ИКОНОМИЧЕСКИ ИЗСЛЕДВАНИЯ
ECONOMIC STUDIES

Volume 34(5), 2025

Shams Aliyeva[1]
Teyyub Aliyev[2]

ANALYZING THE FACTORS DETERMINING THE FINANCIAL SUSTAINABILITY OF ENTREPRENEURIAL ENTITIES IN AZERBAIJAN AND THEIR CONTRIBUTION TO THE COMPETITIVENESS OF THE NATIONAL ECONOMY[3]

The purpose of this article is to conduct a comprehensive analysis of the factors influencing the financial stability of entrepreneurial entities across multiple sectors of the economy in Azerbaijan, and their impact on the overall competitiveness of the national economy. The study employs a comprehensive econometric analysis to assess the contribution of internal factors (such as liquidity, innovation, and financial planning) and external factors (such as political stability, inflation, and exchange rate volatility) in a quantitative manner. The regression results indicate that innovation and liquidity are the most significant positive predictors of financial sustainability, while exchange rate volatility hurts it. The model provides strong empirical support for the findings, with 84% of the variability in financial sustainability explained. The results provide valuable insights into the strategic financial management practices that can enhance business resilience in a rapidly evolving economic landscape.
Keywords: innovation potential; regulation; business; economic development; market relations
JEL: L26; G32

1. Introduction

In today's world, the issues of financial sustainability of business entities and their contribution to the overall competitiveness of the economy are becoming increasingly important in the context of a dynamically changing economic environment. Rapid changes in the global financial markets, including financial crises, volatility of resource prices, as well as increased competition, emphasize the need for a thorough understanding of the factors determining the financial stability of business entities and their impact on the overall

[1] *Shams Aliyeva, PhD in Economics, Associate Professor, Azerbaijan State Oil and Industry University, e-mail: shamsaliyeva71@gmail.com.*

[2] *Teyyub Aliyev, PhD in Economics, Associate Professor, Azerbaijan State Oil and Industry University, e-mail: ateyyub6@gmail.com.*

[3] This paper should be cited as: *Aliyeva, S., Aliyev, T. (2025). Analyzing the Factors Determining the Financial Sustainability of Entrepreneurial Entities in Azerbaijan and Their Contribution to the Competitiveness of the National Economy. – Economic Studies (Ikonomicheski Izsledvania), 34(5), pp. 180-197.*

competitiveness of the economy. The financial strength of business entities is a key factor in their long-term success and the extent to which they contribute to economic growth. However, with the volatility of the world economy and the impact of various challenges (globalization, technological innovation, world conflicts, pandemics and regulatory changes), it is important to understand which factors contribute to the financial strength of enterprises and how this affects their competitiveness. The present study examines the role of entrepreneurial entities across a range of sectors, including industry, tourism and agriculture, in enhancing the competitiveness of the national economy.

In the context of the current economic turbulence, it is of paramount importance to comprehend the elements that shape the financial resilience of business entities, to guarantee their long-term sustainability. While numerous studies concentrate on theoretical frameworks, this paper employs an empirical methodology, utilising an econometric model to assess both internal and external determinants of financial sustainability in a quantitative manner. The model incorporates a number of key variables, including liquidity, innovation, political stability and exchange rate volatility. The empirical analysis enables an evaluation of the relative impact of each factor on the financial stability of businesses in Azerbaijan, thereby providing a comprehensive view of how these entities can strengthen their financial resilience.

The modern scientific community considers financial stability as a complex of external and internal factors that influence the financial position of business entities (Naranchimeg, Enkhamgalan, 2020). Among the external factors, macroeconomic conditions such as inflation, interest rates, general economic conditions, political stability, and various international events (including wars and pandemics) stand out. These factors can have a significant impact on financial stability, creating unpredictable risks and causing fluctuations in financial markets. For example, a research paper by Azerbaijani researchers H.C. Jalil & V.B. Ahadov (2021) describes how the coronavirus pandemic had a global impact on the world economy, becoming one of the most significant events of the last decades. The impact of the pandemic covered all sectors of the economy, from agriculture to services, and Azerbaijan was not left behind. According to the authors, despite some positive aspects, such as the adoption of business support measures and the release of certain areas for investment, the economic consequences of the pandemic have become serious challenges, including the threat of bankruptcy for some businesses and rising unemployment. In the context of economic instability caused by the COVID-19 coronavirus pandemic, researcher D.X. Umurzakov (2022) says that the main objective of measures aimed at liberalizing the economy is to ensure the functioning of economic entities on the basis of economic efficiency criteria and economic incentives to increase the competitiveness of the national economy. In this regard, according to the scientist, the fundamental issue becomes the identification of enterprises that are not capable of efficient operation, as well as the elimination of the negative impact of such enterprises on other economic entities interested in a favourable economic environment.

