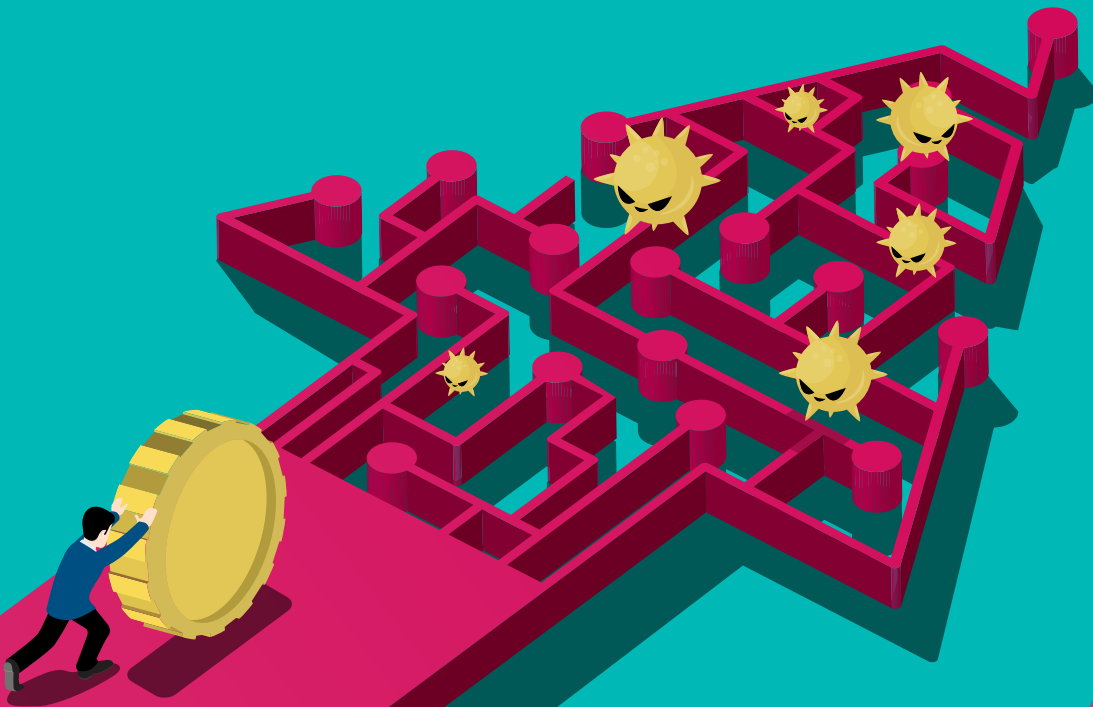


THE IMPACT OF COVID-19 ON DIGITAL TRANSFORMATION

DIGITAL TRANSFORMATION - A PILLAR OF ECONOMIC RECOVERY

December 2020



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Author: Era Jashari

Public Relations Advisor, International Relations and Service Development
(Kosovo Chamber of Commerce)
Certified Digital Transformation Expert

Design: Envinion

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Introduction

Inevitably, similar to other countries in the world, the COVID-19 pandemic negatively affected the Kosovo economy, leading to economic decline since the lockdown of the economy. Thus, Covid-19 had a major impact on businesses, society and the economy in general and has significantly accelerated the need for digital transformation of companies.

Among other things, Covid-19 has built a new narrative of how to do business taking into account the changes caused to companies of all sectors. Therefore, it is important to discuss ways for companies to orient themselves towards mitigating the economic consequences of the pandemic and to adapt accordingly in order to cope with it.

Considering Covid-19 as the main driver of digital transformation of Kosovan companies as well as digital transformation as a necessary process for companies to stay relevant and competitive in the market, this review addresses the importance of digital transformation as a pillar for economic recovery.

1. Digital transformation and its significance

The world is changing rapidly along with digital technologies which are transforming every aspect of life, society and economy.

Digital transformation not only changes the way we do business nowadays but constantly creates new opportunities for growth and prosperity for all segments of the public and private sector. Digital transformation enables businesses to stay relevant in the market and orient their strategies towards invasion by increasing their competitiveness. Digital transformation makes it possible to use technology, people and processes to move the business forward.

