azoev, in addition to M. Porter’s classification, is called an immediate response strategy to market needs. In accordance with it, the main goal of the company is to track changes in customer needs and meet them immediately. *"The basic principle of behavior is the selection and implementation of projects that are most profitable in the current environment"* (Azoev, 1996, p. 90). Tracking customer needs changes and quickly creating products or services that meet those needs give companies a strong competitive advantage. They are expressed in the high interest of consumers in a product that fully meets their needs, the ability to set high prices for a unique product, and, accordingly, to receive high profits, in the absence of a potentially large number of substitutes. The application of this strategy also contributes to the formation of a positive image of the company in the eyes of consumers. There are a number of external and internal environment conditions necessary for its successful implementation. To the conditions of external environment G.L. Azoev considers inelastic demand for goods of the industry, easy entry and exit from the industry, a small number of competitors and market instability. To the conditions of the internal environment - a developed marketing service focused on highly profitable short-term projects, a high degree of personnel mobility, a project organizational structure and a high differentiation of activities.

The main risk factors for an immediate response strategy to the needs of the market are the author cites high unit costs, the lack of long-term prospects in the industry, a large number of destabilizing unpredictable factors, the lack of guarantees of profit and a high risk of bankruptcy.

The last two factors, in our opinion, are not quite right to be counted as risks characteristic only of this competitive strategy, since no company operating in a competitive environment can have a guaranteed permanent profit. Moreover, none of these organizations can consider themselves fully insured against bankruptcy. Such risks are more inherent in entrepreneurial activity in general.

Russian researcher A.Yu. Yudanov believes that when developing a company's strategy, it is necessary to take into account two main factors: the degree of business standardization and its scale. The type of strategy that is most relevant for a company is determined on the basis of the position the company occupies in the axes of coordinates: “adaptability - innovation” and “global market - local market”. The author will identify four main strategies that characterize the different position of the firm in the market and the competitive advantages that they have in this position. The author called these strategies: violent, explorant, commutative, and patient (Юданов, 2000).

Violent firms are firms using the so-called “power” strategy of competition. The products of such companies are standardized, designed to meet the typical needs of a wide range of consumers who are satisfied with moderate quality for little money. To produce products on such a massive scale, “violents” are allowed by significant capital and a high level of applied technologies. The significant cost savings achieved due to the economies of scale allow the violents to be quite profitable and sustainable in the market.

Explorant firms use a competitive strategy in which innovation is the key success factor. Such companies, actively engaged in innovative activities, create new or transform old products. Their high quality and reasonable price provide exporters with a major competitive advantage, which allows them to extract the maximum profit from the initial presence in the market of new products. The

power of exporters is well ahead of the competition. Such a strategy is, on the one hand, very risky (since the risk of non-acceptance by the market of innovation is always very high), but on the other - if the innovation is successfully implemented - it can bring a huge profit to the company.

Patient firms choose for their activities a narrow segment of the market, represented by consumers with specific needs, supported by high purchasing power. Patients produce and market a limited number of expensive, high-quality specialized products, which most often fall into the category of luxury.

Firms - commuters - small and medium-sized businesses operating in small-sized local-national markets and focused on meeting the individual needs of their customers. They, according to A. Yu. Yudanov, especially common in such industries where the creation of large enterprises is either inefficient or impossible in principle. At the core of the activity of commuters is always an individualized approach to the client, due to which they strive to win the preference of potential consumers. (Юданов, 2000)

Innovation and adaptability, as the main characteristics of the activities of companies, formed the basis of the system for evaluating the strategic positioning of companies proposed by V. Krivorotov. According to him, in today's market conditions, when the intensity of competition increases, and consumer demands are becoming more personalized, these two characteristics most determine the effectiveness of the company's interaction with the external environment. *“The adaptability of an economic entity is defined as its ability to adapt to the environmental conditions, the flexibility of its response to surrounding changes”* (Криворотов, 2004, p. 17). The source of adaptability of the company are innovative processes in all areas of the enterprise. These processes are expressed in the company's ability to develop and implement: technical innovations that improve the technological sphere of production; socio-technical innovations that determine the way work is organized; social innovation technologies that shape creative activity, entrepreneurial behavior, corporate values and organizational culture.

Based on identifying opposite levels of innovation and adaptability of the organization - high and low innovativeness, high and low adaptability - V.V. Krivorotov offers four different strategic positions (which, in fact, are competitive strategies) that a company can take on the market. Each of the positions has two characteristics that determine its features: high adaptability - high innovation (HAHI), high adaptability - low innovation (HALI), low adaptability - high innovation (LAHI), low adaptability - low innovation (LALI).

According to V.V. Krivorotov, the position of LALI on the market is occupied by problem enterprises that do not have a clear strategic development plan. They have no prospects for long-term success in the market, while the position of HALI is typical of companies that do not exhibit innovative activity, but maintain a high level of adaptability, manifested in a wide range of products, the continuous production of which is provided by a once-developed production technology. Such a position can bring the company a significant profit, but for a limited period of time, as long as the invention of a new technology by its competitors does not upset the current equilibrium situation.

The companies that are actively innovating but for some reason are not able to translate the results of their developments into mass production turn out to be in the LAHI position. Such reasons may be an insufficiently thought-out market ideology, miscalculations in marketing, insufficiently qualified operational management, etc. Finally, the position of HAHI, is given by V.V. Krivorotov to companies that dominate the market. They regularly carry out large-scale innovative activities in all key areas of the company: production, personnel management, marketing and finance. This is the position of the market leader, to which ideally every company should strive. A high level of innovation, supported in all areas of production and management, as well as high adaptability, which *“in essence, acts as a form of expression of an enterprise’s relationship with the external environment, characterizing the effectiveness of the renewal processes, form one of two sources of the company’s competitiveness - its strategic positioning”* (Криворотов, 2004, p. 13). Together with the second source of

competitiveness - efficient operational activities, - according to V.V. Krivorotov, they form the system of competitive advantages of the company and determine the success of its competitive strategy.

An attempt to classify the entire set of strategies available in the economic literature to ensure the competitiveness of firms was undertaken by N. Sarith in his work “Competitiveness: A Multilevel Analysis” (Саритх, 2004). (Table 3)

**Table 3. Classification of strategies to ensure the competitiveness of firms**

<b>Classification feature</b>	<b>Classification</b>
By purpose	General (for the development of a system of business firms); Basic (for the development of organizations and firms of the system); Sectoral (for the development of industries); Marketing (for the promotion of goods and services)
By subject of impact	To economic entities of the market; to consumer
By implementation date	Long term; medium term; current
By way of achieving competitive advantages	Active (offensive); protective (defensive); intermediate
By way of market coverage	Violent; Patient; Commutant; Explerent
By type of competitive advantage	Differentiation strategy; low cost strategy; focusing strategy
By features of use	General (universal); private (specific)
By the stability of the market situation	Major; alternative

**Source:** Саритх, 2004, p 152.

Based on the above, it is possible to make some generalizations.

Firstly, the classification of competitive strategies proposed by various authors obviously overlap with each other.

Secondly, in order to choose the right strategy, the management of the company needs to properly assess the environmental conditions and relate them to the company's capabilities and resources.



