

ANALYSIS AND FEATURES OF THE CURRENT STATE OF INNOVATIVE BUSINESS IN AZERBAIJAN

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Formulation of the problem. In this paper, investigated the features of the current state of innovative entrepreneurship in Azerbaijan. The author grouped numerous economic problems facing the Republic today, these are the following: socio-economic, industrial, scientific and technical. The analysis of innovation in Azerbaijan shows that the share of the investments are in industries producing consumer goods. At the same time, the author makes suggestions and recommendations towards solving these problems. *The purpose of the study* is to expand the sales market for products, services, advanced technology, components and equipment manufactured by the parent company. The following factors play an important role for these enterprises: the profitability of operations carried out in Azerbaijan should not be less than in their home country or in the branches of the parent company in other countries. Otherwise, it is profitable for a foreign investor to invest his capital in his home country in government bonds with an average rate of return of at least 9.5%. If the average rate of return in Azerbaijan is less, it makes no sense to invest such huge funds in this country. *The object of the study* is the process of managing the investment potential of enterprises in various economic conditions. *Research methods* - modern methods and technologies of scientific knowledge, methods and techniques for conducting scientific research, tools for systemic, comprehensive, economic analysis, principles of managing enterprises and their labor resources. They allow us to consider existing approaches to managing innovations in the activities of enterprises in modern economic conditions. *The hypothesis of the study* is the assumption about the possibility of determining the logic of studying the process of innovation management at enterprises in modern conditions of uncertainty. *Presentation of the main materials.* It is proved that epistemology is purposefully applied in the study as a tool of cognition and philosophy of R & D management. A certain philosophy of analysis of innovation activities in Azerbaijan is proposed, which shows that the main share of investments falls on industries producing consumer goods or, to be more precise, trade and intermediary services for the import of consumer goods into the country, taking into account tax incentives provided to foreign investors. *The originality and practical significance of the study* are confirmed by the proposed philosophy of innovation management at enterprises in modern conditions. *Conclusions and prospects for further research.* Consequently, using tax incentives, firms evade taxes and receive large incomes from import operations during the "tax holidays". Such a position of the tax regime infringes on the rights of national investors and leads to the migration of national capital outside the republic. To prevent this trend, it is necessary to implement systemic steps to reform the tax regime and create important conditions for Azerbaijani entrepreneurs. These enterprises are a new phenomenon in Azerbaijan and it is necessary to recognize their role in the revival of the national economy, the mechanisms of their functioning and the essence of foreign investment.

Keywords:

innovative entrepreneurship, management, business climate, investment.

АНАЛІЗ ТА ОСОБЛИВОСТІ СУЧАСНОГО СТАНУ ІННОВАЦІЙНОГО БІЗНЕСУ В АЗЕРБАЙДЖІ

Постановка проблеми. У цій роботі досліджено особливості сучасного стану інноваційного підприємництва в Азербайджані. Автор згрупував численні економічні проблеми, з якими сьогодні