However, digital transformation involves much more than the full integration of digital technologies. Digital transformation is about transforming the mindset of companies in such a way that the use of digital tools and skills adds value and creates a competitive advantage.

Digital transformation can include areas such as digital marketing, digitization and automation of business processes, business models, sales channels, digital procurement, Big Data, and other similar processes related to the multidimensional transformation of companies.

According to author David L. Rogers, digital transformation is built on five different domains including consumers, competition, value, innovation and data.

5 DOMAINS OF DIGITAL TRANSFORMATION



Fig. 1. The Five Domains of Digital Transformation (Rogers, 2016)



The world is changing rapidly along with **digital technologies** which are transforming every aspect of life, society and economy.

This figure and the combination of these five factors mean that digital transformation is not entirely about digital technologies but about strategic thinking and how companies in the digital age need to rethink their strategic orientation in five domains, consumers, competitors, data, innovation and value.

In Kosovo there is a high awareness that digitization is important for business, however there are setbacks in terms of designing and implementing digital strategies. The private sector is aware that digitization can help it perform better in the future, but companies face barriers that hinder transformation such as a lack of digital skills in the workforce, a lack of technical knowledge to move the digitization process forward, and a lack of access to finance. In the digital sense, Kosovo industry is divided depending on the nature of the work and the operating sector. Among other things, it has been noticed that the management of Kosovan companies on which the burden of digitization falls invests more in digital solutions, but not in IT security. (KCC, 2019)

One of the major problems worldwide including Kosovo is that businesses find it difficult to translate digital transformation into business opportunities.

There are many reasons that lead businesses towards digital transformation as mentioned above. However, in the wake of the Covid-19 pandemic, digital transformation is not an option for Kosovo companies but a matter of survival.

Many companies have not considered digital transformation as an urgent need, at least not until the emergence of the need for digitization that came as a result of the Covid-19 pandemic, part of which will be elaborated below.

2. Policy level - current schemes supporting digital transformation in Kosovo

Digitization continues to be a hot topic, especially after the outbreak of the Covid-19 pandemic and the imposition of restrictive measures which led to digitization being seen as a necessity for companies to survive.

Over the years, Kosovo has benefited from schemes and funds in support of digital transformation by the EU and numerous international organizations.

It is well-known that the hasty move towards a digital economy is a precondition for Kosovo's membership in the European Union, considering that the digital transformation will serve as a tool to catch-up economic and social development towards the preparation for EU accession.

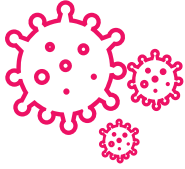
One of the main policy initiatives for the digitization of Kosovo's economy is Digital Agenda for the Western Balkans. Since July 2017, when Trieste Summit was held, the leaders of the Western Balkan countries have officially recognized the importance of digital integration as one of the key components of the plan to establish the Regional Economic Area (REA). The European Commission launched the Digital Agenda in June 2018 as one of the six key initiatives of the EU strategy for the Western Balkans.

The Digital Agenda for the Western Balkans aims to support the transformation of the Western Balkan countries into a digital economy and bring the advantages of digital transformation such as faster economic growth, more jobs and better services.

The digital agenda includes various pillars such as investing in digital infrastructure, capacity building in digital security and digitization of industries, strengthening the digital economy and skills, developing e-government, e-procurement and reducing the roaming cost.

The ultimate goal of this initiative is to support Kosovo and all the countries of the Western Balkans to succeed in their digital transformation and to better prepare for their eventual future within the European Union.

The Digital Agenda enables citizens to have the right skills in line with the new economy, helps modernize public administration, strengthen cybersecurity, increases connectivity and improves the business climate.



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Moreover, in October this year, the European Commission adopted the Economic and Investment Plan for the Western Balkans, which aims to promote long-term economic recovery with an emphasis on green and digital transition. Also, this plan aims to promote regional integration and approximation of Kosovo and the Western Balkan countries with the European Union.

Based on The Digital Agenda for the Western Balkans, this investment plan offers an opportunity to accelerate the digitization of governments, public services and businesses, in line with EU values and legal framework.