Thirdly, in all classifications of competitive strategies, the idea is traced that the success of competition depends on three main characteristics of a company: on the ability to adapt to the external environment, on the desire to transform it in accordance with its needs, and on the volume of potential sales market. The differences between the values of the latter characteristic demonstrate the following pattern: the narrower the target segment of the company's market, the more manifest is its desire to apply an individual approach to satisfying consumer needs, and vice versa.

Fourth, each of the above strategies is prescribed as the most relevant for a company that is in the situation of the predominance of any one of these characteristics or a combination of two of them.

In our opinion, it would be advisable to suggest such a strategy, which would be aimed at achieving a company with high competitiveness in conditions when the values of all three characteristics are high. The rapid development of industrial technologies of recent years, creating the possibility of a massive reduction in costs and overall improvement in the quality of goods, leads to increased competition in most segments of industrial and tertiary markets. Under these conditions, competitive advantages achieved due to economies of scale, as well as product differentiation, are significantly depreciated. The power of buyers becomes the most influential market force in these conditions, and their loyalty is a key competitive advantage.

An effective way out of this situation, in our opinion, is the application of an individual approach to satisfying consumer needs not only in small and medium-sized businesses, but also on the scale of mass production. Orientation of the company's activities to maximize customer satisfaction and building individual relationships with each of them, even in the segment of highly standardized products, could be an effective strategy for competing and winning high customer loyalty as a major competitive advantage. Thanks to the rapid development of information technology in recent years, offering appropriate software solutions, a technical opportunity has emerged to bring this strategy to life. The orientation of

all the company's activities towards customer satisfaction in scientific literature is increasingly called marketing management or a customer-oriented business model. It is possible to call out to highlight the competitive strategy that is relevant for companies operating in modern competitive markets, and to give it the name "customer-oriented business model" or "customer relationship management."

Thus, the competitive strategies described above cover a wide range of situations in which modern companies may find themselves. They set the main course of action to combat competitors for each of them and offer the best ways to do this. However, since the situation in each specific market is unique, each company must develop an individual strategy for itself, based on an analysis of existing opportunities and risks. According to most authors, the biggest mistake of companies is to try to use all competitive strategies at the same time or not to use a strategy at all. The main conclusion, expressed in one phrase, could be formulated as follows: there are no bad or good strategies, there are strategies that are relevant to the specific conditions of the competitive environment. *“There is no universal competitive strategy. Only a strategy that is consistent with the conditions of a particular industry, skills and capital that a company possesses can bring success”* (Горев, 2002, p. 153).

## **CHAPTER III. SUSTAINABLE DEVELOPMENT OF INDUSTRIAL ENTERPRISE IN AZERBAIJAN IN MODERN CONDITIONS**

### **3.1. Stability of complex economic systems in a market environment**

Ensuring the sustainability of economic systems is the most important problem of the modern period of Azerbaijan's socio-economic development. Ignoring the factors affecting the stability of economic systems leads to increased economic and social imbalances, accelerated decline in production, increased unemployment, inflation, and many other negative consequences. The combination of these phenomena, in turn, leads to a decrease and loss of economic security of the state and a sharp decline in the standard of living of the population.

The issues of stability and sustainable development of economic systems have received close attention at all times. In the XVI - XIX centuries, the problems of increasing economic stability was discussed by such famous classics in the field of economics as A. Cournot (Cournot, 1897), K. Marx (Marx & Engels, 1990), D. Ricardo (Ricardo & Sraffa, 2004), J.B. Say (Say, 1971) and others.

In the late XIX - early XX centuries, with the emergence of fundamentally updated neoclassical economic theories, research in the field of the stability of society has become more global. A great contribution to the development of the theory of stability was made by scientists L. Walras (Walras, 2014), J.M. Keynes (Keynes, J., 1987), A. Marshall (Marshall, 1996) and others.

Among modern economic concepts of sustainability, there are concepts of P.A. Samuelson (Samuelson, 2011), M. Friedman (Friedman, Lesson & Palm, 2017), F.A. von Hayek (Hayek & White, 2014), K. Arrow (Arrow, 1983) and many others.

Despite the fact that the problem of sustainability has been developed for a long time, many unresolved issues remain, due to the dynamism and versatility of this problem.

Due to the need for a more detailed consideration of the essence of economic sustainability, we will study the stages of its long and complex evolution.

The problems of individual and social stability have worried scholars and thinkers since ancient times. The creation of an absolutely harmonious state is considered by ancient philosophers: Confucius, Xenophon, Plato, Aristotle, Cato the Elder, and others.

The period of early classical studies (until the XIX century) was marked by the emergence of the theory of sustainability.

According to representatives of the early classical trends - mercantilists and technocrats - the main source of wealth is trade and industry.

On the contrary, representatives of the school of physiocrats believe that the only source of wealth is nature, and therefore the basis of the welfare of nations is a product produced by agriculture. Industry is a fruitless sphere, and any government intervention in the country's economy is a meaningless exercise, the wealth of the people depends on nature, whatever laws the state adopts. Consequently, the state should not intervene in the economy.

According to the theory of stability of representatives of the utopian direction, ensuring sustainability requires the fulfillment of three conditions: the abolition of private property, a fair distribution of the results of labor, a justly working state machine that does not allow disparities in production and consumption, ensuring a stable life for all members of society. According to the utopians, there is no definite stability of the economy, but there are conditions for stability. The impossibility of fulfilling the above three conditions will lead to the impossibility of achieving a stable economy, which, in turn, will lead to a revolutionary way of transforming a state with private property into a state with nation-wide property. History disproved the basic condition of the utopian stability: the need to abolish private property.

Thus, the early researchers in the field of economic stability tried to solve the problem of ensuring sustainability by creating an effective system of distribution of goods produced (utopians). Other researchers suggest finding an

efficient area of the economy, the development of which will guarantee stability to the entire state. According to technocrats, this area is trade, according to physiocrats, agriculture.

Representatives of the classical period (end of the XVIII - XIX centuries) put the principles of a systematic approach to the basis of their researches. In his work "An Inquiry into the Nature and Causes of the Wealth of Nations", Adam Smith argues that the wealth of any nation is created not only in agriculture, but also in other areas of activity. He identifies three enemies of stability: wars imposed from the outside, laziness of the nation (which is a big exception), unreasonable governments that can inflict the worst impact on the stability of a nation's economy: "*Great nations never become poorer because of the extravagance and unreasonableness of individuals, but they often become poor as a result of the extravagance and unreasonableness of state power*" (Smith, 2007, p. 22). The advantage of the theory of stability of Adam Smith, in our opinion, is identifying the main factors of instability, which have not lost their relevance today.

In "An Essay on the Principle of Population", Thomas Malthus notes that "in a normal economic development, the population of the Earth begins to grow exponentially (doubling every 23-25 years), and the quantity of products at any sufficient production in agriculture can grow only in arithmetic progression" (Malthus, 1999, p 10). Hence, the forecast of Malthus is pessimistic: if the growth of the population of the Earth is not limited, hunger is inevitable. In this regard, the recognized destabilizers of economic development - epidemics, wars, hunger are designated as stabilizing factors.

