INSTITUTIONAL ASPECTS OF RISK STRATEGIC MANAGEMENT IN AZERBAIJAN HOSPITALITY SECTOR

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Nowadays, in the 21st century that is distinguished by the high penetration of information and communication technologies, interconnectedness and globalization, the effectiveness of institutions is increasingly manifesting the pressing need to clearly define and assess the prospects and directions of business development, taking into account the likelihood and the occurrence of the objective and subjective risks. This is happening mostly due to the growing volatility of the macroeconomic environment, increased competition, and the rapid globalization of various business processes and solutions. Taking this into account, one can see that the risk of the management process of the hospitality industry represents a complex multi-level procedure. The starting point of the whole risk management system is their forecasting which becomes the most effective way to prepare management decisions in hotel enterprises for the future. This paper focuses on the institutional aspects of risk strategic management in Azerbaijan hospitality sector related to legal, organizational, and cultural characteristics of development. The aim of this study is to identify the major institutional aspects of risk factors of the external environment as well as to realistically assess the changes in the impact of these factors on the activities of hotel enterprises and the hospitality sector of Azerbaijan for the nearest future based on the expert risk forecasting method. Moreover, the paper aims at updating the strategy of hotel development taking into account the changes in the external environment and to link these risks to the business processes taking place in hotel enterprises and in the hospitality sector. We analyze and describe the most important factors and sources of threats to hotel enterprises of Azerbaijan, such as the probability of new competitors, increasing competitive pressure, imperfect business environment in the country, increase in airline tariffs, changing customer needs and tastes, and maintaining a visa regime with many countries. Our results propose some organizational and economic mechanisms for risk management in the hospitality sector.

Keywords: strategic management; risk forecasting; hospitality sector; environmental factors, competitiveness; institutional change

JEL: G32, L83, O43, Z32

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Институциональные аспекты стратегического управления рисками в секторе гостиничных предприятий Азербайджана

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В наши дни, в XXI веке, который отличается высоким проникновением информационных и коммуникационных технологий, взаимосвязанностью и глобализацией, эффективность институтов все больше проявляет острую необходимость четко определять и оценивать перспективы и направления развития бизнеса с учетом вероятности и возникновения объективных и субъективных рисков. В основном это происходит из-за растущей волатильности макроэкономической среды, усиления конкуренции и быстрой глобализации различных бизнес-процессов и решений. Принимая это во внимание, можно увидеть, что риск процесса управления индустрией гостеприимства представляет собой сложную многоуровневую процедуру. Отправной точкой всей системы управления рисками является их прогнозирование, которое становится наиболее эффективным способом подготовки управленческих решений на гостиничных предприятиях на будущее. В данной статье рассматриваются институциональные аспекты стратегического управления рисками в гостиничном секторе Азербайджана, связанные с правовыми, организационными и культурными особенностями развития. Целью данного исследования является выявление основных институциональных аспектов факторов риска внешней среды, а также реалистичная оценка изменений влияния этих факторов на деятельность гостиничных предприятий и гостиничного сектора Азербайджана в ближайшем будущем на основе экспертному методу прогнозирования рисков. Кроме того, статья направлена на обновление стратегии развития отелей с учетом изменений внешней среды и привязку этих рисков к бизнес-процессам, происходящим на гостиничных предприятиях и в гостиничном секторе. Мы анализируем и описываем наиболее важные факторы и источники угроз для гостиничных предприятий Азербайджана, такие как вероятность появления новых конкурентов, усиление конкурентного давления, несовершенная бизнес-среда в стране, повышение тарифов авиакомпаний, изменение потребностей и вкусов клиентов, а также сохранение визового режима со многими странами. Наши результаты предлагают некоторые организационные и экономические механизмы для управления рисками в гостиничном секторе.