Other supporters in capacity building and through financial instruments for digital initiatives are the World Bank through the KODE project (Kosovo Digital Economy) as well as various international organizations present in Kosovo.

It is worth noting that there is a basic study on digitization that researches 200 companies from the manufacturing, services and agribusiness sector with the main objective of diagnosing current digitization trends in the respective sectors and identifying the support needs of companies. This study was compiled by the Kosovo Chamber of Commerce with financial support from GIZ CETEP in December 2019 and can serve as an overview of the extent of digitization of the private sector in the country.

Among other things, Kosovo already has the first generation of digital consultants who have the expertise to assist Kosovo businesses in the digital transformation process.

3. Digital Business Transformation, driven by Covid-19

It has been almost a year since Covid-19 changed the world economies, including the Kosovan economy which continues to remain fragile without a clear recovery plan.

During the pandemic consumers have moved dramatically towards online channels and companies have responded in the same way.

Covid-19 pandemic created a new narrative of how to do business taking into account the changes caused to companies of all sectors.

The potential of digital transformation for companies has been highlighted especially after the outbreak of the Covid-19 pandemic and as a result of the imposition of restrictive measures to prevent its spread. Kosovan businesses, whether small, medium or corporate, have faced many changes in the way they do business and have found themselves in an unprecedented situation that necessarily requires reaction and change.

Companies, found in this unusual position, are looking for ways to improve productivity, to have better services for customers, to facilitate communication and access to customers through new sales channels. Among other things, they should work to optimize the work process as well as simply be innovative and create a competitive advantage, as the only option to stay relevant in business.

Consequently, Covid-19 has spurred the process of digital transformation of companies in Kosovo, regardless of whether businesses were ready for such a transformation.

In this regard, in the first months of the pandemic, the following question began to circulate on the Internet, which, ironically, tells the truth about the situation.

WHO LED THE DIGITAL TRANSFORMATION OF YOUR COMPANY



A) CEO



B) CTO



C) COVID-19

Fig. 2. Promoters of Digital Transformation in Companies



The question **“Who spurred the digital transformation in your company?”**, assuming that the correct answer is the third **COVID-19**, choice, makes us realize that many companies did not recognize the importance of digitization until faced with the new circumstances created as a result of the pandemic.

The question “Who spurred the digital transformation in your company?”, assuming that the correct answer is the third COVID-19 choice, makes us realize that many companies did not recognize the importance of digitization until faced with the new circumstances created as a result of the pandemic. With or without the desire of companies, digitization has become a necessity to enable that companies, depending on restrictive measures and circumstances, adapt to changes such as: work from home, create online shopping channels, use technology in day-to-day operations, adapt to customer requirements and expectations, finding channels suitable for communication and distribution and other adaptive changes to the situation.

Digital technologies and digitization in general continue to be at the center of the debate due to their use during the Covid-19 pandemic outbreak.

The pandemic has caused damage to both consumers and businesses, changing the way people work, spend money and spend their free time.

The Covid-19 pandemic has pushed society and businesses to a point where adapting to new technologies is no longer an option but a necessity. Moreover, with the right steps and actions, digital transformation can be seen as a benefit (albeit late) as a result of the pandemic.

Covid-19, among other things, has changed the vision and orientation of the management of the

companies. Under normal circumstances, the focus of businesses is on increasing revenues and market share, while in this unprecedented situation Kosovan businesses are struggling to control spending, maintain liquidity and survive.

Even today, Covid-19 continues to bring a crisis for public health as well as a crisis with serious economic consequences. It is important that the private sector, on the road to economic recovery, incorporates digital transformation as a way to prove itself successful in managing the consequences of the pandemic.

After overcoming the Covid-19 pandemic, companies will need to consider the impact these changes have had and continually adapt the way they design, communicate and build value for the consumer.

As Kosovan companies move from the immediate response phase to the pandemic mitigation phase, strategies are needed to help businesses compete and some strategies to ensure market survival.

