

# DOCTORAL (PHD) DISSERTATION

LEYLA MAHMUDOVA

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*Head of the Doctoral School: Prof. Dr. Balogh Péter, university professor, DSc*

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

*Prepared by:*

**LEYLA MAHMUDOVA**

*Supervisor:*

**DR. HABIL. JUDIT KATONÁNÉ KOVÁCS**

PhD, associate professor

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AND MEDIUM ENTERPRISES IN AZERBAIJAN**

The aim of this dissertation is to obtain a doctoral (PhD) degree in the scientific field of  
“Management and Business”

Written by: Leyla Mahmudova..... certified .....

Supervisor: Dr. habil. Judit Katonáné Kovács .....

**Doctoral final exam committee:**

name

academic degree

Chair:

Members:

**Date of the doctoral final exam:** 20....

**Reviewers of the Dissertation:**

name, academic degree

signature

**Review committee:**

name, academic degree

signature

Chair:

Secretary:

Members:

.....

**Date of doctoral theses defence:** 202....

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Furthermore, I declare the following:

- I examined the Code of the Károly Ihrig Doctoral School of Management and Business Administration and I acknowledge the points laid down in the code as mandatory;
- I handled the technical literature sources used in my dissertation fairly and I conformed to the provisions and stipulations related to the dissertation;
- I indicated the original source of other authors' unpublished thoughts and data in the references section in a complete and correct way in consideration of the prevailing copyright protection rules;
- No dissertation which is fully or partly identical to the present dissertation was submitted to any other university or doctoral school for the purpose of obtaining a PhD degree.

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# 1. INTRODUCTION

## 1.1. Background

SMEs play a crucial role in both national and global economies by driving economic growth, dynamism, and resilience in developed and emerging economies. They are vital for enhancing competitiveness and introducing new products and processes into the market. (Robu, 2013).

Improvement of SMEs in Azerbaijan is reflected as diversification, employment, increased demand for domestic consumer goods through utilization of local resources, decreased dependence on imports, and achievement of long-term economic growth. (Bayramov, et al., 2017). Azerbaijan's economy has grown tremendously in recent years at the expense of its fast-growing oil and gas industry, which has contributed to an increase in the number of small and medium enterprises (SMEs). However, the increase in the number of SMEs does not reflect the corporate sector's contribution to GDP. The growth of the oil and gas industry has left the development of the non-oil sector relatively neglected (Mahmudova, 2019).

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).

Azerbaijan has substantially boosted its performance in achieving international competitiveness parameters. The country was ranked 58<sup>th</sup> in the 2019 World Economic Forum Global Competitiveness Index (December 2019). As per the World Bank's Doing Business report, the country climbed from 57<sup>th</sup> place in 2018 to 34<sup>th</sup> place in 2020. (World Bank, 2019, 2020).

Since Azerbaijan's independence in 1991, numerous incentive mechanisms have been implemented to improve the business environment in Azerbaijan. (AR Presidential Decree No. 610, 1997 and No. 753, 2002). This period is remembered for the creation of new small businesses, the simplification of taxation and registration procedures by eliminating bureaucracy. However, the participation of SMEs in the economy is still inadequate, being worth only 9.9% of the economy in 2020 and 9.6% in 2021. (Statistics Committee, 2021, 2022). Therefore, in 2016, the "Strategic Roadmap for Consumer Goods Production at SME Level in the Republic of Azerbaijan" was drafted to ensure entrepreneurial competitiveness, inclusiveness and sustainable performance.

After Azerbaijan became independent, favorable conditions were created to increase the level of entrepreneurial activity in Azerbaijan. During this period development of entrepreneurship followed four stages (Mahmudova, 2019).

Stage 1 or the period up to 1993. The main features of this period are low levels of economic development and financial and manufacturing instability. At that time, the basic requirements for economic development were newly performed institutional reorganizations based on a market economy, privatization, formation of government measures to speed up the entrepreneurial procedures.

Stage 2 spanned the years from 1993 to 2002. The primary prevention of GDP drop and minimization of inflation, improvement of the macroeconomic situation, dynamic growth of business units, and acceleration of foreign investment flows into the nation are the main economic outcomes of the second stage. In order to fully realize the potential of the country, the main requirements for economic development at this stage were to accelerate the implementation of reforms related to the economic sector and bring about significant structural changes in the entrepreneurship sector.

Stage 3 or the stage after 2002. The main economic effects of this phase are enhancing the role of the entrepreneur in society, establishing a production-oriented trend for entrepreneurship, and revitalizing company activity in the area. The basic economic criteria for the third stage of entrepreneurship development are: Ensuring jobs, lowering unemployment, promoting regional potential in industry, tourism and agriculture, expanding export potential, fostering innovation in entrepreneurship (Süleymanlı, 2016).

Stage 4 started in 2016 with the introduction of “Strategic roadmap for the production of consumer goods in Azerbaijan at the level of small and medium entrepreneurship” defining 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).

## 1.2. Scope of the Study

This research is examining the performance of SMEs in Azerbaijan, Baku, as they are becoming the main focus of the economy. However, the contribution of SMEs in added value and employment is low, respectively 9,6 % and 37 %, due to the lack of knowledge in this field. Micro, small and medium entrepreneurship (SME) sector is divided into eleven different areas. The study intended to cover all SMEs in the country which operate in these areas. Total number of SMEs in Azerbaijan is 9735 (Statistics Committee, 2022) and research questions have been addressed to the ones that are located in capital city and accepted to respond them. The reason capital is selected as a target location is due to the high population, availability and density of enterprises. There are 6631 SMEs in Baku, which constitutes 68% of SMEs in Azerbaijan.

## 1.3. Aims of the Study

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).

#### **1.4. Research Questions and Design**

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

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

What kind of indicators are used to measure performance?

How important is employee and customer satisfaction as a factor of performance?

What kind of measurement systems are used to measure performance?

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.

Following the reviewed literature for methodology, Convergent Parallel Mixed method was chosen as the most suitable research model for this study, as it allows to collect quantitative and qualitative data alternately.

Research is initiated with thematic and bibliometric literature review that leads to formulation of questions. Data collection has been performed through structured interview questions and questionnaires with Likert scale 7, which are shared online. Data analysis follows the data collection and depends on several factors such as sample size, availability and validity of the responses. The finalisation of the dissertation is with recommendations.

#### **1.5. Dissertation Structure**

This doctoral dissertation comprises five main chapters.

First chapter will be devoted to introduction in order to give detailed information about following preliminary aspects: background of the study, problem statement, research objectives, research questions, scope of the study, research approach and methods, significance of the research and organization of the dissertation.

Chapter two will be assigned for literature review. The review will cover study of entrepreneurship, business performance, business performance dimensions, business environment, external business

environment factors, internal business environment factors and their dimensions, relationship between defined business performance and measurement units.

Chapter three will explain the adopted methodology. The proposed content of the chapter is as follows: introduction, research strategy, data collection, sampling procedure, qualitative research methods and data-analysis techniques.

Chapter four will analyse the qualitative data. Data preparation and screening, reliability and validity of the measurements; used statistical methods, table of depictions and summary.

Chapter five will cover findings and discussion of the results. The conclusion will be drawn and new recommendations will be proposed in this chapter. Integral parts such as contributions of the study, recommendations for SMEs and policy makers, limitations of the study in terms of data collection, sample, survey instruments and timeframe, suggestions for future research will also be noted.

Overall dissertation structure will be supported and completed with table of contents, declaration, acknowledgements, list of publications, list of figures, list of tables, list of abbreviations, abstract, references, appendixes.

## 2. LITERATURE REVIEW

### 2.1. Definition of entrepreneurship

Many scholars, and theorists alike, have devoted their time to the study not only the definitions, but also the ramifications of terms entrepreneur and entrepreneurship throughout history and the impact that they have in today's world. The *Table 1* is intended to collect some of these definitions with a timeline. Both words have been around for a very long time, but the meaning behind them, or the act that describes have been around for a lot longer. The meaning has been adapted and edited and in the future the will most likely be something relatively different again.

**Table 1. Definitions of entrepreneurship**

Jean-Baptiste Say	1800s	The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield.
Joseph Schumpeter	1900s	The function of entrepreneurs is to reform or revolutionise the pattern of production.
Peter Drucker	1950s	The entrepreneur always searches for change, responds to it, and exploits it as an opportunity.
Arthur Cole	1968	A purposeful activity to initiate, maintain and grow ('aggrandize') a profit orientated business
Howard Stevenson	1980s	The pursuit of opportunity beyond the resources that you currently control.
Stevenson and Jarillo	1990	An opportunity is, by definition, something beyond the current activities of the firm. Entrepreneurship is the function through which growth is achieved.
Schaper M.	2016	Entrepreneurship is when you act upon opportunities and ideas and transform them into value for others. The value that is created can be financial, cultural, or social.

*Source: Created by the author based on literature review*

"Entrepreneurship is defined as the activity of setting up a business, taking on financial risk in the hope of profit", defined by Oxford Languages. However, the meaning behind the word has been in existence far longer. As explained by Roberts (2015), "Contrary to the implicit dogmas of current free-market triumphalist, free markets and businesses have not been with us since the dawn of time. Business, "the activity of selling for a profit" dates from the start of urban civilization in Mesopotamia, about five thousand years ago. There was certainly plenty of prehistoric manufacturing and trade, but

profit and the desire for it were unknown. The conditions that made cities possible also made for wealthy elites, and the desire for profit took seed with the accumulation of wealth”.

The word entrepreneur was first spoken by Jean-Baptiste Say, who used it in the 1800s. according to his definition “The entrepreneur shifts economic resources out of an area of lower and into an area of higher productivity and greater yield” (Schoorl, 2012). revolutionization of production models, implying entrepreneurship is an activity of innovation. Dees (2018) explains this activity as value creation.

While the word was non-existent at the time, the concept the concept of entrepreneur and entrepreneurship, creating value was prevalent. Years later, Austrian economist Joseph Schumpeter brought a new understanding for entrepreneurship. He defined entrepreneurship as revolutionization of production models, implying entrepreneurship is an activity of innovation. Similar to Say’s idea, his contemporary Peter Drucker characterize entrepreneurship concept as mindset for seeing opportunities from the changes, instead of problems (Dees, 2018).

Schumpeter and Say and Drucker’s views come across in a point that entrepreneur’s main goal is to start a new business venture which is projected to create a profit, initiating innovation, creating value with the mindset of seeing opportunities. A more modern addition to these definitions was by Howard Stevenson, “the pursuit of opportunity beyond the resources that you currently control,” made entrepreneurship a more sophisticated concept.

Entrepreneurship has changed throughout time and is constantly adapting, but one thing remains the same, the desire to profit from such activities. Entrepreneurship can be likened to a virtuous cycle, where things advance and become better over time, from the economy, countries, and the people of the world.

The bottom line is that the advancements could be down to technology, however, there would not be an advancement in technology without entrepreneurship.

One-person kick starts a whole cycle which continues into innovation and constant improvement, for example without the invention of the internet, Jeff Bezos may not have become an entrepreneur and enriched the lives of people with easy shopping, by creating Amazon. This can also be said with other online entrepreneurs, without that original platform, from the original entrepreneur, they may not have had the skill, desire or will to achieve what they have now. The internet and entrepreneurs within this field is only one example, this can be true for all other industries, all it takes is one person to take the risk, have the knowledge and drive, to kick start a virtuous cycle of constant development.

As stated by Kuratko (2016), our economy was based upon entrepreneurship, further to this, it is not only from the past, but as explained, the present, innovation and growth are all based upon entrepreneurship.

Other definitions of entrepreneurship, which further backs up that it encourages growth is from Cole (1968) who defined it as “a purposeful activity to initiate, maintain and grow (‘aggrandize’) a profit orientated business”; and by Stevenson and Jarillo (1990) that state, “An opportunity is, by definition, something beyond the current activities of the firm. Entrepreneurship is the function through which growth is achieved (this not only the act of starting new businesses.)” They expanded further by explaining that entrepreneurial behaviour is “the quest for growth through innovation”

The history of entrepreneurship, like history in any other discipline, is important in order for growth. In the early 20<sup>th</sup> century, the emphasis was on the managerial revolution, but this changed towards the end of the century, where the emphasis was on the entrepreneurial revolution. This is important today because increasingly more people prefer to set up their own company and become entrepreneurs, rather than join a conglomerate and work their way through the ranks, according to World Bank Entrepreneurship Survey (2020).

According to Jones and Friedman (2011) “Entrepreneurship is an area in which business historians have made important contribution, but in which most of the recent conceptual work has been done by economists and management scholars. Their theories provide a more powerful set of tools for examining the history of entrepreneurship than any that were available to the pioneering business historians in the 1940s and 1950s. Huge areas of uncertainty regarding the causal links between entrepreneurship, innovation and growth still call for explanation.”

There are many forms of entrepreneurship, as shown there are various definitions surrounding what constitutes the term, and different people class various others as entrepreneurs, when others wouldn't.

There is a need for a more clearly defined definition of the term. The innovate definitions would rule that person out of being an entrepreneur, however, it would also rule out genuine entrepreneurs that are not innovative.

Different researchers have their own opinions on what defines entrepreneurship and entrepreneur. However, the majority would agree that an enterprise/business would classify as entrepreneurial, whether it be a multi-national conglomerate, or a small company.

## **2.2. Definition of enterprises in Azerbaijan**

Defined by Khemani and Shapiro (1993), “An enterprise is a term in the commercial world used to describe a project or venture undertaken for gain. It is often used with the word "business" as in "business enterprise"”.

In other terms, a company is defined as a legal entity with the ability to operate freely and engage in economic activity. To enter contracts, for instance, own property, maintain liabilities, and open bank accounts. Businesses are classified according to their size into various categories using criteria like employee count and annual turnover. SMEs have less than 250 employees and an annual sales of less

than EUR 50 million. Small businesses are further classified into micro businesses with fewer than 10 workers and annual revenue and/or balance sheet totals of less than EUR 2 million, and medium-sized businesses with 10 to 49 employees and annual revenue and/or balance sheet totals of not more than EUR 10 million. This indicator is measured as the number of employees in manufacturing (European Commission, 2009).

In Azerbaijan, small and medium-sized businesses are classified as follows: individual entrepreneurs (the sole owner of the entity without a legal entity) and small and medium-sized enterprises (legal entities). Individual entrepreneurs are unequivocally counted as small businesses, and those registered as legal entities are identified based on two criteria: employee number and annual turnover. (Research on Small and Medium Enterprises in Azerbaijan, 2009)

An enterprise is a legal, independent entity, that produces and sells goods, works and serves the product in accordance with law and is responsible for paying public benefit and earning income regardless of its form of ownership. The enterprise has a special name, indicating the organizational-legal form. Pursuant the Law of the Republic of Azerbaijan “On Property in the Republic of Azerbaijan” types of business can be based on state, collective, private and mixed forms of ownership. Enterprises operate in organizational-legal forms such as state-owned enterprises, individual (family), joint ventures, joint-stock companies (limited partnerships), limited liability companies and joint-stock companies. (Law of the AR on enterprises, 1994) In Azerbaijan, criteria for SMEs are different, compared to international standards (Mahmudova, 2019). Following *Table 2* interprets variation.

**Table 2. Criterion for SMEs**

	<b>Category of business entities by size</b>	<b>Average number of employees</b>	<b>Annual income</b>
<b>Azerbaijan</b>	Small enterprise	11- 50 employees	200.000-3.000.000 AZN 111.500 – 1.670.000 EUR
	Medium enterprise	up to 250 employees	3.000.000-30.000.000 AZN 1.670.000 – 16.700.000 EUR
<b>International</b>	Small enterprise	11 - 50 employees	up to EUR 10 million
	Medium enterprise	up to 250 employees	up to EUR 50 million

*Source: European Commission, 2009; Cabinet of Ministers of the Republic of Azerbaijan, 2018*

Note: Currency conversion date: 13.08.2023/ rate: 1.00 AZN=0.54 EUR

### 2.3. Definition of 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. As defined by Yucesoy and Barabási (2016), performance is the sum of objectively measurable achievements in a specific domain of activity. The term "performance" is used in a variety of contexts, including economic, financial, technological, sporting, and social performance. The word "performance" is etymologically derived from the Latin word "performare," which means to accomplish an activity that has been instructed. Its modern meaning derives from the English term "to perform," which means to carry out something that necessitates a certain ability or expertise. The term "performance" is frequently used to evaluate an enterprise's work and gauge its competitiveness (Mahmudova & Kovács, 2018)

- "Performance" is a noun that originates from the verb "to perform"; both the verb and the noun have numerous meanings. From the oxford dictionary, the noun 'performance' can be described as:
- “the act of performing a play, concert, or some other form of entertainment;
- the way a person performs in a play, concert, etc.;
- how well or badly you do something; how well or badly something works;
- the act or process of performing a task, an action, etc.;
- a display of exaggerated behaviour or a process involving a great deal of unnecessary time and effort” (Oxford learners dictionaries, c2020).

As shown with the definitions from the Oxford dictionary, the noun has different meaning in completely different spheres.

With the definitions that we have stated, they are still too vague and can be interpreted and measured in different ways. Take ‘how well or badly you do something’, what is the measurement and benchmark to decide whether you have performed good or bad. What one person may consider as excellent performance, another may consider sub-par, the view is completely subjective depending on the person. Take an example of an employee and their manager, the employee has completed all their tasks for the day, they believe that they have performed very well. On the other hand, the manager does not believe that they have performed well, they have completed their tasks, but that is it, that is the minimum stipulated in their contract of employment. In the manager's view to be performing well, the employee must achieve more than is expected.

Therefore, a uniform definition of the word ‘performance’, while on surface may seem easy to define, when breaking down the first layer and delving deeper into the meaning, is impossible to achieve.

The view of Campbell et al. (1993) on performance shows that the definition is very vague and be open to interpretation depending on the person reading it. They state, “Performance is what the organization hires one to do and do well”.

However, what are the measures to assess whether someone has done well, one organization could want more from an employee than a different organization. This also varies depending on what sector we are to define and assess performance. If we look at the public sector of police, healthcare and fire service, how can we measure the performance, could it be done on how many felons that the police officer has arrested, but these statistics could not give a fair representation on how that employee has performed, there could be other factors which have impacted the measurement. Therefore, the definition, by Campbell et al. (1993), is not sufficient to define what performance is, not only as a general word, but also that in the specific context of business.

This is backed up by the definition of Wholey (1996), who states, “Performance” is an interesting concept. “Performance” is not an objective reality out there somewhere waiting to be measured and evaluated. “Performance” is socially constructed reality. “Performance” exists in people’s minds if it exists anywhere at all. We have to define what “performance” means before attempting to measure performance. “Performance” may include inputs, outputs, intermediate outcomes, end outcomes, net impacts, unintended outcomes. Performance may relate to economy, efficiency, effectiveness, cost effectiveness, or equity”.

He explains that performance is socially constructed and exists in people’s minds, we know that every person is different, and their thought process differs, therefore allowing differences in opinion on what constitutes performance.

As Wholey (1996) mentioned, performance can be related to economy, efficiency etc and within each of those spheres, the definition of performance can be vastly different depending on the author.

His view is expanded by Folan et al. (2007), who define performance as, “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”.

However, like the other definitions, the vital flaw of this is that it is subjective and will vary person to person. They state that performance in a system put in place by an entity (with a pre-determined socially constructed reality), but what reality. As we have seen throughout history, not everyone follows the social norms, customs and values. Subculture groups, cults and sects have, throughout time, came into existence through the rejection of social norms. With this previous record of group rejecting the norms, we can assume that some would also reject the ‘socially constructed reality’ which

would define and measure performance. Therefore, this definition is not a uniform reality for everyone.

Further research demonstrates that the concept of "performance," and particularly that of "business performance," is not well understood. This term may have definitions that are abstract or general, vague or precise (Chim, 2010). Business performance refers to how well the company performed in comparison to its final output at the conclusion of a given period of time (Yldz et al., 2014). Depending on how well a firm does at achieving its goals, business performance might be described.

Performance at the organizational level is a multidimensional notion that integrates marketing, overall management, accounting, economics, sociology, and psychology (Kennerley & Neely, 2002). According to Fielden et al. (2003), performance is measured according to the accomplishment of organizational goals over the course of an organization's development in terms of the efficiency of its human resources, supplier performance, product and service quality, customer and market factors, as well as other financial factors. A crucial activity that supports the strength of any business is measuring the firm's performance (Mahmudova & Kovács, 2018).

**Table 3. Definitions of performance form different authors**

<b>Authors</b>	<b>Definitions of performance</b>
Etymologically	Latin: "performare" which means to <b>accomplish an activity</b> that has been ordered.  English: "to perform" which means to <b>implement something</b> that requires a certain ability or skill
Campbell et al. (1993)	Performance is what the organization hires one <b>to do</b> and do well.
Wholey (1996)	Performance may include <b>inputs, outputs</b> , intermediate <b>outcomes</b> , 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 <b>integration of marketing</b> , overall <b>management, accounting, economics, sociology</b> and <b>psychology</b> .
Fielden et al. (2003)	Performance is evaluated according to the <b>achievement of organizational goals</b> 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 <b>to progress</b> , 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 <b>target task</b> of the business was <b>accomplished</b> in comparison to the final output at the end of a business period.
Yucesoy & Barabási (2016)	Performance represents the totality of objectively measurable <b>achievements</b> 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 3* 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).

## **2.4. Business performance measurement and systems**

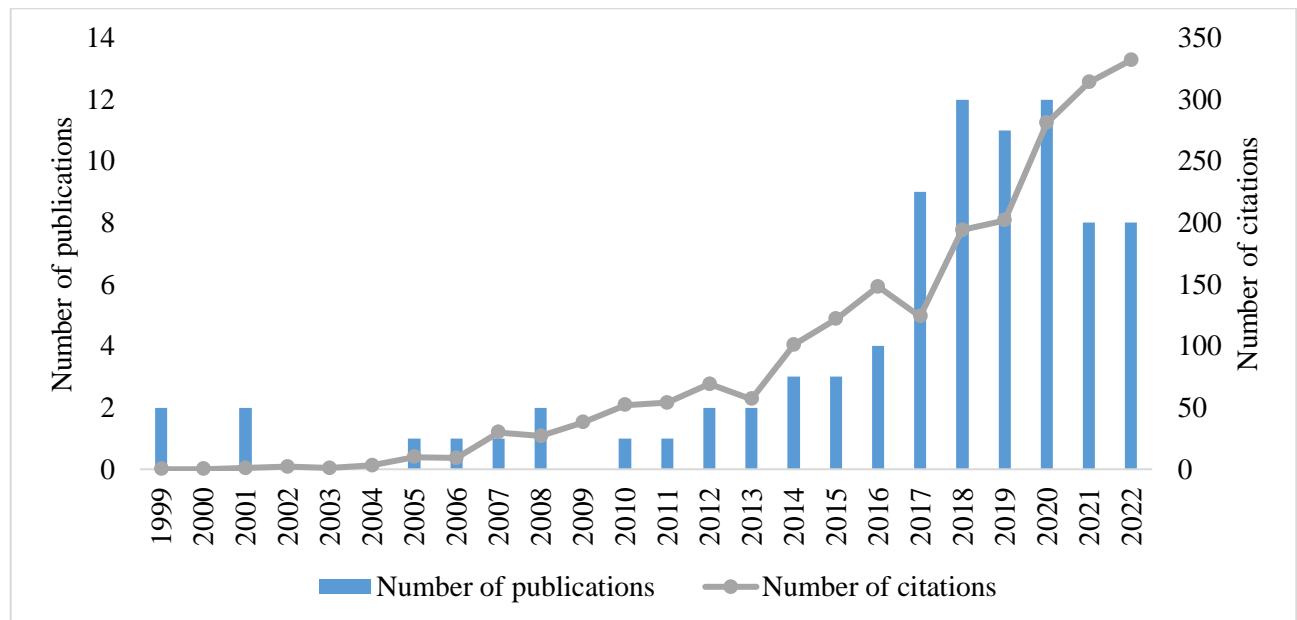
### ***2.4.1. Overview of Performance Measurement Frameworks***

Bibliometric review of the literature in this section intends to give a complete knowledge map of the intellectual structure of the study area of business performance measurement of SMEs based on a 23-years dataset obtained from the Web of Science database. The VOSViewer program was used to conduct a bibliometric analysis and a systematic literature review on 91 publications published between 1999 and 2023. The review includes an overview of most cited publications and authors, research directions and subjects.

As first step the map was built using keywords "small and medium-sized enterprises" and "performance measurement". Subsequently, clusters were detected using a bibliometric analysis with the software VOSviewer and the ratio of bibliographic coupling as the data aggregation method. Bibliographic coupling counts the number of references that two publications have in common to determine how similar they are (Bartolacciet al., 2020).

The research was confined with author keywords with min 3 range and the analysis was conducted according to five main clusters of the map: SMEs (cluster 1), performance measurement (cluster 2), digitalization and industry 4 (cluster 3), Balanced scorecard and supply chain (cluster 4), and performance management (cluster 5).