Ключевые слова: стратегическое управление; прогнозирование рисков; гостиничный сектор; факторы окружающей среды; конкурентоспособность; институциональные изменения
Introduction

In general, implementing strategic management can bring many major problems (Trigeorgis, Reuer, 2017). This can be either due to the selected approaches used for conducting this management or the organization of the strategy's own production (Yeow et al., 2018). However, when one is concerned with a long span of time when the implementation is conducted, it becomes quite cumbersome to define and assess all parameters of the company's growth using only quantitative terms. This is mostly due to the fact that it includes a variety of threats as well.

Often causing additional difficulties are high complexities of modern economic systems, infringement of the cyclical nature of growth. Moreover, it is often costly and problematic to design a management plan for many companies due to the simple fact that it requires a plethora of resources (e.g. human, financial, temporary, etc.) (see Kalyugina et al., 2020; Taghipour et al., 2020).

The risk of errors is very high in designing a plan. For example, if the wrong or unsuccessful path of growth is chosen, then in a fairly long period of time the mistake will manifest itself (Tohidi et al., 2020). The company would inefficiently use its available resources during this period. Mistakes in the plan often contribute to the organization's structural failure or even to its demise (Dahlin et al., 2018). According to Falck et al. (2017) poses many issues in terms of the right coordination of strategy and tactics.

Luckily, there are some basic criteria that might help us to understand that the plan is “safe” (i.e. does not contain major flaws) and reflect upon the key operational risks and the ability to tackle possible negative outcomes: i) theory of the production of scientific and analytical foresight and strategy; ii) theory of accounting and management of the organization's external and internal growth factors; iii) consistency theory in tactics and strategy; iv) concept of the human factor's role in the organization's strategy and tactics; v) long-term objective-setting theory; and vi) concept of an innovative approach to company policy development and execution.

Let us explain those criteria one by one extrapolating on their essence and meaning. First of all, let us look at the theory of the production of scientific and analytical foresight and strategy means that strategy cannot be the product of wishful thinking or emotional foresight. The approach involves predicting the future, analysing fact, estimating resources and changing circumstances, taking into account counteraction possibilities and unexpected incidents. Only based on serious research can an effective strategy be created.

The theory of accounting and management of the organization's external and internal growth factors states that the growth is predetermined by the plan, however it takes external and internal conditions of operation to carry out this growth and development (Fauzi et al., 2021). This approach constitutes the consistency theory matching together the tactics and strategy. This can only be achieved in case when the plan is presented to and accepted by all employees.

The concept of the human factor's role in the organization's strategy and tactics means that human activities constitute an important factor of strategic success. The human factor should be related to all elements of the plan. Human initiative and action are the root of growth. This is the strategy's concept of consistency and strategic management structure, which relies on the strategy's efficiency.

The long-term objective-setting theory is the basis for the success of the plan itself, the realistic conception of the direction of their operations by the management and staff of the company. This is due to the fact that both the management and the staff go along the prescribed plan of company's operation that would allow them to achieve the best and most significant results using the available resources they have at their disposal.

Furthermore, in order to introduce an innovative approach to the development and implementation of the company’s policy one needs to create, distribute and apply tools and technologies that feature social and economic processes typical for the current situation and are applicable for the balanced development of the organization.

The whole process can be viewed through cycles that can be found both in nature and in the life span of the various innovation-related activities. They are not envisaged to change the current flow of events but rather to re-direct it in order to ameliorate the desired outcomes. This appears to be
important and relevant is some unlikely situations when the carefully designed plan proves to be non-viable and insubstantial. It turns out that this might be one of the important preconditions for transformations in business, economy, and social life that would include some new forms of human experience (e.g. cognitive, technical, aesthetic, etc.). This is why risk assessment imperative should also be considered and included in this process. Hence, the recognition of significant risks at the production and implementation stages of the plan represents a difficult concern. Their subsequent objective assessment is another difficult issue.