The first definition of the stability of the state's economy appeared in 1829 thanks to Jean-Baptiste Say. Under the stability of the economy, he recognizes a state of the economy in which production generates adequate consumption (demand) and a state of society in which all principles of economic liberalism are achieved and respected (Say, 1971).

The advantage of this definition, in our opinion, is that the major condition for stability is the equilibrium of the main proportions of society. Stability (sustainability) is not just an equilibrium, but also includes other conditions. Consequently, stability (sustainability) is not only an equilibrium state of the main proportions of the economy, but also a mechanism to maintain a stable state. Hence, equilibrium tends to a state of stability and is an important condition for it.

J.B. Say identifies the following principles of the concept of the stability of society: everyone is interested in the welfare of all, the prosperity of one production is favorable for all other industries; since every seller is a buyer, there is no crisis in society; imports favor the sale of domestic goods and the prosperity of the economy; the layers that consume without producing do not contribute to the wealth of the country, but only ruin it. Say's concept, in our opinion, has one flaw. In his opinion, the economy is capable of self-regulation without government intervention.

Summing up to all the above mentioned the thesis considers the process of ensuring the sustainability of the economic system as associated primarily with the process of its stabilization, which, from the point of view of the dissertation's research methodology, is connected, on the one hand, with the general content of the country's economic reforms, and on the other, with objective economic reality.

This means that the process of ensuring the sustainability of the economic system must be more or less adequate to the basic ideological content of the reforms being carried out. At the same time, the implementation of this process should be based on economic reality and should take into account the socio-economic specifics and features of the economic system of the macro-, meso-level.

Hence, the following general methodological principles of sustainability of the economic system are:

1. The principle of unity of the process of ensuring the sustainability of the economic system and the process of further development of the market economy and their relationship with the objective economic reality. In other words, the process of ensuring the sustainability of the economic system should be studied

and carried out from the standpoint of awareness of a certain identity of its nature and the essence of the economic reforms being carried out.

2. The principle of continuity of the single financial and economic space of the country while ensuring the sustainability of the economic system, which is internally connected with the first principle. That is, when studying the process of ensuring the sustainability of the economic system and its implementation in practice, it is necessary to proceed from the fact that it is impossible to systematically and comprehensively stabilize the economy without a similar systemic and comprehensive stabilization of the country's economy as a whole, without harmonizing these processes.

3. The principle of harmonization of multi-level interests and goals in the implementation of the main tasks of ensuring the sustainability of the economic system.

It is also impossible to ensure the stability of the economic system without taking into account the environmental factor. Therefore, in the economic literature, purely economic principles of research should be supplemented by a group of principles reflecting the socio-ecological orientation of the study of the process of ensuring the sustainability of the economic system, which include:

1. The principle of awareness and acceptance of the position of limited natural resources in the development of social production.

2. The principle of dual nature of the basis of sustainable development, which implies the interchangeability of the economic and environmental components in this process.

3. The principle of a multi-factor approach to the study of the problems of transition to sustainable development.

4. The principle of humanistic orientation in the study of the problems of sustainability of economic development.

5. The principle of ecologization of production with the formulation of mandatory compliance with the biological productivity of ecosystems and the amount of anthropogenic impacts.

6. The principle of orientation towards accounting not only nearby, but also remote consequences of human production activity.

This classification of the principles of studying the sustainability of the economic system allows us to make the necessary emphasis on the fact that ensuring the sustainability of the economic system is not limited only to the economic component. The implementation of sustainability is impossible without taking into account the environmental factor. Nevertheless, the priority factor in ensuring the sustainability of the economic system at the present time is still the financial and economic factor.

The impossibility of ensuring the sustainability of the economic system at the present stage without taking into account the influence of the globalization processes of the world economy has predetermined the need to single out a group of principles of sustainability of the economic system reflecting the external economic aspect:

1. The principle of unity of research on the sustainability of the economic system and the processes of globalization of the world economy, that is, the process of ensuring the sustainability of the economic system should be studied and carried out from the standpoint of awareness of the identity of its essence and the essence of globalization processes.

2. The principle of interconnectedness and interdependence of all levels of the world economy (mega-, macro-, meso-, micro levels) in ensuring the sustainability of the economic system.

3. The principle of equivalence of internal and external economic space in ensuring the sustainability of the economic system.

Each system has parameters that are essential for it. The dynamic equilibrium of the system ensures the relative stability of these parameters, thereby supporting the existence of the system itself. The departure of the parameter value beyond the region of partial equilibrium leads to the transition of the system to a new qualitative state, but not to its destruction. With the release of the parameter



value beyond the equilibrium region, the system loses its basic quality and, by definition, ceases to exist.

One of the least studied and priority issues of the economy is to identify criteria for determining the norms of sustainable (balanced) development of economic systems and their assessment. The world is actively developing criteria and indicators of sustainability, containing a very complex system of indicators. This is done by leading international organizations: The United Nations (Integrated Environmental and Economic Accounting System), the World Bank (genuine savings index), the OECD (environmental indicator system) and others.

The economic sustainability of the Azerbaijani economy, achieved mainly due to the natural potential, cannot be promising. Measures should be taken to overcome structural deformations. It should be borne in mind that the strategy of Azerbaijani business is determined by a number of circumstances. First of all, it is the pressure of external demand for raw materials and energy at a high selling price. Not only global, but also Azerbaijani domestic demand for petroleum products also remains high due to the mass automobilization.

To a large extent, food producers are oriented towards imported agricultural raw materials. Azerbaijani business gives up positions on light industry products to imported counterparts. These products are complex in terms of quality, assortment requirements, subject to changes in demand, etc. These few examples show that the activity of a business, its investment and innovative possibilities are still insufficient. The stability of the Azerbaijani economy should be enhanced, including through the growth of entrepreneurial activity, the development of small and medium-sized businesses, and the stimulation of competition.

So, the Azerbaijani economy is developing asymmetrically. High oil prices on the world market, of course, make it possible to ensure, through currency earnings, a certain financial stability in the short term. But the stability of the economic system as a whole should be based on the optimal structure of GDP. A break in the situation is possible on the basis of an integrated approach, using the country's favorable internal capabilities in all areas.

The efforts of public authorities, which should consider ensuring the sustainability of the economy as a priority area of their activities, are crucial. In order to guarantee the stability of the economy, it is necessary: to provide the conditions for building up the resource potential, thereby creating an opportunity for economic growth; observe the proportions between the constituent elements of the potential to ensure the integrated use of resources of various types; develop the concept of development of both tactical potential (for short-term tasks) and strategic (potential of the future); improve the quality characteristics of the potential and its components to increase the competitiveness of the economy of Azerbaijan.

### **3.2. Methodological aspects of ensuring the sustainability of the development of entrepreneurial structures in an unstable environment**

The sustainability of the enterprise should be the basis of its development through the creation and maximum use of high internal potential corresponding to the level of complexity of the external environment. In the case of an insignificant impact of the external environment, management based on self-organization consists in taking measures to facilitate the return of the enterprise to its development trajectory and the subsequent pursuit of a better position on it. With a strong change in the external environment (for example, opening new markets), the main task of managing on the basis of self-organization is to create conditions that help the company to choose the right path, move to it with minimal losses, and take an advantageous position on this path.

