

THESES OF THE DOCTORAL (PhD) DISSERTATION

EVALUATION OF THE FACTORS EFFECTING PERFORMANCE OF SMALL AND MEDIUM ENTERPRISES IN AZERBAIJAN

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1. Background of the research

Since 2001, Azerbaijan has demonstrated constant economic development. Gross Domestic Product (GDP) per capita grew from \$660 to \$6,760, and GDP (PPP) reached to \$ 180.93 billion in 2022. Following the 2008 economic crisis, the country accelerated its development, achieving 4.6% GDP growth in 2022 (IMF, 2023). In 2017, the economy relied heavily on hydrocarbon exports to account for 90% of exports, which reached to 92.1% in 2022. (World Bank 2018, State Customs Committee of AR, 2023).

In 2016 “Strategic roadmap for the production of consumer goods in Azerbaijan at the level of small and medium entrepreneurship” was introduced to define strategic targets in order to cultivate entrepreneurship environment with priority for SME. This road map consists of two phases until 2020 and 2025 and five targets. By facilitating business environment and regulatory framework; suitable access options for financial resources; internationalization; increasing the knowledge and skills of SMEs; and encouraging innovation and R&D activities contribution of SMEs in GDP and employment is expected to increase up to 10% until 2020. Targeted increase for contribution to GDP and employment is 35% and 40% by 2025 (Mahmudova, 2019).

According to the report of the State Statistical Committee of the Republic of Azerbaijan, in 2017, the added value of SMEs to the economy was 5,9%; number of employees 20,8%; investments directed to fixed capital 18,9%. In 2021 numbers increased slightly up to 9,6% of added value, 37% of employment and 14,8% of total investments directed to fixed capital by enterprises.

The industries in which SMEs operate are grouped into 11 categories: trade-repair of means of transport (31,5%); industry (mining and manufacturing) (15,9%); provision of services in other areas (14,3%); construction (13,3%); transportation and storage (5,2%); agriculture, forestry and fishing (4,3%); information and

communication (4%); human health and social work (3,8%); accommodation and food service activities (tourism) (2,9%); real estate activities (2,9%); education (1,9%).The share of trade-repair of transport means have been the biggest since 2017, with 43%, despite of the decrease until 2021 (Statistics Committee, 2018, 2022).

2. Research objectives

In general, this exploratory research is focusing on the effect of internal business factors on business performance of SMEs in Azerbaijan. It aims to bring a novel knowledge and learn the current situation in internal processes of the SMEs.

In the literature that has been examined performance is defined as the achievement level of organizational goals of the enterprises. In the light of this definition the priority will be given to the analysis of accomplishment level of goals of the SMEs.

According to the literature in the topic, evaluating performance between the years 1991 and 2018, both financial and non-financial indicators were taken into consideration. **After the examination of the performance indicators, the next research objective will be what type of indicators SMEs in Azerbaijan, Baku employ to measure performance. Apart from studying the chosen performance indicators, the emphasis will be on employee and customer satisfaction indicators. The study also looks into Business Performance Measurement Systems (BPMS) and their application trends in Azerbaijan.** Performance definitions and key figures across many aspects, depending on the industry and measurement technique. Amrina and Vilsa (2015) classify non-financial factors in production indicators into three classes. economically, ecologically and socially. This approach addresses the ideology of an economy for the common good, promoting a value-based economic system that promotes the common good. The Common Good Balance Sheet (Common Good Economy. December 12, 2018) is the economic model of the future, resulting in an ethical and sustainable economy. The Common Good Balance Sheet is a comprehensive tool that can also be used to optimize economic resilience.

Another topic raised by the research will be how receptive SMEs are to Economy for Common Good when assessing their performance, analyzing the society, environment and economy as drivers of performance. The suggested

guidelines could serve as a framework for businesses looking to improve their performance and identify shortcomings in the area. It can initiate a new research topic for further investigation and improvement areas, as it will lead to subsequent issues in regards with Economy for the Common Good (ECG).

3. Research Questions

In order to achieve the expected results in the research following research questions have been formulated to support the research.

1. Do SMEs in Azerbaijan, Baku set organizational goal and how it determines their performance?
2. What kind of indicators are used to measure performance?
3. How important is employee and customer satisfaction as a factor of performance?
4. What kind of measurement systems are used to measure performance?
5. Is Common Good factor considered by SMEs while performing?

The research process continued from 2019 and 2023, covering the period during Covid-19 pandemic. Hence, there will be additional questions related to the situation to measure resilience of SMEs.

3.1. Do SMEs in Azerbaijan, Baku set organizational and how it determines their performance?

In general, performance is a prominent achievement in one specific sector of activity, and the concept of performance specifies how a individual or group reach a resolution to accomplish a goal.

Table 1. Definitions of performance form different authors

Authors	Definitions of performance
Etymologically	Latin: "performare" which means to accomplish an activity that has been ordered. English: "to perform" which means to implement something that requires a certain ability or skill

Campbell et al. (1993)	Performance is what the organization hires one to do and do well.
Wholey (1996)	Performance may include inputs, outputs , intermediate outcomes , end outcomes, net impacts, unintended outcomes. Performance may relate to economy, efficiency, effectiveness, cost effectiveness, or equity.
Kennerley & Neely (2002)	On the enterprise level performance is a multi-dimensional concept which consists of integration of marketing, overall management, accounting, economics, sociology and psychology .
Fielden et al. (2003)	Performance is evaluated according to the achievement of organizational goals throughout its evolution in terms of the effectiveness of its human resources, supplier performance, product and services quality customer and markets and other financial factors. Measuring the performance of the firm is an important activity that underpins the strength of any business.
Folan et al. (2007)	Performance management is the management of the system put in place by an entity (with a pre-determined socially constructed reality) that has chosen a relevant viewpoint of itself (its objective) towards which it means to progress , using a set of recognizable characteristics as its measurement apparatus (performance measurement) to monitor this progress.
Yıldız et al. (2014)	Business performance defines the extent to which the target task of the business was accomplished in comparison to the final output at the end of a business period.
Yucesoy & Barabási (2016)	Performance represents the totality of objectively measurable achievements in a certain domain of activity. The term "performance" is applied in several areas: economic, financial, technical, sporting or social performance.

Source: Created by author based on the reviewed literatures

From the *Table 1* above, we could conclude that depending on the fields of science, definition for performance can be varying. However, having a closer look will help to identify that all the definitions are suggesting an action which leads to

achievements and targets. Hence, in business, particularly, business performance can be defined as collaboration of all the elements of business process that will lead the company to achieve their defined goals (Mahmudova & Kovács, 2018).

3.2. What kind of indicators are used to measure performance?

Figure 1 shows the frequency of financial indicators measuring performance in the studied works of literature. Profitability and sales growth are the most extensively used indicators by more than twenty authors. Effectiveness, cash flow, liquidity, sales margin, growth, return on equity (ROE), pre-tax profit growth, total gross profit, gross profit per room, stock performance, CPEX, leverage, and autonomy are some indicators that were only minimally referenced in the literature under review. (Mahmudova & Kovács, 2018).