This paper focuses on the institutional aspects of risk strategic management in Azerbaijan hospitality sector in the path towards modern economy (see e.g. Greif, 2006). Using the institutional approach and the risk management analysis, we derive the factors that might influence the development of this important sector of the Azerbaijani economy. The paper is structured as follows: Section 2 describes the institutional aspects of risk strategic management. Section 3 provides a short overview of tourism and hospitality in Azerbaijan. Section 4 evaluates the strategic risk management in Azerbaijani hospitality industry. Finally, section 5 concludes the paper with some final remarks as well as the discussion of outcomes and implications.

Institutional aspects of risk strategic management

When it comes to the hospitality sector in general and the hotel business industry in particular, one can see that it is one of the riskiest types of entrepreneurial operation in the rendering services sector (Ghantous, Alnawas, 2020). Only this field of activity is marked by a large number of dangerous situations. World experience in hotel industry creation indicates that neglecting or downplaying the size of entrepreneurial risk while designing a tactical and strategic strategy for the growth of a hotel business or the entire industry as a whole prevents social development, triggering deflation or even recession in the country's entire economic system (Im et al., 2020).

In the recent years, the hospitality sector faced tough competition from both the accommodation services based on the information and communication technologies (ICT) such as Booking.com or Hostelworld.com or the principles of sharing economy such as Airbnb (Chiabai et al., 2014; Abrham, Wang, 2017; or Dogru et al., 2020). In addition, it has to take into account environmental concerns and sustainability principles that are gaining special importance (Oberlack, Eisenack, 2018; Ouyang et al., 2019). One can say that this industry is undergoing a deep institutional change as it is transforming into a new industry with its novel and unique specific features and brand in the context proposed by North (1990) and North (2005). In a way, the sector is developing a digital competence (Csordas, 2020). With the regard to the above, Harper and Endres (2018) show how this institutional change might take place in order to make the industry to adapt to the new challenges.

Our approach is complementary to the North’s tradition of studying institutional change. Non-ergodic feature of the economic processes is associated with unavoidable uncertainty which makes taking into account institutional factors in the analysis of risk management in the tourism sector to be relevant. Institutional change in the tourism industry of Azerbaijan are associated with the development of market relations which are embedded in the institutional structure of the national economy. Taking into account the specifics of the national institutional structure contributes to a more relevant understanding of the processes associated with non-ergodicity and complexity.

At the same time, each year the hotel industry is becoming increasingly marketable, bringing various elements of complexity into entrepreneurial operation and widening the areas of risk situations (Krizanova et al., 2019). Such areas as e-marketing and the use of social networks, ICT solutions as well as promoting destinations using films, literature and video games become increasingly important in the promotion of tourism destinations (Strielkowski, 2017; Katsoni, Dionysopoulou, 2018). Confusion and confusion occur in such a situation in achieving the hotels' final outcome, and therefore the extent of its risk increases.

The complexity of approaches to risk assessment in the hotel industry is characterized by modern economic research (Darvishmotevali et al., 2020). The following risk classification inherent in hotel
Businesses is, in our opinion, the most optimal. It is possible to identify the non-specific threats specific to hotel companies:

- risk of price competition;
- risk of new competitors;
- risk of reduced demand;
- risk of investment;
- risk of payback;
- risk of unfair counterparty choice;
- risk associated with legislative changes;

In addition, there are some specific risks that are typical for the hotel enterprises:

- risk of tightening the visa regime;
- risk of reduced occupancy of rooms;
- risk to the safety of customers;
- risk to the safety of staff;
- risk of loss of reputation;
- risk of damage or loss of property;
- risk of accidents and disasters in housing and community services.

A characteristic aspect of the hotel industry risks and its effect on the management of hotels (Hao et al., 2020). Therefore, it is necessary to understand in advance how profoundly and in what direction it is worth engaging in the creation of a management tool, because in this specific entrepreneurial field it is necessary to solve problems that are characteristic of risks.

