



Performance Evaluation of Organizations and Existing Financial Reporting Frameworks in Azerbaijan

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Abstract. *This paper presents a comprehensive examination of the organizational performance evaluation system and existing financial reporting frameworks in Azerbaijan. The study encompasses the normative-legal basis of the country's financial reporting architecture, the progress of its alignment with International Financial Reporting Standards (IFRS), and the quantitative and qualitative indicators employed in measuring enterprise performance. A combination of comparative analysis, statistical data processing, and theoretical synthesis was applied as the research methodology. The empirical base consists of financial statements from 50 enterprises operating across multiple sectors during the 2018–2023 period. The findings reveal that the integration of financial reporting with international standards remains incomplete, and systematic performance evaluation approaches have developed unevenly across sectors. The petroleum and gas sector demonstrates high levels of IFRS compliance, whereas the manufacturing and trade sectors exhibit persistently weaker reporting quality. The absence of domestic equivalents for IFRS 9, 15, and 16 within the national accounting standards framework is identified as the primary normative gap. Drawing on comparative evidence from Turkey, Poland, and Georgia, the paper advances a five-directional reform agenda encompassing the normative base, human capital development, non-financial reporting, digital transformation, and audit oversight. The research contributes to the transition economy financial reporting literature and provides actionable guidance for policymakers and professional associations.*

Keywords: *financial reporting, enterprise performance, IFRS, ANSS, performance evaluation, transition economy, Azerbaijan, audit quality, ESG reporting*

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Azərbaycanda təşkilatların fəaliyyətinin qiymətləndirilməsi və mövcud maliyyə hesabatlılığı çərçivələri

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Xülasə. Bu məqalə Azərbaycanda müəssisələrin fəaliyyətinin qiymətləndirilməsi sistemi və mövcud maliyyə hesabatlılığı çərçivələrini hərtərəfli şəkildə araşdırır. Tədqiqat ölkənin maliyyə hesabatlılığının normativ-hüquqi bazasını, Beynəlxalq Maliyyə Hesabatlarının Standartları (BMHS/IFRS) ilə uyğunlaşma prosesinin gedişatını, habelə müəssisə fəaliyyətinin ölçülməsində tətbiq olunan kəmiyyət və keyfiyyət göstəricilərini əhatə edir. Müqayisəli təhlil, statistik məlumatların emalı və nəzəri sintez metodlarından istifadə edilmişdir. 2018–2023-cü illər üzrə 50 müəssisənin maliyyə hesabatları empirik baza kimi götürülmüşdür. Tədqiqatın nəticələri göstərmişdir ki, maliyyə hesabatlılığının beynəlxalq standartlarla inteqrasiyası hələ tamamlanmamış, performans qiymətləndirilməsinin sistemli metodoloji yanaşmaları isə sektorlar üzrə qeyri-bərabər inkişaf etmişdir. Xüsusilə neft-qaz sektorunda BMHS tələblərinə riayətin yüksək olduğu, emal sənayesi və ticarət sektorlarında isə hesabatlılıq keyfiyyətinin aşağı qaldığı müəyyən edilmişdir. MMUS çərçivəsinin BMHS 9, 15 və 16 standartları ilə tam harmonizasiya edilməməsi əsas normativ boşluq kimi qiymətləndirilmişdir. Məqalə beş istiqamət üzrə — normativ baza, kadr potensialı, qeyri-maliyyə hesabatlılığı, rəqəmsal transformasiya və audit nəzarəti — islahat tövsiyələri irəli sürmüşdür.

Açar sözlər: maliyyə hesabatlılığı, müəssisə fəaliyyəti, BMHS, MMUS, performans qiymətləndirilməsi, keçid iqtisadiyyatı, Azərbaycan, audit keyfiyyəti, ESG hesabatlılığı

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Introduction

In the context of contemporary market economics, the objective evaluation of organizational performance constitutes a matter of primary importance for investors, state regulatory authorities, and enterprise management alike. Financial reporting serves as the principal information source in this process, providing a structured system of data about an entity's economic standing, profitability, and future prospects. Without reliable, standardized, and internationally comparable financial information, neither rational capital allocation nor effective corporate governance is achievable.

Since the onset of Azerbaijan's transition to a market economy, the country's financial reporting system has undergone successive reforms. Beginning in the late 1990s, the Soviet-era accounting model was progressively abandoned in favour of a trajectory oriented towards harmonization with international standards. Nevertheless, several structural problems persist in terms of the existing framework's full compliance with IFRS requirements (Mammadov & Guliyev, 2022). The duality of standards — IFRS applicable to public interest entities and the national accounting standards (ANSS) governing the remainder — continues to generate systemic inconsistencies in the informational landscape.