The development is carried out by increasing the adaptive and protective mechanisms of the enterprise. This serves as a basis for maintaining a dynamic balance between the contradictory phenomena of socio-economic processes in an enterprise and the stability of its work. The guarantor of the reliability of the enterprise's position on the market is sustainability in conjunction with economic stability. By economic stability we understand the preservation of positive trends

in the level of use of the potential of an enterprise. Under the economic sustainability we understand capacity the production and economic system to return to a position of stability after the changes in the conditions of entrepreneurial activity.

The analysis of the characteristics of the economic sustainability of an enterprise that exist in the economic literature allows us to draw the following conclusions.

Firstly, economic sustainability is a concept that is associated both with external factors of the market environment and with internal factors determining the organization of entrepreneurial activity.

Secondly, there are many opinions about the theoretical interpretation of the category of economic sustainability. It is interpreted as maximization and stabilization of income. On the other hand, sustainability is defined as the process of developing operational-tactical decisions that determine the behavior of an enterprise. Thus, the achievement of economic sustainability is associated with the strategy of enterprise behavior in the market. In our opinion, making a profit is the main goal of business activity. Therefore, it can be considered the main criterion of sustainability.

Thirdly, economic sustainability is understood as a combination of certain characteristics of a different orientation: these are the stability of income, and a quick response to changes in the external environment, and the provision of a development mode. These features can be considered the main mechanisms for ensuring economic sustainability. Fourthly, some authors often tie it to the condition of finances of an enterprise. In our opinion, this feature is extremely important, since, on the one hand, it summarizes the characteristics of the internal condition of an enterprise, on the other hand, this characteristic is focused not only on internal, but also on external factors.

Recognizing the significance of these statements, we define economic sustainability as the ability of a company to survive and prolonged opposition to environmental factors, ensuring the realization of the company's main goals:

sustainable economic growth, economic efficiency of production and sales, and social and economic security of personnel in conjunction with the system of shareholders' goals, tax authorities and society in general. Thus, the content of the concept of economic sustainability is reduced to the totality of the following main components: industrial, financial, organizational, economic, marketing, social, technical and technological sustainability, organizational and social sustainability.

To improve sustainability management, a scientific classification of various types of economic sustainability is needed. This scientific classification should be accompanied by the definition of indicators for certain types of economic sustainability, which can later be used as the basis for managing the modeling of a given state of the production and economic system. There are many different classifications.

Classification by types and factors of economic sustainability:

1) economic sustainability in relation to the components of the production and economic potential of the enterprise;

2) economic sustainability in relation to the stages of the life cycle;

3) economic sustainability in relation to various types of markets. In accordance with these factors, there are several types of economic sustainability in each group.

Economic sustainability types in relation to the components of the production and economic potential of the enterprise:

- price stability in terms of covering production costs;

- production stability in terms of the use of material and labor resources (such as “capacity”);

- financial stability in terms of the receipt and use of monetary assets of the company.

Economic sustainability types in relation to the stages of the life cycle of the enterprise:

- stability, planned at the time of the establishment of the enterprise;

- stability acquired during the operation of the enterprise.

Economic sustainability types in relation to different types of markets:

- stability in the market of products, works and services;
- stability in the market of means of production;
- stability in the stock market;
- stability in the cash market.

The problem of choosing parameters and criteria for sustainability is quite complicated. In reality, there is often a situation when a change in some parameter allows us to say that the economic system is stable, and if we judge the stability of the system by the dynamics of another parameter, we will arrive at a completely opposite conclusion. In this regard, when studying the sustainability of socio-economic systems, there is a need to choose from a large number of indicators characterizing production activity, several or one of the most important, the dynamics of which allow one to judge how stable one or another system is.

Under the conditions of uncertainty in the functioning of enterprises, there are two possible directions for managing the sustainable development of an enterprise:

- by compensating the relationship, that is, after receiving information about the source and the actual value of the disturbance in the course of management influence, deviations from the norm of the regulated parameter are eliminated;
- by regulating the deviation of the actual value of the regulated criterion of the process of forming adaptive organizational behavior from its regulated value.

To ensure the sustainable functioning of the enterprise, the search and application of progressive management methods is necessary. The need to use new management methods is objectively because of a number of macroeconomic factors. Continuous inflation, the volatility of the economic situation and high commercial risks cause today the constant variability of the main economic parameters of the production process. One of the managing methods of an enterprises sustainable development, we highlight the strategic planning process, which includes, in addition to the mandatory ones, the following specific steps:

- the formation of an information database and channels of operational information within the organizational structure;
- formulation of qualitative and quantitative characteristics, limiting the choice of enterprise development strategy;
- establishing the level of available resources (assessment of resources for the implementation of selected strategies);
- search, creation and implementation of reserves to improve the sustainability of the enterprise.

Often, the management of an enterprise is faced with the choice of an alternative strategy; here the competitive strategy selection tool can be used as a strategic planning tool.

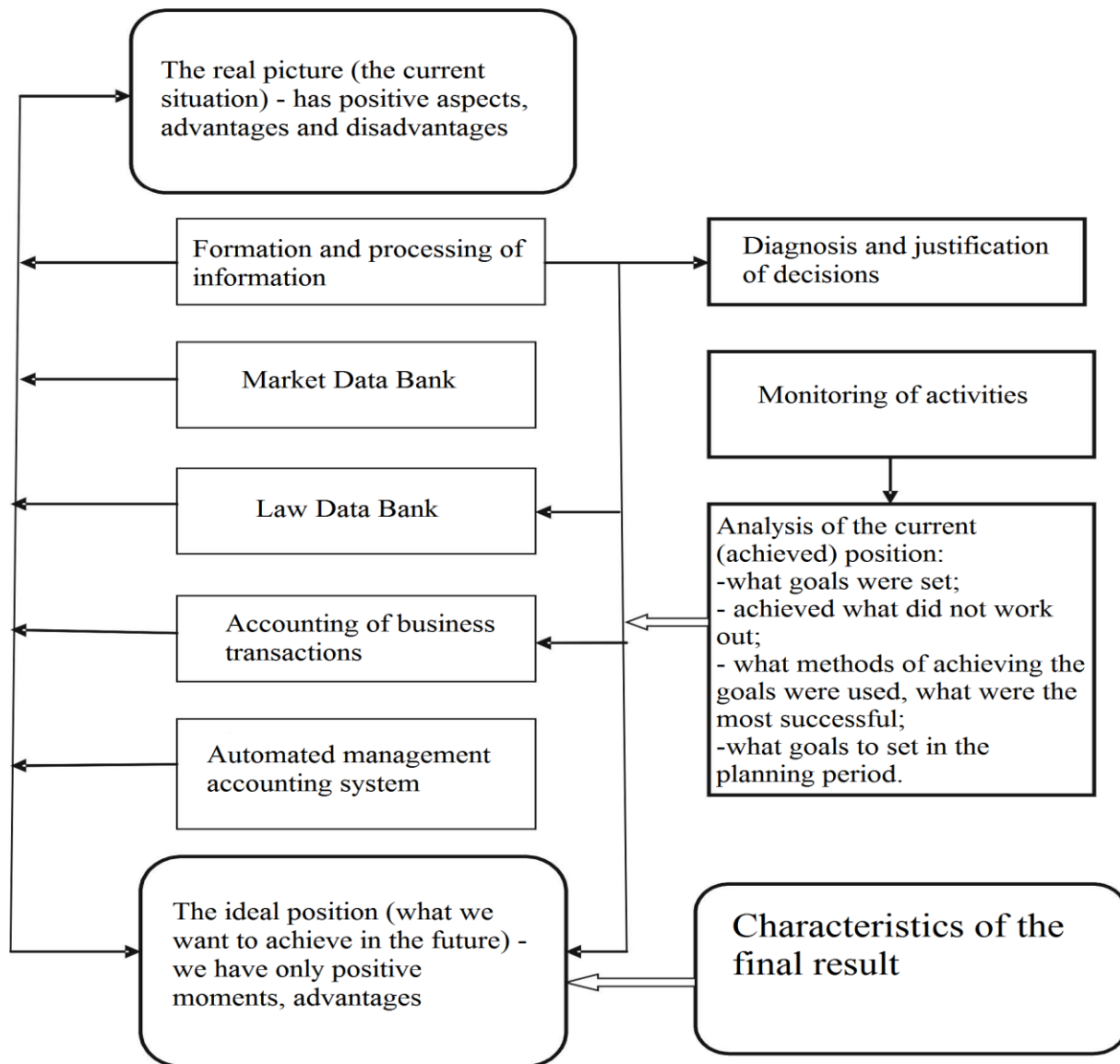
The main disadvantage of existing planning systems in modern industrial enterprises is the lack of an integrated approach to creating a planning mechanism. Integration of goals, priorities, resources into appropriate types of plans, linking these works to specific positions and the use of special tools will allow enterprises to respond adequately to changes in the external environment, creating a flexible planning system. As a detailed approach to achieving the prospects, a model is proposed that can act as a tool for managing the sustainable development of an enterprise (Figure 7).