The risk problem in the hotel industry needs their review and assessment as a whole. This includes the estimation of the magnitude of future damage that may be caused by the threats and the distribution of risks according to the probability of their occurrence. The combination of these two factors (the size of the potential damage done and the probability of risk occurrence) makes it possible to create a risk hierarchy based on the importance and urgency of implementing appropriate measures.

One of the big opportunities in the hospitality industry to reduce risk is their forecasting (Pan, Yong, 2017). This is the most effective way for travel companies to prepare management decisions for the future.

Within this context, prediction means that a particular event or possible outcome might occur. A characteristic function is the alternative construction of different metrics and criteria that identify different options for developing a hotel company’s state based on emerging trends. Hence, risk management forecasting is the creation of changes in the state of the entity as a whole as well as its individual constituent elements for the future.

Tourism and hospitality in Azerbaijan

Azerbaijan has a rich history of cultural, religious and religious traditions, as well as a strong cultural heritage. It is a member of the Eurasian Economic Union (EEU). Although Azerbaijan is still considered an exceptional destination in Europe, it is also a charming destination, blessed with a rich history, beautiful landscapes and superb food and drink (Seyidov, Adomaitienė, 2016).

One can see that tourists visiting Azerbaijan are usually from the Middle East, North Africa, Asia, Europe, South America, Africa and the Asia-Pacific region. In 2018, there was a significant increase in visitors from the Gulf states, in particular from Saudi Arabia, Bahrain, Kuwait, Qatar, Oman, the United Arab Emirates and Bahrain. One can also see a spike of tourists from Israel (see Fig. 1 that follows below).

Ecological tours in Azerbaijan often include hiking, trekking, climbing routes and other outdoor activities such as mountain biking and hiking. This contributes to Azerbaijan’s reputation as one of the world’s most environmentally friendly countries. One of its cities called Ganja has a history dating back to 494 B.C. and is of great interest to tourists, but one needs to leave the capital and head to one of the country’s most popular tourist attractions, the ancient city of Baku (Dargahov, Karimov, 2014).
The ancient city of Baku in Azerbaijan, home to some of the world’s most famous monuments and museums, attracts visitors from all over the country and around the world.

One can find a variety of Azerbaijan tourism experiences to close with precision, from hiking to mountaineering to hiking and camping to fishing. For example, some of the most popular Baku tours are on this web platform, and people can look for fancy tourist ideas, even if they have visited Azerbaijan a few times. During their trips to Azerbaijan many visitors tend to look for something new and unique. If travel restrictions are lifted, people will be able to travel to less crowded places and discover hidden gems. We believe that after a pandemic, if health and safety standards are respected, Azerbaijan will be one of the most attractive places to visit. Azerbaijan has so much to offer the people who have lived here for thousands of years. As an emerging tourist destination, Azerbaijan is offering more and more - improving safety standards, quality of life and quality of life for tourists. Figure 1 above provides the estimates of the number of international tourists in Azerbaijan in 2016–2019. The findings reported in Figure 1 confirm the trends described above.

Most recently, Azerbaijan tourism is undergoing profound changes and embracing new technologies and solutions. For example, many novel tourist products are being developed for many cultural and natural attractions and experiences, including wine routes. With the growing tourist interest in Azerbaijan, the number of hotels, restaurants, hotels and other tourist attractions in the country is increasing. Azerbaijan regularly hosts international multisport events, including the Azerbaijan Grand Prix, which is held every year in the capital Baku.

There are many opportunities for tourism in Azerbaijan, including the opening of the new hotels, restaurants and other tourist attractions. Tourism has a positive impact on the development of the sector and can help to solve the serious problem of unemployment in the country. This is of a particular importance for the country’s hospitality sector that needs to meet the rising demand and to offer high-quality tourist accommodation for the country’s visitors (Guliyev et al., 2019). Thence, enhancing the development of this sector constitutes the key priority for the tourism institutional change.
Strategic risk management in Azerbaijani hospitality industry

In this section, we would outline and demonstrate an empirical model for assessing the strategic risk management in Azerbaijani hospitality industry. Generally, economy has more than 20 possible ways for forecasting risks (Chatzis et al., 2018). Each of them has its own significant advantages and specific disadvantages, so all methods of risk prediction can somehow complement each other and be used together in practice.