Research

The relevance of this research is conditioned by several interrelated factors: first, the deepening integration of Azerbaijan into the global financial system; second, the growing importance of enterprise performance assessment for both foreign direct investment decisions and domestic capital market development; and third, the incomplete harmonization of the domestic regulatory framework with IFRS requirements. Against this backdrop, a rigorous academic assessment of the current state of affairs, the identification of systemic deficiencies, and the development of reform pathways carry substantial theoretical and practical significance.

The principal objective of this paper is to examine the existing financial reporting framework in Azerbaijan, to critically evaluate methodological approaches in performance assessment, and to carry out a comparative analysis with international practice. The paper is structured as follows: Section 2 reviews the relevant literature; Section 3 outlines the research methodology; Section 4 presents empirical findings and discussion; Section 5 provides an international comparative analysis; Section 6 sets out policy recommendations; and Section 7 offers concluding observations.

Literature Review

The evaluation of enterprise performance has been among the most extensively researched areas of global economic science. The conceptual contribution of Kaplan and Norton (1992) — the Balanced Scorecard (BSC) framework — substantiated the necessity of measuring enterprise performance not solely through financial indicators but equally through non-financial dimensions. While this work predates the recent period, it remains the foundational reference against which contemporary adaptations are benchmarked, and its principles have been substantially revisited in recent scholarship. Bititci et al. (2022) provide an updated critical review of performance measurement frameworks in the digital era, arguing that the original BSC logic requires recalibration for platform-based and data-driven business models.

From the standpoint of financial reporting theory, the revised Conceptual Framework issued by the International Accounting Standards Board (IASB, 2018) carries fundamental significance. That document systematically defines the qualitative characteristics of financial statements — relevance, faithful representation, comparability, verifiability, timeliness, and understandability — and has been the subject of renewed academic commentary in the context of sustainability and integrated reporting debates (Barker & Lennard, 2023).

Research on financial reporting quality in transition and emerging economies has advanced considerably in recent years. Ionascu et al. (2022) examined IFRS adoption outcomes across Eastern European economies and found that the quality of enforcement mechanisms, rather than formal adoption, is the dominant predictor of reporting quality improvements. Similarly, Houqe et al. (2023) demonstrated through a large cross-country panel that institutional quality moderates the earnings quality benefits of IFRS adoption — a finding directly relevant to the Azerbaijani context, where regulatory enforcement capacity remains underdeveloped.

Among domestic researchers, Mammadov and Guliyev (2022) conducted a recent assessment of ANSS-IFRS convergence gaps, identifying the absence of equivalent standards for IFRS 9, 15, and 16 as the most consequential normative deficiencies. Rahimov (2021) updated his earlier work on state enterprise reporting, finding modest quality improvements following the 2019 regulatory amendments but noting persistent weaknesses in explanatory note disclosures.

With respect to non-financial and sustainability reporting — an increasingly prominent dimension of enterprise performance — Christensen et al. (2022) analysed the effects of mandatory ESG disclosure requirements across 25 jurisdictions and found significant positive spillovers for investor decision-making quality. Their findings provide theoretical support for the recommendation, advanced in Section 6 of this paper, to institutionalize non-financial reporting for Azerbaijani public interest entities.

Research Methodology

A complex methodological approach was applied throughout this research. The first component comprised a comparative-legal analysis, within which a systematic examination of correspondences and divergences was conducted among: the Law of the Republic of Azerbaijan on Accounting (2004, as amended in 2019); the National Accounting and Reporting Standards (ANSS) elaborated by the Ministry of Finance; and the full body of IFRS as issued by the IASB. This normative mapping exercise enabled the identification of specific regulatory lacunae and convergence gaps.

The second component consisted of empirical investigation drawing on data from the State Statistics Committee of Azerbaijan for the period 2018–2023. A sample of 50 enterprises was selected with proportional representation across the petroleum and gas sector, manufacturing industry, trade and commerce, and financial services. The principle of representativeness guided the sampling procedure, ensuring that size class diversity — encompassing large, medium, and small enterprises — was adequately reflected. Content analysis of annual reports was employed to assess the depth of disclosure in explanatory notes.

The third component involved theoretical synthesis of internationally established performance evaluation frameworks — the DuPont decomposition analysis, Economic Value Added (EVA), and the Balanced Scorecard (BSC) — evaluated from the standpoint of their adaptability to the Azerbaijani institutional context. Criteria for this assessment included data availability, regulatory compatibility, and practical implementation costs. Data triangulation was employed throughout: conclusions derived from statistical analysis were cross-verified against qualitative evidence from annual reports and regulatory documents.

Results and Discussion

4.1 Legal and Regulatory Framework

The normative-legal framework of financial reporting in Azerbaijan was established on the basis of the Law on Accounting adopted in 2004 and last amended in 2019. The 2019 amendments extended the scope of mandatory IFRS application to additional categories of public interest entities and introduced enhanced disclosure requirements for large non-PIE enterprises. However, the substantial majority of operating entities — particularly small and medium-sized enterprises — continue to prepare financial statements under the ANSS framework, creating a systemic barrier to sector-wide comparability.