The proposed tool is an analysis and comparison of two “pictures”: real (the one that exists today) and ideal (the one that the company would like to achieve in the future).

The ideal picture has only positive aspects, since it is the desired result, what the economic subject seeks. The real picture has both positive and negative sides, since in the present situation there are both pluses, successes in work, and minuses. By comparing the real and ideal picture and analyzing their resources, the company can set specific tasks, forming a development plan from them. By asking specific questions regarding the current and desired position, the manager will be able to

identify those deficiencies that can be eliminated in the future, and thus achieve greater efficiency in their future work.

**Figure 7. The process of strategic planning at the enterprise**



Source: Плиско, 2007, p 133.

Each of these blocks of the model implements a distinct function and is characterized by relative autonomy. Such a structure is connected with the fact that the analysis of the economic indicators of the enterprise's activity will bring the desired results only when it is based on high-quality primary information. To achieve this goal, a databank on possible business areas, an automated databank on

economic legislation, an automated accounting system for business operations and an automated management accounting system are required. Economic information prepared within the framework of these systems should be promptly transmitted in each of the areas of economic monitoring.

Ensuring the sustainable development of business structures is one of the urgent and strategic tasks for Azerbaijan. The socioeconomic position of the Republic of Azerbaijan, more precisely, its condition, development, will influence whether the country can take its rightful place among the developed countries or remain a source of raw materials for the developed countries with very little influence in the world economy and politics. The situation in which Azerbaijan found itself today highlighted the work with its own enterprises, including entrepreneurs, setting the main task - this is import substitution and support for small and medium-sized businesses.

The development of market relations influences the formation of a competitive environment, which undoubtedly leads to an increase in the impact of the external environment. This impact is becoming more aggressive, which in itself is a destabilizing moment in the life of the economic system, able to unbalance it and lead to a crisis and possible bankruptcy. And entrepreneurship, being an integral part of the mechanism of a market economy, is increasingly exposed to the acute challenges of the modern world. Entrepreneurship has a major impact on the economic sustainability of the development of the country as a whole, which increases the need to consider problems in ensuring the economic sustainability of the entrepreneurial structures development. Therefore, improving both the theory and practice of managing the economic sustainability of industrial enterprises plays an important practical role. Thus, for Azerbaijani entrepreneurship, sustainability of development is one of the main factors for the effectiveness of business activity.

It should be noted that modern trends in the development of the country's economy are distinguished by a variety of forms of entrepreneurship, which have a different type of ownership and organizational and legal status. Entrepreneurship is a special type of economic activity carried out on an innovative and risky basis.



There are many approaches to the definition of this concept in economic dictionaries. Summarizing information from various sources, it can be concluded that entrepreneurship is one of the main phenomena of a market economy, one of the main conditions for a stable existence and development of modern Azerbaijan and society as a whole.

Entrepreneurs are a fairly extensive range of private owners. This determines their significant role in the socio-economic and political sphere. For forms of organization of business activities in the scientific literature, various names are used: organization, firm, business structure, etc. Therefore, from the position of an integrated approach, it is more expedient to use the term “business structure”, which most fully reflects the specifics of modern relations in the economic sphere: strengthening globalization and informatization of business, toughening competition in the markets for goods, capital and labor. Any business structure that operates in a market environment implements trends: functioning and development. If functioning is the support of life activity, the preservation of functions that determine its qualitative certainty, integrity, essential characteristics, then development is the acquisition of a new quality that determines the sustainability of an organization’s life activity, its growth. The relationship of functioning and development are of the opposite nature. However, we note that without the development of an organization, functioning is impossible, since the modern market of fierce competition requires strong innovation activities from owners and meeting new customer needs. Thus, the functioning implies the preservation of the achieved financial result, and the development is aimed at its improvement. If you do not keep a balance between these two categories, the business will simply cease to exist.

The sustainability of the economic development of entrepreneurial structures is influenced by both the internal environment (goals, objectives, technologies of entrepreneurial activity, as well as personnel) and the external environment. Speaking about the internal environment of business structures, it is worth noting that the goals and objectives have an impact on the sustainability of business

development. However, we should not forget that the main goal of the business is to make a profit. But the technologies used in the process of creating a product or service directly affect the effective development. So, innovation in business is one of the technologies that is very important in terms of the survival of the business structure. Innovations are new ideas that can efficiently use existing resources and increase capital. Enterprises that use innovative technologies in their production not only save on costs, but also become more competitive in times of economic crisis. Another factor of the internal environment, important for the successful development of entrepreneurship, is the qualification of managers. According to official data, people in Azerbaijan are mainly engaged in entrepreneurship without relevant professional training, i.e. education. Therefore, the absence of the basics of economics and management leads enterprises to collapse. Thus, competent management will not only preserve the financial stability of the business structure during the crisis, but also increase its income. Thus, the human factor can be called an integral component of economic sustainability and entrepreneurial efficiency, especially in a period of temporary instability. The external environment always has a significant impact on the state of entrepreneurship, its structure.