Figure 1 displays the trend in the number of publications from 1999 till 2022. Until 2016 number of published researches were not more than four, including some years with no publication at all. A steep increase can be observed in 2017 and since then examining this field has become more in focus of researches, reaching its peak in 2018 and 2022 with 12 articles. Despite the progress, the number of publications is relatively insufficient compared to the actuality of the topic in the recent years. This analysis points to the gap in the subject field of science.



**Figure 1. Allocation of publication during years**

Source: Created by the author based on the bibliometric literature review through Web of Science and VOSviewer

Per Table 4 the most cited articles were published between 2001 and 2019. The first research which received the highest citation in the subject field was published by Bhagwat Rajat and Sharma Milind Kumar under the title of “Performance measurement of supply chain management: A balanced scorecard approach” in 2007 with 354 citations. The second research by Hudson M., Smart A. and Bourne M. under the title of “Theory and practice in SME performance measurement systems” in 2001 with 342 citations. The third research by Garengo P., Biazzo S. and Bititci under the title of “Performance measurement systems in SMEs: A review for a research agenda” in 2005 with 315 citations. Having a closer look at the titles of the publications gives a sight into the evolution of the research direction, such as starting with the theory and practice of performance measurement in SMEs and involving implementation of measurement systems such as Balanced Scorecard, supply chain management and quality management by the time.

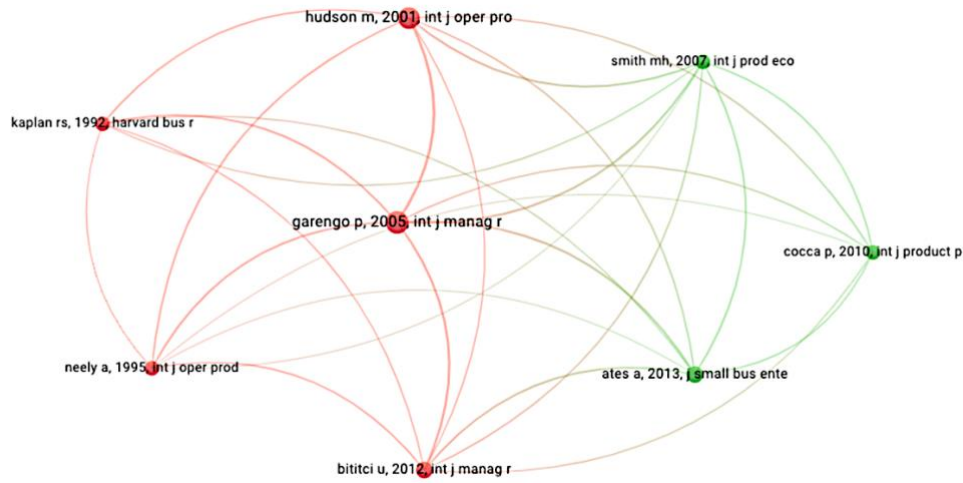
**Table 4. The most cited top 10 publications**

Authors	Source Title	Publication Date	Total Citations	Title
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Bhagwat, Rajat; Sharma, Milind Kumar	COMPUTERS & INDUSTRIAL ENGINEERING	2007	354	Performance measurement of supply chain management: A balanced scorecard approach
Hudson, M; Smart, A; Bourne, M	INTERNATIONAL JOURNAL OF OPERATIONS & PRODUCTION MANAGEMENT	2001	342	Theory and practice in SME performance measurement systems
Garengo, P; Biazzo, S; Bititci, US	INTERNATIONAL JOURNAL OF MANAGEMENT REVIEWS	2005	315	Performance measurement systems in SMEs: A review for a research agenda
Bourlakis, Michael; Maglaras, George; Aktas, Emel; Gallear, David; Fotopoulos, Christos	INTERNATIONAL JOURNAL OF PRODUCTION ECONOMICS	2014	129	Firm size and sustainable performance in food supply chains: Insights from Greek SMEs
McAdam, Rodney; Miller, Kristel; McSorley, Carmel	INTERNATIONAL JOURNAL OF PRODUCTION ECONOMICS	2019	73	Towards a contingency theory perspective of quality management in enabling strategic alignment
Taylor, Andrew; Taylor, Margaret	INTERNATIONAL JOURNAL OF PRODUCTION RESEARCH	2014	54	Factors influencing effective implementation of performance measurement systems in small and medium-sized enterprises and large firms: a perspective from Contingency Theory
Falle, Susanna; Rauter, Romana; Engert, Sabrina; Baumgartner, Rupert J.	SUSTAINABILITY	2016	53	Sustainability Management with the Sustainability Balanced Scorecard in SMEs: Findings from an Austrian Case Study
Agostini, Lara; Nosella, Anna	JOURNAL OF INTELLECTUAL CAPITAL	2017	51	Enhancing radical innovation performance through intellectual capital components
Winroth, Mats; Almstrom, Peter; Andersson, Carin	JOURNAL OF MANUFACTURING TECHNOLOGY MANAGEMENT	2016	51	Sustainable production indicators at factory level
Oliveira, Manuel D. N. T.; Ferreira, Fernando A. F.; Perez- Bustamante Ilander, Guillermo O.; Jalali, Marjan S.	JOURNAL OF THE OPERATIONAL RESEARCH SOCIETY	2017	44	Integrating cognitive mapping and MCDA for bankruptcy prediction in small- and medium-sized enterprises

Source: Created by the author based on the bibliometric literature review

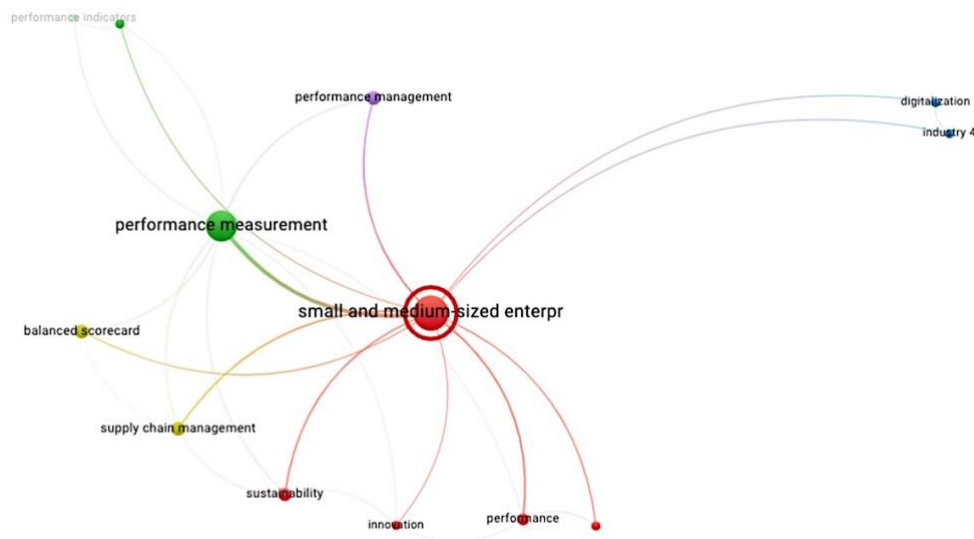
Figure 2 is created to display the connection between the research subjects of the most cited authors. Two clusters, each containing five and three authors are interconnected through two main research directions. The authors in first cluster (red) studied the performance measurement systems, their application and importance, and possible challenges that came as the years passed. Meanwhile the authors on the second cluster (green) examined the effectiveness of the systems, design of integrated systems that is best aligned to the needs of management and strategy of the SMEs.



**Figure 2. Map of most cited authors from 1992 till 2022**

*Source: Created by the author based on the bibliometric literature review through Web of Science and VOSviewer*

Figure 3 is created based on the keywords that were referred by the authors in their studies. The first and main cluster (red) merges: SMEs, sustainability, innovation, performance and measurement.



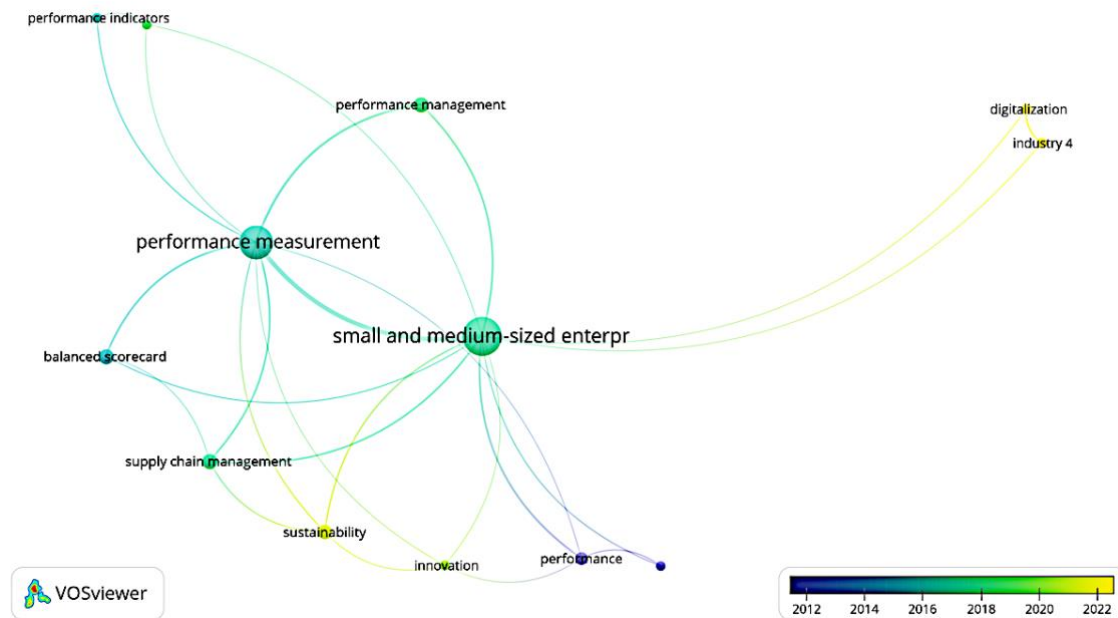
**Figure 3. Map of most used keywords by authors**

*Source: Created by the author based on the bibliometric literature review through Web of Science and VOSviewer*

The second cluster (green) merges performance measurement, performance and indicators. The third cluster (blue) contains digitalization and industry 4.0. the fourth cluster (light green) connects Balanced Scorecard and supply chain management with cluster 2 and cluster 1. The fifth and last cluster (purple) is linked with SMEs and performance measurement (cluster 1 and cluster 2). Based on the map, it can be observed that authors who studied performance measurement in SMEs, also

examined the connection performance indicators, BPMS, innovation and supply chain management and sustainability.

Figure 4 below, visualizes the changing trend of keywords by the time, towards digitalization, supply chain, sustainability and innovation.



**Figure 4. Changing trend of most used keywords during the past 10 years**

Source: Created by the author based on the bibliometric literature review through Web of Science and VOSviewer

According to Maisel and Jokins (2013) in their book, data outperforms businesses that utilize performance metrics more frequently and underperforms businesses that hardly ever or never employ metrics to boost performance. Improved results are what performance indicators are supposed to lead to. Malesios and Abdelaziz (2020) who studied the measurement system from the perspective of supply chain sustainability. The proposed model examines the sustainability in terms of economic, environmental and social sustainability. The model is expected to provide the managers and owners with an evaluation of their company's existing levels of sustainability performance and practices, as well as a solid guide for making specific adjustments at specific elements of their supply chain sustainability process. Further research by Malesios et al., (2020) stated that SMEs have a lower propensity to participate in environmental management practices and performance, and to embrace sustainable objectives and practices compared to bigger firms. SMEs have a far lower propensity to embrace sustainable objectives and practices. The notion of high costs is a major obstacle to SMEs adopting environmental measures, even when the advantages of possible cost reduction are underlined. Furthermore, a significant number of SMEs were still unknowledgeable about environmental best

practices and the advantages of serious sustainability initiatives, such as improved operational effectiveness, decreased costs and risks, and the creation of new prospects.

Interestingly, a recent research in literature by Melo et al., (2023) showed that evaluating the sustainable performance of SMEs going through the digital transformation process has attracted more attention lately. Possibly the COVID-19 pandemic which started to have effect since 2020 served as a catalyst for the interest. One of the useful insights were made after examining the research findings that compared to the services sector, the manufacturing business showed a larger output of research articles. Secondly, there seems to be a noteworthy absence of research on SMEs within particular industries, including, among others, media & entertainment, household & personal items, food & beverage & tobacco, autos & components. Lastly, research on SMEs was underrepresented in several geographical areas, including three American continents, Africa, and Oceania.

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.

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

investigates and inspects every factor that determines a company's business performance. The system's primary objective is to focus on analyzing the organization's operations at high and low levels of activity, which can also be applied effectively to assess the performance of SMEs. (Zulkiffli and Perera, 2011).

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.*"

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.

The term, or in fact the whole agenda of what we now consider performance measurement may not have been around throughout the early stages of commerce. However, business planning has been around for a very long time and the methods we use today are, by in large, the same used from as early as 1910. This is the view of Chandler (1977) who also expanded to say, "*In 1903, three Du Pont cousins consolidated their small enterprises with many other small single-unit family firms. They then completely reorganized the American explosives industry and installed an organizational structure that incorporated the "best practice" of the day. The highly rational managers at Du Pont continued to perfect these techniques, so that by 1910 that company was employing nearly all the basic methods that are currently used in managing big business*" (Chandler, 1977, p. 417).

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).

There are vast number of definitions for BPMS, depending on the field they are applied and the results that enterprises focus on. A research Franco-Santos et al. (2007) classifies the definitions for BPMS based on their features, roles and processes. The research proposes that most of the authors have been agreeing on "performance measures", "objectives/goals" and "supporting infrastructure". Simultaneously, "strategy implementation/execution", "focus attention/provide alignment", "internal communication" and "measure performance/performance evaluation" and "progress monitoring" "information provision" were mentioned most frequently as roles of BPMS.

Regarding to the process of BPMS, there are broad range of definitions, however the definitions that most of the authors have been employing were "measure design and selection", "information provision", and "data capture", in the reviewed literatures.

This view that performance measurement is needed to achieve business success is voiced by The Royal Society of Arts, Manufacturers and Commerce (1994). *"To achieve sustainable business success in the demanding world marketplace, a company must ... use relevant performance measures"*. Thus, we can assert that if a company does not acquire a system for assessing performance, collection necessary data on performance, and sharing analysed data for improvement, then a company does not apply any BPMS (Franco-Santos et al., 2007).

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. Therefore, it enables businesses to delve deeper and investigate the potential problems and come up with solutions. To understand this process thoroughly, in the following sections several business BPMS will be reviewed, analysed and compared according to the time frame of their establishment, structure and components.

#### **2.4.2. *Balanced Scorecard***

Business planning is the single most important task of any corporation, big or small, new or a long-time successful company. The importance of the balance scorecard is described by Tharp (2007), *“If integrated into Project Portfolio Management, the Balanced Scorecard can change the way an organization does business. It will keep a firm from becoming distracted by every new technology and new idea, and instead keep a focus on results. Balanced Scorecard helps with two problems that plague organizations:*

*Balanced Scorecard can translate a high-level strategic plan into operational plans*

*Balanced Scorecard introduces a feedback loop in the strategic planning process”*

Beginning in the early 1990s, Kaplan and Norton proposed the balanced scorecard concept. This framework, which consists of four main standpoints, helps businesses pursue their strategy and vision. The model has a branch of financial factors that are concerned with immediate outcomes. In order to help businesses, gain a competitive advantage and become innovative, the other three perspectives—customer satisfaction, internal company processes, and learning and growth—have been combined (Wongrassamee et al., 2003). According to Maisel and Cokins (2013), the four perspectives are interconnected as follows: Financial performance depends on meeting customer needs as a result of an efficient business process, which in turn calls for organizational capabilities, skills, and technological infrastructure.

The balanced scorecard is widely used within many businesses, this is shown by Silk (1998) who stated that *“Several years ago it was already reported as being used by 60 percent of Fortune 1000 companies”*. This shows the importance of performance measurement and in particular the balanced scorecard to companies, especially to large companies.

The underlying, fundamental part of the balance scorecard is the vision and strategy of the company and they are extremely important for any business. As shown by Collins *“A Vision engages and motivates people because it connects them to what is important and gives meaning and energy to work”* (Collins, 1996).

As Brown (2000) states, the balanced scorecard is more than just financial performance measurements or reporting, it is the catalyst for the future financial performance of the company. *“The Balanced Scorecard approach retained measures of financial performance, the lagging indicators, but supplemented them with measures on the drivers, the lead indicators, of future financial*

*performance (Brown, 2000).*” Poll (2001) expands further on this view and suggests that the use of the balance scorecard is for long term strategic management. *“It is possible to use the balanced scorecard as a strategic management system to manage strategy over the long run” (Poll, 2001).*

The balanced scorecard expanded on traditional methods of performance measurement, where the interest was only on short term financial gain, companies were only interested on how much profit they have made. Although, naturally, everyone wants to measure their wealth, how much profit has gained, this does not give any insight into future planning, strategy or how to maintain or grow that profit for the future. This is where the balanced scorecard has come in and filled the gap. This is explained further in the view of Latshaw and Choi (2002):

*“Traditionally, organizations measured their performance on short-term financial measures; however, the balanced scorecard approach extends this to including measures of performance relating to customer, internal processes and learning and growth needs of their people” (Latshaw & Choi, 2002).*

As explained, this is vital for companies looking forward to the future, in order to prosper long term. Large multinational corporations are more adept in this as they have the cash flow to not worry about the short term, their main aim is long term prosperity and maintain, or even expand on their current standing. This can be slightly different for SMEs because they usually do not have the capital, resources or experience, compared to large conglomerates, this could be the reason they are more focused on short term survival and financial performance of ‘now’.

The view of Hagood and Friedman (2002) explains the relevance of the balanced scorecard for long term prosperity. *“This is particularly relevant to companies seeking longer-term superior returns, embarking on new strategies or under competitive threat, where the lack of these organizational capabilities will threaten the organization ‘s longer-term sustainability” (Hagood & Friedman, 2002).*

Johnsen (2001) agrees that the balanced scorecard is for the future planning of the business. He argues that a key part of it is the feedback and a learning step, where companies can build and expand for the future, whether or not they are on track to reach their goal and if not, they can then take steps to put them back on track. *“A key part of the Balance Scorecard approach is the feedback and learning step, where an organization is able to quantify where it is on its strategic capability building journey, in the context of its current performance, and possible changing business environment. This information should enable the leadership to determine whether the organization is on track, and what, if any, interventions/changes need to be made. If changes are required, these could be in the definition of the destination, the pace of the journey, or the redesign of the initiatives designed to build the capability” (Johnsen, 2001).*

A quote from Cokins (2004) says that employees can only play a part in achieving the companies’ goals if they understand the strategy, this is where the balance scorecard plays a vital role. It allows, not only the company directors a view to follow their strategy for success, but to also clearly define

the strategy and steps needed to achieve this, to the employees. Without the employees, the business cannot function, with the importance of the employees to any company, it is imperative that they know clearly their role within the company and the actions they must take in order to achieve the clearly defined strategy. *“Employees can only implement a strategy when they clearly understand it and their role in achieving the company’s strategic objectives”*.

Below *Figure 5* is an example of the balanced scorecard from Kaplan and Norton (1996). It shows the four different perspectives of the scorecard and the questions that must be asked in order to benefit from it and grow.



**Figure 5. Balanced Scorecard**

*Source: Kaplan & Norton (1996a, p.9)*

“Financial: emphasizing shareholder satisfaction, key goals and measures here generally involve (gross and/or net) profitability, return on capital employed, residual income, economic value added, sales growth, market position and share, cash flow etc.

Customer: focusing on “real” customer satisfaction, key goals and indicators here typically stress common customer concerns such as delivery time, quality, service and cost etc.

Internal business: key goals and measures here should highlight critical skills and competencies, processes and technologies that will deliver current and future organizational (customer/financial) success.

Learning/growth: underpinning the other three perspectives, key long-term goals and indicators in this regard typically relate to improving flexibility and investing for future development and new opportunities” (Atkinson, 2006, pp. 53-54).

Although the balanced scorecard is widely accepted and used for many companies, there are criticisms of it. “It is claimed that if due care is not exercised there is a risk that by seeking to incorporate the disparate demands of each key group the resulting Balanced Scorecard can resemble a series of four independent and uncoordinated “lists” of measures” (Gering & Mntambo, 2002). This shows that the users of the balanced scorecard must take due care when using and acting upon the information. If they do not, then it could act as four separate and independent lists, which would not help them achieve their goal. The four perspectives are interlinked and must be treated as such, to gain the most benefit out of the scorecard.

A study by Malagueño, et al. (2018), that examined correlation between use of Balanced Scorecard, and financial performance and innovation, gives more outstanding results in financial performance rather than organizational control and innovation. More established companies had greater financial outcomes and SMEs appeared to obtain better managerial practices and defined strategies to achieve the same performance.

Bourne et al. (2002) are also critical of not only the balanced scorecard, but other performance measurement frameworks, they stated that there is little research into their effectiveness and found that there were 3 key factors which compelled progress.

Purpose – clear vision for moving the company forward;

Structure – which related to parent subsidiary relationship which had negative impacts which were not fully understood; and

Culture – it was found that having a paternalistic culture was beneficial to successful implementation” (Bourne et al., 2002).

Hoque (2014) conducted a research based on 114 articles in highly ranked 25 accounting and 67 business management journals published in past twenty years, to learn the trends in application of Balanced Scorecard. Besides its popularity and usefulness, the research also explored the shortcomings and limits of the tool. Several researchers have expressed doubts regarding its overall premise, fit within company culture, and compatibility with business targets. Problems with dimension selection, interrelationships, and the incorporation of non-critical views have also been raised. Scholars have found it difficult to determine the relative relevance and trade-offs of the scorecard’s views, and have questioned the capacity to agree on a coherent method for its creation. Performance variability, ambiguity tolerance, and issues with causal links within the scorecard have all been identified. Furthermore, there are issues regarding its reliability as a strategic management tool and its capacity to achieve organizational and socio-environmental congruence.

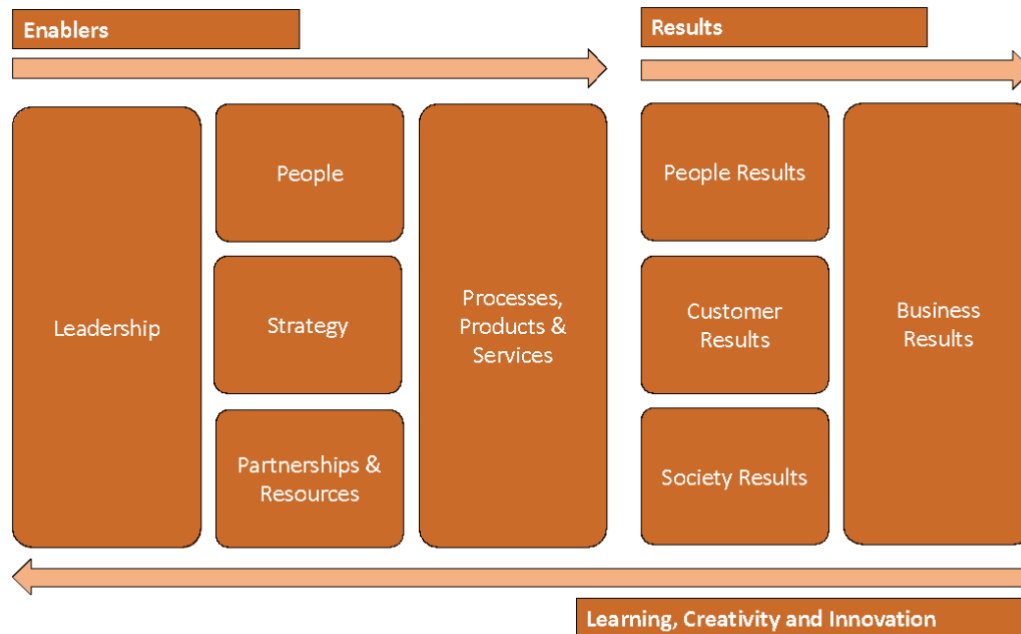
Despite the Balanced Scorecard’s detractors, Kaplan and Norton (2012) have broadened and evolved it into a strategic management tool in their latest books. They have underlined the Balanced

Scorecard's practical significance for organizational decision making. Kaplan recommends breaking down the scorecard measurements into financial and non-financial components in order to coordinate information, communication, and strategy at all levels of the business for effective management. This approach is consistent with the idea that a company's strategic goals should be divided into important success factors and critical actions.

According to Hoque (2014) it is difficult for some organizations to combine the balanced scorecard with other management control instruments for instance budgeting, and organizations tend to employ too many metrics in a single scorecard. As a result, organizations may frequently find up measuring the incorrect things. Indicators assist us in simplifying the process of measurement. Each measurement sign may be detrimental if we let it govern the whole process. We may benefit more from doing a poor job of measuring critical things than we do from precisely measuring superfluous items (Berners-Lee, 2021). Similar to Berners-Lee (2021) and Hoque (2014) Rojas-Lema et al. (2021) also suggest first to define the objectives, scope and intergration of all the components of the business before selecting the measurement systems and the measures that correspond and serve to the complete, sustainable performance of the companies.