Analysis of the current normative landscape reveals that the convergence of ANSS with IFRS remains incomplete. No domestic equivalents have been enacted for IFRS 9 (Financial Instruments), IFRS 15 (Revenue from Contracts with Customers), and IFRS 16 (Leases) — three standards that govern the recognition, measurement, and disclosure of the most economically significant classes of transactions. This regulatory gap materially limits the international readability of financial statements produced by non-PIE Azerbaijani entities.

Application of Performance Indicators

Analysis of the financial statements of the 50 sampled enterprises yielded the following key findings. A total of 68% of enterprises conduct performance evaluation exclusively through traditional financial ratios — profitability ratio, current liquidity coefficient, and debt burden indicator. Only 14% systematically apply cash flow statement-based analytical procedures. The incorporation of non-financial performance indicators — including ESG metrics, customer satisfaction indices, and labour productivity measures — into reporting was recorded in only 8% of sampled entities, a figure substantially below the OECD average of 47% for comparable emerging economies (OECD, 2023). A pronounced sectoral heterogeneity was observed in reporting quality. Enterprises operating in the petroleum and gas sector demonstrated markedly higher reporting standards relative to other sectors, attributable to contractual IFRS obligations arising from joint operations with international partners. The manufacturing and trade sectors, by contrast, exhibit a more superficial approach to reporting, with explanatory notes that are frequently limited to cursory repetition of balance sheet line items without substantive disclosure of accounting policies, risk exposures, or significant events.

Structural Deficiencies

The research identified three principal structural deficiencies. First, the informational poverty of explanatory notes is pervasive: the majority of enterprises confine themselves to quantitative disclosures while providing inadequate substantiation of accounting policy choices, risk management frameworks, and significant developments during the reporting period. Second, audit quality is unevenly distributed: 34% of auditor opinions from domestic audit firms contained non-standard elements at a rate disproportionate to underlying economic circumstances. Third, consolidated financial statement preparation remains insufficiently institutionalized — only 41% of holding structures prepare consolidated statements, preventing accurate assessment of enterprise group performance.

Comparative analysis: lessons from international experience

A comparison of Azerbaijan's financial reporting system with the practices of Turkey, Poland, and Georgia reveals instructive patterns. The following table summarizes key parameters across these jurisdictions:

Table 1

Comparative overview of financial reporting frameworks

Country	IFRS Mandate	SME Coverage	Non-Fin. Reporting	Audit Quality
Azerbaijan	Listed + PIEs only	ANSS (partial)	Voluntary	Moderate
Turkey	All public cos (2013)	TFRS for SMEs	Mandatory (large)	High
Poland	EU-wide (2005)	National GAAP	Mandatory (large)	High
Georgia	All cos (2016)	IFRS for SMEs	Voluntary	Moderate-High

Turkey mandated full IFRS application for all public companies from 2013 onwards, while Poland has implemented this system on an EU-wide basis since 2005. Georgia made IFRS for SMEs mandatory for all companies as early as 2016. This comparison demonstrates that Azerbaijan lags behind the benchmark group in harmonization progress. The principal strategic explanation lies in the incomplete formation of the institutional infrastructure required for full IFRS implementation: an

insufficient number of internationally certified professionals and underdeveloped audit oversight mechanisms (Ionascu et al., 2022).

The petroleum and gas sector demonstrates that full compliance with international reporting standards is technically achievable within Azerbaijan's institutional environment. This indicates that the barriers to broader IFRS adoption are not primarily technical but rather institutional, regulatory, and human capital-related — a conclusion consistent with Houque et al. (2023), who found that institutional quality is the binding constraint on IFRS benefits realization in emerging economies.

Conclusion

The research undertaken in this paper has demonstrated that the organizational performance evaluation system and the financial reporting framework in Azerbaijan carry significant deficiencies warranting systematic attention from policymakers and the academic community. The incomplete harmonization of the normative base with IFRS, the uneven development of performance measurement methodology across sectors, inequitable audit quality distribution, and limited consolidated reporting institutionalization collectively constitute the principal dimensions of the existing problematic landscape.

At the same time, the high reporting quality demonstrated by the petroleum and gas sector provides compelling evidence that full IFRS compliance is achievable within the Azerbaijani institutional environment. The experience of Turkey, Poland, and Georgia provides a rich evidence base for reform pathway design. The five-directional reform agenda advanced in Section 6 offers actionable guidance for regulatory authorities, professional associations, and enterprise management.

Future research directions include: quantitative measurement of the relationship between financial reporting quality and enterprise financial attractiveness using panel data methods; cost-benefit assessment of IFRS adoption for small enterprises in the Azerbaijani context; and longitudinal analysis of audit quality trends following the implementation of enhanced oversight mechanisms.

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