Especially in the period of temporary instability, entrepreneurial insecurity is clearly expressed. Thus, the influence of consumers on the economic sustainability of the development of entrepreneurial structures is expressed in the following: a change in demand for products, a decrease in the capacity of the domestic market, and a lack of payment discipline among consumers. The economic factors of the external environment also affect the business structures in terms of the following parameters: the money supply situation, the availability of jobs and the unemployment rate, the level of solvency of the population, a decrease in investment resources, monetary and tax policies, and the rate of inflation. Social factors influence the choice of goods and services that consumers seek to acquire. As a result, they reflect a certain interest and fashion, moral and religious norms, and characterize a person's attitude to work, conditions and wages. Among the indicators can be identified: the stability of the social situation in the region;

property stratification of the population; level and lifestyle, tastes, preferences; deterioration of the crime situation. Demographic factors also influence the situation of stability in the development of business structures. This factor is manifested in the following indicators: mobility of the age-gender composition of the population, mortality and fertility rates, the number of economically active population, the number of pensioners and single people. In connection with the above, it is possible to offer continuous monitoring of the market and studying the needs of consumers, which will allow preserving entrepreneurial efficiency even in an unstable environment.

As indicators of the influence of suppliers and partners can be identified: the optimal ratio of price and quality of raw materials and violation of contractual obligations (in terms of quality). In an unstable market environment mobility of business structures and their differentiation will help overcome financial difficulties and reorient to new markets in a short time. Thus, mobility is one of the main factors of economic sustainability of business structures in a crisis. However, it is really difficult for large industrial enterprises to switch to new production, since this requires a lot of time and money. And in this regard, small and medium-sized businesses are in a better position.

For the development of an entrepreneurial structure, the importance of environmental factors can manifest itself in the form of opportunities, the use of which can have a positive effect on the activities of an entrepreneurial structure, that is, a stabilizing effect. The so-called state factors here play an important role, namely: the level of stability of democratic transformations in the country, the strength of law in compliance with legal acts, the continuity of legal support horizontally and vertically, the imperfection of legislation, the stability of tax policy, the constancy of regulatory legislation. Currently, the government of the Republic of Azerbaijan is seriously engaged in state support for entrepreneurship.

This state support is carried out primarily through the adoption of state regulatory acts aimed at supporting and developing entrepreneurship. A state apparatus has been created, which is a combination of state institutional structures

responsible for the development of entrepreneurship, ensuring the implementation of state policy in this sphere and regulating the sphere of entrepreneurship and managing its infrastructure support.

The main instruments for implementing state policy are state, regional, sectoral and municipal programs for the development and support of entrepreneurship. The purpose of the state regulation of entrepreneurial activity is the creation of optimal conditions ensuring the normal functioning of the economy as a whole and the stable participation of the country's entrepreneurs in the international division of labor and obtaining significant benefits.

Thus, among the tasks designed to regulate the activities of entrepreneurship, we highlight the following: development, adoption and control of legislation ensuring the legal basis and protecting the interests of entrepreneurs, weakening direct forms of intervention and bureaucratic control over the activities of business structures, creating conditions for free and fair competition in the market, free movement of goods in the domestic and foreign markets, monitoring compliance with the rules of competition. Also, the provision of commodity-money and budgetary equilibrium through financial, tax, interest rate policy and money management, a combination of current and future directions of economic development: structural-investment policy and science-technology policy.

It is important to ensure the free movement of labor and compliance with labor laws, regulation of private hiring and wage procedures, support social balance and acceptable for the majority of the population level of differentiation and income distribution.

Describing state regulation of the economy in modern conditions, first of all, it should be noted that the center of gravity in this regulation has shifted to the active participation of the state in the organizational and economic regulation of production. It seems that in order to achieve and maintain the economic sustainability of the development of an entrepreneurial structure, step-by-step realization of the goals set for each component of economic sustainability is

necessary. The so-called public-private partnership is especially important at the present stage of development of Azerbaijan.

State support of entrepreneurship can be provided in various forms, namely: cash subsidies, for example, during registration; training either at no cost or with partial coverage of expenses; internships; preferential leasing; the provision of grants and preferential or free outsourcing, as well as a special tax system in relation to established business structures. Subsidization is a type of monetary irrevocable assistance for business entities, which is issued for the intended use. Assistance to small businesses can be allocated for the following purposes: acquiring premises; purchases of equipment, goods for sale; purchases of intangible assets. The allocated funds must be directed to the development of small and medium-sized businesses. Government bodies will later be able to request official supporting documents from the recipient, for example, checks, invoices with a specified amount. If the funds were not fully spent, the rest will need to be returned.

It should be noted that in recent years, addressing issues of sustainability has gone beyond the scope of crisis management issues, and an increasing emphasis is shifting towards considering sustainability as a factor in the growth of efficiency and competitiveness of a company as it reaches objective limitations on efficiency gains due to traditional factors. From the position of the microeconomic level, the sustainable development of entrepreneurial structures can be interpreted as a complex process that includes transformation, an orderly change in goals, objectives, principles, functions and methods of activity.

However, the development of such structures depends primarily on the state and impact of environmental factors. Entrepreneurship is the most sensitive to changes in the external environment, even in a stable market economy. And in a crisis situation, the external environment of entrepreneurship is characterized by exceptional mobility and volatility.

It is also worth noting that in developed countries, the strategic sector of national economies consists of small and medium enterprises. Large holdings

determine the level of the country's scientific and technological potential, and business structures ensure social and economic stability of development. In this regard, the problem of economic sustainability of business structures is important to study. Since effective entrepreneurship is a pledge of the welfare of the population.

### **3.3. Dynamics of development of the leading sectors of the regions of Azerbaijan**

Over the past 10 years, Azerbaijan has ranked first in the world economic growth rates. Due to the successful oil strategy, the infrastructure has been modernized due to the existing incomes, the economy of non-raw materials has been developed; social security improved; increased state assets, as well as created strategic foreign exchange reserves that exceed the level of GDP. (<https://tradingeconomics.com/country-list/gdp-growth-rate>, 2019)

Beginning from 2014, as a result of the sharp decline in oil prices and the economic crisis faced by trading partners, in the background of ongoing processes in the country, in particular, the slowdown in economic growth, institutional and structural reforms, the balance of payments deficit and the non-oil budget, changes in the financial and banking sectors, there was a need in Azerbaijan for a new approach to economic development.

The structure of the national economy can be upgraded through further improvement of the business environment, the application of a new policy within the framework of the medium-term expenditure strategy, the restoration of the financial and banking system, as well as expanding access to external markets.

In Azerbaijan, sustainable development will be ensured through proper assessment of risks and challenges in a newly emerging geopolitically-based world. In particular, the key components of economic security - sustainable security in the energy, food, financial and transport sectors, will further strengthen the country against geopolitical cataclysms.

The choice of "growth points" for the future economic growth of the country is an important strategic decision. As a result of the reduction in the possibilities of forming value added in the model of intensive capital accumulation, in the new strategic period, the country has two choices for the approach of future growth:

- a. model of labor-intensive growth
- b. growth based on productivity and efficiency.

Integration into the global value chain, transformation to an economic growth approach based on productivity and efficiency, in an appropriate and logical period, can become an obvious strategic choice, in terms of the quality of economic growth and sustainability. However, using the opportunity by combining both models in the short and medium term could provide a transition to a strategic choice model in a shorter timeframe.