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стикається Республіка, а саме: соціально-економічні, промислові, науково-технічні. Аналіз інноваційної діяльності в Азербайджані показує, що частка інвестицій припадає на галузі, що виробляють споживчі товари. Водночас автор пропонує та надає рекомендації щодо вирішення цих проблем. *Метою дослідження* є розширення ринку збуту продукції, послуг, передових технологій, комплектуючих та обладнання, що виробляються материнською компанією. Важливу роль для цих підприємств відіграють такі фактори: прибутковість операцій, що здійснюються в Азербайджані, не повинна бути меншою, ніж у своїй країні або у філіях материнської компанії в інших країнах. В іншому випадку іноземному інвестору вигідно інвестувати свій капітал у своїй країні в державні облігації із середньою нормою прибутковості не менше 9,5%. Якщо середня норма прибутковості в Азербайджані менша, то немає сенсу інвестувати такі величезні кошти в цю країну. *Об'єктом дослідження* є процес управління інвестиційним потенціалом підприємств у різних економічних умовах. *Методи дослідження* – сучасні методи та технології наукового пізнання, методи та методики проведення наукових досліджень, інструменти системного, комплексного, економічного аналізу, принципи управління підприємствами та їхніми трудовими ресурсами. Вони дозволяють розглянути існуючі підходи до управління інноваціями в діяльності підприємств у сучасних економічних умовах. *Гіпотезою дослідження* є припущення про можливість визначення логіки вивчення процесу управління інноваціями на підприємствах у сучасних умовах невизначеності. Виклад основних матеріалів. Доведено, що в дослідженні цілеспрямовано застосовується епістемологія як інструмент пізнання та філософія управління НДДКР. Запропоновано певну філософію аналізу інноваційної діяльності в Азербайджані, яка показує, що основна частка інвестицій припадає на галузі, що виробляють споживчі товари, а точніше, торгово-посередницькі послуги з імпорту споживчих товарів у країну, з урахуванням податкових пільг, що надаються іноземним інвесторам. *Оригінальність та практичну значущість дослідження* підтверджує запропонована філософія управління інноваціями на підприємствах у сучасних умовах. *Висновки та перспективи подальших досліджень*. Отже, використовуючи податкові пільги, фірми ухиляються від сплати податків та отримують великі доходи від імпортних операцій під час «податкових канікул». Таке положення податкового режиму порушує права національних інвесторів та призводить до міграції національного капіталу за межі республіки. Щоб запобігти цій тенденції, необхідно впровадити системні кроки щодо реформування податкового режиму та створення важливих умов для азербайджанських підприємств. Ці підприємства є новим явищем в Азербайджані, і необхідно визнати їхню роль у відродженні національної економіки, механізми їх функціонування та сутність іноземних інвестицій.

Ключові слова:

інноваційне підприємництво, менеджмент, бізнес-клімат, інвестиції.

Formulation of the problem. According to foreign experts, the increase in the inflow of foreign investors to the Azerbaijan market depends on the following factors: ensuring political and economic stability, building an economic infrastructure according to the requirements of a market economy, creating a legal framework for attracting foreign investors, and finally, the existence of an information base in the country on the state of the socio-economic situation in the country, the processes of economic reforms, the business climate in the republic, etc. On the other hand, the main factors for the inflow of foreign capital into the republic will be the existence of huge natural resources, as well as cheap and high-quality labor in the country. Usually these factors are more important for investors, and other factors remain in the shadows. The existence of a normal legal framework and a similar structure of the bureaucratic system leads to the viability of the former and the outflow of foreign capital to neighboring countries with a

more favorable business climate. Let us consider one of the main factors shaping the business climate in Azerbaijan – the tax regime and its impact on business activities. It is known that foreign direct investment (FDI) contains a number of important potential opportunities for assisting countries transforming their economic systems.

Analysis of the research results. FDI is considered as a source of investment funds that are in short supply in these countries, which can provide access to modern technologies and management methods. FDI will allow domestic producers to enter the markets of Western countries and will accelerate and increase the efficiency of privatization processes [1]. In this section, we will try to determine the benefits and costs of applying tax incentives from the point of view of the interests of the state and highlight those factors that play an important role in making investment decisions taking into account the interests of the private sector. Local entrepreneurs and foreign investors note that the tax system

plays a relatively smaller role in attracting foreign investment compared to other factors. The investment deficit in the republic arose due to the following reasons: foreign firms sought to develop the country's potential markets with their relatively cheap and skilled labor force; large-scale investments at that time were hampered by factors such as the uncertainty of government policy and the transitional, unstable state of the legal and judicial system of market relations. However, it is possible to identify some basic aspects of tax systems that in turn hindered the inflow of foreign direct investment and which were not overcome by countries with transition economies.

It should be noted that for potential investors, the general features of the tax system are more important than tax incentives and benefits. The tax system of Azerbaijan has a number of significant shortcomings that do not satisfy investors interested in long-term capital investments. Usually, the tax regime of many countries from the former USSR is entirely borrowed from previous legislation with some minor changes. Azerbaijan is also one of these countries.

The purpose of the study is to expand the sales market for products, services, advanced technology, components and equipment manufactured by the parent company. The following factors play an important role for these enterprises: the profitability of operations carried out in Azerbaijan should not be less than in their home country or in the branches of the parent company in other countries.