#### ***2.4.3. The EFQM Excellence Model***

The European Foundation for Quality Management (EFQM), which was proposed in the early 1990s, is the next step in the trend of continuous improvement and quality management. The main idea behind this paradigm is that outcomes and processes are symbiotically linked to one another. The system provides a comprehensive perspective, a combination of strategy, leadership, human capital, skilled resource utilization, and processes and results that are clearly articulated. (Sozuer, 2011). The EFQM model is an optional tool that acts as a roadmap for businesses and awards those that are successful in putting the rules into practice in order to attain business excellence (Kapiki, 2012). Business excellence is a more multifaceted methodology that takes into account the economic, technological, and social aspects of performance rather just insuring maximum profit and minimum cost (EFQM Leading Excellence, 2012). Without regard to the type of model used, factors such as company innovation, leadership, vision, and strategy, customer satisfaction, business ethics, sustainability, and economic outcome should be taken into account, according to Ghicjanu et al. (2015). The EFQM Model classifies the factors into two categories: enablers, which are composed of five criteria: leadership, policy and strategy, people, partnerships and resources, processes; and results of four criteria: people satisfaction, customer satisfaction, impact on society and key performance results (Kapiki, 2012). After Balancing Scorecard, EFQM is a more innovative framework that takes crucial factors like society's outcomes and sustainability into account, *Figure 6*.



**Figure 6. EFQM Excellence Model**

Source: (EFQM 2012)

“EFQM is an innovative, not-for profit organization, fusing data-driven insights, curated learning and development and networking opportunities for the benefit of organizations and individuals worldwide” (EFQM 2019).

“The EFQM model, an integrative business system, covers all management activities composed of input, process, and output” (Seghezzi, 2001). “The EFQM Business Excellence Model is a framework to assess organizations for the European Quality Award that aims to develop awareness of the importance of quality in the intensified global market” (Evans & Lindsay, 2005).

These definitions of the EFQM show that it is a framework and business tool to plan for and achieve business excellence and quality, in order to support a sustainable and high performing business.

The objective of the EFQM model is to “support organizations to achieve business excellence through continuous improvement and deployment of processes” (Andersen et al., 2003).

The EFQM excellence model has also been used as a tool in different ways such as;

*systematic performance management* (Wongrassamee et al., 2003)

*self-assessment* (Tari', 2006)

*teamwork development* (Castka et al., 2003)

*integration issues* (Davies, 2008)

*benchmarking* (Castka et al., 2004)

The EFQM has helped businesses and organizations to develop a “*culture of improvement and innovation*” they allow business to see what “*good looks like*” and to enable them to forward think and work better as a company.

The benefits of the EFQM excellence model, as stated by the EFQM are;

- It helps define your purpose
- It helps create your culture
- It helps forge strong leaders
- It helps transform your organization
- It helps foster agile practices
- It helps address unique organizational challenges
- It helps forecast the future



**Figure 7. EFQM Excellence Model**

Source: (EFQM 2019)

Figure 7 shows the principles that shape the EFQM model, it has been argued that regardless of the size or structure of a company, these principles are an important tool for a management framework. The EFQM model stresses the importance of;

- The primacy of the customer

- The need to take a long term, stakeholder centric view
- Understanding the cause and effect linkages between why an organization does something, how it does it and what it achieves as a consequence of its actions.

The model is based on three simple questions.

- “Why” does this organization exist? What Purpose does it fulfil? Why this particular Strategy? (Direction)
- “How” does it intend to deliver on its Purpose and its Strategy? (Execution)
- “What” has it actually achieved to date? “What” does it intend to achieve tomorrow? (Results). (EFQM 2019)

Direction refers to the purpose of the organization, why are they here and that is the organization trying to achieve, what is their vision. It needs to explain why it’s work is important. Direction also refers to the organizational culture and leadership and how that interlinks with their purpose, vision, and strategy. An organization can have a good purpose, vision, and strategy, but without the right culture or leadership, it can be a recipe for failure, and vice versa.

For an organization to achieve good results, they must have their direction planned out, but they execution of the direction is important, and they need to execute effectively by ensuring that it;

- *Knows who the stakeholders are in its ecosystem and engages fully with those that are key to its success*
- *Creates Sustainable Value*
- *Drives the levels of performance necessary for success today and, at the same time, drives the necessary improvement and transformation if it is to be successful in the future (EFQM 2019).*

The last section of the model is the results, this is important to see how the direction and execution has worked and to forecast for the future.

The EFQM uses a tool called RADAR, which is a diagnostic tool to help an organization;

- *Better manage its current way of working*
- *Diagnose its current strengths and opportunities for improvement.*

“At its highest level, the RADAR logic states that an organization needs to:

- *Determine the **R**esults it is aiming to achieve as part of its strategy*
- *Have in place a number of **A**pproaches that will deliver the required results, both now, and in the future*
- *Deploy these approaches appropriately*
- *Assess and **R**efine the deployed approaches to learn and improve.” (EFQM 2019)*

#### ***2.4.4. The Malcolm Baldrige National Quality Award***

In the late 1980s, as organizations began to emphasize self-assessment and continuous improvement, the U.S. Commerce Department established the Malcolm Baldrige National Quality Award (MBNQA). This award encouraged the organizations to regulate the caliber of their operations, procedures, and benchmarking activities. Businesses can evaluate their weaknesses and strengths by using the Malcolm Baldrige model's guidance to examine leadership, operations, strategic planning, and labor force criteria all at once. (Sozuer, 2011).

“As an attempt to promote quality excellence in the USA and to catch up with competing trading nations in the areas of quality productivity and competitiveness, the MBNQA programme was conceived in 1987” (Arvinder & Johannessen 1997).

The existence of the MBNQA came about due to the productivity problems in the American manufacturing industry, while other countries, especially Japan, faced the opposite, where their productivity was booming. After research, they found out it was due to certain aspects of the Japanese manufacturing processes such as JIT, just in time, where they only have the components they immediately need, no more. This created less waste, which in turn less profit loss and higher productivity. This was new to American manufacturing and the implementation of such processes was not immediate, as they were not simple techniques but a radical overhaul of philosophies.

The objectives of this programme were to improve quality and productivity and the effect can be seen by looking at the legislation, which addresses issues and shows the importance of quality.

- *"(1) The leadership of the United States in product and process quality has been challenged strongly (and sometimes successfully) by foreign competition, and our Nation's productivity growth has improved less than our competitors' over the last two decades.*
- *(2) American business and industry are beginning to understand that poor quality costs companies as much as 20 per cent of sales revenues nationally and that improved quality of goods and services goes hand in hand with improved productivity, lower costs, and increased profitability.*
- *(3) Strategic planning for quality and quality improvement programs, through a commitment to excellence in manufacturing and services, are becoming more and more essential to the wellbeing of our Nation's economy and our ability to compete in the global marketplace.*
- *(4) Improved management understanding of the factory floor, worker involvement in quality, and greater emphasis on statistical process control can lead to dramatic improvements in the cost and quality of manufactured products."* (US Department of Commerce)

### 2.4.5. The Performance Prism

The performance prism is a measurement framework which assists company's performance measurement selection, the process of picking the correct measures that addresses the issues of a company.

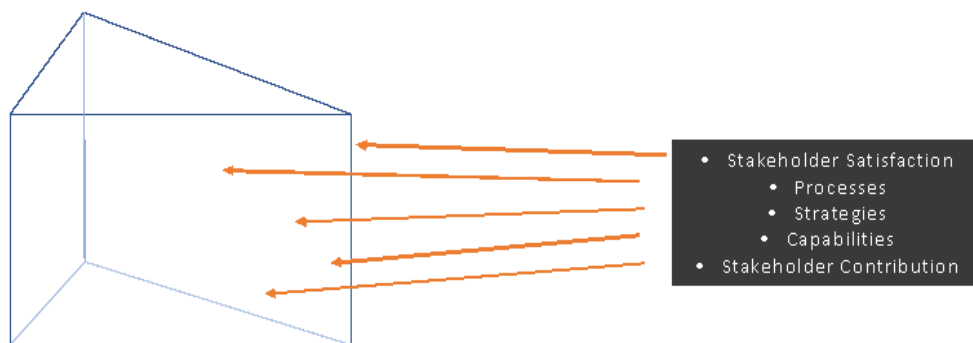
The main point for the performance prism is stakeholders. Stakeholders are an integral part of any business and the goals, strategies and implementation revolves around them. Therefore, the performance prism is based upon the stakeholders, with each of the five perspectives, they have an influence.

It is believed that the performance prism is to facilitate managing performance, this is argued by Manoochehr,

“The measures related to the mentioned facets accompanied by their results, trends, targets, standards, initiatives and action plans are included in scorecards to facilitate managing performance. Measures are connected with each other through sets of hypothetical relationships called “success map”” (Manoochehr, 2012).

This framework (*Figure 8*) is a ‘thinking aid’, consisting of five related perspectives, which acts as a structure to answer important business questions. These five perspectives are;

1. *“Stakeholder Satisfaction: Who are our stakeholders and what do they want and need?”*
2. *Stakeholder Contribution: What do we want and need from our stakeholders?*
3. *Strategies: What strategies do we need to put in place to satisfy these sets of wants and needs?*
4. *Processes: What processes do we need to put in place to satisfy these sets of wants and needs?*
5. *Capabilities: What capabilities – bundles of people, practices, technology and infrastructure – do we need to put in place to allow us to operate our processes more effectively and efficiently?”* (Neely et al., 2002)



**Figure 8. The Performance Prism**

Source: Neely et al., (2002)

First perspective, stakeholders are people or groups that have an interest in a company, for example this can include;

1. Employees
2. Shareholders
3. Suppliers
4. The local community

They all have an interest in a company, but the level and type of interest will vary by each stakeholder. For example, employees' main interest in the company, usually, will be the level of compensation for their work, training, holiday days. Shareholders' main interest will be the profitability of the company, how much money can they expect back.

Therefore, the satisfaction for the stakeholders, at the same time, can be different for the different group.

Second perspective, stakeholder contribution. Companies need contribution from their stakeholders in order to achieve and 'give back' to them. An example of this is with employees, they would like a high level of compensation for their work, training and promotion opportunities and in return, companies would expect and want a high level of loyalty, hard work and productivity. Stakeholders and companies are interlinked, and one cannot function without the other.

Third perspective, strategies. The strategy is planned after companies realize the wants and needs of their stakeholders; they can then plan the strategy in order to meet the objectives of all involved.

Fourth perspective, processes. The processes are designed to implement and achieve their strategies. Many organizations consider their highest-level business processes in four separate categories:

1. *development of products and services,*
2. *generation of demand for them,*
3. *fulfilment of demand for them and*
4. *overall planning and management of the enterprise* (Neely et al., 2002)

Fifth perspective, capabilities. The processes cannot not be realized without the capabilities needed to fulfil them. These include;

1. *skilled employees*
2. *infrastructure*
3. *technology*

#### **2.4.6. Common Good Matrix**

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).*

Without the common good concept, putting values over pure profit orientation, which leads to astronomical wealth for the few, society can suffer, with many people becoming poor. This may not, initially, be in the mind of the corporations, however, further down the line, as the divide between rich and poor become more polarized, less people will have the ability to purchase from the very companies that have put profit above all else. Therefore, not only from an altruistic point of view, but also a business mind with a view on long term longevity and sustainability, business should use the CGM to strive for excellence.

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 beneficial for organizations to incorporate sustainability management and reporting into a single solution to simplify sustainability management implementation and control.

By late 2014, over 200 forward-thinking businesses had voluntarily adopted the Common Good Balance Sheet, motivated by compelling reasons. For starters, it gave them a strong feeling of social purpose, raising their corporate goals above and beyond monetary advantages. Second, the Balance Sheet served as a complete organizational tool, providing a 360-degree panoramic perspective of their business activity. Its all-encompassing approach was devoid of selective ethics.

Furthermore, the Common Good Balance Sheet acted as a catalyst for collaboration, allowing these businesses to create a platform for collaboration and information exchange. This collaborative atmosphere drew in ethical employees, resulting in a notable increase in unsolicited employment applications, particularly among pioneer banks.

The Balance Sheet not only appealed to skilled personnel, but also to ethically minded consumers and clients, forging a strong link of trust and integrity. Recognizing the potential of this method, public support for it began to grow, including from state governments. One notable consequence of this ethical paradigm change, known as the "ethical thrust reversal," is that present competitive disadvantages of ethical behavior are replaced with strategic advantages. Early adopters of the Common Good Balance Sheet benefited from a sought-after "first mover advantage."

Despite critics, these businesses stayed committed to this revolutionary strategy, demonstrating that ethical business practices and organizational success are not mutually incompatible. The Common Good Balance Sheet evolved into a strong tool for developing purpose-driven collaboration and pushing conscious capitalism, so crafting a hopeful future in which societal welfare and company success coexist (Felber, 2019)

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.

Porter and Kramer (2011) refer to “the co-creation of economic, social, and environmental value as shared value, pointing to social enterprises as hybrid organizations.

		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 9. The ECG matrix version 5.0.**

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

This matrix reveals the link between five stakeholders of a company: (Figure 9)

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).

Economy for common good prioritizes human needs as main goal of the business, meanwhile profit maximization is regarded less. According to the concept behind this matrix, the profit is not sufficient to measure whether a company is performing well, as its success is evaluated based on its contribution to society, stakeholders and environment. This model calls for better environment, happier people and more equal distribution of wealth, and ethical business ecosystem.

There are many frameworks, theories and beliefs surrounding the topic of performance, how to measure performance, how to manage performance, and most importantly, how to use the information to expand on it and become a truly sustainable and profitable business. Below *Table 5* shortly summarizes similarities and differences between BPM models that are discussed in this chapter:

**Table 5. Similarities and differences between BPM models**

<b>BPM models</b>	<b>Year introduced</b>	<b>Main objectives</b>
<b>The Balanced Scorecard</b>	1987	<b>Financial</b> perspective, <b>Internal Business</b> Perspective, <b>Customer Perspective</b> , <b>Learning and Growth</b> Perspective to achieve vision and strategy
<b>The EFQM Excellence Model</b>	1988	Merging <b>Leadership, People, Strategy, Partnership&amp; Resources</b> enables in order to receive <b>People, Customer, Society and Business</b> results. Based on three simple questions: “Why” does this organization exist? “How” does it intend to deliver on its Purpose and its Strategy? “What” has it actually achieved to date?
<b>The Performance Prism</b>	2000	Has 5 main perspectives: “ <b>Stakeholder</b> Satisfaction: Who are our stakeholders and what do they want and need? Stakeholder Contribution: What do we want and need from our stakeholders? <b>Strategies</b> : What strategies do we need to put in place to satisfy these sets of wants and needs?

		<p><b>Processes:</b> What processes do we need to put in place to satisfy these sets of wants and needs?</p> <p><b>Capabilities:</b> What capabilities – bundles of people, practices, technology and infrastructure – do we need to put in place to allow us to operate our processes more effectively and efficiently?”</p>
<b>Common Good Matrix</b>	2010	Main values are <b>human dignity, solidarity and justice, environmental, transparency and co-determination</b> that analyses their relation with stakeholders: <b>suppliers, owners, employees, customers and social environment.</b>

*Source: Created by author based on the reviewed literatures*

Referring to the introduction dates of these models, we could notice that towards the end of 1980's there was a change in the concept of measuring performance. If financial factors were main determinants of the performance level before, after 90's the frameworks were expanded and included social and environmental indicators.

The models also bring in spot the strategy and goals of the companies as an important driving element of good performance. The models put the strategy and goals in the centre of the matrix and proposes to find the relation between them and the values that company considers mostly.

Comparing the values that are introduced by models, it appears that customer and employee satisfaction are included in all of these models. As the most novel concept, economy for common good, rises attention on environmental issues as well as taking the scope to a macro-economic level.

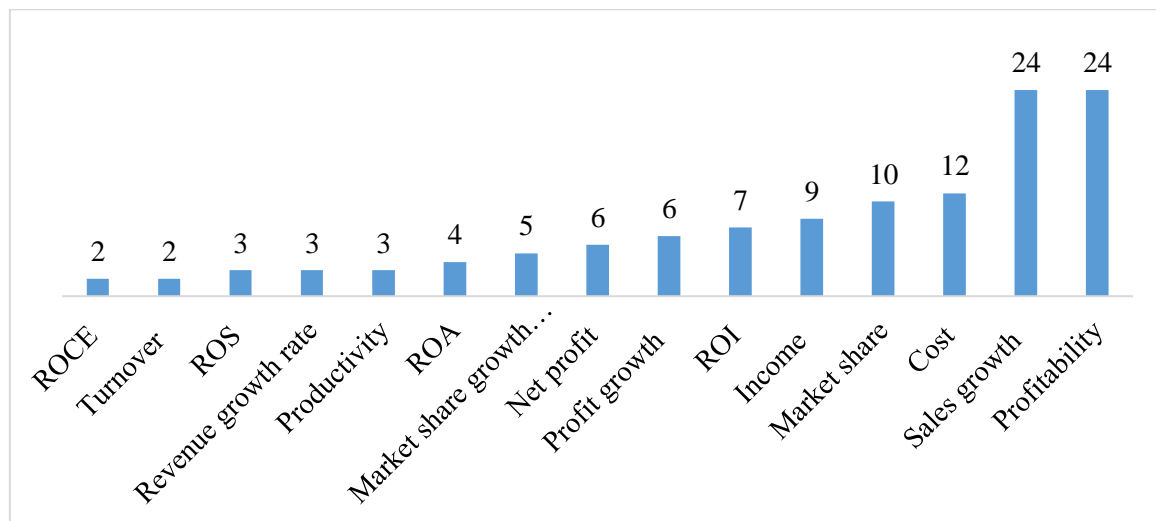
Many people, company owners and theorists will disagree about the right, correct or most ethical way to conduct business, as shown here, by the different theories outlined above. Many business owners, especially small business owners, would not like to take the common good matrix into consideration, they can think that it could negatively impact their business, divert attention away from them making profit. However, as seen, in the long term, it could have a negative effect, not only on the small business owner that did not want to take it into consideration, but industries as a whole.

Similarly, there are many small businesses and owners which do not see the benefit of any type of performance measurement, financial or not. They do their job, they may be successful, they could think why to change anything, why start to report and measure now, they could be happy where they are. But this could change at any moment, a pandemic, such as COVID-19, could happen and leave many people struggling, forcing many businesses to close. Without the measurements and planning, in such unprecedented times, there would be no hope of a loan from the bank to keep them afloat, until business started getting back to normal. As mentioned previously, planning and performance measurement is the single most important task for any business, both big and small.

Following the discussion, it can be stated that a company's success is evaluated from various perspectives. Based on more than 100 publications examined frequently referenced measures in literature were categorised as: financial and non-financial measures. There are numerous BPMSs and diverse range of financial and non-financial corresponding factors to the pillars of these BPMSs. Each BPMS utilize these measures through a specific manner in order to make effective strategic decisions for businesses and ensure long-term success. In the upcoming sub-sections of this section performance indicators have been collected and ranked according to their nature and frequency in the literatures, and the most important factors later on, were selected to build the research on.

#### 2.4.7. Financial performance indicators

Financial performance can be measured using metrics such as return on investment, turnover, or customer count. (Wood, 2006). Performance has typically been assessed from a financial standpoint. The most common metrics used are efficiency, growth, and profit. Due to its short-term nature and compliance with the strategy, this approach is seen as being very subjective (Reijonen & Kompula, 2007). Performance is a broad notion with several meanings in a variety of contexts. (Carter, 1991). *Figure 10* 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 10. Occurrence of financial indicators measuring performance**

*Source: Created by author based on the reviewed literatures*

#### ***2.4.8. Non-financial performance indicators***

Non-financial indicators are a stronger predictor of future economic performance than financial indicators, and they can help enhance and encourage managerial performance (Reijonen & Komppula, 2007). The performance of the firms can be evaluated from the viewpoint of the reviewer, no matter if this is a customer's or shareholder's viewpoint (Ruiz- Carrillo & Fernández-Ortiz, 2005). As part of this approach, every sector has its own set of performance definitions.

**Performance in the Service Sector. IT services firms.** Performance indicators in this industry can be categorized as either quality-related or business-related. Online service providers take into account delivery speed as a criterion for performance quality. These factors are specified as throughput and response time. The business-related factor is the execution cost that occurs while the requester pays a fee for using the services (Maheswari & Karpagam, 2018). Businesses that offer network services have their own, industry-specific definitions of key performance indicators (KPI). These indicators include call setup success rate, stand-alone dedicated channel congestion, drop call rate, and traffic channel congestion, according to Popoola et al. (2018).

**Delivery of industrial services firms.** Industrial service performance is classified in accordance with classification criteria such service and performance dimensions and delivery types. These parameters help in determining the types of performance meters that are appropriate for each characteristic of the service delivery. The following performance metrics are used in service delivery, according to Meier et al. (2013): First-time fix rate, operating time, process stability, on-time delivery, mean time to problem resolution, costs, revenue, mean time between failure, mean downtime, travel time proportion, resource utilization, rescheduling quota, reactivity, and acceptance rate.

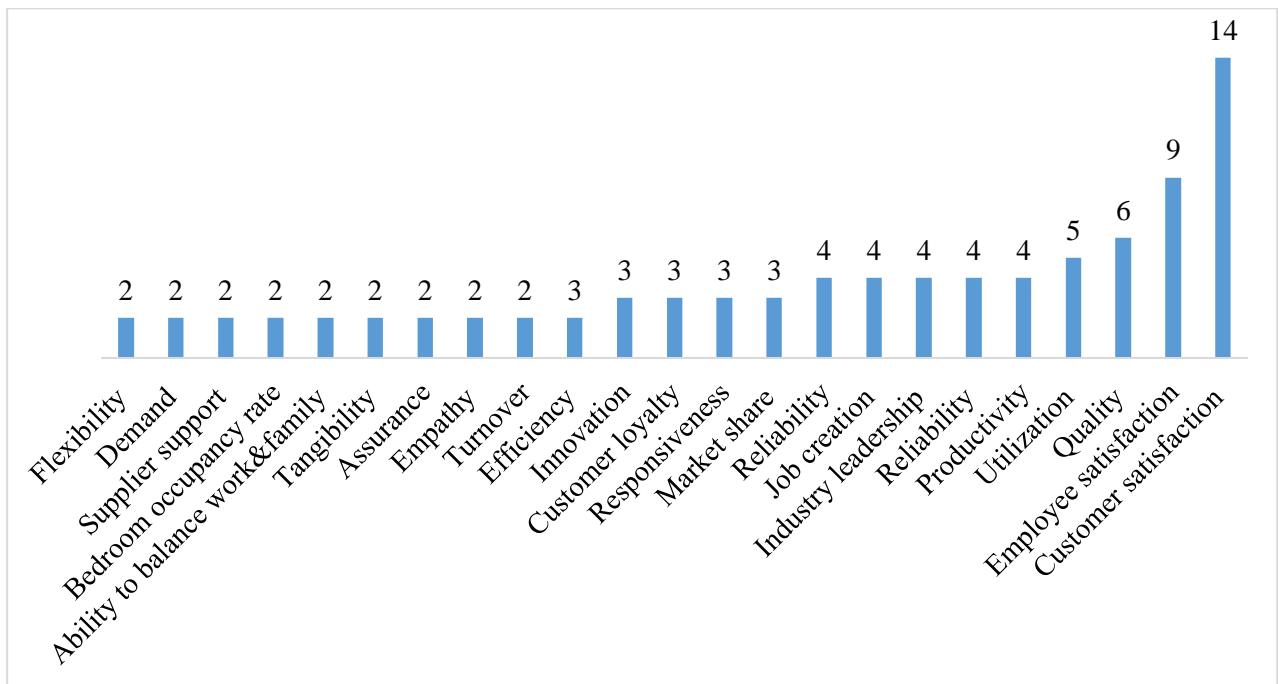
**Service franchise firms.** The performance of service franchise businesses is also compared to that of their rivals using a variety of financial indicators, including revenue, net profit, year-over-year increases in net income, and the number of franchised locations. The indicators that offer a thorough understanding of performance, however, are non-financial performance measures including customer satisfaction, staff satisfaction, and franchisee satisfaction (Lee et al., 2015). The approach used by Wilden et al. (2018) to measure service performance is similar. He generally concentrates on two metrics: customer satisfaction, which encourages customer loyalty, and financial performance, which is evaluated in accordance with the results of profitability, sales growth, market share growth, ROCE, position in the market, and market share numbers.

**Healthcare sector.** The health care industry has its own system for evaluating performance. The main problem in this industry is how customers view the caliber of the services offered. As a result, performance is assessed using the indicators that emphasize this factor. Indicators including dependability, tangibility, assurance, empathy, and responsiveness were chosen by Mohebifar et al. (2016).

**Construction Sector.** In their research, Horta and Camanho (2014) assert that traditional performance measurement approaches limit the efficiency of performance evaluation by focusing primarily on financial indicators including profitability, financial autonomy, liquidity, and productivity. They suggest that businesses in the construction industry get more complex as non-financial metrics such as internal company procedures, customer satisfaction, innovation, and learning become increasingly important.