Improving the effectiveness of mechanisms for state regulation of entrepreneurial activity, further improving the quality of tax and customs administration, minimizing restrictions on entering the market, and at the same time providing conditions for free competition will improve the business environment. At the same time, limiting the commercial activities of the public sector (production, transport, communications, financial services, etc.) and the expansion of opportunities for private initiative is very important. Expanding the sources of financing for a new growth approach is one of the important issues. First of all, it is necessary to confirm the potential of public and private sources of financing, and make significant efforts to encourage foreign investment.

First of all, it is necessary to finance priority sectors of development. Further, these same areas can be financed through sector lending by the National Entrepreneurship Support Fund and other sources of funding.

Improving the business environment can stimulate enterprises and households to invest their savings as investments, contributing to economic development.

In order to ensure the effectiveness of the new growth model, it is necessary to improve and modernize economic policies and mechanisms for the development

and implementation of economic policies. For this, the following reforms are needed:

Increasing the productivity of fiscal policy.

Reducing dominance and increasing the conductivity of fiscal policy is one of the most important areas of the new growth model. Diversification of the non-resource sector, which is competitive in comparison with the countries of the region and major trading partners, can also help expand the taxable base of the budget. In this direction, without delay, measures can be taken to create a framework aimed at expanding the optimal and competitive business and investment opportunities. On the other hand, the use of countercyclical fiscal rules, ensuring transparency and accountability, improving the quality of public investment management are key priorities in terms of improving the technocratic framework for fiscal management.

Increase the effectiveness of monetary policy.

In this area, a significant problem is associated with an increase in the conductivity of monetary policy in the economy. High conductivity requires building an interbank money market, reducing dollarization by increasing confidence in monetary policy, building economic expectations based on the formation of adequate governance frameworks, enhanced coordination with financial stability policies. Predictable model of economic policy. The predictability of economic policy by economic agents allows us to develop adequate expectations, and on this basis to make rational decisions. This requires improvement, economic policy makers, mechanisms for shaping expectations, early consideration of the impact of information and analysis made publicly, coordinated and with an especially careful approach to public relations in the government. Achieving transparency and accountability at the highest level, strengthening sincere ties with the business community will improve economic policy and the effectiveness of reforms.

Ensuring high-level coordination.



There is a need to strengthen the institution of coordination and further improve efficiency in the formation and implementation of macroeconomic and structural policies among institutions.

The strategic vision of the development of the national economy by 2020 is, first of all, stabilization in the short term with the aim of ensuring the restoration of the Azerbaijani economy due to the negative impact of external shocks, in the medium term, the achievement of diversification and restoration of the development line at the expense of new driving forces; by the end of the period, the achievement of improving competitiveness through further integration into the world economy ([https://president.az/files/future\\_ru.pdf](https://president.az/files/future_ru.pdf), 2012).

The strategic review until 2020 aims to promote the development of the foundations for building the economy for 2025 and beyond. Along with the preservation of Azerbaijan's important role in energy security and the development of transport and logistics corridors in Europe, the economy will progressively develop. The main goal is to increase the diversification and specialization of the economy, increase revenues and distribute them equitably by creating greater value in the non-primary sector. Over the past ten years, profit for oil has increased the level of employment. Nevertheless, due to the fact that the labor intensity in the oil sector is weak, the number of employees directly involved in this sector is only 1 percent of the total workforce. The 2020 strategic review also includes further expansion of market entry opportunities. Improving trade infrastructure and increasing trade openness should be so harmonized with the policy of protecting domestic markets that as a result of rational use of natural resources, a significant part of the funds remains in the country and fairly distributed.

In order to increase the long-term development, it is necessary to reduce the dependence of the economy, the state budget and currency on oil. Changes in oil prices damage the economic stability in the country, since the proceeds from the sale of oil significantly affect the domestic demand for goods and services.

The long-term forecast until 2025 is the achievement of enhanced competitive potential through the creation of values, in the conditions of mutually

beneficial cooperation between all the participants of the Azerbaijani economy who have joined the highway of sustainable development.

The development of an enabling environment for free competition, accompanied by support from the private sector, will lead to increased investment in the national economy and increased access to markets. The growth of the national economy will be provided taking into account the main factors in the global and regional context, as well as integration into global and regional value chains will become the basis. Protecting macroeconomic stability, improving business conditions, encouraging investment by the private sector and supporting the public sector, these factors are the fundamental basis for the prospects of Azerbaijan's economic development until 2025.

In order to support effective fiscal and monetary management, stability and liquidity in the financial sector will be fully ensured by 2025. For this, even greater liquidity of government bonds and other securities in free circulation should be ensured. The growth of liquidity, being an important signal of prices, gives impetus to the development of the liquid interbank market due to which a greater flow of credits to the real sector of the economy will be achieved. In addition, deeper capital markets offer opportunities for flexible local investment, and this is especially important for investors looking for opportunities for investment in the interim period. The main objective of this priority is to attract more local lenders and those who need to obtain loans for capital markets. This leads to further diversification of capital markets and a reduction in volatility, and also opens up wide opportunities for nominal investment injections in manats, in order to increase the attractiveness of manat. As a result, the savings that are currently held mostly in US dollars will gradually be transferred to manats. A deeper capital market enables the Central Bank to pursue a more efficient monetary policy and, in the event of uncertainty in the market, will allow acting as a lender of last resort. In the period until 2025, short-term stabilization in the financial sector will be ensured in Azerbaijan, in the medium term, development will be strengthened through

structural reforms, in the long term the financial sector will be prepared for open competition on the world stage.

The implementation of reforms in the financial sector of the country at a faster pace, compared with the countries of the region, will give impetus to the sustainable development of the national economy, through increased attraction of foreign investment in the country.

Until 2025 a competitive environment will be created in Azerbaijan providing equal access to modern technologies, markets and financial resources. In Azerbaijan, a business environment will be created that will create favorable conditions for the revival of local firms and the activities of foreign investors in accordance with world standards. Ease of doing business includes three key areas: creating conditions for investment, integrating into international value chains and achieving global standards in the conduct of business transactions.

Infusion of investment in productive infrastructure will be maintained at a high level to strengthen Azerbaijan's position as a regional hub.

Productive customs procedures in a low-tariff environment, based on profitable trade agreements with such important countries of the region as the CIS countries, Turkey, Georgia and Iran, in the economic perspective for 2025 will strengthen Azerbaijan's position as a regional trade center. Regional integration of trade in the main volumes of non-oil goods and services is of great importance for the geopolitical and economic situation of Azerbaijan. For example, almost 90 percent of Azerbaijan's household and food products are exported to Russia, Georgia and the countries of Central Asia. The conclusion of trade agreements with neighboring countries will open an opportunity for Azerbaijan to expand the export of goods and services to foreign markets on more favorable terms. At the same time, regional integration will strengthen Azerbaijan's export-oriented attractiveness for foreign investors. Continuing regional integration until 2025, relations and agreements will be established with the aim of integration into global value chains, especially for high-value goods and services of Azerbaijan.