Presentation of the main material. The tax regime is closely linked to the budgetary control of enterprises and contradicts the principles of conducting business using market methods. Let us note some of these provisions:

1. On the depreciation regime: the current provision on the depreciation regime is borrowed from previous budgetary control systems. They are very cumbersome and overly detailed, they provide for over a hundred different categories. Here, the depreciation standards are lower than in market-developed countries. 2. Cost accounting: entrepreneurs hope to be able to deduct legitimate expenses from profits. It should be noted that attracting investment in profitable short-term projects does not depend on tax incentives, and the extension of tax incentives to these projects leads to large expenses for the state budget and to unexpected income for investors in these projects.

3. Tax evasion: the use of tax incentives is

accompanied by numerous cases of tax acceleration, which has significantly contributed to the increase in the costs of ensuring tax revenues. The reduction in tax revenues due to the use of tax incentives to protect the income of domestic companies from taxation undoubtedly significantly exceeds the level of incentives provided to legitimate foreign direct investors.

4. Complexity of applying tax incentives: tax incentives introduce an element of complexity into the tax system. This is due both to the content of the tax regulations themselves and to the inevitable reaction of tax authorities to tax plans in connection with the application of these regulations. This complexity is a source of additional costs for tax inspectors and taxpayers and increases the degree of uncertainty regarding the results of tax collection. In addition, it can "scare away" potential investors, whose funds are precisely what the above-mentioned incentives are intended to attract.

5. Creating a precedent: the introduction of tax incentives creates a circle of clients counting on the continuation and expansion of these incentives. The introduction of tax incentives later complicates their cancellation, since political factors come to the fore here.

The main form of tax incentives in the country is a temporary tax exemption and it suffers from the following shortcomings:

- incentives are not granted to those who deserve them. Temporary tax exemptions gave the greatest advantage to short-term projects with a quick payback, i.e. objects in the sphere of trade or construction, restaurants, etc. These incentives have failed to attract large investors to implement long-term capital-intensive projects. For them, the tax system that will be applied after the development of production is of greater importance in terms of ultimate profitability;
- tax planning: the method of temporary exemption of investors from paying taxes is particularly sensitive to tax planning. In many cases, it appears that the bulk of tax revenue lost as a result of temporary exemption of investors from paying taxes was associated with long-term investments in production. In particular, domestic companies were able to organize their activities in such a way that they protected their income with the help of those incentives that were intended to attract foreign direct investment. For example, fictitious foreign enterprises were created to which some assets were transferred. Transfer pricing methods were then used to transfer profits from taxable segments of domes-





tic industry to the accounts of enterprises that enjoyed the temporary tax exemption regime. Thus, the income that was subject to taxation became the main object of benefits intended to attract foreign direct investment.

Consequently, tax "holidays", while having positive aspects, mainly lead to disruption of the business system in a competitive environment and cause great harm to the country's budget. It is necessary to create a tax system that should not hinder the inflow of foreign investment, rather than develop tax incentives. The country's tax legislation must be brought to a state in which it will be possible to predict the tax consequences of entrepreneurship.

Some provisions of the laws regulating the collection of income tax hinder investment and should be revised, including provisions on short loss carry-forward periods, confusing and restrictive depreciation systems, as well as value added tax and customs duties on the import of capital goods for own use.

Priority should be given to the creation of a functioning system of tax agreements to guide foreign investors and improve the ability of tax authorities to conduct audits by including provisions on the abolition of information in these agreements. On the other hand, the republic should consider the compatibility of intraregional tax agreements with tax agreements of potential investor countries.

The use of tax incentives can create tax competition between countries and this will lead to a general decrease in tax revenues without changing the tax climate in these countries.

The governments of the countries need to conclude agreements aimed at reducing intraregional tax competition.

The economic reforms taking place in Azerbaijan (as well as in other states of the former USSR) are, in their content, primarily structural. Their essence does not consist in the presence of the notorious deficits and chaos of financial relations, as is usually imagined. The noted phenomena are not causal, but rather consequential. They are a manifestation of deeper processes, a reflection of the general deformation of the production cycle itself: production - distribution - exchange - consumption of the produced social product. The general basis of this deformation is the gap between production and market structures, between the flows of goods and the flows of financial resources, money, credit obligations (bills), shares and bonds, realized through a system of transactions. In normal reproduction, the

movement of both goods and financial resources is carried out from the production to the consumption of the production product. In the current state of the republican economy, this movement is interrupted, because the command-administrative system no longer exists, and market structures are still in their infancy. A structural vacuum has arisen, which is filled with nothing except an ever-increasing money supply, chaotically circulating on the market. Naturally, financial transactions in themselves, the movement of money, shares, bills, etc., carried out at the will of disparate commodity producers, are not capable of solving the complex of economic problems of the republic. The role and significance of state regulation of the economy cannot be underestimated.