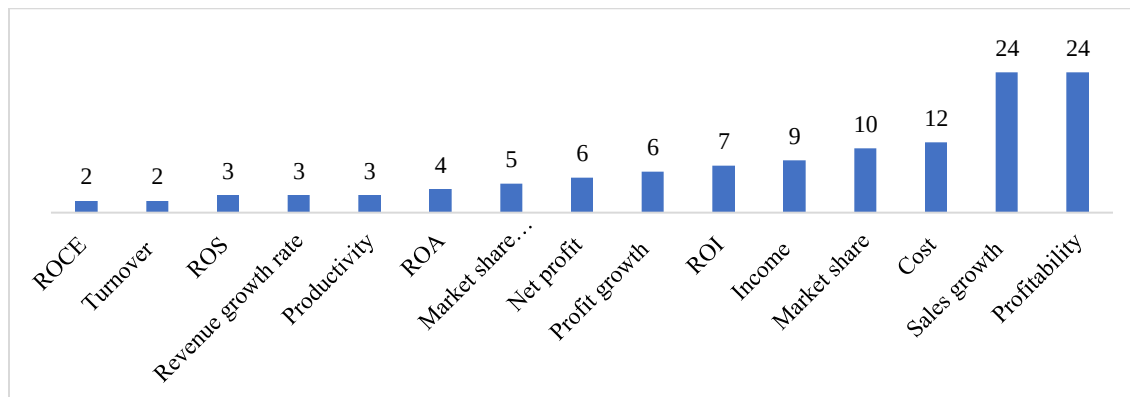


Figure 1. Occurrence of financial indicators measuring performance

Source: Created by author based on the reviewed literatures

Figure 2 presents the occurrence of non-financial indicators measuring performance. According to the data, customer satisfaction is the primary indicator used to determine performance, followed by employee satisfaction and product and service quality (Mahmudova & Kovács, 2018).

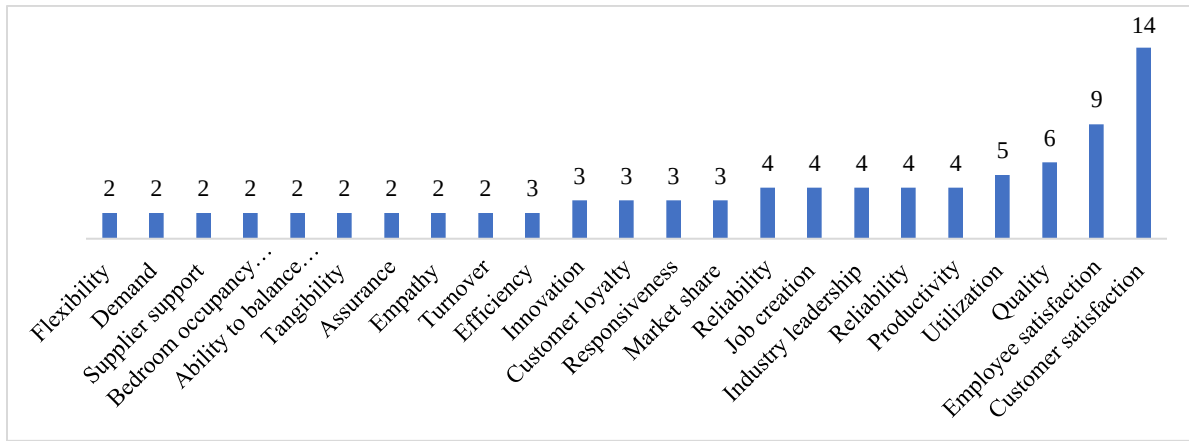


Figure 2. Occurrence of non-financial indicators measuring performance

Source: Created by author based on the reviewed literatures

3.3. How important is employee and customer satisfaction as an indicator of performance?

Definition of employee satisfaction. To look at employee satisfaction, the term satisfaction should first be defined. A definition of satisfaction has been suggested by Nancy C. Morse (1997) “*Satisfaction refers to the level of fulfilment of one’s needs, wants and desire. Satisfaction depends basically upon what an individual wants from the world, and what he gets.*”

This suggests that satisfaction is how well the needs and wants of a person have been fulfilled. This is a difficult area of study, as there is no single formula to increase the level of satisfaction for a group of people. The role of satisfaction is personal to each and every individual, the wants and needs of people vary, and even if the desires are the same between people, the level of such desires can be a varying scale.

There are many definitions of employee satisfaction, but as a standard, simplified base, we can take the definition: “*Employee satisfaction, also known as job satisfaction, is the extent to which an individual is happy with their job and the role it plays in their life*” (hrzone.com). This is a simplified definition of what employee, or job, satisfaction is. The core element is to determine the level of satisfaction that an employee has with their job.

As mentioned, satisfaction is personal and differs from person to person. Therefore, to calculate how fulfil the needs of employees and make them satisfied, there is a need to first look at motivation. Not only is employee satisfaction personal, but also motivation is personal, the motivations of taking employment at a company.

Judge et. al. (1993) suggests that employee satisfaction is *“positively correlated with motivation, job involvement, organizational citizenship behaviour, organizational commitment, life satisfaction, mental health, and job performance, and negatively related to absenteeism, turnover, and perceived stress and identify it as the degree to which a person feels satisfied by his/her job.”*

Similar to Judge et.al. (1993), Borisov and Vinogradov (2019) in their research demonstrate that there is a strong positive linear correlation between collaboration-oriented managerial environment and employee satisfaction, which is the result of giving employees autonomy, role in decision making, and job engagement.

Definition of customer satisfaction. The success of any organization is directly correlated to their customers, naturally if they did not have the customers, they would not generate revenue and would cease to be a business, it is unsustainable. Customers the most essential stakeholders in organizations and it is imperative that their satisfaction is met fully.

“Customer satisfaction can be defined as overall evaluation based on the total purchase and consumption experience with a good or service over time” (Anderson et al., 1994) and *“Customer satisfaction is expressed as a function of pre purchase expectations and post purchase perceived performance of the respective product/service”* (Fornell, 1994) are two widely used definitions of customer satisfaction, they explain that satisfaction is linked to the perceived quality or performance of the product or service.

This implies that customers have a preconception about how the product or service will be, they pre-judge the level of quality or service and their satisfaction depends on how well met their perception was. This can be very difficult to measure, as all

people are different and expect different things. A company can offer the best product available, with the best customer service and interactions, for one customer, it could have fully met their expectations and they are extremely satisfied. However, for the second customer, with exactly the same experience, it may not have met their expectations and they may not be fully satisfied.

The longevity of a business and their ability to keep their customers, through exceeding their expectations and creating a high level of satisfaction and loyalty is vital and this is explained by Rosenberg & Czepiel (2017), who state that “*customer loyalty and satisfaction has a positive effect on the profitability revenues of the company*”. This shows impact that customer satisfaction has on a company’s performance, and how vital it is for the company to be able to put themselves in a situation where they can help increase the level of customer satisfaction.