**Manufacturing Sector.** Operational performance indicators including cost, quality, reliability, flexibility, and speed are used when comparing an enterprise's performance to that of other competitive organizations, despite the fact that they are rather subjective in nature (González-Benito, 2005). These indicators are thought to be discussed more frequently in the literature for analyzing enterprise performance. (1995) Flynn et al. Key performance indicators are listed by Mrina and Vilsa (2015) in the categories of the economy, the environment, and society. Each category also includes a number of sub-indicators. These indicators are for the economic category: inventory cost, labor cost, material cost, and product delivery; for the environmental category: raw material substitution, air pollution, energy use, fuel use, material use, noise pollution, non-product output, water use, and land use; and for the social category: incident rate, employee involvement, labor relationship, gender equity, occupational health and safety, training, and education. Performance is measured along two main dimensions in another branch of manufacturing that creates products based on craftsmanship. The financial dimensions were return on equity (ROE), return on investments (ROI), return on assets (ROA), profitability, while the non- financial dimensions consist of autonomy, ability to balance work and family, employee's growth, customer satisfaction, sales growth, market share, job satisfaction (Ab Rahman & Ramli, 2014).

**Hospitality sector.** When conducting initial research on performance, it is common to find common metrics like instance, profit, expenses, and market share across all economic sectors. (2011) (vci et al.). Yet, a number of researchers have argued that performance approaches shouldn't be unilateral, particularly in the service industry (Brignall et al., 1991; Kaplan & Norton, 1995). The utilization of these factors, i.e. non-financial indicators like internal business process efficiency, employee satisfaction, innovation, and customer satisfaction, leads to more efficient outcomes because the performance of businesses in the hospitality sector is primarily based on human capital and customer satisfaction (Vci et al., 2011). By incorporating these indicators, businesses can focus on long-term goals and gain a "big picture" perspective (Kaplan et al., 1996; van Veen-Dirks & Wijn, 2002). The most crucial performance indicators, according to Morrison and Teixeira (2004), are annual income, visitor satisfaction, bedroom occupancy rate, and break-even point. Figure 11 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 11. Occurrence of non-financial indicators measuring performance**

Source: Created by author based on the reviewed literatures

Simultaneously, the following *Table 6* contains the list of indicators that have been interpreted in both dimensions.

**Table 6. Performance indicators interpreted in both dimensions**

Definitions	Authors which defined them as financial indicators	Authors which defined them as non-financial indicators	TOTAL
<b>Turnover</b>	Al-Ansari (2013), Ab Rahman & Ramli (2014)	Jancikova & Brychta (2009), Avci, et al. (2011)	<b>2/2</b>
<b>Autonomy</b>	Horta & Camanho (2014)	Ab Rahman & Ramli (2014)	<b>1/1</b>
<b>Efficiency</b>	Jancikova & Brychta (2009)	Santos-Vijande & Alvarez-Gonzalez (2007), Fu, et al. (2018), Abdel-Maksoud, et al. (2005)	<b>1/3</b>
<b>Effectiveness</b>	Wang, et al. (2006)	Wang, et al. (2004)	<b>1/1</b>

<b>Market share</b>	Dick (2009), de la Cruz, et al. (2018), Prajogo (2016), Roos, et al. (2004) Su, et al. (2008), Al-Ansari (2013), Jancikova & Brychta (2009), Anning-Dorson (2018), Avci, et al. (2011), Cheng & Krumwiede (2012)	Losonci & Demeter (2013), Ab Rahman & Ramli (2014), Claver-Cortés, et al. (2008)	<b>10/3</b>
<b>Productivity</b>	Jancikova & Brychta (2009), Horta & Camanho (2014), Martinez-Martinez, et al. (2019)	Fu, et al. (2018), Narayan (2012), Prieto & Revilla (2006), Zakuan, et al. (2010)	<b>3/4</b>
<b>Growth</b>	Reijonen & Komppula (2007)	Boohene (2008)	<b>1/1</b>

Source: Created by author based on the reviewed literatures

The study shows that non-financial indicators do not have a precise, fixed meaning. Comparatively speaking, non-economic factors have a greater variety of definitions than economic factors. Each business has a unique performance profile that is based on the industry sector it belongs to. The standpoint and intent of the observers will determine how flexible the concept of performance is. Even for indicators that use the same wording, each researcher has their own viewpoint for it. (Mahmudova & Kovács, 2018).

## 2.5. 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.*”

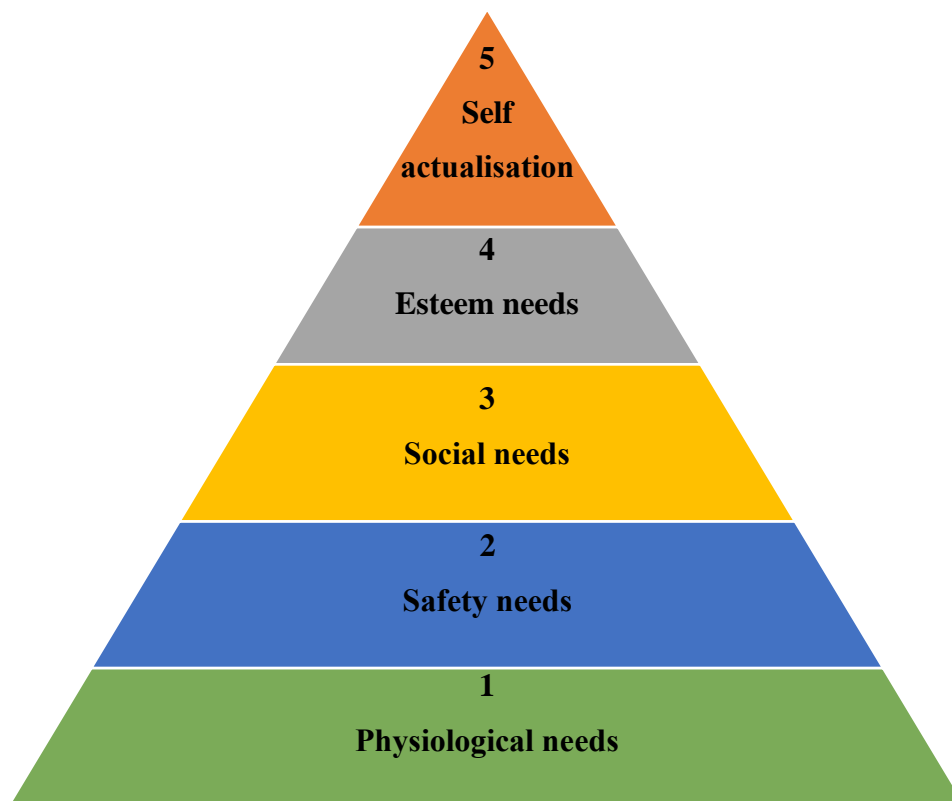
This suggests that satisfaction is how well the needs and wants of a person have been fulfilled. This is a difficult area of study, as there is no single formula to increase the level of satisfaction for a group of people. The role of satisfaction is personal to each and every individual, the wants and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

Considering that satisfaction, in general, can be considered as the fulfilment of one's needs, then job satisfaction would imply that the same definition is applied to the work setting, the fulfilment of one's working needs.

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. To many people, the simple answer of motivation to work is money, and while this can be true for a group of people at face value, it is not the answer to increase the satisfaction level. To look into this topic in further detail, we can use Maslow's theory of hierarchy of needs (Figure 12)



**Figure 12. The hierarchy of needs**

*Source: Kremer & Hammond (2013)*

The hierarchy of needs has five levels which are:

1. Physiological needs, these are the basic needs of survival. Water, food, oxygen all come under this need.
2. Safety needs, these needs, in the collaborative society that we live in today, are what enables us to both achieve the first set of needs, for example employment to support oneself with food and water. But also, safety needs such as personal security and a house.
3. Social needs, these refer to need of social interaction, personal relationships, and a sense of belonging.
4. Esteem needs, these are one's level of self-esteem and self-worth.
5. Self-actualization, the final need is the desire to become the best that one can be.

According to Maslow and Lewis (1987), the hierarchy of needs is like a ladder, you cannot reach level three of hierarchy without first reaching level two, likewise, you cannot reach level two without first reaching level one. He went further to explain that not only can one not reach the next stage of the hierarchy without first fulfilling the stage previous, but he also believes that people actively seek to fulfil the next stage of hierarchy once a level has been fulfilled.

This theory of the hierarchy of needs starts to explain the motivations of people, which in turn, can be used to start to understand satisfaction and how to increase the level of satisfaction.

As mentioned, money is the first thing that comes to mind when people talk about job satisfaction, and to an extent that can be a source of motivation of satisfaction to begin with. For example, if there is an employee who earns little money, but enough to both satisfy the needs of the first two level of pyramid, physiological and safety, they could feel content knowing that they are able to survive. However, they may not earn enough money to meet the social needs, for example they need a leisure fund to meet friends and enjoy life, but this need cannot be met, subsequently they are unsatisfied.

To give the employee a pay increase, they would become motivated and satisfied, as they would move out of level two on the pyramid and fulfil level three. This would imply that money can be a motivating factor and reach a high level of satisfaction. On the contrary, according to Maslow, once a level has been fulfilled, an individual actively seeks to fulfil the subsequent level, in this case level four esteem needs.

If the example works in an unskilled job, which would usually be the case with low paying employment, and although they have received a pay increase to fulfil level three, which was previous unfulfilled and become satisfied, they will then want to fulfil level four. In the majority of cases, this would be extremely difficult to achieve in such employment and then the motivation and satisfaction severely decreases.

This shows that, to an extent, money can make an employee satisfied, but that satisfaction is short lived. Furthermore, if you have an employee in a high paying job, all his needs that money can enable

are fulfilled, then extra money will not be a motivating factor, it will not make them satisfied because there is no further need that needs fulfilling which can be achieved with extra money.

The importance of employee satisfaction in the workplace is vast and the consequences of dissatisfaction are grand, it can affect the business performance in both a positive and negative way. It can affect the employees' performance, the customer relationships and could ultimately end up costing, or saving, the business money. This effect is shown by the following statements, from Heskett et al. (1994), who believed that *“more satisfied employees, stimulate a chain of positive actions which end in an improved company performance.”* And Freeman, (2005) *“The success of any company is directly link to the satisfaction of the employees who embody that company, that retaining talented people is critical to the success of any organization.”*

There are many negative effects of dissatisfaction among employees in the workplace which can include (Carpitella, 2003):

1. High level of staff sick days. This issue is costly for any company, when an employee is sick, the company still must pay their wages, but they must also, either; work with a reduction in employees due to the sick day; or pay extra for another employee to work overtime to fill the gap. The second option, paying overtime for an additional employee costs the company money because they are effectively paying twice for an employee. However, if they decide to work on reduced manpower, they will save the additional overtime cost, but they the possible consequences could be much worse, they could suffer from a loss of potential profit opportunity, which could affect the company more. With many laws in place to protect employees, especially with long-term sickness from the workplace, any company would lose their power to control the situation.
2. Demotivated and unproductive employees. This effect is clear for businesses to see, a demotivated employee will not be as productive as a motivated employee. This in turn creates inefficiencies within the business, creates 'waste', this could be a waste in time which ultimately costs the company money. Then further to the waste it creates, it again leads to a lost profit opportunity. There are two main routes for unproductive employees; the first is simple and the most obvious path to take, help employees become satisfied and want to work; the second is to fire the employee and start the hiring process to employ a new worker, which leads to the next point.
3. High level of staff turnover. This can be due to the company deciding to let an employee go, or similarly, the employee deciding that it is better to pursue pastures new and resign. Both methods of this turnover have the same effect on the company, mainly time, resources, and money. They would need to start the recruiting process again to look for a new candidate for the job, in smaller enterprises this costs money because a large proportion do not have a

dedicated HR/hiring team. Furthermore, the resources to train the new employee and the lack of initial productivity during the training period, costs money and time.

4. Contribute to a high level of customer dissatisfaction. This issue is important for businesses because the customers are at the forefront of the strategy, without them the business is not sustainable and will not be able to generate any revenue. The employee and customer satisfaction are interlinked, and the balance must be found to make both groups happy for the business to succeed.

These points are reiterated by Carpitella (2003), who suggests that “studies show that businesses that excel in employee satisfaction issues reduce turnover by 50% from the norms, increase customer satisfaction to an average of 95 % & lower labour cost by 12%.” This shows the importance employee satisfaction, not only does it reduce the turnover rate, but it lowers the labour cost and increases the customer satisfaction, which are all linked to greater profit margins for the company.

There are many ways that employee satisfaction can occur, as described, surprisingly to most, the salary is not a main driving force for the increased level of job satisfaction. However, there are various other methods which can be utilized, to create a favourable workplace and increase the satisfaction levels among employees.

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.”

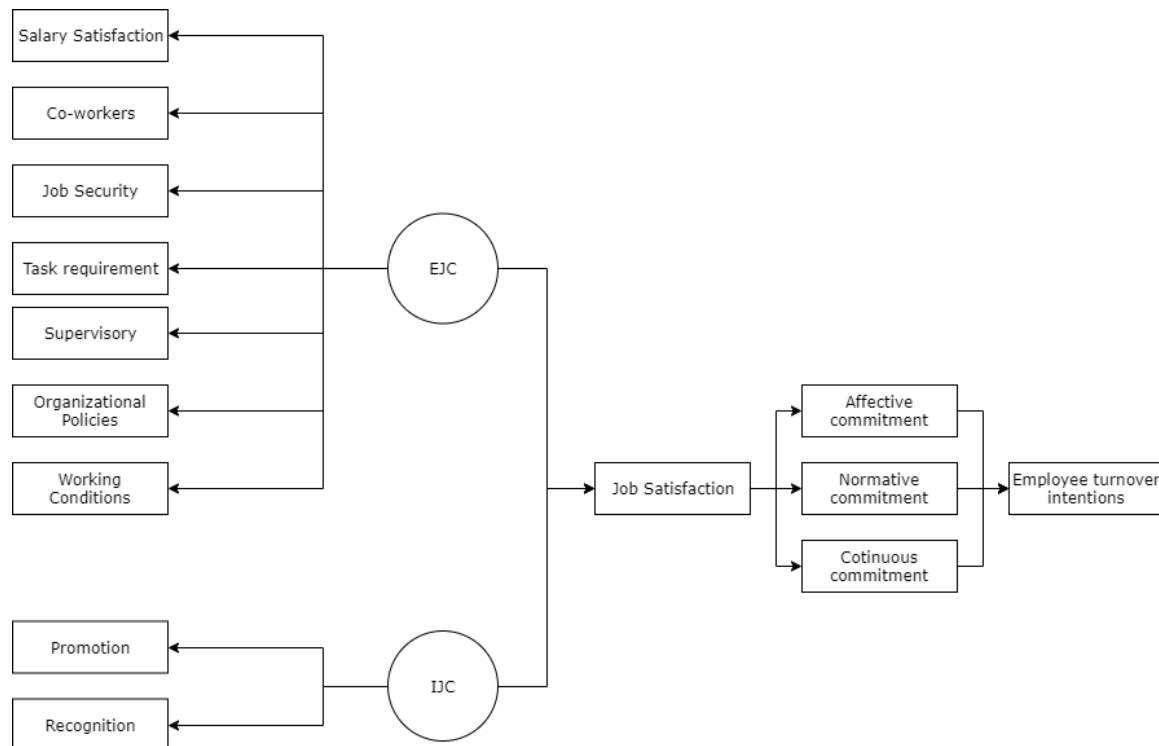
They point out some main points which they believe are directly correlated to job satisfaction. Some of these points are personal to the individual and, on the face of it, an organization has no control over and cannot help with. However, there are other points which are directly related to the organization and they can change something to help the employee reach a higher level of satisfaction. For example, job involvement and organizational behaviour are traits of the company which can affect the employees both positively and negatively. If a company respects their employees, empowers them, involves them in the running of the business more and gives them more control over their working, employees are generally happier and more satisfied than if the company has a rigid top-down hierarchy model and micro-manages employees.

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.

The employee turnover intentions model (Figure 13) shows the intention of the employee to leave their employment, and the main cause of the intention is down to job satisfaction, as shown in the

middle. On the left side of the model are the characteristics, which make up the job satisfaction level of the employee.

These are further characteristics that make up job satisfaction, with the ones previously mentioned, and many more. Some of the characters will not apply to certain people, that is because all people are different, and the desires vary.



**Figure 13. Employee turnover intentions model**

Source: Ahmad (2018)

## 2.6. 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.

Looking back at the general definition of satisfaction, where it says that satisfaction is fulfilment of ones needs and desires. In the context of customer satisfaction, the same definition will apply, in the setting of commerce. However, to measure customer satisfaction and remedies available to increase the level are substantially easier in this instance, this is due availability of organizations to rectify any issues and go beyond the standard level of service to increase the customer satisfaction level.

*“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.

A more well-defined definition of customer satisfaction can be seen from [optimove.com](http://optimove.com): “*Customer satisfaction is the term marketers use to indicate whether the company’s product or service (or both) have met customer expectations, surpassed them or failed to meet them. In other words, customer satisfaction is an indication of how happy a customer is with a company’s product, service or experience.*”

This shows that there are three outcomes to the customer satisfaction level:

1. Met expectations. This shows that the company provided a product or service which was to the standard that the customer was expecting. In general, there are no ill feelings, but there is nothing outstanding that sticks in the customers’ mind.
2. Failed to meet expectations. This shows that the company’s product or service was sub-standard, the customer was expecting more, and the company did not deliver. In this circumstance the customer would be highly dissatisfied, and this would have an impact on any loyalty a customer may have and future transactions between them and the organization.
3. Surpassed expectations. This is when a company provides a good or service which went above and beyond the expectations of the customer. Clearly all companies would want this type of experience with customers, as they promote customer loyalty, repeat transactions, and ultimately generate more revenue for the business in the long term.

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.

Customer satisfaction is vitally important in the world today, due to globalization which has technologically 'shrank' the world, businesses have access to more potential customers than they did 100 years ago. Equally customers have access to businesses from the other side of the world. Due to globalization, competition has become ever more competitive, multinational companies can decimate small enterprises due to their lower prices, they can take advantage of economies of scale and purchase their materials cheaper, negotiate better and offer a cheaper product or service to a customer.

In the current climate, within the last twenty years there has been a global recession, and a global pandemic, both of which has shrank the economy, made people unemployed, and in general made people think more carefully about how they spend their money. The multinational companies are at a great advantage in this situation, as they can offer lower prices. These factors make it more difficult to find new potential customers than it once was.

Therefore, it is imperative that businesses keep, and expanded on, their existing customer base. The only way to do this is to keep the customer satisfaction high, when that starts to drop, business face a big problem, they could lose the customer to a rival, especially with the abundance of options available now.

Not only is high customer satisfaction important to retain them, but it is also equally as important in order to attempt to prize new customers away from competitors. This is achieved by reviews, if a potential new customer sees a glowing review about a company, they are more likely to go to them. On the contrary, if there are negative reviews, it severely limits the potential that the customer will do business with the company.

Naturally, not all bad reviews are representative of what the author actually thinks, customers can overexaggerate, and competitors can create false reviews. However, companies must take this into consideration and make more of an effort to give the level of service required to make real customer fully satisfied.

There are many methods available for companies to measure customer satisfaction, but they all have their limitations:

1. CSI (Customer Services Index). These are questionnaires that customers complete after a transaction has been completed with a company. These good to get direct feedback from a specific customer, there would be an option for personalized responses, which the business can use to improve.
2. Reviews. They are a good way of generating interest in the business, a free marketing tool and an opportunity to engage with customers after the transaction has been completed. However, there are severe drawbacks with this method, as mentioned previously, competitors could make

fake profiles and leave negative feedback to try and promote their company. Secondly, in general, the average person will do go out of their way and leave feedback after a transaction has been completed. Even if the service was better than expected, and the customer is satisfied, they are unlikely to leave feedback, unless it was very special. On the other hand, when a customer is not satisfied and the transactions was not at the level that they expected, they are more likely to go out of their way and write a scathing review on that company.

The relationship between customer satisfaction and loyalty is interesting, to many, they go hand in hand, if a customer is satisfied then they will be loyal; and if they are loyal, they will be satisfied. Usually, the relationship works in this way, and for a first-time customer, satisfaction is on the right path to create unwavering loyalty. However, this is not always the case, there are many reasons why people are loyal to a company, or maybe they do not have another option.

For example, many people are extremely loyal to Apple, they buy exclusively Apple products and will not switch. The vast majority of the customers are satisfied with the transaction, satisfied with the product, and will remain loyal to the company. However, there are people that are loyal to the brand, but are not completely satisfied with the product and they still, remain loyal to the company. In looking the relationship of satisfaction and loyalty, it would be thought of that the unsatisfied customer would not be loyal to the company, but they constantly buy the newest technological products from them. This is an example of true loyalty, even when they are not satisfied, they remain loyal to the company and would not think about conducting business with a rival.

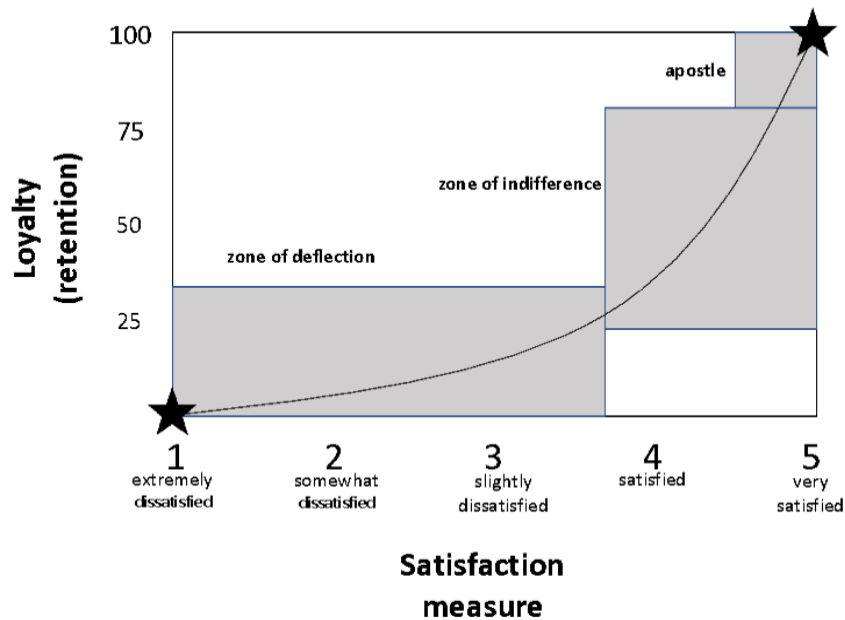
However, this is not what companies should aim for, they should want customers to be completely loyal and only buy from them, but that should not be at the expense of their satisfaction. In fact, to execute a strategy where loyalty is so strong, a company must have been spectacular and extremely convenient for the customer, otherwise it would not work.

Another example is the case with Ryanair. Many people are highly dissatisfied with Ryanair as a company and their CEO (Ryanair.com, 2022). Many people do not like the service at all, the customer relations are non-existent, and never has there been a story of when the company has gone above and beyond for a customer, never have they exceeded expectations. Yet, it still remains one of the most popular airline carriers in Europe. These actions of customers returning to the company and constantly paying for their services would indicate that there is a level of loyalty among them and to a degree, it can be classed as loyalty.

However, there is a difference between the Apple case, where customers can be dissatisfied with the product, but are still incredibly loyal to the brand, and the Ryanair case where customers that are also dissatisfied but still continue to remain loyal. The difference is about choice of the people about the sacrifices/settlements that they make. For example, many people will sacrifice the satisfaction and stay loyal to Ryanair, even if they do not provide the service that one would typically expect, to enjoy a nice holiday that they may not have been able to take if the company did not exist.

Whereas with Apple, the products are not as short-term investment like a flight, they are products which are designed for the customers to keep for years. Therefore, even with dissatisfaction, loyalty can still exist.

That said, in general, there is a positive correlation between the level of satisfaction and the level of loyalty to a company. This is shown by the *Figure 14* below.



**Figure 14. Customer satisfaction and customer loyalty**

*Source: (Heskett et al. 2011)*

This shows the relationship between customer satisfaction and customer loyalty. The ‘terrorist’ is the customer that is extremely dissatisfied and disloyal to the company, they are the ones that are most likely to spread the negative reviews, encourage other potential customers not to conduct business with the company. The apostle is the highly satisfied and loyal customer, the customer that would never leave for a competitor and will give the company glowing reviews. The line of loyalty shows a slow and steady climb as customers move away from the extremely dissatisfied column, and suddenly spikes up to high loyalty dramatically when the customer is highly satisfied. This indicates that in order to make a customer loyal, the company must make them extremely satisfied, and satisfaction is generated by exceeding the expectations.