Digital transformation has helped many Kosovan businesses to survive the consequences of the pandemic and in this regard we are talking about companies which have already started their digitization before the outbreak of the pandemic. One such case of the company which is more easily overcoming the economic consequences of Covid-19 or rather say was more prepared due to the digital transformation launched a few years ago is the



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company interviewed for the purposes of this paper. Company X (named 'X' for reasons of anonymity and impartiality) is an enterprise which provides professional services for maintenance, cleaning and renovation for individual and business clients.

During the pandemic Company X continued to operate on a regular basis except for the period when movement restrictions were imposed, when the company worked with halved staff. The company states facing a 15% decline in economic activity compared to the same period last year and claims that if it were not for the digitization process that began in 2017, the decline in activity would have been steeper.

The company has started the first phase of the digital transformation process by digitizing some of the processes related to the service activities they offer, including the digitization of the sales process and the management of sales and orders. The company has also created a mobile application to easily manage the whole ordering process.

Despite the difficulties in operation, during the pandemic the company has increased its digital presence by being active on social networks and not cutting the marketing budget.

According to company 'X', digitization has served them well during this period, helping them to cushion the decline in business. As a result of the previous digitization for this company there was no need to improvise with strategies forced by Covid-19.

In general, digitization for the company in question has facilitated situation management, information tracking, order tracking and order management.

On the other hand, many companies have not been prepared in terms of digitization without having a concrete action plan or strategy before the pandemic. Consequently, depending on the immediate needs that have arisen, they have reacted thus entering the process of digital transformation with no well-thought preparations. Many companies have built capacity to work from home, others have created new sales channels through platforms e-commerce and others have changed the patterns of businesses trying to create value and competitive advantage.

4. Conclusions and recommendations - The way towards recovery through digitization support

Undoubtedly, the Covid-19 pandemic has accelerated the process of digital transformation of companies. The Covid-19 pandemic forced companies to treat digitization not only as an opportunity, but as a realistic solution to business survival. Considering digitization as survival tool for business, it has not been treated as a process of purchasing a new technology but rather as a process of transformation and a good opportunity to reduce operating costs. Among other things, digitization has been used to prepare companies to be more competitive in domestic and foreign markets.

However, Kosovan businesses seem to recognize the importance of digitization but stagnate in designing and implementing digitization strategies and concrete action plans. Consequently, it may be concluded that digital transformation has turned to be an emergency for Kosovan businesses driven by the Covid-19 pandemic and restrictive measures to prevent its spread. In this regard, digital transformation should serve as a pillar for economic recovery supported through concrete financial instruments and other modalities.

The importance and need for digitization of the private sector but also of public administration and government is already known. Kosovo Agency of Statistics for 2019, states that internet penetration in Kosovo is 93% (one of the highest in Europe). This great penetration of Internet in Kosovo can serve as a starting point for more digitization of services by public institutions. However, Kosovo lags behind in most digital transformation measures, such as the use of broadband technology, the use of other digital technologies and the digital readiness of public administration and government.

Based on the analysis of secondary data and the study of the Kosovo Chamber of Commerce "Business digitization in Kosovo - Status quo - Challenges and opportunities" one may infer that the main barriers for companies that hinder the digitization process are: lack of digital skills of the workforce, lack of technical knowledge to advance the digitization process and lack/access to finance.



Fig. 3. The main obstacles for the digitization of Kosovan businesses (KCC, 2019)

It is very important to jointly, including businesses, state institutions, donors and other stakeholders, help in this challenge of economic recovery for businesses, in order to create a better business environment and enhance competitiveness of Kosovan businesses.

To help economic recovery through digital transformation and alleviate the economic harm caused by the pandemic, this brief analysis provides the following recommendations for relevant actors:

- Focus on digitization of administration and reduction of bureaucracy;
- Funding companies for digitization of their business processes and expand of business activities through electronic commerce;
- Inter-institutional coordination and preparation of a concrete work plan related to the Digital Agenda for the Western Balkans and the Economy and Investment Plan for the Western Balkans;
- Harmonization of all key stakeholders for the best use of support schemes for digital transformation;
- Supporting current digital expertise in favor of digital transformation of the private sector and increasing expertise for digitization;
- Adoption of the package of laws that support the digitization of public institutions and the private sector;
- Implement awareness campaigns to promote digitization and the potentials it offers.