It should not be forgotten that with the unconditional dominance of private property in each of the countries of the market economy, macro-regulation is carried out, supporting the necessary structural proportions in social production. It should be emphasized that economic regulation in different countries is carried out throughout the entire spatial structure of social production: national economic complex - economic regions (regional programs) - individual large firms - a complex of small and medium enterprises [2]. It was precisely thanks to macro-economic structural reforms that developed countries managed to quickly and painlessly overcome the energy crisis of the mid-70s, caused by an unprecedented increase in energy prices. The financial measures carried out by the administration of these countries were based on the preliminary study of the structural problems of each of the national economies. And in our republic, the implementation of economic reforms must be preceded by structural reforms of social production, or, in any case, they must not be separated from each other. One of the negative results of the market course is that the processes of macroeconomic regulation, including structural reforms, seem to have fallen out of sight. In any case, the general public knows nothing about them. However, neither privatization, nor pricing, nor banking or tax policies will yield a positive result if they do not proceed from a single concept of structural reforms that determine the strategy of economic growth of the republic.

If we group the numerous economic problems facing the republic today, we can highlight the following:

- socio-economic, caused by the low standard of living of the majority of the population;

- production, generated by the high level of specific costs in literally all sectors of the national economy;

- scientific and technical, including information, caused by the need to accelerate the processes of introducing scientific and technical achievements, forming a single information space of the republic, as well as developing active spheres of the market economy.

In accordance with the concept of a new quality of economic growth generally accepted in the world economy, it is necessary to ensure the development of the republic's economy simultaneously in four main structural directions. Socially effective, resource-saving, science-intensive, environmentally protective, together, they constitute a single concept of economic development. This concept can be realized only with a deep structural reform, which provides for a revision of the previous concept of economic growth. That is why structural policy cannot be unplanned.

The result of the structural policy of balanced economic development is the achievement of conformity in the levels of development of individual spheres, industries, and divisions of social production, on the one hand, and the satisfaction of production and non-production needs of society, on the other.

The starting point in the policy of priority development of high-tech industries should be the formation of the National List of Critical Technologies, departmental lists of the most important technologies, and the definition of strategically important industries.

A separate problem: how to define high-, medium- and low-tech industries. Due to the lack of sufficient statistical information, it would be reasonable to take into account foreign experience in solving this problem, in particular, that of the Organization for Economic Cooperation and Development.

Priority development of strategically important industries will eliminate unjustified differentiation in the technical level of production both between industries and within technologically related industries. The definition of lists of technologies and strategically important branches of industry will make it pos-

sible to concentrate and rationally distribute the existing scientific potential, financial and labor resources. In conditions of extreme limitations of budget and other allocations for R & D, as well as the volume of production investments, the allocation of priorities is the most optimal solution.

The lists of priorities as instruments for implementing scientific, technical and industrial policy are called upon to streamline and unite the efforts of various ministries and departments, the entire R & D system to achieve a single goal - the formation of a national economy based on the development of science-intensive high-tech industries.

The policy of priorities will develop and revive production in the extractive and manufacturing industries, especially the oil complex of the republic, and will stop the decline in the fuel and energy complex and the raw materials sector. This will overcome the tendency to strengthen the raw materials orientation of the republican economy and begin the real formation of an economy based on the development of science-intensive high-tech production.

Innovations are understood as the invention or discovery of new possibilities for solving problems. Innovation can concern products or methods.

Innovation is, on the one hand, in contradiction with the conservative, aimed at maintaining the existing situation, on the other hand, it is aimed, within the strategy of change, at "imitation", at modeling the existing.

Innovation is an elementary component of "entrepreneurship", always inherent in competition and a market economy. Creativity is the engine of innovation, it is the "primary resource" of entrepreneurship in a market economy.