The graph also shows the three stages of loyalty:

1. Zone of defection, which is the area that customers will happily take their business to other companies, they are not loyal, and this is typically up to 60-65% on the scale of satisfaction.
2. Zone of indifference, this is the area where the customers are satisfied with the product or service, and they may even be highly satisfied, but they are not loyal to the product, the brand,

or the company. That is not to suggest that they will actively look to conduct business with a different company, just that their business is not loyally directed to the company.

3. Zone of affection, this is where customers are extremely loyal and extremely satisfied, there is no chance that they will move to a competing business.

This is a good start to understand customer satisfaction and customer loyalty, but this model is very simplistic. This does not consider that all people are different, it does not factor in the reasoning behind the loyalty, the satisfaction or dissatisfaction. These are all very important factors when researching the relationship between the pair, or for companies to understand the relationship and use it to bolster their customer loyalty.

As shown with the two previous examples, Apple and Ryanair would not fit into this model. Apple would be considered in the zone of affection, but not necessarily under the same extremely satisfied column.

Ryanair, on the other hand, would be in their very own category within this model, we can speculate and call this the zone of no better alternative. This zone would be place somewhere in between the levels one and two for satisfaction, but it would fall high on the 'loyalty' scale, between the 80-100%. As described, satisfaction ultimately leads to loyalty, and loyalty for a business is very important, as shown by Oliver (1999) who states that loyalty is *"a deeply held commitment to rebuild and re-patronize a preferred product or service in the future despite situational influences and marketing efforts having the potential to cause switching behaviours."*

This sentiment is further emphasized by Thomas and Tobe (2013) who suggested that *"loyalty is more profitable"*, it has been shown that the costs to increase the new customer base far exceeds the monetary costs of retaining existing customers. Loyalty is not something that just happens, it is a situation that has occurred over time and because of a high level of customer satisfaction. Once a customer is loyal, it is more difficult for competitors to 'steal' them from a company.

There are numerous other reasons why a customer can be satisfied and loyal to a company, it is not only dependent on the level of service they receive while conducting a transaction with them.

The main secondary reason for the satisfaction and loyalty can be from a company's Corporate Social Responsibility (CSR) policy. Many people today are acutely aware of their surroundings, the environment and all other aspects of life, there has become this sense of 'doing the right thing' which was not at the forefront of people's minds in the past. Additionally, globalization has resulted in faraway issues becoming relevant for people across the world.

The main points of CSR policies which generates customers, makes them satisfied and keep them loyal include, but not limited to:

1. Environmental policies, many people now are conscious about the negative impacts we have on the environment and harm that it causes. Action is being taken by individuals and companies alike, and many people see this as a necessity. Furthermore, companies that are

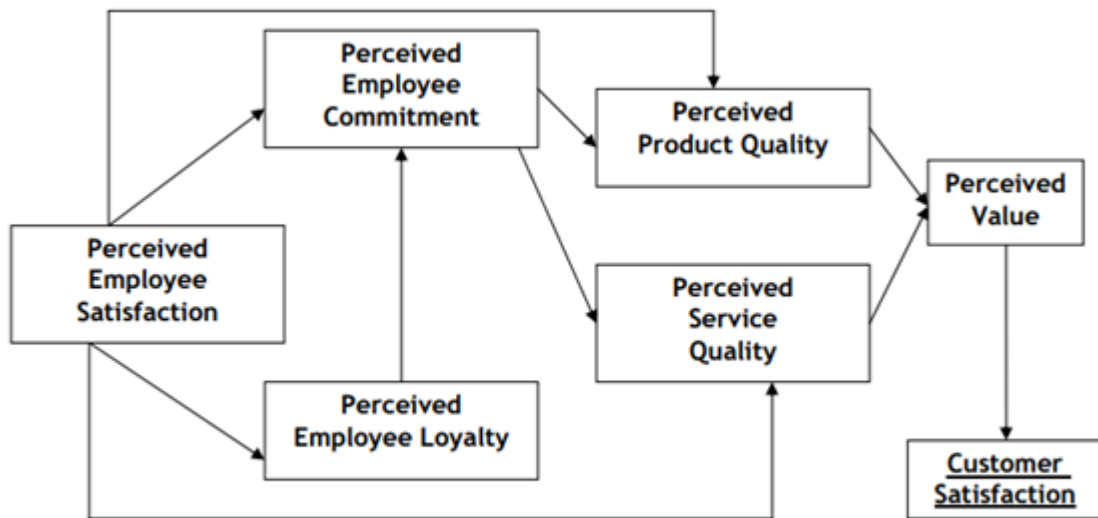
seen to be environmentally friendly tend to perform better than competitors which are not. The importance of this issue and the impacts that it can have can be seen from the Volkswagen 'diesel gate' scandal. They knew the importance of environmentally friendlier cars and published emission tests results to make them seem better for the environment than they were. They were caught and the consequences were severe, they were fined by governments and more importantly people became extremely dissatisfied with them. This led to a loss in revenue as shown by Kollwe (2016) "*Volkswagen's profit tumbled nearly 20% at the start of this year as car sales continued to fall in the wake of the diesel emissions scandal.*"

2. Employee relationships. This is a very important part of any business, this can be broken down into two sections, the section of the employee's interaction with customers that can be affected by how satisfied they are at work; and how customers view the treatment and working conditions provided by the company to the employees. Both of sections are very important, but it is the impersonal aspect, which is important in the CSR policy, the treatment of employees. This was the case with Apple and their supplier Foxconn, the employees at the supplier's factory were treated so badly, underpaid, and overworked that many employees jumped off the factory roof to their death. The uproar was intense and if it were any other company than Apple, the consequences of lost customers would have been more severe. This is just one example of poor treatment of employees, there are several (Merchant, 2017).

### **2.7. Employee and customer satisfaction, the relationship**

There have been numerous studies on the relationship between employee satisfaction and customer satisfaction, and they have a general trend of having a positive correlation. The main factor that stems from employee satisfaction is their productivity and general attitude towards, naturally they both increase when an employee is satisfied, and this subsequently is passed on to the customer, who will receive better service and be more satisfied.

This is shown in the diagram below (*Figure 15*) by Vilares and Coelho (2003), they suggested that the perceived employee satisfaction directly linked to the employee commitment and loyalty, which increase the perceived product quality and service level. These increases then lead to a higher perceived value and resulted in higher customer satisfaction.

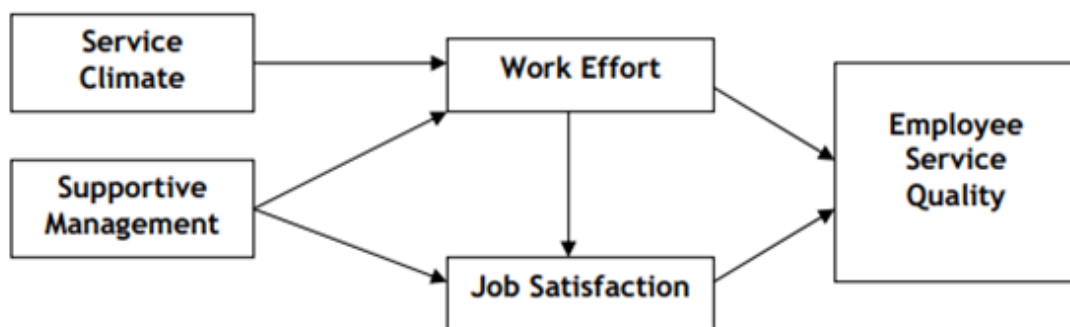


**Figure 15. Extended customer satisfaction model**

Source: Vilares & Coelho (2003)

This is further explained by Brooks (2000), who reviewed the success of companies, in relation to the employee and customer satisfaction levels. He found that “between 40-80% of customer satisfaction and loyalty was a direct result of employee interactions” If the employee is satisfied, in general they will have a better interaction with the customer, and as explained by Brooks, this interaction can account for up to 80% of the reason for customer satisfaction and loyalty.

The following model (Figure 16) by Hee Yoon and Beatty (2001) shows the same outcome, albeit from a different perspective. They show the reasons behind higher employee satisfaction, but the outcome remains, a higher level of service and quality, which results in better customer relations and higher customer satisfaction.



**Figure 16. The effect of work climate on critical employee and customer outcomes**

Source: Hee Yoon & Beatty (2001)

This has shown how important employee satisfaction is to a company, not only in immediately viewable terms of spending extra money on covering the extra sick days, or high employee turnover, but also the correlation between the employee's satisfaction and the customer's satisfaction.

The relationship is interlinked, and they depend on each other, the profitability, sustainability, and success of a company highly depends on the satisfaction, productivity, and level of service of their employees, which translates to better quality service and the ability to fulfil the customer's expectations.

However, there is a less studied area in this context, and companies have slightly less control over the situation. That is the relationship and impact of customer satisfaction on employee satisfaction. In general, if a customer is unsatisfied there are steps that can be taken to remedy the situation, and make sure that the customer is happy. However, this is not always the case and sometimes customer's expectations are so high that a company, product, or service cannot meet them.

As shown, the sustainability of a company starts with the employee satisfaction, customer satisfaction is very difficult to achieve with first achieving the satisfaction of the internal stakeholders. This is especially true for SMEs, as described, it is increasingly more difficult to generate new customers and the success of companies relies on the existing ones, especially in the globalized world, where competition is at an all-time high.

### 3. METHODOLOGY

#### 3.1. Research design

Depending on the situations in which it is conducted, research can be defined in a number of ways. Generally speaking, the main goals of research are to observe phenomena, identify and examine the connections between certain antecedents and effects, and uncover previously unexplored problems in the literature. It is characterized as a procedure that gathers data; it is systematic and accurate; logical and objective; and its results are attentively presented. Finding an issue that fits criteria like novelty, importance in the field, availability of data and methods, required equipment, availability of funding sources, time factor, motivation, and curiosity about the problem is the very first step in starting the research. Finding a workable answer to the topic at hand also depends on the researcher's approach, experience, expertise, and aptitude for seeing and differentiating particular indicators. The review of literature then takes place. The goal of conducting a literature review is to assist in the development of conceptual framework, familiarize oneself with the state-of-the-art, ascertain the significance of the issue, and ascertain the definition (Singh, 2006).

Literature review then directs the next stage, which is selecting the appropriate research methodologies and approach (Mahmudova, 2022). The three main components of methodology are research approaches, which might be quantitative, qualitative, or mixed (Chih-Pei & Chng, 2017). The first factor that decides the type of approach and methodology to use to do the research is the nature of the issue. Consequently, the expected social phenomena to be examined form the basis for choosing the approach (Noor, 2008).

Creswell (2017) proposes three form of mixed methods: Convergent parallel, Explanatory sequential and Exploratory mixed methods, subsequently, these models can lead a creation of more progressive mixed method, transformative mixed method. *Table 7* below, demonstrates summary of these first three methods:

**Table 7. Research methods**

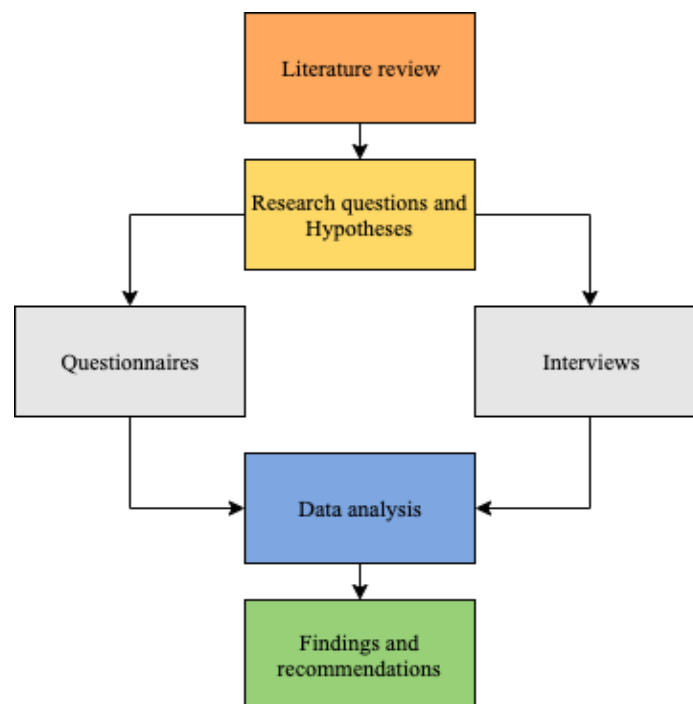
<b>Convergent parallel mixed method</b>	<b>Explanatory sequential mixed method</b>	<b>Exploratory mixed method</b>
Quantitative and qualitative data collection is collected in the same time and merged	Qualitative data collection is performed after quantitative, to enhance the results of study	Qualitative data collection is performed before quantitative, to specify the needed variables firstly

*Source: Adopted from Creswell (2017)*

Being an exploratory research, it aims to find answers for how SMEs entrepreneurs define performance, the indicators and BMPS they utilize to measure affect performance, employee and customer satisfaction in SMEs, and finally, the consideration level of social, economic and environmental aspects of their performance. In this chapter the goal is to specify which approach and procedures were employed, how data was collected and analyzed to draw conclusions. Following questions were formulated to build the research:

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

Following the reviewed literature for methodology, Convergent parallel mixed method was chosen as the most suitable research model for this study, as it allows to collect both quantitative and qualitative data simultaneously (Mahmudova, 2022). Structured interview questions and a questionnaire were distributed to businesses and the responses were compared jointly. The analysis of the questionnaire results was useful for this research to boost the overall conclusions drawn through the open-ended questions. The *Figure 18* below is depicting the original planned flow of the research process:



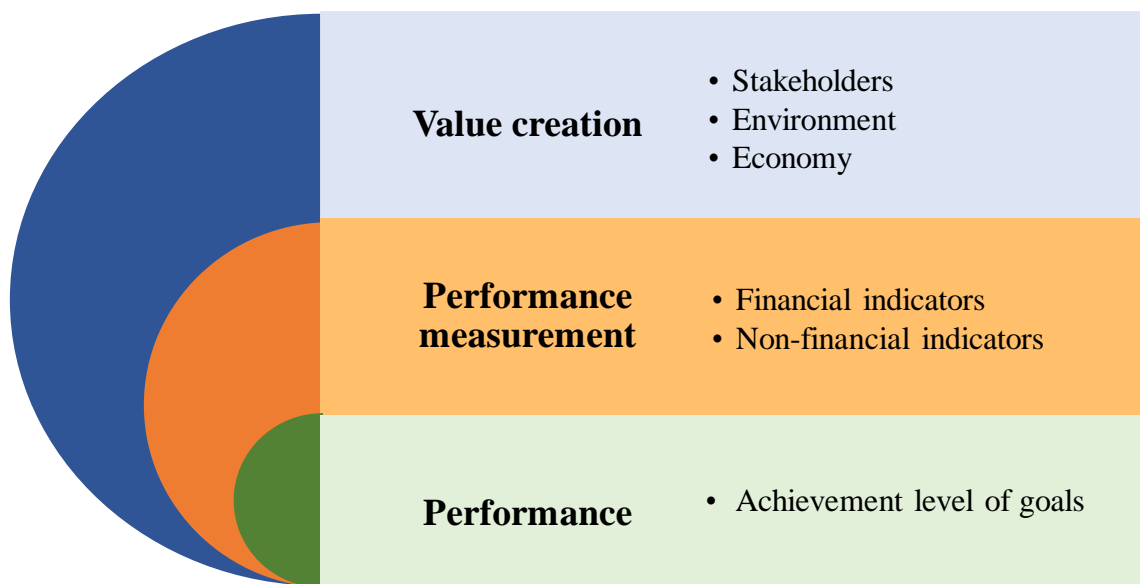
**Figure 17. Research flow**

*Source: Created by author*

### 3.2. Data collection and analysis methods

The research is as an 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 18. 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.

The research design was selected to be a primary research, to be collected from the subject research sample. Consisting of questionnaires and interview questions the research was reflected mainly as qualitative research, with help of auxiliary quantitative method. Many obstacles were encountered during the data collection period, particularly those related to the participants' responsiveness in the research sample.

Being an exploratory research and 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).

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 was based on the feedbacks of 20 respondents.

Thematic content analysis was the selected method to analyze 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. Using a participant's own written or spoken narrative, researchers may define and characterize what their reality is through the use of thematic analysis. This approach summarizes what participants say, combining their insights into recognizable patterns. Through the lens of a certain conceptual or theoretical framework, thematic analysis may be utilized to infer meaning about experiences, viewpoints, or belief systems. This method entails thinking about how certain theoretical or conceptual concepts are represented by patterns within data. (Lochmiller, 2021).

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).

A crucial part of the research process is maintaining privacy, confidentiality, objectivity, data reporting and correct findings presentation. It is crucial that ethical standards are followed throughout the whole study process. When ethical procedures are followed in data collecting procedures, data collection equipment, materials, the design and sample strategies, data analysis procedures, the accuracy and fairness of study findings are more likely. 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. Therefore, the participants were more willing volunteer for the

contribution. Scientific integrity of this study is achieved with employing relevant scientific techniques, analyzing and reporting the information objectively.

## 4. DATA ANALYSIS

### 4.1. Company profiles

As mentioned in the previous chapter, due to the elimination, the analysis will be held with the results of 27 enterprises. The participants of the research were either owner, manager or executive directors. The responses will be compared in several categories based on each question and most outstanding features of the enterprises. In order to make the comparison clearer, companies will be referred by their numerical orders.

The whole questionnaire comprised of seven sections:

1. Company Profile
2. Open-ended/ interview questions
3. Goals and strategies
4. Performance measurement
5. Business performance measurement
6. Customer and employee satisfaction
7. Questions related to recent pandemic to measure resilience of SMEs

Following questions have been included in the first introductory section:

Your job position in the company;

1. Gender;
2. Age;
3. Your education level;
4. When was your company founded?
5. In which sector does the company operate?
6. Registered economic region;
7. Please indicate the number of employees in the company;
8. Please indicate the annual income ratio of the company (AZN);
9. What is the ratio of female colleagues? (Give a ratio expressed in a percentage)?
10. What is the organizational and legal form of the company?

Eventually, most of the remaining respondents are men, except 2, mostly with master's degree and two of them have degree in doctorates. Oldest enterprise has been created in 1988 (33 years) and newest in 2020 (2 years). Age range is 24-43. ***Hence it would be useful to compare difference between these 2 companies in terms of experience.***

The fields are including: 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). *Each of the companies that are in the same sector will be compared to spot the differences or similarities.* The remaining uncovered sectors are not analysed due to missing response are: Repair of transport means, transportation and storage, accommodation and food service activities.

The annual income is mostly up to 1000.000 and highest is between 21.000.000 - 30.000.000 with 11 and 250 employees. Out of 27 companies 17 of them are in the category of small and 10 of them were in medium size category.

Female ratio of the employees is 16% (lowest) and 95% (highest).

Organizational and legal form of the company are limited liability company, joint-stock company and shareholder and partner (limited partnerships), with co-owner and state company.

#### **4.2. Open-ended/ interview questions**

Open-ended questions which were prepared for an interview were as follows:

1. What are your organizational goals?
2. What is the time frame for your goal?
3. Do you think having a goal has benefits? If yes, what are they?
4. What are the external factors that influence a firm's performance?
5. What are the internal factors that influence company's performance?
6. What are the key financial indicators to measure the performance in your company?
7. What are the key non-financial indicators to measure the performance in your company?
8. Does your company use any BPMS?
9. In your opinion, how could you improve the performance in your company?

As per the results of the interview responses, all of the companies do have a goal. The goals are quite diverse, focusing on financial aspects, on human capital, on society, and leadership in the sector, etc. Time frame of setting a goal varies between 1-10 years, most commonly 2 or 3 years. All of the companies think having a goal have benefits, having their different motives for it, except one refused to response due to confidentiality.

1. What are the external factors that influence a firm's performance?

Common external factors were similar, such as country's economy, politics, pandemics, war unfair competition, taxes, etc.

2. What are the internal factors that influence company's performance?

4 of the companies mentioned that there is no such factor. The others' responses include professionalism of the personnel, resources, equipment, hierarchical imbalance, salary, financial stability, IT, coordination between departments, and **local mentality**.

3. What are the key financial indicators to measure the performance in your company?

ROI, net profit was the most repeated ones. 2 companies said there's no such indicator, one of them refused to respond and one mentioned that the indicators are different for each department.

4. What are the key non-financial indicators to measure the performance in your company?

Each company has its own sector specific response to this question: customer satisfaction, motivation and perspectives, development of innovative products, employee turnover, customer loyalty, in time completion of projects, organizational health index, biosecurity and eco-friendly production, increasing number of orders, companies that refer us, customer satisfaction, quality of education and measures taken, participation in social projects. Unfortunately, 2 companies denied to respond to this question and 2 of them said there's no such indicator yet.

5. Does your company use any BPMS?

8 companies said no, and 19 said they use BPMS. Year 2017 is the earliest to start using them and 2021 is the latest.

6. In your opinion, how could you improve the performance in your company?

Common improvement ideas were about investing in people, technology and facilities, and involving an outside consultant.

### **4.3. Analysis focusing on research questions**

#### ***4.3.1. First research question***

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

The first question of the research topic will be answered based on the questions of Section 3: Goals and strategies, one question of Section 4: Performance measurement and three questions of Section 2: Open-ended questions.

The first question of the section starts with Likert scale statement: "**Our company has a goal.**" The enterprises were requested to respond this statement in a scale of 7, within a range of "completely disagree" and "completely agree". All the answers for this question was 5 and above, 7. Overall, average of responses for this question was 6.2, meaning that the most of the companies agree on having a goal, which is also depicted in the *Table 8* (Appendix B). All the enterprises that participated in the research confirmed that set have organizational goals and they shared what are their goals, except Company 24, which refused to answer due to confidentiality.

Nine of the companies stated that their goal is to grow in size and be the largest or one of the largest, best and leading companies in the field which was most frequent goal among the enterprises.

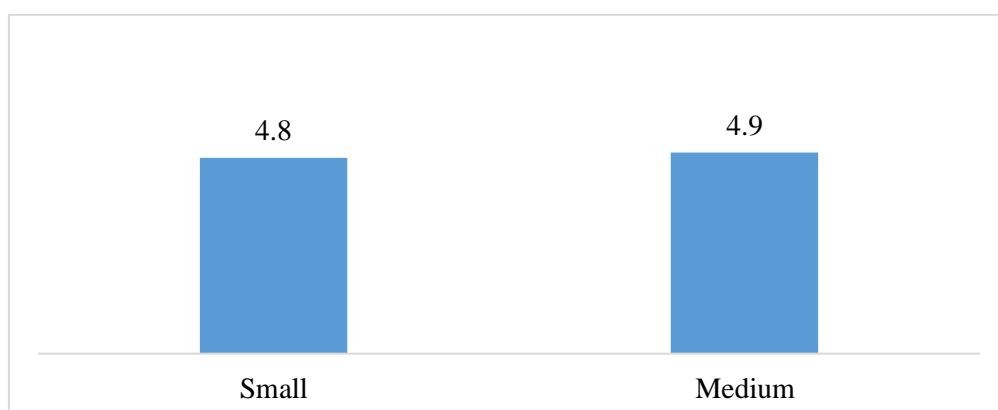
Six of the companies (highlighted in green) with various backgrounds had a field specific yet a generic goal such as Company 1: “Production and sale of local innovative technological products”; Company 10: “Development of pharmaceutical sector”; Company 17: “Start providing data-based services to entrepreneurs to make the right decisions”; Company 19: “To create products that have a positive impact on people’s lives and maximize it”; Company 23: “Build comfortable home complexes for middle-income people”; Company 26: ”70% involvement of the new generation in entrepreneurship”.

In terms of the scope of measurement in their goals, from financial aspect enterprises mostly aimed for sales growth, profit maximization, optimization of production and efficiency in their performance. On the other hand, from non-financial aspect quality, customer service, reliability, professionalism of employees, sustainability and digitalization were the most prominent drivers of goals mentioned.

The second statement of this section was: “**We explain our goals to our employees**”. Same as previous question the responses were in the range of “completely disagree” and “completely agree”. Enterprises (5) and (23) had a distinctive response for this statement was well, both of them evaluating it in a scale of 1, meaning they completely disagree. One enterprise (17) had a neutral answer. The average of the responses for this question was 5.7, depicting most of the companies agree that they explain their goals to the employees.

Following the last question of the section, the enterprises used “completely unsatisfied” and “completely satisfied” in a scale of 7, to answer the question: “**How satisfied are you with the achievement of your organizational goals?**”. Company (5), (23) and (26) had the lowest scores for this question. Company (5) evaluated it with 1, meaning they are completely unsatisfied, company (23) and (26) evaluated it with 3 meaning they are partially unsatisfied with the achievement of their goals.

*Figure 20* displays the difference between small and medium sized enterprises in terms of their satisfaction in achieving their goals. According to the results, medium sized enterprises are slightly more satisfied with achievement level of their goals than small sized enterprises.



**Figure 19. Satisfaction level of achievement to organizational goals**

Source: Created by the author based on the analysis

The first question of the Section 4 was: “**It is important to measure performance?**”. Contrarily to the previous section, company (5) and (23) had the highest agreement to this question, using scores 6 and 7. However, there were two other companies that rated this question with lowest agreement. Company (10) found it completely unimportant, meanwhile company (16) stated it as “not applicable”. The average response rate was the highest, with 6.3 reporting that companies find it important to measure the performance.