From this perspective Yousuf et al. (2019) propose the relationship between business performance and mixed and volume flexibility which are derived from customer satisfaction levels. Mixed flexibility enables the companies to produce commodities based on the current preferences of the customers while the volume flexibility enables companies to adjust the volume of their production to the customer demand in the market to avoid unnecessary costs.

3.4. What kind of measurement systems are used to measure performance?

Several researchers propose measuring business performance with the business performance measurement system (BPMS), which is an imperative instrument for various research disciplines, especially in business and social sciences.

Neely et al. (2005) define performance measurement as “the process of quantifying the efficiency and effectiveness of action.” Radnor and Barnes (2007) expanded on this view and give their difference in performance measurement and performance management, they said “*performance measurement is about efficiency, productivity and utilisation, whereas performance management builds on performance*

measurement and is concerned with effectiveness and a broader, more holistic, even qualitative view of operations and the organization.”

Researches such as Malesios et al., (2020) and Dey et al., (2022) discussed broad usage of the balanced scorecard for performance measurement, particularly in relation to sustainable supply chains. They compared Data Envelopment Analysis (DEA) and Multiple Criteria Decision Making (MCDM), two performance evaluation techniques. As it can distinguish between businesses that are efficient and those that are not based on a set of objective criteria, DEA is seen to be more appropriate for policymakers. A limited number of SMEs can be benchmarked using several criteria and sub-criteria, although MCDM is better suited for this. However, neither approach can prove a causal link between the factors determining greater performance. To increase SMEs’ sustainability objectively, the researchers propose to provide a solid methodology for assessing sustainable supply chain performance, which is including metrics for performance from the viewpoints of the economy, environment, society and operations. Results of their study showed how well the strategy has worked in comparison to earlier approaches are given to illustrate its efficacy.

Dušková (2021) extended the framework for measuring sustainability performance of the SMEs and involved Key Enabling Technologies (KETs) model by The European Commission. This concept aims to boost the competitiveness of European SMEs while solving societal and environmental concerns. A thorough assessment methodology built on the four pillars of environmental, social, economic, and technological factors was created to evaluate the deployment of KETs in businesses. The study discovered that KETs-performing businesses give equal weight to technological features connected to research and development (R&D) operations and economic factors like profit, turnover, and cash flow. Although social and environmental factors are also watched, they are given less priority. According to

the report, organizations frequently utilize ISO standards as a strategic management tool to track their sustainability performance.

According to Maisel (2001) BPMS is a tool that assists enterprises in planning, measuring and controlling, additionally provides a framework to compare and analyse whether sales and marketing, operation, human resources activates, IT resources, decisions made on business fulfil the targets of business strategies to reach business results. Whereas Bourne et al. (2018) interprets PMSs as a core of performance management process and a critical element of effective and efficient operations.

Lynch and Cross (1991) associates PMS with the framework of total quality management., industrial engineering and activity accounting. They explain it as a bilateral communication from management accountants, which require them to provide needed data in the right moment, acting like a coach rather than a scorekeeper and focusing on the most important factors. As a manager it is their responsibility to analyse and interpret financial and non-financial data effectively.

Measurements in both financial and non-financial aspects of the business is imperative, to gain a better understanding of the business and build on it, this has been shown in a survey by Lingle and Schiemann (1996) who state that the businesses at the top of their industry, employ these measurements well. This is something that SMEs can adopt, to grow their business. However, this can often be overlooked by SMEs, as explained by Saunila (2016) *“SMEs differ from larger companies by personalised management with little devolution of authority. They have resource limitations in terms of management and manpower as well as finance, and are usually dependent on a small number of customers and operating in limited markets”*. According to contingency theory, the effectiveness of management control is dependent on the design of measuring performance system that corresponds with the objectives and strategies of the firm. In terms of quality

strategies, non-financial metrics are an important role in achieving this correspondence (Sánchez-Alegría et al., 2022).

A research by Rojas-Lema et al. (2020) brings another approach to the performance measurement in the SMEs. The research discovered that most of the studies focused on the individual company context (77%), while networks, clusters and supply chains received less attention (23%). Another finding of the research was that 80% of the works examined involved BPMS in terms of assessing system requirements, design, and development. The remaining 20% said that they used performance management as an improvement tool or for benchmarking. Hence, they established a conceptual framework to categorize the research based on three factors: the approach's objective (strategic versus operational), the scope of PM (financial versus non-financial), and the business setting (individual firm versus network/cluster/supply chain). This finding has implications to Contingency Theory, meaning goals, performance indicators and PMS of the company should be aligned with the objectives, scope and business setting that the enterprise possesses.

Business performance measurement is of great interest to the management of companies, in order to review where they are, their strengths, weaknesses and how to build a sustainable business. PMSs will not tell companies where they need to improve or what they are doing well, but they will give an insight to show that something is working well, or not so well.

3.5. Is Common Good factor considered by SMEs while performing?

The Economy for Common Good (ECG) model implies that the main goal of an organization contribution is for the common good and cooperation, taking this into account, Felber states, *“Economic growth and money are not goals by themselves, instead they are considered means to achieve human welfare and quality of life for people”* (Felber, 2015).

		Value			
		Human Dignity	Solidarity and Social Justice	Environmental Stability	Transparency and Co-Determination
Stakeholder	Suppliers	A1 Human dignity in the supply chain	A2 Solidarity and social justice in the supply chain	A3 Environmental sustainability in the supply chain	A4 Transparency and co-determination in the supply chain
	Owners, Equity and Financial Service Providers	B1 Ethical position in relation to financial resources	B2 Social position in relation to financial resources	B3 Use of funds in relation to the environment	B4 Ownership and co-determination
	Employees	C1 Human dignity in the workplace and working environment	C2 Self determined working arrangements	C3 Environmentally friendly behaviour of staff	C4 Co-determination and transparency within the organisation
	Customers and Business Partners	D1 Ethical customer relations	D2 Cooperation and solidarity with other companies	D3 Impact on the environment of the use and disposal of products and services	D4 Customer participation and product transparency
	Social Environment	E1 Purpose of products and services and their effects on society	E2 Contribution to the community	E3 Reduction of environmental impact	F4 Social co-determination and transparency

Figure 3. The ECG matrix version 5.0.

Source: ECG: Economy for the Common Good (accessed 01 September 2020)

The ECG values are the principles of human rights, dignity and justice. Businesses are the main driver for the economy and as such, they should contribute to social development.

This matrix reveals the link between five stakeholders of a company: (Figure 3)

1. Suppliers
2. Owners
3. Employees
4. Customers

5. Social

and the four values (human rights):

1. Human dignity
2. Solidarity and Justice
3. Environmental
4. Transparency and Co-Determination

The Common Good Balance Sheet is a tool that assesses how fundamental values are applied to the stakeholders of a company. Suppliers, investors, employees, consumers, local communities, "competitors," future generations, and the environment are just a few of the many organizations that make up these stakeholders. The assessment seeks to gauge how the enterprise's actions connect to and have an effect on these stakeholders, demonstrating its dedication to moral and ethical behavior in all facets of its operations. "Such matrix relates the firm's behaviour in terms of the general principles and values of human rights, Hence, CGM employs as one of its bases the stakeholder's approaches" (Freeman, 1984).