Incapable of applying most quantitative research techniques in practice, we used such a form of estimating risks as the expert assessment process. The expert group that previously participated in the macro-environment study, consisting of hotel owners, hotel business owners, managers of hotel services, served as an advisory group.

We carried out our own expert survey in order to assess the change in the influence of environmental factors. At the first stage of the survey, the participants were asked to identify the major environmental risks. At the second stage of the survey, the respondents were asked to evaluate their impact on the business of the company on a 5-point scale at the moment, after 5 years, after 10 years. The expert survey was carried out with 155 experts all of them representatives of the Azerbaijan Tourism Association AZTA, Expert Council of the Association of Travel Agencies of Azerbaijan (ATAA), Azerbaijan Tourism University of Management, as well as owners and managers of hotels from all around Azerbaijan. The survey method was an Internet survey with a predominance of open questions. The survey was conducted anonymously in January 2020.

Table 1 that follows below presents the findings of an expert evaluation of shifts in environmental hazard factors in a strategic perspective, taking into account their effects on Azerbaijan hospitality industry and hotel business activities (in a decreasing order of importance).

\begin{table}[h]
\centering
\begin{tabular}{|l|c|c|c|}
\hline
Risk factors & 2020 & 2025 & 2030 \\
\hline
The likelihood of new competitors, increasing competitive pressure & 5 & 5 & 5 \\
\hline
Imperfect business environment in the country & 5 & 4 & 4 \\
\hline
Airline rate increases & 5 & 5 & 5 \\
\hline
Changing customer needs and tastes & 4 & 4 & 4 \\
\hline
Maintaining a visa regime with many countries & 3 & 3 & 3 \\
\hline
\end{tabular}
\caption{Experts’ assessment of changes in environmental threats for the Azerbaijani hospitality industry}
\end{table}

One can see that this expert forecast shows that the risk of growing competition is currently the most significant factor and source of threats to hotel companies. Thanks to the elaborate strategy selected by President Aliyev’s who decided to focus on the comprehensive growth of tourism in Azerbaijan, this sector became one of the key economic development priorities. Azerbaijani government carries out important initiatives that include the introduction of the internationally-accepted standards for ameliorating and improving the country’s tourism infrastructure. “Strategic road map for the Azerbaijan Republic development of specialized tourism” was adopted. This includes activities such as supporting the development of the tourism sector within the defined timeframe, providing quality and sustainable tourism services on international and local markets, developing tourism experience in line with national values, attracting new investment projects and coordinating the activities of the relevant authorities in connection with the development of tourism. All of these activities are crucial for the institutional change and transformation in the tourism and hospitality sector (Radovic et al., 2017).

Four key targets were set in the country’s tourism sector by 2025 in order to achieve a long-term outlook in this field. The first is the complete realization of the city of Baku’s tourism potential
with the participation of a significant number of foreign tourists. The long-term goal until 2025 is to achieve the transformation of Azerbaijan into one of the desirable tourist centres both among the region’s countries and among the world’s countries. The goal is to make Azerbaijan one of the world’s twenty most popular tourist destinations, frequently visited by visitors, and optimize the reasonable use of existing tourism resources after 2025.

Therefore, the main objective of the state’s actions in this direction is to develop a modern tourism sector in Azerbaijan that meets high economic, social and environmental requirements, ensuring its transformation into one of the country’s main economic pillars. The country creates excellent conditions for hotel business development in this context, and there is a gradual increase in this sector’s share of the economy’s non-oil sector. Today, it can be claimed confidently that our country’s hotel business will grow rapidly, increasing numbers of hotels, companies, hotel centres will appear. Today, market law is in place as supply is generated by demand. All of this helps experts confidently predict the possibility of serious competition throughout the study period, which will lead to the tourism industry’s modernization and growth.