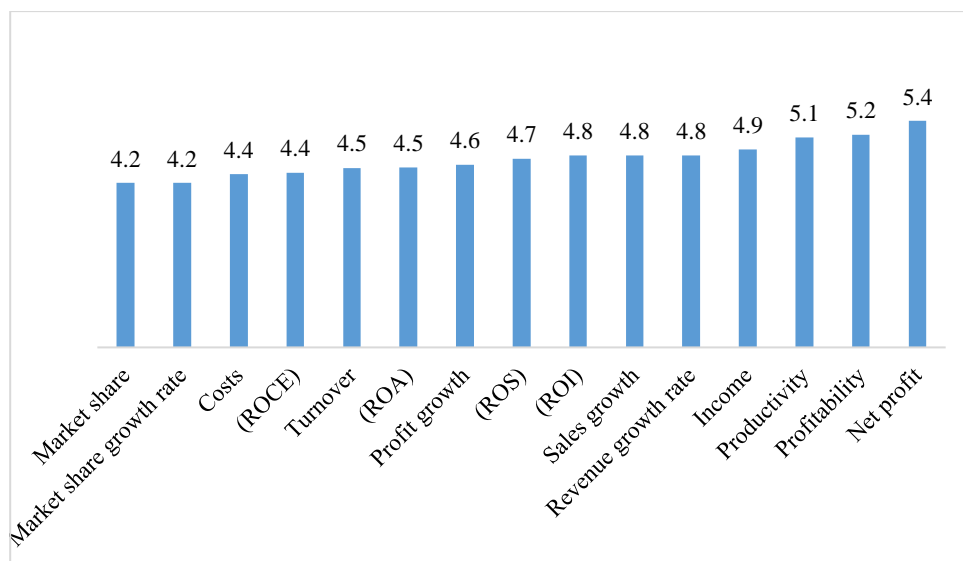
Questions of the Section 2, “**Does your company use any BPMS?**” brings more clarification to the final answer. Out of 27 responses, 14 of them were “no”, which constitutes 51% of the enterprises. From 14 companies, 5 of them are not satisfied with the achievement level to their goals, however 9 of them are satisfied with it. The other 13 companies have a performance measurement system and are satisfied with their achievement of goals level.

### **1.1.1. Second research question**

What kind of indicators are used to measure performance?

The main referral point of this research question will be the Section 4 of the survey: Performance measurement and two questions of Section 2: Open-ended questions. In this section companies were requested to evaluate the importance of fifteen financial and twenty non-financial performance indicators with Likert scale, from “1 - not at all important” to “7 - extremely important”.

**Small enterprises: Financial indicators.** In order to facilitate the analysis small and medium enterprises are compared separately for this research question. In this way the data is expected to have clearer reflection.

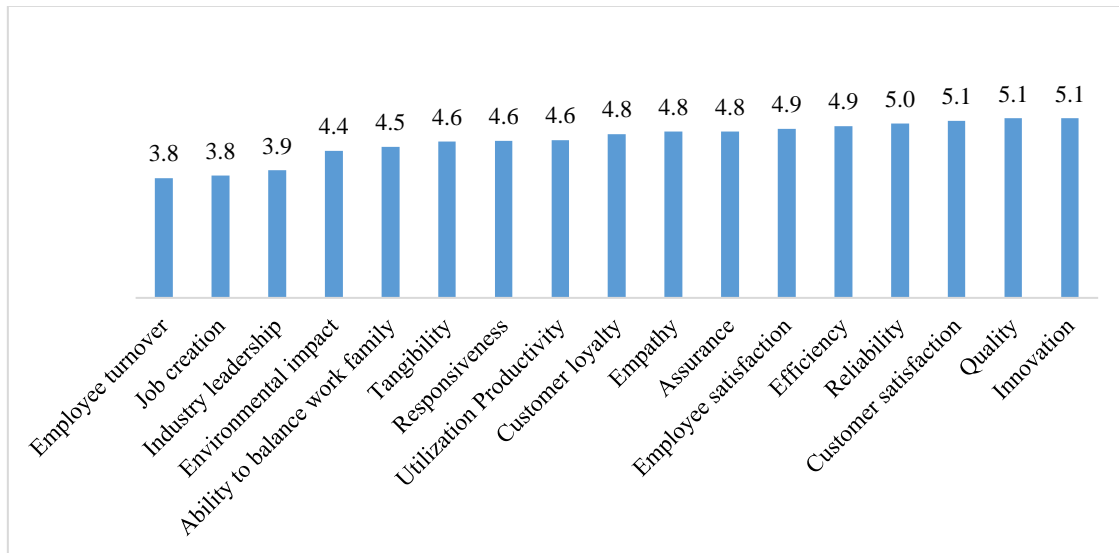


**Figure 20. Importance of financial performance indicators for small enterprises**

Source: Created by the author based on the analysis

On the basis of the *Figure 21* above, the most important **financial** performance indicators for **small enterprises** are net profit (5.4), profitability (5.2), productivity (5.1), revenue growth rate and sales growth (4.8). On the contrary, the least important indicators are market share and market share growth rate (4.2).

**Small enterprises: Non-financial indicators**

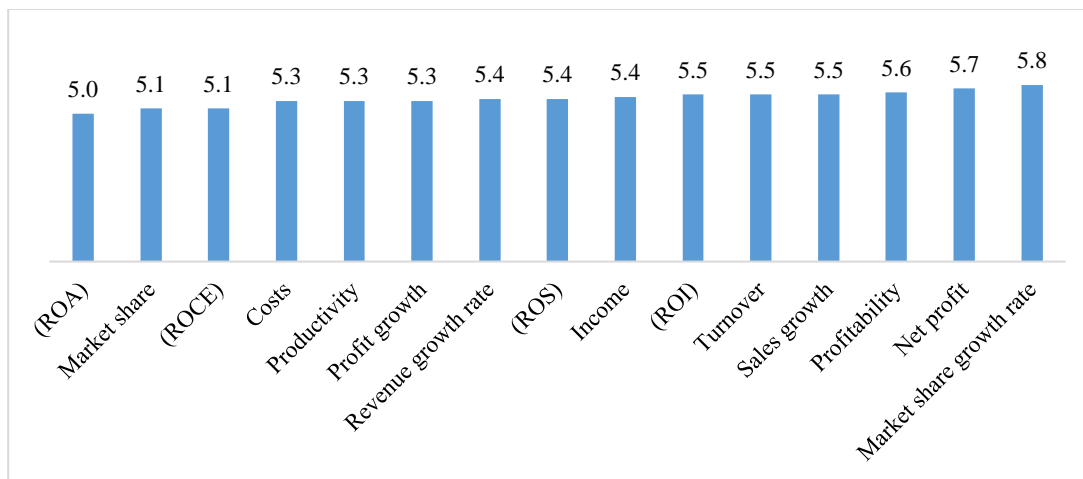


**Figure 21. Importance of non-financial performance indicators for small enterprises**

Source: Created by the author based on the analysis

*Figure 22* interprets the importance level of twenty **non-financial** performance indicators that were defined on the basis of previous literature review. As per the results quality, innovation and customer satisfaction (5.1), reliability (5), employee satisfaction and efficiency (4.9), empathy (4.8) are the most selected indicators by **small enterprises**, meaning they find these measurements of these indicators moderately important. The responders had a neutral position for indicators such as industry leadership, job creation, employee turnover, demand and bedroom occupancy rate (for tourism sector).

**Medium enterprises: Financial indicators.** Likewise, the same financial and non-financial performance indicators are evaluated by medium enterprises as well. *Figure 16* below demonstrates financial indicators that **medium enterprises** gave points.

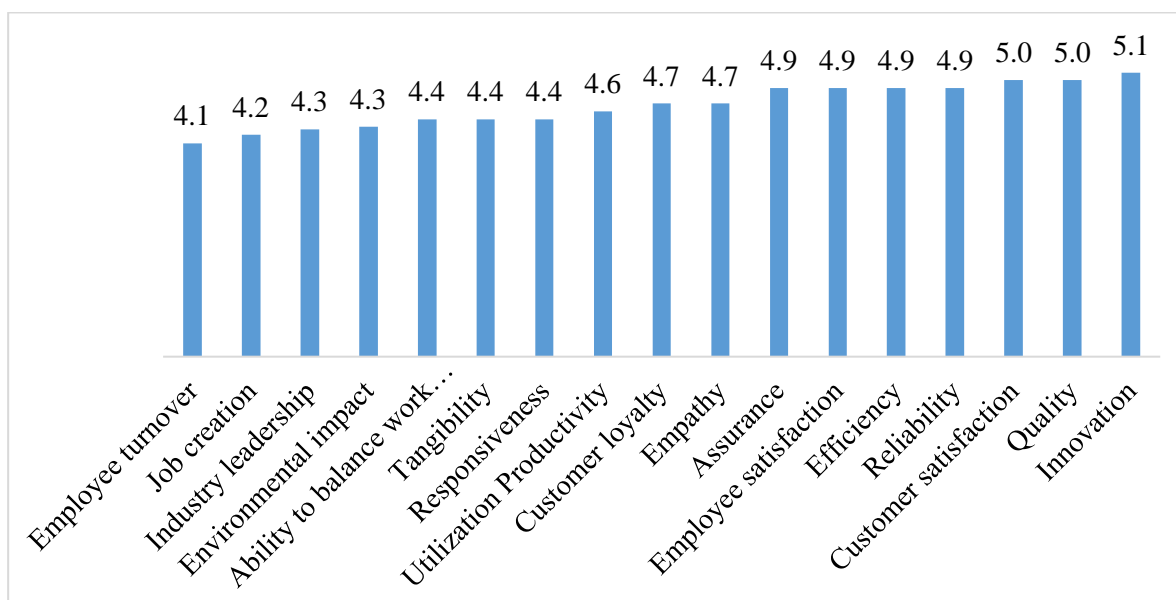


**Figure 22. Importance of financial performance indicators for medium enterprises**

Source: Created by the author based on the analysis

Interestingly, unlike small enterprises, market share growth rate was voted as the most important performance indicators with average of 5.8. Similar to small enterprises, the other most selected three indicators are net profit (5.7), profitability (5.6), sales growth (5.5), followed with turnover and ROI (5.5), meaning they are classified as important to measure. Overall, all of the financial indicators are scaled with 5 points or above, meaning all of them are at least, moderately important.

**Medium enterprises: Non-financial indicators.** Referring to *Figure 24* below, both for small and medium enterprises customer satisfaction is the most significant performance measurement indicator, in the scale of 5, meaning they find it important.



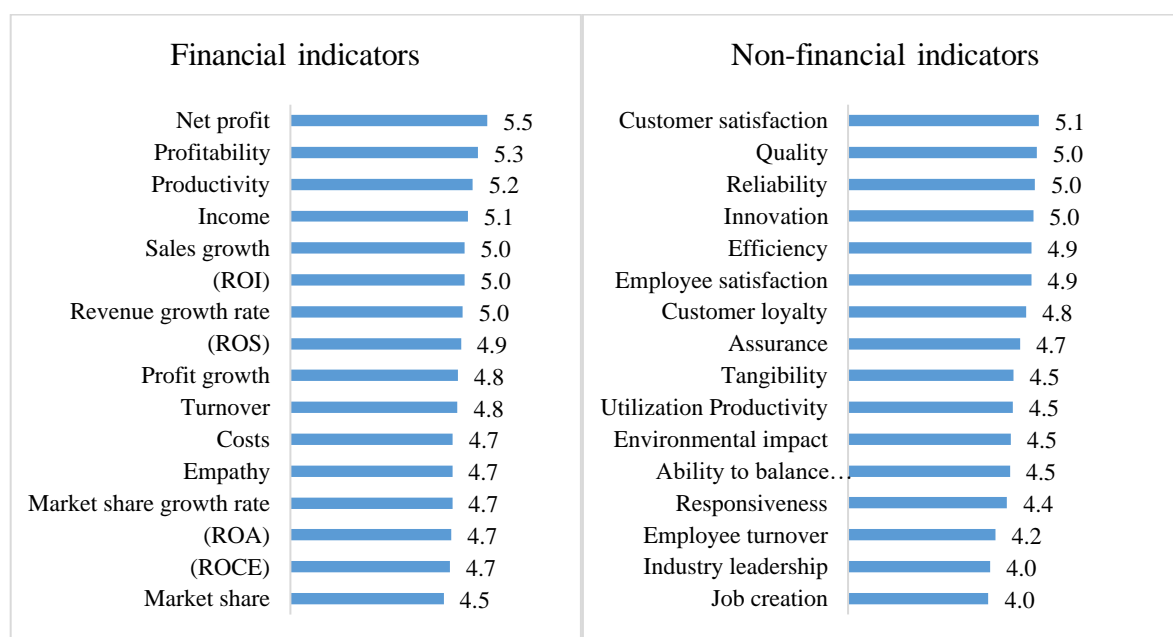
**Figure 23. Importance of non-financial performance indicators for medium enterprises**

Source: Created by the author based on the analysis

On the basis of outcomes, innovation (5.1), quality and customer satisfaction (5), reliability, efficiency and employee satisfaction (4.9) are the three most considerable indicators. Employee turnover (4.1) is given the least emphasis by medium size enterprises. Following the patterns, both small and medium enterprises have similar preferences for indicators to measure non-financial performance.

### All enterprises: Financial and non-financial indicators

Figure 25 is created to display the overview of all indicators for both and small medium size enterprises.



**Figure 24. Comparison of performance indicators for all enterprises**

Source: Created by the author based on the analysis

In accordance with the outcomes following highlights are noticed:

- Medium size enterprises put slightly more emphasis on **financial indicators** than small size enterprises;
- Small size enterprises put slightly more emphasis on **non-financial indicators** than medium enterprises;
- Both small and medium enterprises think that **net profit, profitability** and **sales growth** are moderately important financial indicators;
- Both small and medium enterprises think that **customer satisfaction, innovation, quality** and **reliability** and are moderately important non-financial indicators;
- None of the small and medium enterprises evaluated the any of indicators either in scale of 6 or more, or less than 3, which makes the generalization relatively difficult. Along with the predefined performance indicators based on literature review, there are two open-ended questions to support the research in Section 2:

**1. What are the key financial indicators to measure the performance in your company?**

**2. What are the key non-financial indicators to measure the performance in your company?**

In regards with the first question there are following financial indicators that are enterprise-specific: 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 (Earnings Before Interest, Taxes, Depreciation, and Amortization). However, two of the enterprises (5) and (26) did not mention any additional indicator.

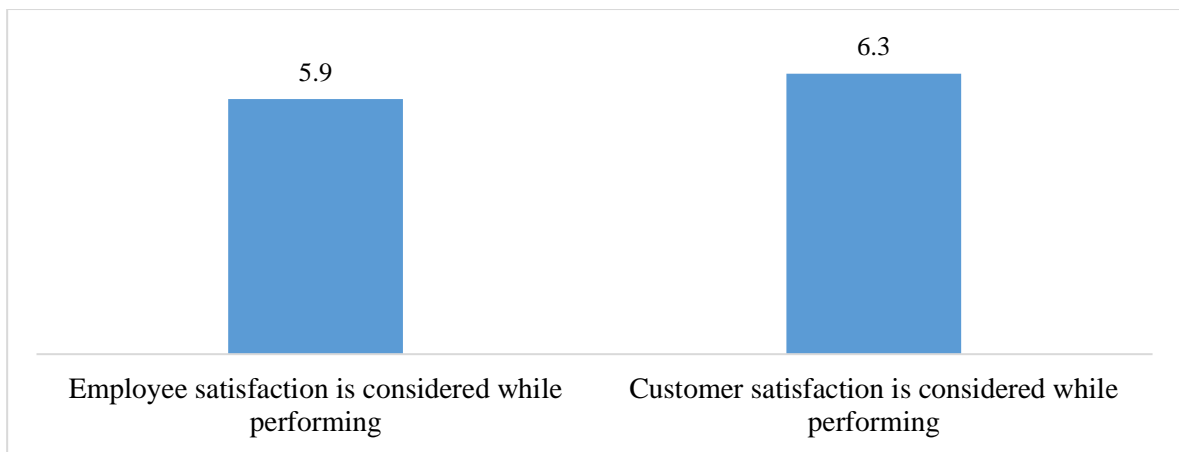
In regards with the second question there are following non-financial indicators that are mentioned by enterprises: Motivation and perspectives, company reputation, biosecurity and eco-friendly production, employee skills, time consumption, technical analyses, the quality of education and measures taken; 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). The same companies, (5) and (26) did not have a response for this question either.

In previous analysis these two companies (5) and (26) had the lowest level of goal achievement satisfaction.

#### ***4.3.2. Third research question***

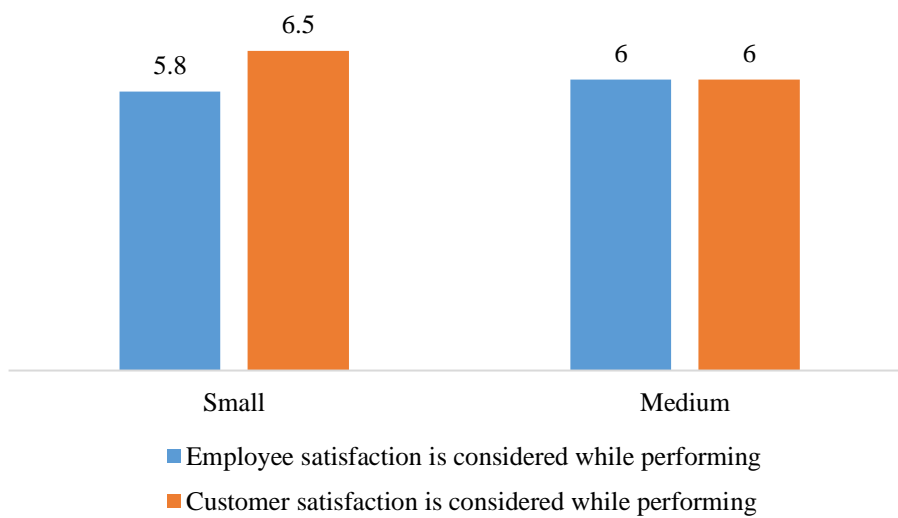
How important is employee and customer satisfaction as an indicator of performance?

To discuss these two main non-financial indicators of the performance, in Section 6 will be the focus. In this section companies were inquired again to state their agreement with 7-point Likert scale from “completely disagree” to “completely agree” on the consideration of customer and employee satisfactions while they operate. They agreed both customer and employee satisfaction are considered during their performance. *Figure 26* provides more visualisation for the results and depicts how customer satisfaction is considered by enterprises more than employee satisfaction, respectively in the scale of **5.9** versus **6.3**.



**Figure 25. Importance customer and employee satisfaction**

*Source: Created by author based on the analysis*



**Figure 26. Importance customer and employee satisfaction for small and medium enterprises**

*Source: Created by author based on the analysis*

Figure 27 points out to the difference between small and medium enterprises in attaching importance to employee and customer satisfaction. Small enterprises consider it is important to consider employee satisfaction, however it is slightly less than the importance they give to customer satisfaction. Conversely, medium sized enterprises value customer and employee satisfaction equally important.

#### **4.3.3. Fourth research question**

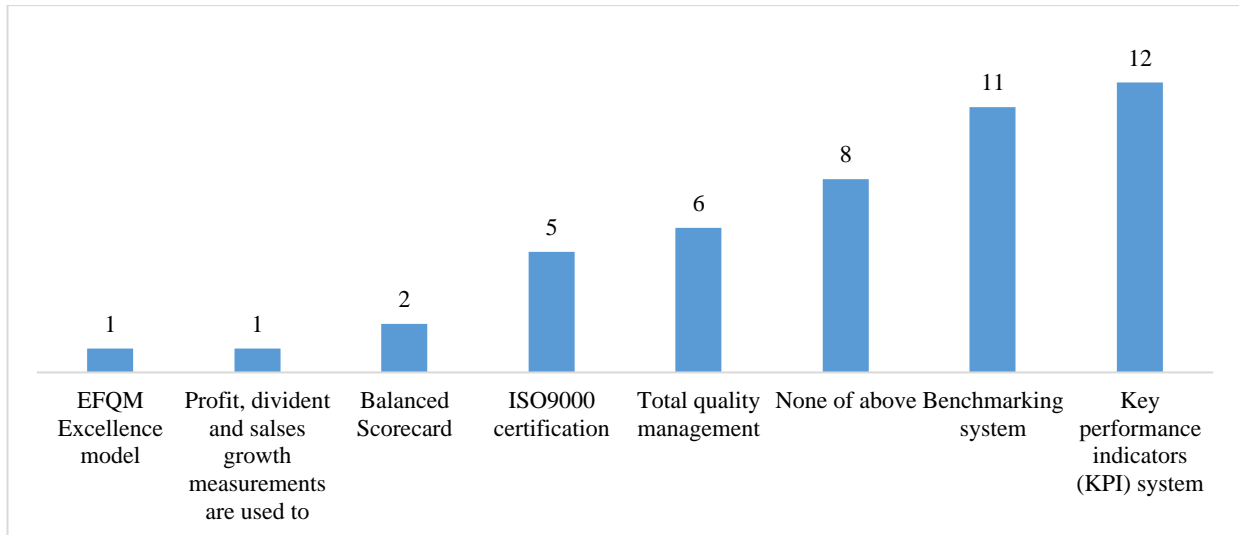
What kind of measurement systems are used to measure performance?

To understand this research questions Section 2: Open-ended questions, Section 4: Performance measurement and Section 5: BPMS will be analysed simultaneously.

In the course of the study of first research question, the question of the Section 2, “**Does your company use any BPMS?**” has already been analysed. According to the analysis, out of 27 respondents, 19

companies responded as “yes”. The other 8 of them said “no”, which constitutes 30 % of the enterprises. On the other hand, 5 of them either partially or strongly agree that they would like to improve the performance measurement in their companies. The majority of the enterprises that said they do not apply BPMS were small sized enterprises (6 enterprises).

Below *Figure 28* represents the commonly used BPMS.



**Figure 27. Most commonly used BPMS**

*Source: Created by the author based on the analysis*

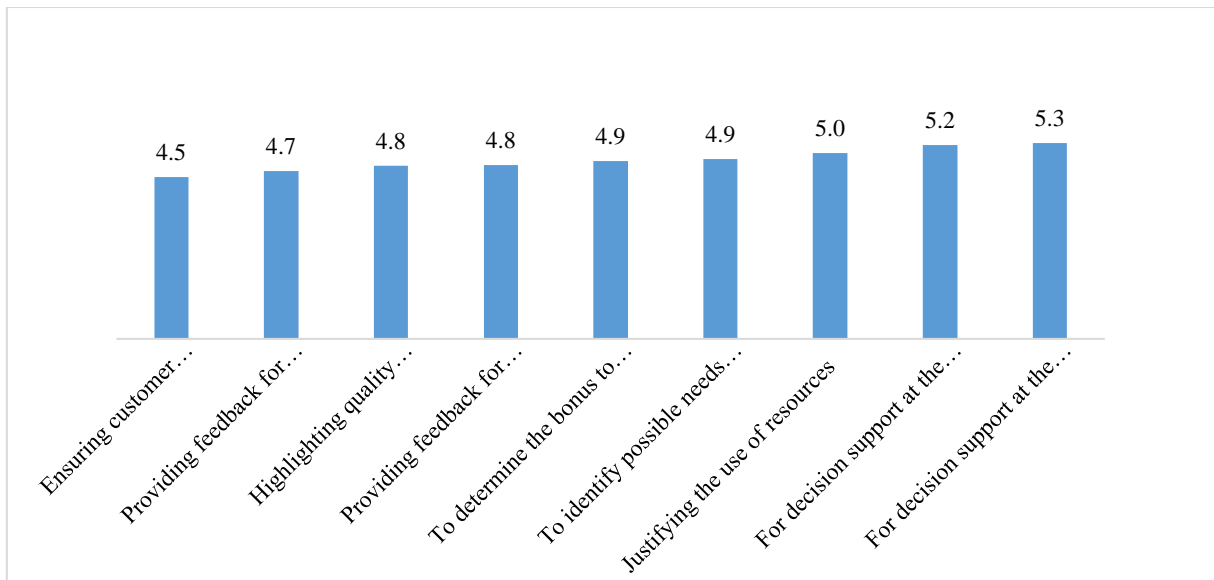
Based on the data in *Figure 28*, the most applied methods are KPIs, benchmarking and total quality management system.