In order to facilitate trade and an accurate assessment of its quality, international companies will introduce international standards and certificates. Bringing in line with international standards until 2025, will make the goods exported from Azerbaijan competitive. Wide use of international certificates will create a reliable measure of quality and thereby increase the level of local production. In connection with the fact that in the closest markets for Azerbaijan - in the European Union and the Eurasian Union, from the geographical point of view, mainly WTO standards are used, the volume of export of non-oil goods and services corresponding to these standards will increase in Azerbaijan. New firms, improving the quality of their products, will meet gradually increasing demands of local consumers. As a result, the brand "Made in Azerbaijan" will become a quality standard in international markets. In order to increase the efficiency of the work to be done to promote the "Made in Azerbaijan" brand, an Internet portal will be created reflecting information on products produced in the country, as well as on their producers. Placement of information on this portal in three languages - Azerbaijani, English and Russian languages, expanding the coverage of users, will be more beneficial in terms of promoting local products. As a result, the relations between producers and consumers will be simplified, and the export of competitive local products will be increased.

In the long term for 2025, the investors who invested fixed capital in Azerbaijan and attract new direct foreign investments will be further strengthened. In particular, specific investment projects with a competitive advantage will be offered to interested foreign investors. In order to attract investors with the opportunity to integrate Azerbaijan into global value chains or investors who are giving serious signals to companies that are engaged in activities in similar sectors, special privileges and offers will be granted. The services provided to existing and potential investors will open the opportunity to intelligibly explain to them the administrative processes and establish links with construction firms, organizations in the field of equipment or education. Mechanisms will be introduced to create a greater demand for local products and services from foreign investors.

A stable and profound financial system will be formed, offering a wide variety of profitable financial services, which will lead to the development of the economy through the satisfaction of the corresponding needs of the economy and households.

In the next decade, Azerbaijan will also be given an impetus to economic growth. Within the framework of state interventions in the economy, policies, regulations, state orders and state entrepreneurial activities will be institutionally separated from each other. Instead of being a key driving force for the economy, the public sector will focus mainly on the following three priorities: creating conditions and opportunities for Azerbaijani citizens; imparting an impetus to economic development through appropriate macroeconomic and regulatory frameworks; the formation of administrative management, which allows the most expedient way to spend tax revenues.

Stable macroeconomic conditions, a serious fiscal discipline and a strong legal base will create a business environment in which the rights of physical and mental property are strictly protected and, as a result, the volume of private investment will increase sufficiently. In addition, by applying an appropriate regulatory policy that will increase competition, the path to a serious increase in the provision of locally produced goods and services, their quality and productivity will open. At this time, special attention will be paid to supporting the development of local small and medium-sized enterprises. In this area, there will be improved yields to opportunities for issued business loans, increased exports, the provision of quality educational programs or the simplification of administrative procedures.

The review for the period after 2025 envisages the formation of a strong competitiveness and inclusive economy based on the development of high technology and the optimal structure of the economy, which will improve the situation of social security and achieve a high level of the human development index.

Strong middle class, deep specialization in areas with competitive advantages, effective integration with the world economy, ensuring national

economic security and developed infrastructure will constitute the main pillars of the strategic vision for the period after 2025. Azerbaijan will be committed to implementing urgent, decisive and transformed arrangements that will make the world sustainable and strong in accordance with the United Nations Sustainable Development Goals.

## CONCLUSION

As a result of the research, the author made the following conclusions:

21st century is characterized by intensive development of the world economy under the influence of competition. It is impossible not to notice that an important role in gaining competitive advantages is played by activities of enterprises, due to the industrial environment and location.

In Azerbaijan, where most sectors of the economy until recent time were strictly regulated by the state, there was no explicit competition. With the development of market relations, competition, the struggle between economic agents for the markets for goods in order to obtain higher incomes, profits and other benefits more and more clearly fit into the system of laws and categories of economic science and the sphere of practical activity.

In the period of radical changes and formation of new socio-economic relations, an important place is occupied by the problem of the survival and development of industrial enterprises. To be competitive at the present stage is an important task of industrial enterprises.

Creating a new competitive model necessitates solving a number of serious problems in the country. An important fundamental problem is the development of a new conceptual scheme for the formation of the competitiveness of an industrial enterprise, which will help the enterprise in development. The fact that enterprises lack the necessary strategic orientation and organizational structures of management leads to insolvency and bankruptcy.

Competitive status is the potential that corresponds to the market. The level of personnel must comply with this modern technology.

The disadvantage in the work of industrial enterprises is that marketing functions are aimed at sales, there is no systematic study of products and competitors. Enterprises should monitor the dynamics of profits, sales growth,

price level and the level of demand for products. The volume of production of manufactured products should be fully subordinate to the life cycle and the level of demand. As a result, enterprises will be able to obtain cost savings (discounts, costs, more rational use of resources).

An important task is the formation of competitive advantages, such as: quality improvement; design improvement; reliability and durability of the goods; environmental safety of goods; economic use of resources; increasing the level of work with staff; economic security of the enterprise; new product development (innovation) and other directions.

Human resource management in the enterprise should be given special importance. The retraining, advanced training and rotation of personnel due to the adoption of young, qualified specialists should be included.

The results of the research are aimed at strengthening the position of industrial production, introducing a new approach into practice and shaping the competitiveness of an enterprise, and contributes to the progressive development of enterprises in the conditions of market relations. The effectiveness of industrial enterprises, their development in modern conditions depends on improving the efficiency of the management mechanism.

1. The study scientifically substantiates the need to solve the following problems:

- strategic orientation of enterprises in the environment;
- improvement of the organizational structure of management;
- professional development of specialists at industrial enterprises;
- implementation of evaluation methods;
- development of organizational culture of industrial enterprises;
- small business development at the present stage.

2. In the thesis important problematic issues of creating the competitiveness of industrial production were considered, the theoretical foundations of the formation of competitive advantages of enterprises were disclosed.



3. The factors of formation of competitiveness of industrial enterprises were identified. This work contains a scientifically based approach to the formation of competitiveness based on the development and implementation of the conceptual scheme in industrial enterprises. It includes the following main blocks: analysis of the problems of socio-economic development of industrial enterprises; principles of formation of competitive advantages; interaction with regional authorities and others.

4. Recommendations were made for the management of personnel. For the widespread introduction of development, preliminary professional training in management and marketing, economics and finance is required. Therefore, a special role in personnel administration has management training.

5. Developed ways for the adaptation of the organizational structure of management in an industrial enterprise to market conditions. The Institute of Small Business is a new phenomenon for society, but it is gradually gaining its necessary size. The development of small business is one of the main factors for increasing the competitiveness of industrial enterprises.

6. Evaluation of the effectiveness of the organizational structure of management of an industrial enterprise were given.

In conclusion, we note that the problem of forming the competitiveness of an industrial enterprise is complex and multifaceted. We did not set ourselves the task of conducting a study of its many questions, but paid analytical attention to those that, in our opinion, are of fundamental, decisive importance in this period of reforming the Azerbaijani economy. The proposed development, models and recommendations for improving competitiveness may find practical implementation in industrial enterprises in Azerbaijan.

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