The CGM, as indicated by Klaus et al. (2013), is a tool which can report and facilitate the implementation of sustainability management.

It could be useful for the organizations to integrate sustainability management and reporting in one tool to facilitate the implementation and control of sustainability management. The ECG model and its tools facilitate sustainability management and reporting; The CGM and the Common Good Balance Sheet (CGBS) can provide a framework.

4. Methodology

The research is as an exploratory and inductive study, starting with a systematic and bibliometric review of the literature to get a sense of the state-of-the-art in the pertaining topic. Variables, definitions for performance, indicators of performance measurements, models and tools for performance measurement and fundamental theories were discovered throughout the literature study with the aim of creating a research design, developing a methodology, and eventually coming up with a concept and novel findings.

Dependent variable in this research is performance and independent variables are performance measurement indicators, dividing into financial and non-financial. There will also analysis of customer satisfaction and employee satisfaction, as they are the most mentioned non-financial indicators in literature. Effect of application of BPMS on performance and consideration of Economy for Common Good values were also analysed. Analysis and comparison of interview results would contribute in finding the definition of performance by entrepreneurs and its relation with indicators.

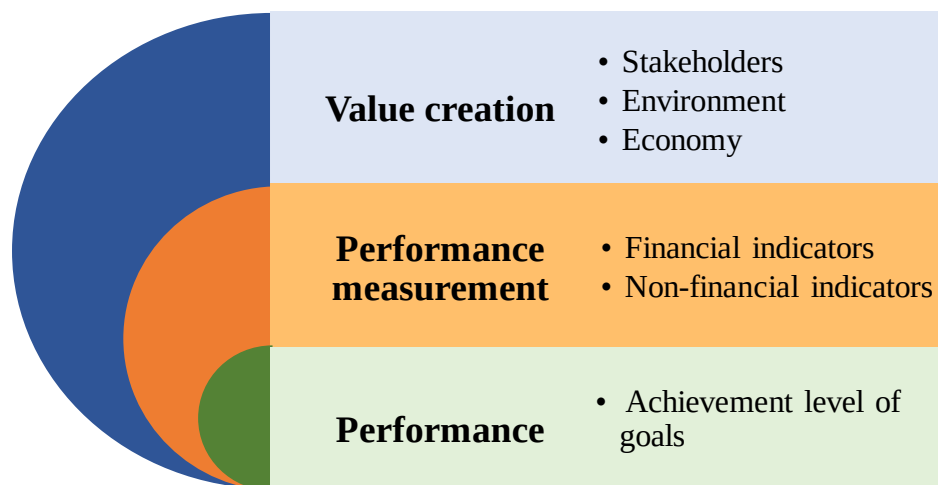


Figure 4. Matrix for performance of an enterprise

Source: Created by author

After the extensive exploration of the literature in performance indicators and BPMS, the above matrix is proposed to describe the relation of factors with performance. The matrix sets the performance of the enterprise in the core, defining it as achievement level of goals. In the second layer which is directly connected to performance is measurement of performance, which is divided into two main categories of indicators: financial and non-financial. According to their occurrence frequency in the literature the most prominent financial indicators were profitability, sales growth and cost, meanwhile non-financial indicators were customer satisfaction, employee satisfaction and quality. The third layer incorporates a wider viewpoint to performance and connects it with factors like stakeholders, environment and economy. The performance of SMEs in Azerbaijan will also be compared to this model to explore similarities and differences.

4.1. Research design

The research design was selected to be a primary research, to be collected from the subject research sample. Using convergent parallel mixed methods was intended to give a more thorough understanding for this research subject. This can be explained as the ability to perform mixed techniques, discovering the diverse and understudied aspects of the subject, and having the ability to respond to research questions without generalism because it does not call for a large sample size (Mahmudova, 2022).

Structured interview questions were the main tool in order to establish a qualitative research. In addition, questionnaires with yes-or-no answers and Likert scales were also used to support the qualitative data and provide a clearer picture. Likert scale answers are evaluated using a 7-point scale. A 7-point scale is used to evaluate the responses on the Likert scale. Due to its specifications, such as higher reliability, more variations in response levels, and offering more description for reasoning, this style of scaling is more appropriate for the purpose of this study (Joshi et al., 2015). In addition to questionnaires, statistical data gathered from government and international organisations was also considered (Mahmudova, 2022).

Thematic content analysis was the selected method to analyse the collected qualitative data. Thematic analysis hypothesizes that the information recorded in documents or other recovered artifacts accurately reflects the world as it was at the time of recording. It is therefore viewed as having the same level of confidence as the participants' stated memories. This strategy suggests that researchers believe the information provided by participants or gathered from documents is convincing and reliable. Thematic analysis so greatly depends on the high level of confidence in the accuracy of the supplied data. Examining how the supplied data responds to specific research questions or leads to the creation of novel conceptual or theoretical insights is the main goal of thematic analysis. In this effort, thematic analysis thoroughly examines the material while frequently examining individual experiences on a wider scale. Thus, the nature of thematic analysis might be either descriptive, explanatory, or critical.

Non-parametric statistics method was used to conducted for the quantitative portion of the research. This statistical approach has been used since 1700 and has improved during the past 60 years. Non-parametric statistics enable researchers to analyze data that was gathered using ordinal, nominal, or ratio sampling methods. Non-parametric statistics also have the advantage of being compatible with small samples, up to thirty. It would therefore be more appropriate to use this strategy, making it simpler to present as many interpretations as feasible and meeting assumptions without parameterized distribution (Kraska-Miller, 2013).

An important validity approach in qualitative research is getting feedback from research participants. Following the completion of the analysis, the interpretations, and the drawing of conclusions, participant feedback collection was performed which is referred as member check. The feedback collection was performed in July 2023, following the completion of preliminary research. In order to build a systematic procedure, the participants were asked for comments on the study's results. Six mandatory and one optional open-ended questions were presented to the participants, which were formulated based on the results of the primary research.

Member checks are occasionally regarded as the gold standard of trustworthiness in qualitative research. They have a specific role in assuring the validity and reliability of the study findings rather than merely being one of several validity checks (Motulsky, 2021).

To gather valid and reliable data, it was planned to create a sample group using probability-based sampling, selecting an equal number of numbers from each sector. The method was used to guide the selection of the sample size and distribution type, as well as the level of significance and estimated size of the difference. As stated in the report of the Statistical Committee of the Azerbaijan Republic (2022), there are 6856 small and 2879 medium enterprises, for a total of 9735 in Azerbaijan. Baku has 4788 small and 1843 medium-sized businesses, for a total of 6631. The ideal size for this sample was determined to be 361 businesses, with a confidence level of 95% and a margin of error of 5% (Kehl and Rappai, 2006). However, as a result of the below reasons, the research approach had to be adapted to the situation. Instead of probability - stratified sampling, non-probability convenience sampling was used, and in-person interviews were substituted with an online Google survey file that was that was merged with questionnaire. Using this non-probability strategy accelerated the data collection process. (Taherdoost, H., 2016).