As an additional information, the Section 5 also included Likert scale questions below:

- 1. How do you agree with the reasons below for your company to implement performance measurement system?**
- 2. How do you agree with the obstacles below for your company to implement performance measurement system?**

Companies that state they are using BPMS, they also relatively agreed on below most important reasons for implementing it: (*Figure 29*)

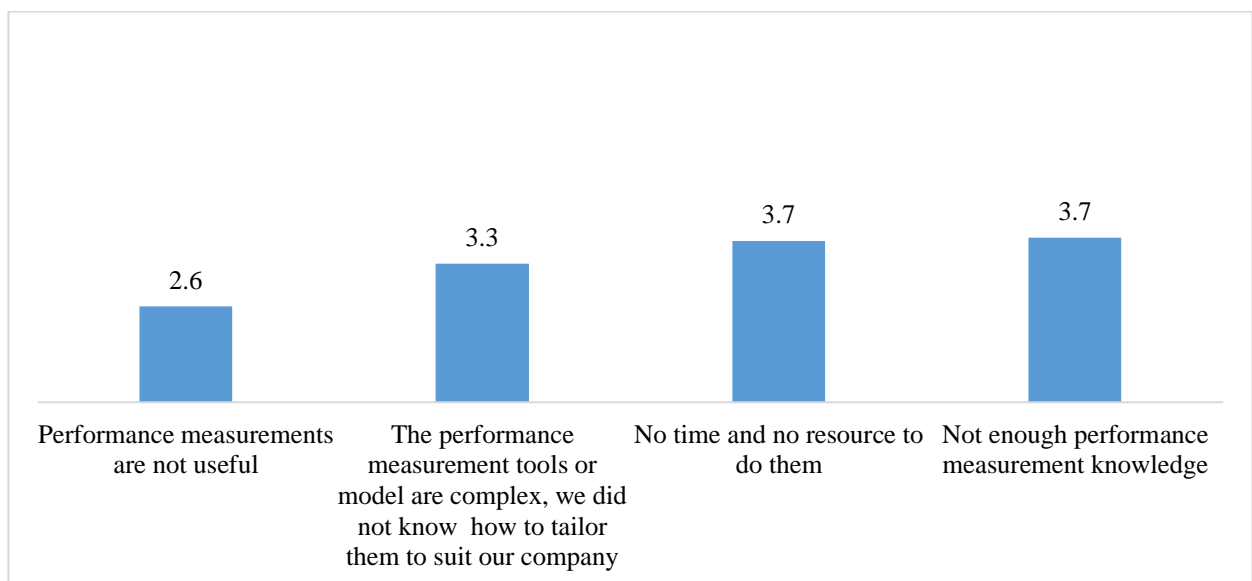
- For decision support at the operation level;
- For decision support at the top management level;
- Justifying the use of resources;
- To identify possible needs for changes in strategy.



**Figure 28. Reasons for using BMPS**

*Source: Created by the author based on the analysis*

Besides reasons for implementation, companies also stated “not enough performance measurement knowledge” as a primary obstacle for implementation. (Figure 30)



**Figure 29. Reasons for not using BMPS**

*Source: Created by author based on the analysis*

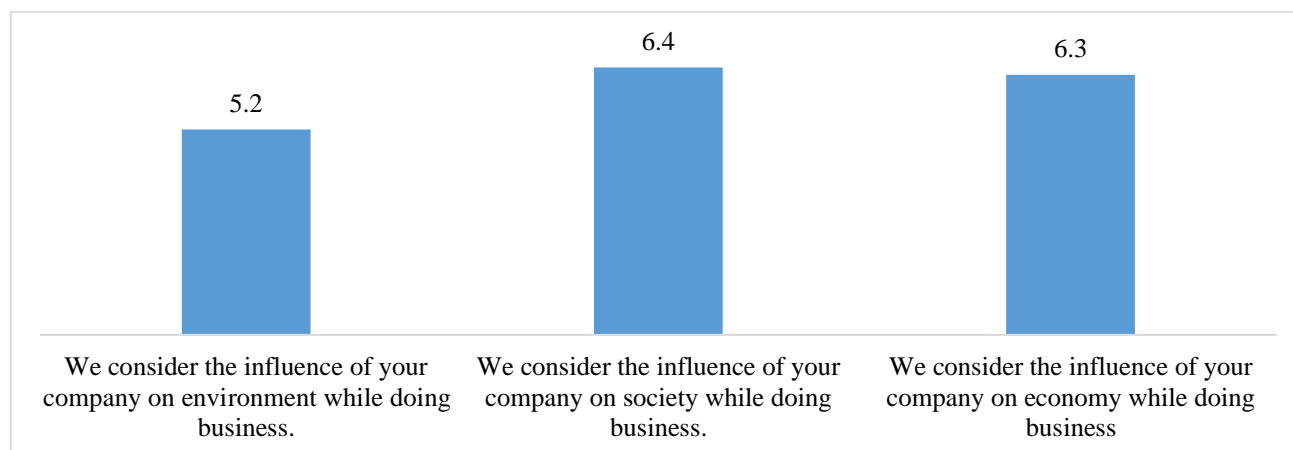
#### **4.3.4. Fifth research question**

Is Common Good factor considered by SMEs while performing?

Examination of Common Good factor in the performance of SMEs was the final aim of this research, to acquire an additional insight. There Likert scale questions in Section 2 were formulated based on the main values of this concept: contribution to society, stakeholders and environment. Companies

evaluated the questions in scale of 7, within the range of complete disagreement and complete agreement. Following questions were asked:

- 1. We consider the influence of our company on environment while doing business.**
- 2. We consider the influence of our company on society while doing business.**
- 3. We consider the influence of our company on economy while doing business**



**Figure 30. Common Good values**

*Source: Created by author based on the analysis*

As per the *Figure 31* the most considered value for the enterprises during their performance is their impact on the society and economy, in scale of 6 – agreement. Enterprises partially agreed that they consider the influence of their activities on environment.

#### **4.4. Analysis focusing on enterprises**

During the analysis of the responses they most repetitively mentioned companies were three small sized and one medium sized (coloured) company. Below *Table 9* depicts the summary of company profiles:

**Table 8. Companies with the most significant responses**

Comp.	Sector	Income (AZN)	Goals achievement	Customer s. consideration	Employee s. consideration	Application of BPMS	ECG consideration	Perfoamnce indicators
<b>5</b>	Industry	12 - 20.9 mln.	1	2	2	none	5	f - 6 n/f - 2
<b>10</b>	Information & communication	Up to 1 mln.	5	1	6	none	6	f - 6 n/f - 5
<b>23</b>	Construction	3 - 11.9 mln.	3	3	6	KPIs	5	f - 5 n/f - 4
<b>26</b>	Education	Up to 1 mln.	3	4	4	Total quality management system	7	f - 4 n/f - 4

*Source: Created by the author based on the analysis*

Company (5) is a medium sized company with the high-income level (highlighted in green). The management of this company is not satisfied with achievement level of their goals, which are “*Optimization, maximum ROI, organizational development, corporate learning, creating a target workforce, building a system with a personal development plan*”. Company also has a low consideration level in customer and employee satisfaction, not applying any BMPS and uses financial indicators more than non-financial as evaluation tool. As a company in industry sector, they consider ECG values. The company’s concern regarding to the internal factors to effect performance is “the principle of "permanent work" of the people from the Soviet regime”.

Company (10) is a small sized company with lower income level (compared to the range). The management of this company is partially satisfied with achievement level of their goals, which is “*Development of pharmaceutical sector*”. Company has a very low consideration for customer satisfaction, while paying a high attention for employee satisfaction, does not apply any BPMS, considers ECG values while operating.

Company (23) is a small sized company with a high annual income. Their satisfaction level in achieving goals of “*Building comfortable home complexes for middle-income people*” is low. Referring to the goal of the company, surprisingly, they do not find customer satisfaction important, however focusing on employee satisfaction. To evaluate the performance, they use KPI, both financial and non-financial. ECG is also considered while doing business. Company indicated “Lack of technical staff in the field” as an internal factor to hinder performance.

Company (26) as a last example, is a small sized company too with a lower level of annual income. The management of this company is partially dissatisfied with the level of their goal achievement of “*70% involvement of the new generation in entrepreneurship*”. They are in a neutral position for considering customer and employee satisfaction. Total quality management system is applied as BMPS, financial and non-financial indicators are referred equally in a neutral level. As a company in industry sector, they find it very important comply with the values of ECG.

Table 10 presents the details of the small enterprises in the sector of information and communication. Five enterprises with same field of operation and different goals, give insight to the performance of the SMEs in information and communication sector.

**Table 9. Comparison of companies in information and communication sector**

Comp.	Size	Income (AZN)	Goals achievement	Customer s. consideration	Employee s. consideration	Application of BPMS	ECG consideration	Performance indicators
<b>9</b>	Small	Up to 1mln.	5	7	7	ISO9000 certification KPI Benchmarking	5	f-5 n/f-5
<b>10</b>	Small	Up to 1mln.	5	6	1	None	6	f-6 n/f-5

<b>13</b>	Small	Up to 1mln.	3	7	6	Benchmarking system	5	f-5 n/f-5
<b>15</b>	Medium	12 - 20.9 mln.	5	6	6	ISO9000 certification	6	f-6 n/f-4
<b>21</b>	Medium	Up to 1mln.	6	7	7	KPI system Benchmarking	7	f-5 n/f-6

*Source: Created by the author based on the analysis*

Company (9) is a small enterprise with goal of *“To perform as a company that has formed a professional and reliable image in our field”* is partially satisfied with the achievement of their goal. They consider both financial and non-financial measures moderately important, and both customer and employee satisfaction very important. Besides the measures, they also own ISO 9000 certification, apply KPI and benchmarking for performance measurement.

Company (10) is a small enterprise with goal of *“Development of pharmaceutical sector”* is also partially satisfied with the achievement of their goal. Unlike other enterprises in the field they have the lowest consideration for employee satisfaction and do not use any BPMS.

Company (13) is also a small enterprise with goal of *“To be one of the best software solution companies in the region”* partially unsatisfied with the achievement of their goal. They think the customer satisfaction is very important, apply benchmarking system and consider both financial and non-financial measures moderately important.

Company (15) has a goal of *“Meeting financial targets”* and they are partially satisfied with the achievement of level of their goals. Giving a higher importance to financial indicators than non-financial, the enterprise has aligned its performance measures to its goals which lead them with bigger annual income than its peer Company (21). On the contrary, despite of relatively less annual income, Company (21) is satisfied with their goal of *“To render excellent service”*, and their performance measures are also aligned with their goals. Thus, employee and customer satisfaction are both very important, non-financial indicators are also more important than financial ones for the enterprise.

#### **4.5. Member checks - Validation of results**

By returning with the final results to participants and asking them if they believe they are correct and still valid for their enterprise, member checking was used to assess the accuracy of the qualitative results. This step entailed doing a follow-up online survey with research participants and giving them the chance to remark on the results, with the following open-ended questions below:

1. Research showed that financial indicators: net profit, profitability and sales growth are moderately important indicators for measuring performance -is it the case for your company?
2. Research showed that non-financial indicators: customer satisfaction, innovation, quality and reliability are moderately important indicators for measuring performance -is it the case for your company?

3. Research showed that SMEs in Azerbaijan are in transition period from financial aspects to non-financial aspects of the performance. Do you agree with this?
  - If yes, why?
  - If no, why?
4. Research showed that SMEs in Azerbaijan find customer satisfaction more important than employee satisfaction. Is it the case for your company?
5. The most applied BMPS or methods by SMEs in Baku are KPIs, benchmarking and total quality management systems – Do you apply any of these or other PMS at your company? Why did you decide to choose that tool?
6. What is the priority of these 3 dimensions in your enterprise? Please list them from most important to least important.
  - Planet (Quantity of waste generated, energy consumption, raw material usage)
  - People (Shareholders, employees, customers, contractors, service providers, and people all through the value chain)
  - Profit (Financial profitability)
7. What changes do you think you have made in the internal processes of your enterprise during the COVID-19 pandemic period made it easier for your enterprise to continue its operation? (Optional question)

In the second round of the research 20 enterprises accepted to participate. The participant enterprises of the second round of the research were again from different sectors, 12 of them small and 8 of them medium sized.

To make the analysis more concise manner, the results will be summarised in tables. *Table 11* contains the answers of the first and the second member check questions.

**Q1:** Research showed that financial indicators: net profit, profitability and sales growth are moderately important indicators for measuring performance -is it the case for your company?

**Q2:** Research showed that non-financial indicators: customer satisfaction, innovation, quality and reliability are moderately important indicators for measuring performance -is it the case for your company?

**Table 10. Answers of Q1 and Q2 of member check**

Comp.	Field	Size	Q1	Q2
1	Construction	small	Yes	Yes
2	Business trainings and consulting	small	Yes	Yes
3	Industry	small	Yes	100% Yes
4	Consulting	small	Yes	Yes
5	Financial services	small	Yes	Yes
6	Media	small	Not for now, because we are currently acting as NPO	Yes, we consider to apply innovation methods in our company

7	Advertisement	small	Yes, besides reputation is also important	Yes
8	Aerocosmic	small	Yes	Yes, it is even more important
9	Information and communication	small	Ofcourse	Yes
10	Industry	small	Yes	Yes
11	Education	small	Yes	Yes
12	Information and communication	small	Yes	Yes
13	Education	medium	Yes	For our company customer satisfaction, quality and reliability is more important
14	Financial services	medium	Yes, these KPI's are essential in performance evaluation in our company.	Yes, these KPI's are also very crucial in performance evaluation in our company.
15	Coworking space	medium	Yes	Yes
16	Health and beauty	medium	Yes	Yes
17	Social entrepreneurship	medium	Yes	Yes
18	Real estate activities	medium	Yes	Partially
19	Personal protective equipment	medium	No	Yes
20	Construction	medium	Yes	Yes

Source: Created by the author based on the analysis of member check questions

The answers reveal that indeed, the financial indicators: net profit, profitability and sales growth and non-financial indicators: customer satisfaction, innovation, quality and reliability are indeed the performance measures that have been utilized by the SMEs in Baku. There are three exceptions (highlighted in orange) with Company (6) due to its business context, Company (19) which has different financial measures to apply and Company (18) which partially agreed with the statement for non-financial indicators.

Table 12 contains the answers of the third and the fourth member check questions (Appendix B).

**Q3:** Research showed that SMEs in Azerbaijan are in transition period from financial aspects to non-financial aspects of the performance. Do you agree with this?

- If yes, why?
- If no, why?

Referring to Q3 in Table 12, Company (3) did not agree, stating that “*financial indicators of the enterprise performance always keep their importance*”. Company (6) and Company (15) believe that this transition applies only to small portion, 5% of the SMEs in the country. Similarly, Company (7) also thinks that this chance does not apply to all the enterprises. Company (14) provided a more detailed sight and stated that “*financial and digital literacy among SMEs are still on very low level. Huge part of SMEs is not able to calculate basic financial parameters such as business costs, operation expenses, etc.*”. In conclusion, out of 20 respondents, 14 of them agreed that, SMEs in

Azerbaijan are in transition period from financial aspects to non-financial aspects of the performance. However, 6 of them disagreed with different opinions (highlighted in orange).

**Q4:** Research showed that SMEs in Azerbaijan find customer satisfaction more important than employee satisfaction. Is it the case for your company?

Q4 also received various responses. Out of 20, 7 participants (highlighted in blue) asserted that customer satisfaction depends on the satisfaction of employees, therefore they try to those two indicators. Out of 20, 6 companies (highlighted in orange) did not agree with the statement and reported that for their enterprise human resources play a greater role and employee satisfaction comes first. In total, 13 participants did not confirm the statement of Q4 and proposed that employee satisfaction is either more or as important as customer satisfaction for their enterprises.

*Table 13* contains the answers for fifth and sixth questions of the member checks (Appendix B).

**Q5:** The most applied BMPS or methods by SMEs in Baku are KPIs, benchmarking and total quality management systems – Do you apply any of these or other PMS at your company? Why did you decide to choose that tool?

Answers of Q5, investigating the BPMS application among SMEs revealed that 4 respondents do not apply any measurement system in their enterprise and 3 respondents apply other systems than KPI, benchmarking and TQM (all highlighted in orange). Company (1) in the field of construction use a specific formula “Performance= customer satisfaction/costs” for measuring their performance. Company (6) in media apply Objectives and Key Results (OKR) model and Company (3) apply Enterprise resource planning (ERP) systems. In conclusion, out of 20 participants, 13 of them confirmed that they use either of BMPS that results of this research proposed.

**Q6:** What is the priority of these 3 dimensions in your enterprise? Please list them from most important to least important.

- Planet (Quantity of waste generated, energy consumption, raw material usage)
- People (Shareholders, employees, customers, contractors, service providers, and people all through the value chain)
- Profit (Financial profitability)

Q6 was dedicated to investigate whether SMEs in Baku consider the elements of sustainability and ECG model during their operations. In order to quantify and easily interpret the responses, each element was ranked based on the frequency of the responses as first selection:

- People first – 11 times
- Profit first – 7 times
- Planet first – 2 times

This ranking implies 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.

Table 14 contains the answers for seventh and optional question of the member checks.

**Q7:** What changes do you think you have made in the internal processes of your enterprise during the COVID-19 pandemic period made it easier for your enterprise to continue its operation?

**Table 11. Answers of Q7 of member check**

Comp.	Field	Size	Q7
1	Construction	small	We <b>lowered the working hours</b> , and <b>decreased the number orders</b> to be accepted
2	Business trainings and consulting	small	We changed to <b>more agile business model</b> , reduced the dependability on <b>fixed costs</b> .
3	Industry	small	It is going on with the same previous rules.
4	Consulting	small	Portfolio diversification.
5	Financial services	small	We didn't do anything the restriction was not without effect.
6	Media	small	Our worked moved to more <b>remote mode</b> . Some aspects became easier, some vice-versa get harder to manage.
7	Advertisement	small	Implementing <b>remote work</b>
8	Aerocosmic	small	<b>Online work</b>
9	Information and communication	small	No major changes to internal operations - negative or positive.
10	Industry	small	<b>Free working time</b> .
11	Education	small	During the pandemic, the transition to <b>online</b> trainings has made our activities easier.
12	Information and communication	small	Yes, at least most of the meetings with customers are held <b>online</b> and have a positive impact on internal processes.
13	Education	medium	Moving to an <b>online</b> system and still implementing remote work.
14	Financial services	medium	We became <b>more employee oriented</b> I believe, started to prioritize our company, team and personal values.
15	Coworking space	medium	Yes
16	Health and beauty	medium	Since we also operate in the field of health (medicine), there was no need for any changes and our work continued stably.
17	Social entrepreneurship	medium	-
18	Real estate activities	medium	<b>Cost control</b> , <b>remote</b> management and <b>improved customer service</b> considering the importance of loyal customers.
19	Personal protective equipment	medium	<b>E-commerce</b>
20	Construction	medium	We worked with <b>less stock</b> (we started buying raw materials as needed, we didn't stock large-scale raw materials like in the pre-Covid-19 period), we implemented <b>shift work hours</b> , we <b>outsourced</b> certain office work, mainly HR-Accounting work,

			which allowed us to have a smaller office had allowed us to reduce our rent <b>costs</b> by moving.
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*Source: Created by the author based on the analysis of member check questions*

Member check was performed to validate the responses of auxiliary questions related to COVID-19 pandemic in the first part of the research too. Besides validation, this check also provides an additional insight to the operation of SMEs during pandemic, which was a breakthrough.

Having a closer look to the responses demonstrates that the most opted change by SMEs was to transition to online business activities and remote work, 7 out of 20 SMEs mentioned that they used this option and it made their operations easier to pursue. Second focus of the SMEs was managing and deducting costs in several ways, such as changing to more agile business model, working with less stock and outsourcing their work. Company (14) in financial services sector mentioned: *“We became more employee oriented I believe, started to prioritise our company, team and personal values”*. Other 3 respondents also took actions towards facilitation of the job of employees by lowering the working hours, providing flexible working time and implementing shift work hours.

Only one Company (18) in real estate activities focused on improvement on customer satisfaction.

In general, out of 20 respondents, 16 of them took several actions to overcome the obstacles during pandemic. The other 4 companies (highlighted in orange) that did not implement any modification, Company (5) stated they were affected by the situation negatively, Company (3) preferred to take a neutral position in their response, Company (9) stated there was no major change in their operations and Company (16) were able to continue their business stably due to the suitability of the sector (health) they operate in.

## 5. FINDINGS AND DISCUSSION

### 5.1. Discussion of results

In this chapter the findings of the research will be elaborated. This includes interpretation of the results for each research question and their relatability to the practice in Azerbaijan. Based on the findings, discussion will be held in accordance of the research topic. During discussion, topics such as other alternatives for research methodology, recommendations, contribution of the study, its limitations and suggestions for further research will be covered. Furthermore, supplementary questions from survey will be touched upon to enhance the insight of entrepreneurship in Azerbaijan, Baku, situation during Covid-19 pandemic. Other than questions related to the main hypotheses of this research, in the questionnaire there were auxiliary questions related to the internal and external factors that effects performance of the enterprises in Azerbaijan, and questions to assess the resilience of enterprises during Covid-19.

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.

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.

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.

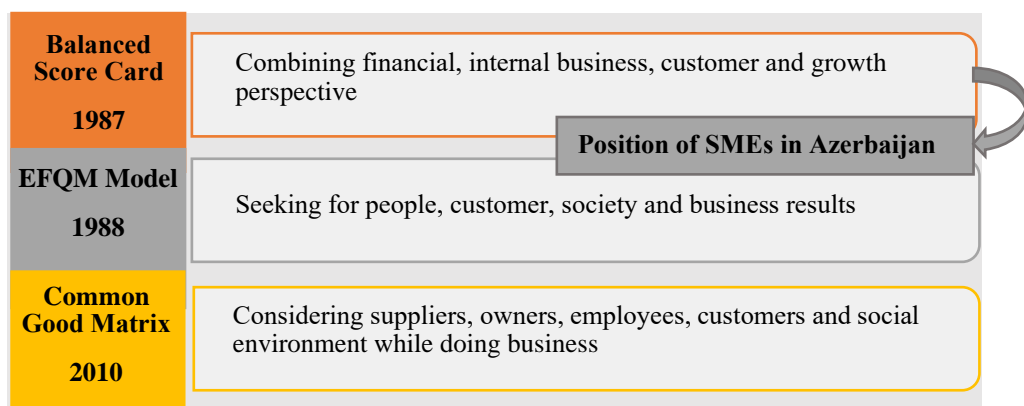
Besides, the effect of "success" on job satisfaction is a significant variable in Azerbaijan. Companies who want to improve employee satisfaction are recommended to consider this element. Employees pursuing professional development like the lack of regular activities. Aside from "success," aspects such as engaging duties and promotional opportunities have a beneficial influence on job satisfaction. Changing responsibilities to accommodate these hobbies, rather than monotonous chores, might result in more interesting and rewarding careers. Encourage active engagement, decision-making, and involvement in a variety of tasks for successful workers is a noteworthy strategy for the enterprises. Employee turnover in Azerbaijan may be linked to a significant desire for change in the workplace, which is reinforced by respondents' emphasis on personal core characteristics of an employee. The negative consequences of layoffs, such as higher costs and psychological damage, highlight the need of organizations addressing work satisfaction problems (Ozdemir, 2009).

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.

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 4<sup>th</sup> 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.

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 31. 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 31*. 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).

## **5.2. 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).

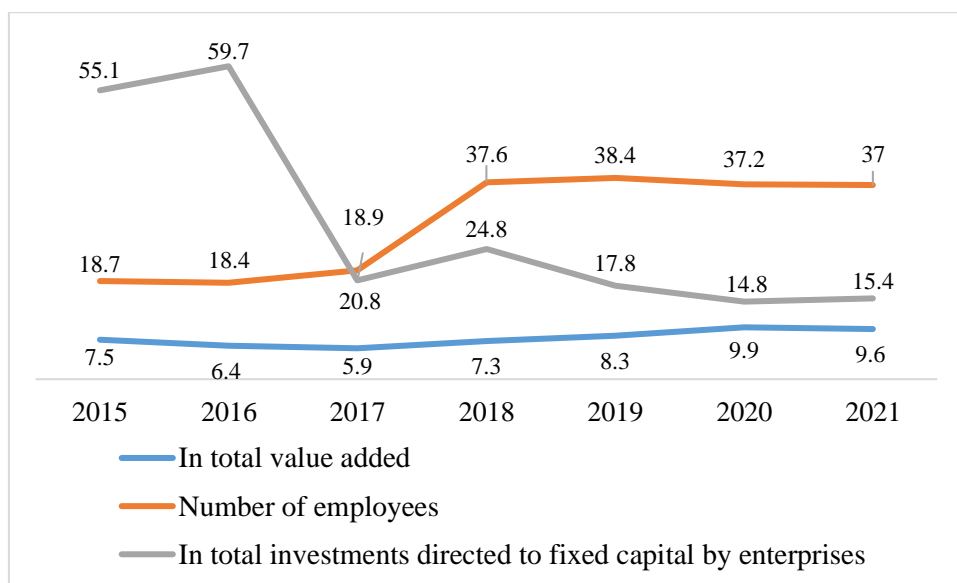
Following Covid-19 Pandemic economic condition regressed remarkably also in Azerbaijan. The GDP of the country shrank by 4.3%, being affected by the consequences such as business shutdowns in 2020. Border closures blocked trading and significant drops in oil prices resulted in poor GDP growth.