In addition to traditional accommodation facilities, competition in the domestic hotel business will intensify. More and more mini-hotels and hostels will be built, attracting the settlement’s most mobile part – youth and students. It demonstrates the ongoing market segmentation process. The opening of new chain and independent hotels will also raise the quality of service enhancement. Experts also highlight the unpredictable business environment that has formed in the country at this point as a serious threat that affects hotel business activities.

A sharp decline in world oil prices triggered the manat (Azerbaijan national currency) rate against foreign currencies. The revenue portion of Azerbaijan’s budget relies on oil exports. All of this has resulted in an increase in inflation, an economic downturn, a reduction in business activity, an increase in poverty, a decrease in consumer demand, real population wages, solvency, and an increase in spending on recreation, tourism, and travel.

Significant improvements in the business environment are expected as a result of large-scale state policy in Azerbaijan. In their studies and comments, the World Bank, the European Bank for Reconstruction and Development, the Asian Development Bank, the European Investment Bank, the International Monetary Fund and other international financial organizations mention the success of Azerbaijan’s reforms (World Bank, 2020).

Clearly, Azerbaijan has lots of potential when it comes to developing hospitality and tourism industry. The country is currently on the list of 20 most developing countries in the World Bank’s Doing Business Survey. Moreover, Azerbaijan ranked 58th in the overall list of 141 countries in the 2019 World Economic Forum “Global Competitiveness”. With a total of 62.7 points, the nation increased its ranking position by 11 places and 2.7 points compared to last year. In 2018, from 140 countries, Azerbaijan took the 69th place.

The inclusion of Azerbaijan in the top half of the ratings is noted for indices such as “Dynamic Industry” (23rd place), “Labor Market” (21st place), “Food Market” (23), “Infrastructure” (38th place), “Skills” (48th place), “Public Institutions” (49), “Market Size” (67th place), “ICT Potential” (69th place), as well as “Innovation Potential” (68th position) (Trading Economics, 2020).

Once again, the Davos World Economic Forum’s report shows that Azerbaijan’s reforms are effective (World Economic Forum, 2020). There is no question that their incorporation will have a significant impact on the further development of the business environment. Such predetermined experts to forecast a potential decrease in the context of this risk factor.

One of the key difficulties in attracting foreign tourists to Azerbaijan is the high tariffs imposed by the AZAL State Concern. Two local state-owned civilian airlines are currently operating in Azerbaijan-Hava Yollari (AZAL) from Azerbaijan and Buta Airways.

Buta Airways is a low-cost airline in Azerbaijan, a structural entity within its subsidiary Azerbaijan Hava Yollari Closed Joint-Stock Company (AZAL). As one can see, today AZAL is the only monopolist to set its own prices for airline tickets, even artificially inflated. Global air transport market studies show that increased competition is one of the main factors in its growth. Thence, in 2016-2018, the
share of air travel with four or more rivals. The share of passenger traffic operated by just one or two carriers dropped from 39 percent to 35 percent from 35 per cent. The monopoly of the Azerbaijani Airlines Closed Joint-Stock Company (AZAL) will come to an end when foreign companies enter the Azerbaijani air transport industry, and then the airfare will decrease.

This situation predicted the expert’s forecast of this risk factor-its importance for Azerbaijan’s hotel companies should remain maximum and unchanged for the duration under examination.

The loss of customer loyalty is one of the most serious risks for a service company. It should be noted that, due to various types of influences, including changes in mass consciousness, the service sector is quite competitive consumer demands are constantly changing. Demand for new technologies is rising and there is a need for versatility and willingness to change to build a proposal.