The business sectors in which SMEs operate are divided into eleven categories, one of them including all other services:

1. Agriculture, forestry and fishing
2. Industry
3. Construction
4. Trade and repair of transport means (separately evaluated in this research)
5. Transportation and storage
6. Accommodation and food service activities
7. Information and communication
8. Real estate activities

9. Education

10. Human health and social work

11. Provision of services in other areas

Due to the accessibility of information, the research has been addressed to SMEs in eleven industries in Baku, capital city. The businesses that took part in the research process were from nine different industries. Participation of enterprises in transportation, storage, and accommodation and food service activities was absent. Technological product production and innovative engineering services (1), education (3), finance (1), insurance (2), information and communication (5), industry (4), agriculture, forestry and fishing (2), construction (1), trade (1), human health and social work (1), real estate activities (1), financial and management consulting services (1), HVAC (Heating, ventilation, and air conditioning) (1), FMCG (Fast-moving consumer goods) (1) and provision of services in other areas (2).

Throughout the research, there were a few stumbling blocks that impeded the entire procedure. The study took a year to complete, from 2021 to 2023. The main issue was getting in contact with the business owners. Several governmental organizations were appealed to aid with the research by sending contact details of SMEs or assisting with the faster spread of the survey. Some of them agreed to help, while others were unresponsive. The below time line shows the brief summary of events during two years of the research period:

March 2018 –April 2018: (Simplified Support to Family Businesses) – request was rejected due to confidentiality reasons;

March 2018: National Confederation of Entrepreneurs (Employers) Organizations of the Republic of Azerbaijan – No response;

January 2019: Personal meeting with a department director in SSCRA – To obtain the newest statistics for entrepreneurship;

September 2019: Small and Medium Business Development Agency (SMBDA) – to obtain catalogue of SMEs and report about entrepreneurship in Azerbaijan;

October 2019 - November 2019 - SMBDA – to obtain the data for female entrepreneurs in Azerbaijan in case there was a need to modify the research sample;

June 2020: SMBDA agreed to send surveys on behalf of me to the enterprises to ease the process, however later on there was no result reflected in the responses;

July 2020 – April 2021: started to send interview and survey participation invitations to the SMEs that was provided by SMBDA for the initial testing of research method. Out of 50 enterprises, 10 of them agreed to participate;

July 2021 – September 2021: with the idea of minimizing the research sample, and changing the research method to a focus group, a collaboration was initiated with FemTech – a company that guides and supports women that intend to establish their own business. As a first stage the research overview and surveys were published in the company's newspaper to reach out to the potential participants. Unfortunately, the outcome was not as expected and there were not enough volunteers to participate in the interviews or surveys;

February 2022: National Fund for Entrepreneurship Support (NFES) – was recommended by one of the respondents to contact, however the Fund itself asserted that it is out of their scope to provide information of SMEs.

September 2021 and January 2023 Therefore, a different strategy had to be used to reach businesses using the social networking site **LinkedIn**. Entrepreneurs or managers were contacted individually via this platform and asked whether an in-person online interview was possible. Applying this strategy was more successful, but the second problem was the entrepreneurs' and managers' reluctance to answer the interview and survey questions. They were citing reasons including a lack of time, privacy concerns, and topical events at that time, Covid-19 pandemic. Following the culmination of the research, after contacting 237 entrepreneurs the total number of replies was 36. Unfortunately, 9 of them had to be eliminated

because they did not fit into the SME classification based on the number of employees.

July 2023 During the second part of the research member check, 20 respondents agreed participate versus 27, thus, analysis of the results wer based on the feedbacks of 20 respondents.

A crucial part of the research process is maintaining privacy, confidentiality, objectivity, data reporting and correct findings presentation. To ensure the validity of the study, ethical standards must be followed both throughout the research process and in the reporting of findings (Hasan et al., 2021). During the course of this research, ethical standards have been followed in terms of confidentiality, voluntary participation and scientific integrity. The participants have been informed beforehand and were asked for their consent to use their data for research purposes. Surveys were built to ensure the anonymity of the respondents which prevented the bias in data analysis and served for the confidentiality of the participants.

5. Scientific findings

5.1. Do SMEs in Azerbaijan, Baku set organizational and how it determines their performance?

A study by Waal (2021) suggests that entrepreneurs' opinions of their organizations' policies and comparative performance are reflected in performance definitions and indicators. As a result, high-performance evaluation should take the competitive environment into account and include both management and employee viewpoints. The high correlation between perception and actual performance in comparison to competition supports this idea. Employing general perception questions, which let respondents compare their organization's performance to that of competitors across industry indicators, is advised in order to accomplish objective evaluation and produce a thorough relative performance review. Per the results of extensive literature review, for this research the performance is defined as an achievement to organizational goals. Hence, this statement was tested in the case of entrepreneurship in Azerbaijan, Baku. The primary question of this research, whether companies have a goal or not, revealed that SMEs have one or multiple organizational goals and they agree that they explain their goals to their employees.

There is a difference in the setting the organizational goals between small and medium enterprises. As the majority of the goals of medium enterprises were more specific and comprehensive, small enterprises set goals that are more generic and mostly oriented to growth in size.

Meanwhile 8 enterprises, that answered "no" for having a performance measurement system, 5 of them are not satisfied with the achievement level to their goals and 3 of them are satisfied with it. The other 19 companies have a performance measurement system and are satisfied with their achievement of goals level.

Referring to the first research question and the literature review of this research, since the performance is defined as the achievement level of organizational goals,

the results of this research suggests that enterprises that are not measuring performance have low goal achievement level, medium enterprises are slightly more satisfied with their performance than small enterprises and the goals of the enterprises are mostly measured through financial aspects, however there is trend of involving non-financial aspects too.

5.2. What kind of indicators are used to measure performance?

To respond to the second question of the research, after the analysis of results, since the indicators which got higher points are financial, it can be explained as, medium enterprises in Azerbaijan, Baku use financial indicators of performance more commonly than non-financial and small enterprises refer to non-financial indicators more frequently than financial indicators. Both small and medium enterprises think that **net profit**, **profitability** and **sales growth** are moderately important financial indicators, and **customer satisfaction**, **innovation**, **quality** and **reliability** are moderately important non-financial indicators. This statement provides an answer to the second question of the topic. The results of member checks underlined the use of these indicators.