Strong restrictive measures also resulted in daily economic activity loss of around AZN 120-150 million (EUR 70.5 - 88.2 million) in spring of 2020. Foreign trade turnover diminished by 21.2%,

imports dropped by 42.8% and exports dropped by 6.1%. Due to the newly accepted fiscal policy, maintaining a fixed exchange rate caused a great pressure on public finances (OECD, 2022).

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.

Certainly, SMEs could not bypass this stagnation. The below *Figure 32* displays the changes in the role of SMEs in the economy of the country, from 2015 till 2021. After the major decline during 2016-2017, the second noticeable decline was observed between 2019-2020, with the start of pandemic. The ratio of total investments directed to fixed capital by the enterprises dropped down to 14.8% and share in the employment to 37.2%, meanwhile having a slight increase in the ratio of value added to the economy up to 9.9% (State Statistical Committee of Azerbaijan, 2021).



**Figure 32. Role of SMEs in the economy**

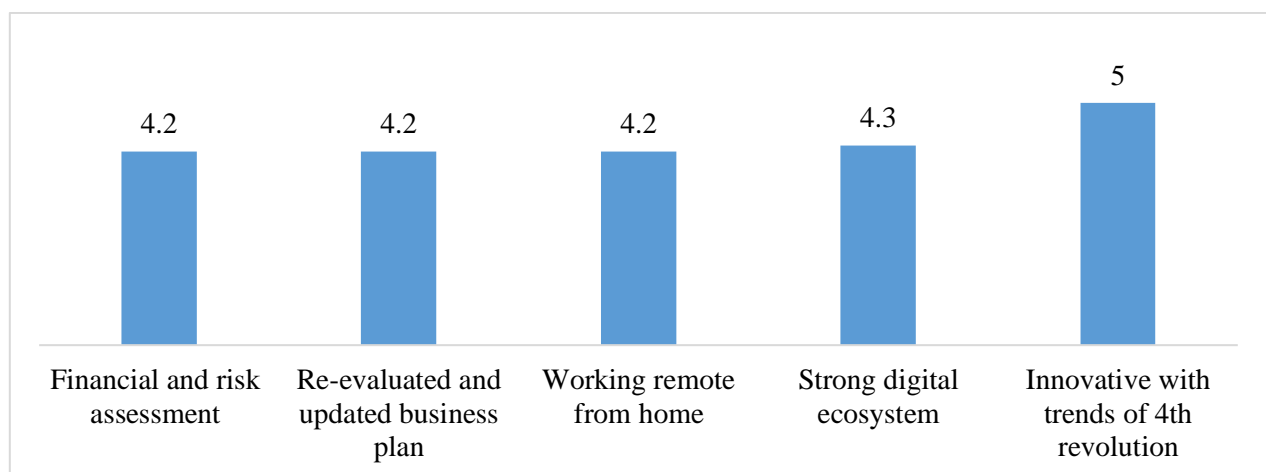
*Source: State Statistical Committee of Azerbaijan, 2021*

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 4<sup>th</sup> 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)

As per below *Figure 33*, enterprises responded to the questions in a neutral manner or partially agreed, which may imply their unreadiness for the pandemic. Entrepreneurs had a neutral position in evaluating their readiness in financial risk assessment, updated business plan, working from home and strengthened digital ecosystem. On the other hand, they partially agreed that their enterprises are innovative in terms of 4th revolution.



**Figure 33. Preparedness of SMEs for Covid-19**

*Source: Created by the author based on the analysis*

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.

### **5.3. Main findings and conclusions**

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.

#### **5.4. Contribution of the study and future research suggestions**

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 5<sup>th</sup> 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.

## 5.5. 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 BPMS, 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;

## **5.6. Limitations**

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.

## SUMMARY

This dissertation topic was dedicated to evaluate business performance of SMEs in Azerbaijan, its capital city Baku, and study the factors that have effect on performance, focusing primarily on the internal factors.

In the first chapter the research topic was introduced, its significance is justified and background and aim were explained. These sections were followed by presentation of research questions, scope of the study, methodology and research approach.

Chapter two was assigned for literature review. The review explored state of art in entrepreneurship, business performance, business performance indicators and measurement systems, business environment, external business environment factors, internal business environment factors and their dimensions, relationship between defined business performance and measurement indicators in the literature.

Chapter three explained the adopted methodology. The proposed methodology for the research was Convergent Parallel Mixed method with exploratory approach. The chapter further explains research design, data collection through qualitative and quantitative methods, thematic content analysis and member check round of the research.

Chapter four provided a thorough analysis of collected data, structure of the questionnaire and open-ended questions. Each question of the topic was answered through the collected data and supplementary questions and member check results added more information and view to the overall state of art of SME in Azerbaijan.

Chapter five is the last part of this dissertation and it covered findings and their discussion. In this chapter main findings were brought together in summary, contribution of the research and opportunities for future research were stated, recommendations based on the results were suggested, and limitations were listed.

In conclusion, despite of the challenges and unprecedented modifications in methodology, the outcomes of this research bring a novel knowledge and can serve as a good basis for future research direction in SME field, especially the internal factors that play a substantial role in the performance of SMEs in Azerbaijan.

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## LIST OF ABBREVIATIONS

BPM - Business Performance Measurement  
BPMS - Business Performance Measurement System  
CGBS - Common Good Balance Sheet  
CGF - Common Good Factor  
CGM - Common Good Matrix  
CSR - Corporate Social Responsibility  
DEA - Data Envelopment Analysis  
ECG - Economy for Common Good  
EFQM - European Foundation for Quality Management  
FMCG - Fast-Moving Consumer Goods  
GDP - Gross Domestic Product  
HVAC - Heating, Ventilation, And Air Conditioning  
ICT – Information and Communication Technologies  
KETs - Key Enabling Technologies  
KPI - Key Performance Indicators  
MBNQA - Malcolm Baldrige National Quality Award  
MCDM - Multiple Criteria Decision Making  
NFES - National Fund for Entrepreneurship Support  
PMS - Performance Measurement System  
ROE - Return on Equity  
ROI - Return on Investment  
ROA - Return on Assets  
RADAR - Results, Approaches, Deploy, Asses, Refine  
SMBDA - Small and Medium Business Development Agency  
SME - Small and Medium Entrepreneurship  
SMEs - Small and Medium Enterprises  
SSCRA - State Statistical Committee of the Republic of Azerbaijan

LIST OF COMPANIES

<b>Company</b>	<b>Sector</b>	<b>Size</b>	<b>Income (AZN)</b>
<b>1</b>	Technological product production and innovative engineering services	Small	Up to 1000.000
<b>2</b>	Education	Small	Up to 1000.000
<b>3</b>	Human health and social work	Small	1.000.001 - 1.999.999
<b>4</b>	FMCG	Medium	3.000.000 - 11.999.999
<b>5</b>	Industry	Medium	12.000.000 - 20.999.999
<b>6</b>	Finance	Small	Up to 1000.000
<b>7</b>	Trade	Small	Up to 1000.000
<b>8</b>	HVAC	Small	Up to 1000.000
<b>9</b>	Information and communication	Small	Up to 1000.000
<b>10</b>	Information and communication	Small	Up to 1000.000
<b>11</b>	Insurance	Medium	Up to 1000.000
<b>12</b>	Real estate activities	Small	1.000.001 - 1.999.999
<b>13</b>	Information and communication	Small	Up to 1000.000
<b>14</b>	Industry	Small	Up to 1000.000
<b>15</b>	Information and communication	Medium	12.000.000 - 20.999.999
<b>16</b>	Industry	Small	Up to 1000.000
<b>17</b>	Financial and management consulting services	Small	Up to 1000.000
<b>18</b>	Provision of services in other areas	Small	Up to 1000.000
<b>19</b>	Insurance	Medium	21.000.000 - 30.000.000
<b>20</b>	Agriculture, forestry and fishing	Medium	21.000.000 - 30.000.000
<b>21</b>	Information and communication	Medium	Up to 1000.000
<b>22</b>	Agriculture, forestry and fishing	Small	1.000.001 - 1.999.999
<b>23</b>	Construction	Small	3.000.000 - 11.999.999

<b>24</b>	Provision of services in other areas	Medium	1.000.001 - 1.999.999
<b>25</b>	Education	Medium	Up to 1000.000
<b>26</b>	Education	Small	Up to 1000.000
<b>27</b>	Industry	Medium	More than 30.000.000

## LIST OF PUBLICATIONS

1. Mahmudova, Leyla

*Importance of selecting relevant methodology in social sciences*

SEA: PRACTICAL APPLICATION OF SCIENCE 10 : 30 pp. 127-134. , 8 p.m. (2022)

Article (Journal Article) | Scientific [33569889] [Public]

2. Mahmudova, Leyla

*Overview of small and medium entrepreneurship in Azerbaijan*

NETWORK INTELLIGENCE STUDIES 7 : 13 pp. 13-20. , 8 p.m. (2019)

Article (Journal Article) | Scientific [32099336] [Public]

3. Mahmudova, Leyla ; Katonáné, Judit Kovács

*Defining the performance of small and medium enterprises*

NETWORK INTELLIGENCE STUDIES 6 : 12 pp. 111-120. , 10 p.m. (2018)

Article (Journal Article) | Scientific [30616740] [Public]

4. Mahmudova, Leyla

*Digitalization Trends and Their Possible Implications to SME Performance: Comparative Study Between Hungary and Azerbaijan*

INTERNATIONAL JOURNAL OF ENGINEERING AND MANAGEMENT SCIENCES

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## APPENDIX A

### Questions on company profile:

1. Your job position in the company:
2. Gender
3. Age
4. Your education level:
5. When was your company founded?
6. In which sector does the company operate?
7. Registered economic region
8. Please indicate the number of employees in the company:
9. Please indicate the annual income ratio of the company (AZN):
10. What is the ratio of female colleagues? (Give a ratio expressed in a percentage)?
11. What is the organizational and legal form of the company?

### Open-ended questions:

1. What are your organizational goals?
2. What is the time frame for your goal?
3. Do you think having a goal has benefits?
4. If yes, what are they?
5. What are the external factors that influence a firm's performance?
6. What are the internal factors that influence company's performance?
7. What are the key financial indicators to measure the performance in your company?
8. What are the key non-financial indicators to measure the performance in your company?
9. Does your company use any performance measurement systems? If yes, since when do you use it?
10. In your opinion, how could you improve the performance in your company?

### Yes or no/ Likert scale questions:

1. We consider the influence of our company on environment while doing business.
2. If you have any comment regarding to above question please indicate.
3. We consider the influence of our company on society while doing business.
4. If you have any comment regarding to above question please indicate.
5. We consider the influence of our company on economy while doing business
6. If you have any comment regarding to above question please indicate
7. Our company has a goal
8. We explain our goals to our employees
9. How satisfied are you with the achievement of your organizational goals?
10. It is important to measure performance
11. To what extent does your company emphasize on the following measures? [Profitability]
12. To what extent does your company emphasize on the following measures? [Productivity]
13. To what extent does your company emphasize on the following measures? [Income]
14. To what extent does your company emphasize on the following measures? [Income]
15. To what extent does your company emphasize on the following measures? [(ROI)]
16. To what extent does your company emphasize on the following measures? [(ROA)]
17. To what extent does your company emphasize on the following measures? [Revenue growth rate]
18. To what extent does your company emphasize on the following measures? [(ROS)]
19. To what extent does your company emphasize on the following measures? [(ROCE)]
20. To what extent does your company emphasize on the following measures? [Turnover]

21. To what extent does your company emphasize on the following measures? [Costs]
22. To what extent does your company emphasize on the following measures? [Profit growth]
23. To what extent does your company emphasize on the following measures? [Sales growth]
24. To what extent does your company emphasize on the following measures? [Market share growth rate]
25. To what extent does your company emphasize on the following measures? [Market share]
26. To what extent does your company emphasize on the following measures? [Employee turnover]
27. To what extent does your company emphasize on the following measures? [Customer loyalty]
28. To what extent does your company emphasize on the following measures? [Customer satisfaction]
29. To what extent does your company emphasize on the following measures? [Employee satisfaction]
30. To what extent does your company emphasize on the following measures? [Ability to balance work family]
31. To what extent does your company emphasize on the following measures? [Job creation]
32. To what extent does your company emphasize on the following measures? [Environmental impact]
33. To what extent does your company emphasize on the following measures? [Quality]
34. To what extent does your company emphasize on the following measures? [Innovation]
35. To what extent does your company emphasize on the following measures? [Utilization Productivity]
36. To what extent does your company emphasize on the following measures? [Industry leadership]
37. To what extent does your company emphasize on the following measures? [Reliability]
38. To what extent does your company emphasize on the following measures? [Responsiveness]
39. To what extent does your company emphasize on the following measures? [Efficiency]
40. To what extent does your company emphasize on the following measures? [Empathy]
41. To what extent does your company emphasize on the following measures? [Assurance]
42. To what extent does your company emphasize on the following measures? [Tangibility]
43. To what extent does your company emphasize on the following measures? [Bedroom occupancy rate (for Accommodation and food service)]
44. To what extent does your company emphasize on the following measures? [Demand (for tourism sector)]
45. To what extent does your company emphasize on the following measures? [Flexibility-for tourism]
46. External factors of business environment influence company's performance
47. Internal factors influence company's performance
48. Which performance measurement model or tools are used in your company?
49. We would like to improve performance measurement in our company
50. How do you agree with the reasons below for your company to implement performance measurement system? [Not enough performance measurement knowledge]
51. How do you agree with the reasons below for your company to implement performance measurement system? [No time and no resource to do them]
52. How do you agree with the reasons below for your company to implement performance measurement system? [Performance measurements are not useful]
53. How do you agree with the reasons below for your company to implement performance measurement system? [The performance measurement tools or model are complex, we did not know how to tailor them to suit our company]
54. If you have other reasons please add below

55. How do you agree with the reasons below for your company to implement performance measurement system? [Ensuring customer requirements]
56. How do you agree with the reasons below for your company to implement performance measurement system? [Providing feedback for people to monitor their own performance levels]
57. How do you agree with the reasons below for your company to implement performance measurement system? [Highlighting quality problems and determining which areas most need attention]
58. How do you agree with the reasons below for your company to implement performance measurement system? [To identify possible needs for changes in strategy]
59. How do you agree with the reasons below for your company to implement performance measurement system? [Justifying the use of resources]
60. How do you agree with the reasons below for your company to implement performance measurement system? [Providing feedback for driving the improvement effort]
61. How do you agree with the reasons below for your company to implement performance measurement system? [For decision support at the top-management level]
62. How do you agree with the reasons below for your company to implement performance measurement system? [For decision support at the operating level]
63. How do you agree with the reasons below for your company to implement performance measurement system? [To determine the bonus to management and/or staff]
64. If you have other reasons please add below
65. Employee satisfaction is considered while performing:
66. Customer satisfaction is considered while performing:
67. Our company has done financial and risk assessment
68. We have re-evaluated and updated our business plan
69. We have a strong digital ecosystem
70. Our company is innovative in terms of trends of 4th revolution
71. We do not need a large physical space for our business since it can be done remotely from home

### **Member check questions:**

1. Research showed that financial indicators: net profit, profitability and sales growth are moderately important indicators for measuring performance -is it the case for your company?
2. Research showed that non-financial indicators: customer satisfaction, innovation, quality and reliability are moderately important indicators for measuring performance -is it the case for your company?
3. Research showed that SMEs in Azerbaijan are in transition period from financial aspects to non-financial aspects of the performance. Do you agree with this?
  - If yes, why?
  - If no, why?
4. Research showed that SMEs in Azerbaijan find customer satisfaction more important the employee satisfaction. Is it the case for your company?
5. The most applied BMPS or methods by SMEs in Baku are KPIs, benchmarking and total quality management systems – Do you apply any of these or other PMS at your company? Why did you decide to choose that tool?
6. What is the priority of these 3 dimensions in your enterprise? Please list them from most important to least important.
  - Planet (Quantity of waste generated, energy consumption, raw material usage)
  - People (Shareholders, employees, customers, contractors, service providers, and people all through the value chain)
  - Profit (Financial profitability)

7. What changes do you think you have made in the internal processes of your enterprise during the COVID-19 pandemic period made it easier for your enterprise to continue its operation?  
(Optional question)

**Table 12. Goals of the companies that participated in the research**

Comp.	Respondent	Field	Size	What are your organizational goals?
1	Owner	Technological product production and innovative engineering services	Small	<b>Production and sale of local innovative technological products</b>
2	Owner	Education	Small	<b>To be the largest</b> company operating in the field of youth
3	Owner	Human health and social work	Small	<b>To succeed</b> in the country and in the region among social entrepreneurs
4	Head of HR	Fast-moving consumer goods products	Medium	<b>Sales growth</b> , organizational <b>sustainability</b> , implementation of the annual <b>strategy</b>
5	Manager	Industry	Medium	<b>Optimization</b> , maximum ROI, organizational <b>development</b> , corporate learning, creating a target workforce, building a system with a <b>personal development plan</b>
6	Manager	Finance	Small	Train a <b>professional team</b>
7	Owner	Trade	Small	<b>To be a corporate</b> enterprise
8	Owner	Heating, ventilation, and air conditioning	Small	Be an <b>honest, quality</b> and <b>customer satisfied</b> company in the market
9	Owner	Information and communication	Small	To perform as a company that has formed a <b>professional</b> and <b>reliable image</b> in our field
10	Owner	Information and communication	Small	<b>Development of pharmaceutical sector</b>
11	Manager	Insurance	Medium	1. <b>To become one of the leading</b> companies in the field of insurance 2. To work with a <b>stable profit</b> and to pay dividends to shareholders (s) periodically 3. Improving our business <b>efficiency</b> by implementing <b>digital transformation</b> 4. <b>To become one of the best employers</b> in Azerbaijan and <b>attract young talents</b> to the company
12	Owner	Real estate activities	Small	<b>To be the largest flexible office</b> , coworking center in Azerbaijan
13	Owner	Information and communication	Small	<b>To be one of the best</b> software solution companies in the region.
14	Owner	Industry	Small	<b>Be one of the top 3 organizations</b> offering energy efficiency services
15	Owner	Information and communication	Medium	Meeting <b>financial targets</b>
16	Owner	Industry	Small	<b>To grow further</b> in the future and to implement international projects

17	Owner	Financial and management consulting services	Small	<b>Start providing data-based services to entrepreneurs to make the right decisions</b>
18	Owner	Provision of services in other areas	Small	<b>To grow the company</b>
19	Manager	Insurance	Medium	<b>To create products that have a positive impact on people's lives and maximize it.</b>
20	Manager	Agriculture, forestry and fishing	Medium	Achieving <b>maximum production capacity</b> of enterprise
21	Deputy CEO	Information and communication	Medium	To render <b>excellent service</b>
22	Owner	Agriculture, forestry and fishing	Small	Achieve <b>sustainable growth</b> by ensuring <b>maximum profitability</b> in the current volatile market environment.
23	Owner	Construction	Small	<b>Build comfortable home complexes for middle-income people</b>
24	Owner	Provision of services in other areas	Medium	This is internal data
25	Manager	Education	Medium	Increase our <b>international awareness</b> ; to improve the <b>quality</b> of education and the means used; to <b>increase the number</b> of students
26	Executive Director	Education	Small	<b>70% involvement of the new generation in entrepreneurship</b>
27	Manager	Industry	Medium	1. To increase our <b>market share</b> . 2. To <b>redesign</b> organizational structure. 3. To increase an <b>efficiency</b> of all business-processes.

Source: Created by author based on survey results

**Table 13. Answers of Q3 and Q4 of member check**

Comp.	Field	Size	Q3	Q4
1	Construction	small	Partially	Customer satisfaction is important, but also employee satisfaction and their happiness.
2	Business trainings and consulting	small	I completely agree, if before most of the entrepreneurs focused only on profitability. However nowadays, they focus on whole value creation, not only profit.	We see it equally, for customer satisfaction there should be employee satisfaction too.
3	Industry	small	I don't agree, financial indicators of the enterprise performance always keep their importance.	Yes
4	Consulting	small	No, both are important	Yes
5	Financial services	small	I agree	No, satisfied employee makes satisfied customer.
6	Media	small	Only, few of them are going in that way/ Maybe 5%	Yes

7	Advertisement	small	I don't agree, it does not apply to all the enterprises.	We are trying to keep the fair balance between employee and customer satisfaction.
8	Aerocosmic	small	I agree, non-financial aspects play more important role in performance.	It is not, it is balanced
9	Information and communication	small	Depends on industry	We are a service provider, we try to keep balance
10	Industry	small	Yes, following trends.	No, human resources are main player.
11	Education	small	Yes	No, it's the same. Employees must be satisfied so that customers can be satisfied.
12	Information and communication	small	I think non-financial aspects are also considered, but this does not mean the financial aspects play less role.	In our organization, attention is paid to both groups. Customer satisfaction depends on team satisfaction.
13	Education	medium	I agree with it, because now for the enterprise's customer satisfaction and market share increase is very important.	Yes
14	Financial services	medium	Personally, I don't believe there is a such transition as financial and digital literacy among local SMEs is still on very low level. Huge part of SMEs are not able to calculate basic financial parameters such as business costs, operation expenses, etc.	I agree with this statement, in our company difference is not so high but customer experience and satisfaction is more important.
15	Coworking space	medium	Do not completely agree. Financial aspects are considered in 95% of the time while decision making.	No, it isn't. If our employees are not satisfied, neither will our customers. Employee satisfaction comes first, then customers.
16	Health and beauty	medium	Yes	Yes
17	Social entrepreneurship	medium	I do not have an opinion in this	In our enterprise, the employee must first be satisfied in order to provide quality service to the customer
18	Real estate activities	medium	Financial and tax aspects are very important for our enterprise for long term profitability.	For our enterprise employee satisfaction is more important
19	Personal protective equipment	medium	I agree	No
20	Construction	medium	I agree to some extent, but it varies according to the sector the firm is in and the degree of competition, non-financial aspects are not much considered by SMEs in areas with little competition. At the same time, enterprises in Baku pay more attention to these factors than in the regions. Also, since feedback about the company's work quality and customer service can now be spread more quickly to the public through social media, companies are paying more attention to certain non-financial aspects in order to create a good image (the ones that I noticed the most are doing various discount-loyalty campaigns to customers and product are trying to increase their variety)	It is true for most if the cases

Source: Created by the author based on the analysis of member check questions

**Table 14. Answers of Q5 and Q6 of member check**

Comp.	Field	Size	Q5	Q6
1	Construction	small	Performance= customer satisfaction/costs	People
2	Business trainings and consulting	small	KPI - we look at it as a tool that manages and drives performance, not just measurement. Not just as a KPI, but as performance management	1. People 2. Profit 3. Planet
3	Industry	small	All systems are tracked through the ERP system. It is necessary for timely completion of work, correct accounting, establishment of work between departments, and ultimately quality protection.	Unfortunately, as is the case all over the world, the sequence is: 1. Profit 2. People 3. Planet
4	Consulting	small	No	As consulting services almost do not impact climate change so 1. People 2. Profit 3. Planet
5	Financial services	small	KPI	1. People 2. Profit 3. Planet
6	Media	small	We apply agile methodology and OKR. Its more innovative approach to measure performance.	1. Planet 2. People 3. Profit
7	Advertisement	small	We apply KPI, this method encourages the employee to hit the set target and get more income. At the same time, the same applies to the employer.	1. Planet 2. People 3. Profit
8	Aerocosmic	small	We do not use	2. Planet 3. Profit
9	Information and communication	small	Yes, we do, to keep track, we like using data centric decision making	Profit and people come first
10	Industry	small	KPI. Most effective.	1. Profit 2. People 3. Planet
11	Education	small	We have a strong focus on KPIs. We use software tools such as Trello and Jira as management tools.	1. People 2. Profit 3. Planet
12	Information and communication	small	Total Quality Management	1. People 2. Profit 3. Planet
13	Education	medium	Since our team is not very big and KPI system is the most suitable for our company	1. People 2. Profit 3. Planet
14	Financial services	medium	In our company there are basic KPIs and Operational Key Results - the performance of the team is measured according to these targets.	1. Profit 2. People 3. Planet
15	Coworking space	medium	No, we do not apply those	1. Profit 2. People 3. Planet
16	Health and beauty	medium	Statistical analysis is applied to many activities in KPI and all departments. Applying at each stage helps to find out in which stage or department the deficiencies	1. People 2. Profit 3. Planet

			arise. Performance measurement tools that describe the situation in numbers rather than words and meaningless reports are more reliable.	
17	Social entrepreneurship	medium	KPI	People and Planet
18	Real estate activities	medium	Some KPIs and benchmarking are important for us in the field we work in. Otherwise, it is difficult to continue the competition. We do not yet implement quality management, but we are thinking about it in the near future.	1. Profit 2. People 3. Planet
19	Personal protective equipment	medium	No	1. People 2. Profit 3. Planet
20	Construction	medium	Since the competition in Baku is relatively high, we think more benchmarking is appropriate and use it. KPI is secondly important, and as the main KPI we look at the gross profit margin achieved for each project (Gross Margin).	1. Profit 2. People 3. Planet

*Source: Created by the author based on the analysis of member check questions*