Innovation can be divided by its object into:

- innovation in products (types, quality);
- innovation in means of production;
- innovation in methods (technological);
- innovation in the human factor (personality development);
- social innovation (change in the behavior of enterprise employees);





- organizational innovation (separation) [4].

More significant is the division by initiative in innovation in products.

Manufacturing enterprises are considered primarily as executors of innovation processes. Initiatives in most cases come to the research and development department. The process of market-oriented development of production at the initiative of manufacturers goes through the following phases:

1. Selection of a group of potential buyers;
2. Market observation and analysis;
3. Applications for new products and information on claims;
4. Testing production ideas in laboratories or on the market;
5. Development of production ideas that are in demand.

Innovation initiative can also come from buyers (buyer wishes, their motivations).

The process of innovations on the initiative of buyers goes through the following phases:

1. The buyer develops an idea about a desired product or puts forward proposals for its improvement;
2. The buyer searches for an appropriate manufacturer and approaches them with their proposal;
3. The manufacturer selects ideas for new products and their improvement that, in their opinion, promise the greatest success;
4. Specification and implementation of the manufacturer's ideas. It should be noted that at present there is no generally accepted concept of innovation. In the prevailing cases, the category of innovation is considered as a process, covering the cycle "implementation - production" [5].

In the center is the initiative of the manufacturer in the innovation process (active receipt of ideas from the product by the manufacturer). Innovation covers the creation of potential for innovations of inventions and the implementation of rationalization proposals.

The need for innovation may arise from technological development or consumer needs. The company's management responds to this with an innovation strategy that is closely intertwined with the strategy of the field of ac-

tivity (product release). The following types of innovation strategy are possible:

- technological leadership - primacy;
- technological subordination - following;
- own innovation (research and development) or someone else's (acquisition of licenses, imitation).

The quantitative criteria for this are, above all, the available inventive potential and the costs of innovation. The decisive success factor for an innovation strategy is the time for innovation. This is the time requirement characteristic of a given company for the transformation of innovative ideas into implemented ideas. The "timely" possibility of introducing products to the market or the "timely" readiness to implement new methods will ultimately determine the success of the innovation. The decisive factor here is not the absolute time for innovation, but their time advantage compared to a competing company.

For those who are engaged in the search for innovative ideas, the impetus for this process is the recognition of shortcomings or opportunities for improvement. The management of the company must create a sense of need for change by stimulating questioning of the current solution to the problem and a decrease in satisfaction with the current situation.

The task of managers in this case is to create a realistic attitude to the expected results created with the possibilities for change in order to ensure stability, a restrained readiness of employees for innovation. Innovation management is one of the areas of strategic management carried out at the highest level of company management. Its purpose is to determine the main areas of scientific, technical and production activities of the company in the following areas: development and implementation of new products (innovation activities); modernization and improvement of manufactured products; further development of production of traditional types of products; removal from production of obsolete products. The main focus in innovation management is on developing an innovation strategy and measures aimed at its implementation. The development and release of new types of products becomes a priority area of the company's

strategy, since it determines all other areas of its development.

Implementation of innovation management generally involves:

- development of plans and programs for innovation activities;
- monitoring the development of new products and their implementation;
- review of projects for the creation of new products;
- implementation of a unified innovation policy: coordination of activities in this area in production units;
- provision of finances and material resources for innovation programs;
- provision of qualified personnel for innovation activities;
- creation of temporary target groups for a comprehensive solution of innovation problems - from the idea to serial production of products.

A feature of the current stage of development of innovation activities is the formation in the largest firms of unified scientific and technical complexes that combine research and production into a single process. This presupposes the presence of a close connection between all stages of the "science-production" cycle.

Conclusions and prospects for further research. A product with new properties, the production and sale of which are added to the existing range, is usually called a new product. Simple improvements to existing products are not included here. New products can be either a fundamentally new product or a combination of new devices, mechanisms, without changing the product itself.

The goals of the innovation process can be reduced to the following:

- 1) finding a new technical solution to the problem - creating an invention;
- 2) conducting research and development (R & D);

- 3) establishing serial production of products;
- 4) parallel preparation and organization of sales;
- 5) introducing a new product to the market;
- 6) securing a foothold in new markets through continuous improvement of technology, increasing the competitiveness of the product.

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