Apart from the proposed options selected based on the literature review, enterprises also added their own opinions as well, for indicators. Gross profit margin, net profit margin, (value of the sale- producing cost)/ time, the sales volume of the main sellers, profit of each project, project base sales, annual profit and dividend payment, number of registered customers, number of visitors, optimal implementation of activities within the allocated budget, production capacity, ROI of activities and EBITDA constituted the selection for financial indicators. Motivation and perspectives, company reputation, biosecurity and eco-friendly production, employee skills, time consumption, technical analyses, the quality of education and measures taken; participation in social projects, targets and competencies, in time completion of projects, technical performance indicator, audit closing rate, corporate

governance related KPI, organizational health index (insurance sector) constituted the examples of non-financial indicators.

In the open-ended questions part, enterprises were given an opportunity for stating their own opinions about the additional internal factors that are specific to their business. Followings are the responses by owners or managers: lack of knowledgeable and professional personnel, material resources, equipment, lack of motivation, absence of common goal among employees, lack of software knowledge, values, the principle of "permanent work" of the people coming from Soviet regime, coordination between units of the enterprise, issues with providing competitive salaries, management style, and local mentality. Examined closely, all the majority of the answers are employee focused. Manager complained about skilfulness level of the employees, their motivation, mentality and values, having different goals towards business and management style that is not matching with them.

This could be one of the reasons that are triggered by paying insufficient to employee satisfaction. Another reason that is related with management strategies, such as providing trainings and learning opportunities for the employees, or source of motivation and inspire employees towards the same values and goals.

5.3. How important is employee and customer satisfaction as an indicator of performance?

The preliminary analysis showed that importance of customer satisfaction was slightly higher than employee satisfaction, 6.3 versus 5.9 scale. To be more precise, medium enterprises find customer and employee satisfaction equally important, whereas for small enterprises customer satisfaction is more important (very important) than employee satisfaction (important). Nevertheless, the results of member checks brought a different outcome. Only 3 small enterprises out of 12 agreed that customer satisfaction is more important for them, meanwhile the rest

disagreed and stated employee satisfaction is more or as important as customer satisfaction. Half of the medium enterprises agreed that customer satisfaction is more important, whereas the other half confirmed it is the opposite for their case.

Guliyev (2022) investigated the correlation between brand orientation and job satisfaction among enterprises in Azerbaijan and suggested that there is significant positive effect of brand orientation on internal brand equity. Increased brand orientation increases employee loyalty by aligning behavior with the brand of the firm, eventually improving employee performance in achieving consumer expectations. While there is no direct correlation between work satisfaction and internal brand equity, there is a positive but moderate association between job satisfaction and internal branding. This unexpected link implies that boosting internal branding within firms might securely establish the brand in the minds of employees.

Huseynova et al., (2022) examined the importance of employee branding techniques for improving firm-level performance in emerging nations such as Azerbaijan. Notably, available evidence indicates that staff retention and recruiting efficiency strongly connect with firm-level success. According to the study, employee retention functions as a mediator between employer branding and firm-level performance, implying that enhanced employer strategies promote employee satisfaction and longevity. Furthermore, the mediation link between recruitment efficiency and firm-level performance is investigated, revealing that successful recruitment, supported by employer branding, contributes to higher firm-level performance by recruiting top talent.

Summarizing the results of this research question both small and medium enterprises in Baku consider the importance of customer and employee satisfaction, and they find these indicators important. Due to the lack of concurrence in the patterns, the outcomes cannot be specified for small or medium enterprises separately.

5.4. What kind of measurement systems are used to measure performance?

The outcomes of the breakdown of responses related to this research question reveal that there are 8 companies which they do not use any BPMS in their organization, which constitutes 30% of the responses. This ratio may imply that 70% of SMEs in Baku (57% small, 23% medium) use BPMS, answering the 4th question of the research. The most applied BMPS or methods by SMEs in Baku are KPIs, benchmarking and total quality management systems. Member check results also confirmed that majority of SMEs use the proposed BMPS.

5.5. Is Common Good factor considered by SMEs while performing?

Referring back to the reviewed literature and seeing the timeline of BMPS, importance of social and environmental factors while doing business is becoming more prominent. In the first round of research enterprises strongly agreed that they are considering their influence on society, economy and environment. However, looking closely into the organizational goals of each enterprise and the performance indicators they opt this factor was not fully reflected in the overall picture.

The results were validated through member checks and it is shown that shareholders, employees, customers, contractors, service providers, and **people** all through the value chain are considered the most by SMEs while they perform. The second most important element was opted to be **financial profitability**. This ratio may be an indicator of the transition process, which the SMEs in Azerbaijan, Baku. Again, in this ranking too, SMEs showed that both financial and non-financial indicator, such as employee and customers are playing an important role in their businesses. Unfortunately, measures such as quantity of waste generated, energy consumption, raw material usage (**Planet**) received the least interest in the survey and was priorities only twice but companies in the field of media and advertisement.

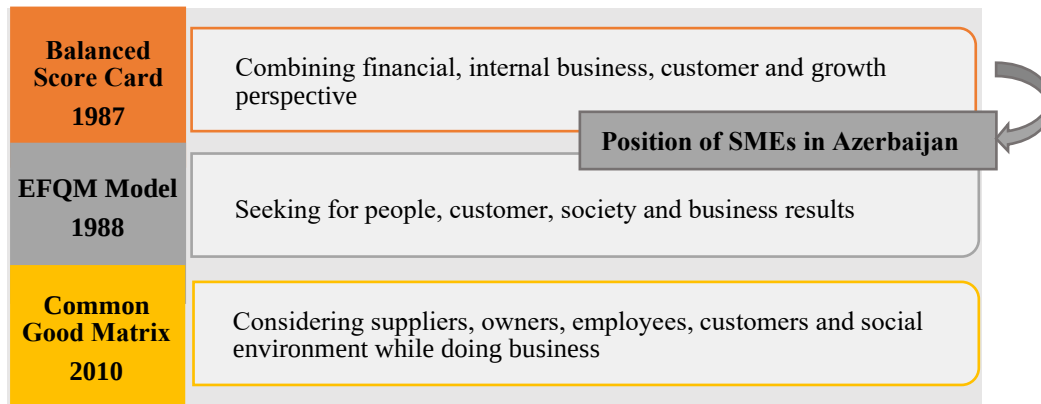


Figure 5. Change of perspectives while doing business

Source: Created by the author literature review and research analysis

Obtained responses provide a good sight for the current situation and opportunities for improvement in entrepreneurship in Azerbaijan, Baku, since the country is in the transition phase from financial to non-financial aspects, towards value creation, visualized in *Figure 5*. To have a better understanding during the data validation round of the research this insight was presented to the participants. The majority of the answers confirmed that there is such phase of transition. The opinions that were not in line with the proposed transition implied that even if there is such inclination towards the trends of value creation, it applies only to very small portion of the SMEs, as there is substantial lack of knowledge in business management. Business model frameworks expand this to include value for financial stakeholders, which is frequently tied to a company's economic value. This paradigm is expanded by sustainability-oriented business models to include ecological and social value, such as resource conservation and social empowerment. Such approaches help to gain a competitive edge while also promoting long-term market and societal growth. Value is defined as a company model's net ecological, social, and economic results. This involves minimizing harmful effects while maximizing beneficial contributions to the environment and society. Sustainability frameworks go beyond the traditional customer-centric focus by including wider ecological and social objectives that benefit multiple stakeholders (Freudenreich et al., 2020).