In the conditions of that competitive uncertainty, a significant part of the hotel business is forced to focus more and more on the issues of identifying the customers’ main desires which ensures the individualization of their needs.

Although previously, for the effective functioning of the accommodation facility, it was sufficient to align its resources with the market’s potential capacities, it is now necessary to take as a basis the principle of individualizing needs when developing a strategic objective. The consumer no longer considers a particular service as a commodity, but a combination. It helps you to truly satisfy the capricious customer’s needs. These threats pay off regularly.

There’s another consumer-related danger. That’s his “uniqueness” attitude, innovation, novelty. The economy is rising the supply of goods and services, and this is starting to annoy the consumer. Thus, according to experts, the issue of introducing a new service will always be at the forefront, and the risk associated with the loss of customer loyalty will always be present in hotel business activities.

The implementation of a stringent visa policy is one of the main factors restricting the growth of inbound tourist traffic to Azerbaijan. A tourist visa to Azerbaijan is relatively expensive, takes a long time and is usually issued for one single entry and a limited period of time. For many prospective visitors, even at the stage of deciding on the expected travel route, these considerations are negative. The implementation of a simplified tourist visa issuance process may result in additional demand for foreign citizens to travel to Azerbaijan. There are many examples of introducing such changes in the visa system by the governments of some countries specifically to boost the tourist flow to their country.

It should be mentioned that the first steps aimed at facilitating the requirements for the entry of tourists were taken in the July 2019 revision of the “Rules on the accreditation of travel agencies operating in the Republic of Azerbaijan with a view to securing the right to apply for an electronic tourist visa”.

Therefore, the growth strategy of the Azerbaijani tourism industry for the nearest future would presuppose the development opportunities and the risks for the companies in the tourism and hospitality sector. These risks and opportunities would likely reflect upon the growing competition, new market entries, as well as price wars. The success of hotel owners and hospitality business companies on the Azerbaijani tourism market would likely depend on their ability to quickly react to the changing developments, improve internal performance, and find appropriate risk mitigation solutions.

**Conclusions and implications**

Overall, it becomes clear that the use of the institutional analysis methodology makes it possible to include institutional factors related to the legal system, culture and historical features of the evolution of hospitality organizations and institutions into the analysis of strategic management of hotel enterprises.

To sum up our results stemming from this study, we have to note that we carried out our analysis using a set of methods and methods of scientific knowledge. In particular, we used such widely-applied methods of empirical research as comparisons, observations, groupings, as well as such general logical methods as logical generalization, statistical analysis, and the holistic system approach.

Our research methodology included the study of the legislation of the Republic of Azerbaijan, monographic, scientific and practical, educational and methodological publications, texts of theses and auto-reforms, analytical reviews and methodological recommendations.
The theoretical basis of the study was based on the works of Azerbaijani and foreign scientists on the problems of risk management in modern conditions and the process of their forecasting in the organizations of the sphere of services.

Our results might help to identify the important factors and sources of possible threats to the hotel enterprises and the hospitality sector in Azerbaijan. We can conclude that the risk management system should be integrated into the business processes of hotels at all possible levels - from strategic management to the operational activities and processes of its provision. Moreover, we can note that the expediency of allocating in the organizational structure of hotels represents a division which can be assigned risk management functions.

The risk management framework should be incorporated into the hotel business processes at all levels in this respect - from strategic management to organizational operations and procedures to ensure it.

All in all, the need for research on the hotel industry and tracking institutional and environmental factors assess the suitability of separating units within a company’s organizational structure. Constant updating of the hotel development strategy appears to be important for a qualitative assessment of their effects, taking into account changes in the external environment and the linkage of risks to the hotel business processes. Therefore, our results might be very useful not only for tourism and hospitality professionals in Azerbaijan but also for the stakeholders in other countries aiming at reforming the institutions of tourism economics and improving the tourist markets after the COVID-19 pandemic that made a devastating blow to the industry and would require time and substantial governmental subsidies to come back on track.

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