5.6. Impact of external factors and Covid-19 on enterprises' performance

Results of this auxiliary question concerning external factors summarize that enterprises in Baku are affected from the similar external factors. The most mentioned factors were: current economic and political situation referring also to war, pandemic, currency exchange risks, unfair competition in the market, job market and availability of professionals, bureaucracy, legislation, tax, lack of government regulation, lack of loans and guaranty by government, lack of technological and digital awareness, dependence on the imports.

The research conducted by World Bank with 225 business owners in Azerbaijan during July 2019 and March 2020, showed that the main external factor which interrupted businesses was informal sector (not regulated by the government), constituting 28.4%. Access to finance (23.7%), poorly educated workers (14.7%), corruption (7.9%), trade regulations (7%), political instability (2.9%), tax related issues (2.3%) were the following barriers for performing. 52% of the responding enterprises were small, 32% were medium, and 16% of them were large enterprises. (World Bank, 2021).

Following Covid-19 Pandemic economic condition regressed remarkably also in Azerbaijan. The GDP of the country shrank by 4.3%, being affected by the consequences such as business shutdowns in 2020. Border closures blocked trading and significant drops in oil prices resulted in poor GDP growth.

SMEs in Azerbaijan's major cities cited considerable challenges in financing (65.86%), supply chain disruption (48.67%), drop in demand (46.03%), and decline in sales and profit (37.23%) as the primary concerns affecting their company operations during the COVID-19 epidemic. According to the findings of research by Xu and Abbasov, (2021) many firms are financially vulnerable. Furthermore, the majority of the entrepreneurs who participated in the study research indicated that the decrease in demand was mostly attributable to a loss of clients and buyer flow.

As a result of the study's findings, many SMEs are subject to financial stability, demand restrictions, and supply chain disruption.

Results of this auxiliary question concerning the preparedness of enterprises for Covid-19 case also reveal that SMEs in Baku were not fully ready for the consequences that pandemic brought. Enterprise owners/managers were asked to state their level of agreement for the statements below in a scale of 7:

1. Our company has done financial and risk assessment.
2. We have re-evaluated and updated our business plan.
3. We have a strong digital ecosystem.
4. Our company is innovative in terms of trends of 4th revolution.
5. We do not need a large physical space for our business since it can be done remotely form home (ICSB Annual Global Report for SMEs, 2020)

An in-depth examination of replies gathered from member check enquiries reveals that the most common course of action taken by SMEs is a change towards online company operations and remote work. Seven of the studied cohort of 20 SMEs chose this paradigm change, noting its beneficial influence on operational facilitation. A secondary strategic priority of these SMEs was cost control and cost reduction, which were accomplished through a variety of tactics, including the adoption of a more flexible business model, reduced inventory management, and the outsourcing of operational tasks. Notably, a financial services organization elaborated on a change toward more employee-centricity, manifested by a greater emphasis on valuing corporate, team, and individual values. An extra group of three respondents implemented efforts targeted at improving employee job roles, which is notable. These solutions included reducing working hours, implementing flexible work schedules, and implementing shift-based work arrangements. Specifically, a single firm in the real estate industry focused its efforts on improving client happiness.

In a larger perspective, a significant majority of 16 respondents displayed proactive resilience in the face of pandemic-induced obstacles among the overall participant

pool of 20 SMEs. In contrast, the remaining quarter of organizations avoided substantial operational changes, with their comments varying between expressing negative consequences, taking a neutral stance, declaring little operational disruptions, or crediting continuous company growth.

The overall results of the research showed that SMEs in Baku, Azerbaijan were not prepared for financial risks, their business plan and operations were not up to date, however they were responsive enough in adopting the advantages of digitalization and reacting to the change in their operations, including facilitation of employee work loads.

6. Main conclusions and novel findings of the dissertation

The primary purpose of this research is to investigate the business performance of the small and medium sized enterprises in Azerbaijan, Baku. Elucidating further, the inductive research started with review of existing literature and learning the current state. The first step was defining the term “performance”, indicators of performance from financial and non-financial aspects, comparing customer and employee satisfaction as the most frequently mentioned non-financial performance indicators, and uncovering the most commonly used BPMS in the enterprises. The research has a supplementary question regarding to the consideration of Common Good Values during performing, which is leading to a further research direction. After all the terms and definitions are learned, they were examined with the practice of Azerbaijan.

The study found out that SMEs in Azerbaijan, Baku have at least one organizational goal. Satisfaction with the achievement level of the goals for these companies are “partial”, in other words SMEs in Baku are not completely satisfied with their performance, particularly, small sized enterprises are relatively less content compared to medium sized enterprises. The reason behind this case was investigated further, the dissatisfaction may be connected with other factors such as explaining the organizational goals, not applying BMPS in the enterprise, and not setting precise and goals with compatible performance measures.

Results of data evaluation shows that SMEs in Baku give priority to financial indicators more than non-financial while performing, especially medium size enterprises. All the SMEs in the sample mentioned that net profit, profitability and sales growth are moderately important financial indicators and customer satisfaction, innovation, quality, reliability and employee satisfaction, are moderately important non-financial indicators. Innovation and quality were the second mostly preferred indicators, which may indicate the necessity of improvement in these directions.

Depending on the goal and performing sector of the enterprise, the indicators are also varying. However, it is noticeable that SMEs concentrate more on financial factors than non-financial. This fact brings a good rationale to execute an upwards research and investigate the reasons behind this preference.

The third question of the research, whether enterprises consider employee and customer satisfaction while performing or not, was answered in accordance with the responses. The results showed that these indicators are one of the most opted ones as non-financial indicators, being evaluated in an important scale. There was a pattern that companies which do not find customer and employee satisfaction have a low satisfaction in business performance.

The following finding of the research is regarding to the BMPS. The most commonly mentioned BPMS in the literature were presented in the questionnaires. Evaluated data revealed that 70% of the sample group use BMPS while performing. The most applied BMPS in Baku are KPI, benchmarking and total quality management systems. Member check results also proposed that majority of SMEs use those BMPS, besides a other systems such as OKR and ERP. The main obstacle for not acquiring a BPMS is defines as “not enough performance measurement knowledge”.

The results of the last research question suggested that shareholders, employees, customers, contractors, service providers, and people all through the value chain are considered the most by SMEs while they perform. The second most important element was opted to be financial profitability. Unfortunately, measures such as quantity of waste generated, energy consumption, raw material usage (Planet) received the least interest in the survey and was priorities only twice but companies in the field of media and advertisement. On the basis of information gathered it can be summarized that SMEs regardless of their sector consider values of Common Good concept. This finding also has an implication to the current situation in entrepreneurship in Azerbaijan, Baku and points out to the transition phase from financial to non-financial aspects, towards value creation. However, this research

question needs more comprehensive study to bring stronger and precise results since there was a small sample size to evaluate thoroughly.

A majority of enterprises in the research exhibited proactive resilience when confronted with obstacles stemming from the pandemic within the encompassing participant cohort of 20 small and medium sized enterprises. Conversely, the minority of entities refrained from making substantial operational alterations, and their feedback encompassed a spectrum of expressions, ranging from articulating unfavorable repercussions, assuming a neutral position, affirming minimal operational disturbances, to attributing ongoing corporate expansion. The cumulative findings of the study unveiled that SMEs located in Baku, Azerbaijan exhibited a lack of preparedness in terms of financial risk management and maintained outdated business plans and operational strategies. However, these SMEs exhibited receptiveness towards harnessing the benefits of digitalization and adeptness in adapting to shifts in their operational activities, including the facilitation of employee workloads.

The ultimate concept that this research originates is the difference between small and medium sized enterprises in terms of their goal orientation, performance measures and trends in applying performance measurement systems. Meanwhile small enterprises are more focused on growing in size, having more financial measures, and suffering from lack of knowledge to adopt BPMS, medium enterprises have more specific and comprehensive goals, are more inclined to use non-financial measures and have more knowledge base and experience in BMPS. Therefore, this study suggests to investigate these two categories of enterprises separately to have more rigorous understanding and results.

7. Recommendations

Analysis and evaluation of research results reveal several gaps for improvements and brings following recommendations for their business performance:

- Small and medium sized businesses differ from one another in terms of their goal orientation, performance measurements, and trends in the use of performance measurement systems. Medium-sized businesses have more detailed and comprehensive goals, are more likely to use non-financial measures, and have a larger knowledge base and more experience with BMPS, whereas small businesses are more concerned with expanding in size, have more financial measures, and suffer from a lack of knowledge to adopt BPMS. In order to get a more thorough knowledge and outcomes, this study advises looking at these two groups of companies independently.
- Enterprises should adopt clear and precise goals and communicate them to their employees expressly to provide unity and working towards the same goals, which may increase their business performance;
- SME's are recommended to properly align their performance measures and measurement models to their organizational goals and the business contexts they are in (individual firm, supply chain, etc.) (Rojas-Lema et al., 2020);
- To be able to achieve a sustainable performance it is suggested to focus on value creation, considering stakeholders (customers, employees, partners), economy and environment (Hawkins, 2021);
- Per results of the analysis there is a connection between low satisfaction in achievement of goals and not applying any BPMS, hence adoption of BPMS may help enterprises to increase their performance. There is a lack of knowledge about BPMS among SMEs, being the main reason for neglecting these measurement systems. Hiring a consulting service to train and supervise though the process may help to resolve the matter;

- There is a correlation pattern between low level of consideration of employee satisfaction and satisfaction in goals achievement. Increase in initiatives for motivation, benefits, training and career development opportunities may increase performance level of the enterprises too;
- SMEs in Azerbaijan, Baku focus mainly on financial indicators, however there is a pattern that they attach importance to innovation as a non-financial indicator. However, digitalization and access to technological means are relatively low in Azerbaijan compared to countries in the region, reporting only 50-60% computer and internet usage by the companies, meanwhile it is 100% in other OECD countries (OECD, 2022); The main barriers to the digitalization of SMEs in Azerbaijan include insufficient infrastructure, a lack of financial resources, and a lack of ICT expertise. The major objective for Azerbaijan would be to promote the IT expertise and infrastructure in the educational system, as well as train people early on to fill the future skills gap, which might assist SMEs perform better (Mahmudova, 2023).
- Most of the owners or managers were complaining about different mindsets of the employees, mismatch in employees' and enterprises' values and goals, lack of motivation and skilfulness. Therefore, building more transparent hiring process in terms of correctly expressing enterprises core values and goals to the candidates, and selecting the most matching potential employees may help with elimination such conflicts.
- Time frame for organizational goals are set between 1-10, but mostly for 2 or 3 years. However, keeping the main purpose, values and goal of the organization in mind, and setting shorter time frames up to 1 year, evaluating results every year and taking actions synced to the result of evaluation may bring better outcomes for performance assessment and improvement;

8. Strengths, limitations and future research directions

This research is an exploratory research, which brings a novel knowledge for the field that is important in the economy, whereas has not been studied thoroughly before. Factors that affect business performance of the SMEs in Azerbaijan have been studied externally, focusing on financial, political and environmental factors. However, there is not sufficient and grounded research about the internal business factors even though enterprises are affected by internal factors equally as external factors.

The current trends learned through this research can be a good base and trigger to raise awareness for focusing on internal processes of the enterprises, such as defining and achieving of goals, application of BPMS, paying attention to customer and employee satisfaction, and determining the improvement areas for businesses to be sustainable and being able to comply with the requirements of dynamic business environment.

Final contribution of this research process is related with the methodology. Through the research process there were several factors that had a role in the change of methodology, research design and data collection and analysis. This case was a good example to represent that research is a systematic, dynamic and continuous cycle of activities. It requires a ground knowledge of methodology and statistics, analytical and collaboration skills, motivation, agility to adapt to the changes if required, and ability to see the “big picture”. Another important aspect before starting to the research process is to consider the culture, governmental characteristics and business conditions in the country, to adopt the most suitable and feasible research strategy. This research brought the entrepreneurship culture in Azerbaijan, Baku into the lime light. It demonstrated the possible challenges that can be encountered due to closeness of the enterprises and the transparency level of their responses for the questions while participating in the research. It also substantiated the difficulty of

conducting a primary research due to the inaccessibility of up to date and accurate information from the government offices in a timely manner.

This research is leading to a few directions for future research. Based on the 5th supplementary question of the research, related to the Economy for Common Good and its applicability in Azerbaijan, SMEs provided a positive response. Relying on the response content of the enterprises there is a pattern that SMEs in Azerbaijan are in the transition period seeking for development, innovation and sustainability, while performing considerably towards society, environment and economy. Hence a new grounded research can be executed to investigate ECG practice in Azerbaijan among SMEs.

There is a necessity to study the BPMS application closely too. Referring to the results, there is a lack of knowledge for BPMS and their benefits. Enterprises that do not have BPMS and are willing to adopt one complained mostly about lack of information about them. Additionally, new researches with similar questions can be applied to a certain sector of the economy separately to have more specific information.

Being dependent on several factors discussed, the main limitation of this study is the small size of a research sample which hindered the completion of the quantitative part of the research according to the requirements of research. Due to the low response rate from the enterprises, aimed size for the sample was not possible to reach even with convenient sampling method, in order to enable the validity of the quantitative data. Unavailability of enough statistical data and lack of interest in contribution for research by local authorities made the research process challenging and time consuming.

The research was conducted in capital city, Baku and for all the sectors due to accessibility of the respondents and higher availability of data. Hence the outcomes of the research cannot be generalized for the whole country or to a specific field of the entrepreneurship field.

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