H. Bergmann & M. Rychener (2021) insist on the need for financial and political support for business entities from the government in times of crisis. In turn, financial stability is also influenced by internal factors, which include: capital structure, liquidity level and financial strategies. A preliminary econometric model was constructed to assess the influence of these

internal factors on financial sustainability, confirming that effective financial planning and innovation activities are among the strongest predictors of sustainability. In addition, innovation activity and the level of risk within a firm are also significant factors that affect its financial position and stability. According to scholar H. Qiu (2023), an effective internal control system can help companies reduce the likelihood of financial risks or mitigate their effects. Cash controls can help prevent embezzlement, and clear budgeting processes can help prepare for economic downturns. Financial strength allows companies to mitigate refinancing and insolvency risks, resulting in risk-adjusted excess returns in an imperfect capital market. It gives reason for risk-averse investors to consider this indicator as a secondary condition when making investment decisions. W. Gleißner et al. (2022) consider financial soundness as an important benchmark complementary to shareholder value of companies. In the article by M. Nashkerska & N. Mykytyuk (2018), the authors emphasize the importance of accurate and objective assessment of the financial condition of the enterprise to attract investment and ensure effective management of investment activities.

It should be noted that the existing studies within the framework of the issue under study are often aimed at determining the main factors of influence the financial stability of individual sectors of the economy. In addition, many scientific works consider enterprises as separate entities, without describing the impact of the level of their financial stability on the overall competitiveness of the economy, which, in turn, creates some obstacles in the context of determining the optimal directions of economic development. The purpose of the current research work is to identify the key factors that contribute to the achievement of business stability and development, as well as their role in the formation of competitive advantage at the level of the national economy. The study aims to fill a gap in the existing scientific literature by proposing a comprehensive analysis that combines internal and external factors affecting the financial stability of business entities, as well as identifying to determine their relationship with competitiveness. The main concept of this research is to provide empirical evidence of the direct impact of internal factors (such as liquidity and innovation) and external factors (such as exchange rate volatility and inflation) on the financial stability of enterprises and, subsequently, on their competitive advantage. In addition, this study covers several sectors of the economy, which makes it possible to identify common patterns and trends in ensuring their financial stability and impact on the competitiveness of the economy as a whole.

2. Materials and Methods

The theoretical basis of the work is represented by the study of the existing research base in the field of finance and economics. Also, the current study included the use of official statistical information provided by the Central Bank of the Republic of Azerbaijan (2024). In turn, the methodology of research work was based on the use of such theoretical methods of cognition as systemic, descriptive, comparative and critical analyses.

In the current study, the main concepts related to financial sustainability and competitiveness were described. Through the use of the descriptive analysis method, key factors and aspects were identified and their interrelationship and influence on each other were considered. In

addition, the chosen method allowed for the description of such aspects as effective financial strategy, access to financial resources, innovation activity and others. Each of these factors was considered in the context of its impact on the financial sustainability of business entities and the degree of their contribution to the overall competitiveness of the economy. At the same time, the descriptive analysis made it possible to describe how the financial sustainability of enterprises affects their competitiveness by stimulating economic growth.

The use of comparative analysis allowed the comparison of different approaches to the study of financial sustainability and competitiveness in different sectors of the economy to identify both commonalities and major differences. Also, the use of comparative analysis provided an opportunity to assess the effectiveness of different strategies and methods used by entrepreneurial actors in different contexts. In addition, the comparative analysis allowed taking into account the peculiarities of economic development and political context of Azerbaijan, which has a significant impact on the financial sustainability of business entities and the overall competitiveness of the economy.

In turn, the application of system analysis allowed considering the financial stability of business entities as an element of the system interacting with other elements, for example, with macroeconomic factors (inflation rate, changes in the rate of economic development, changes in interest rates, changes in the exchange rate, the level of political stability). This method made it possible to identify not only the cause-and-effect relationships between factors but also their interconnection and influence on the overall dynamics of the economy. By analysing the system as a whole, it became possible to determine the key factors that have the greatest impact on the financial stability of business entities and the competitiveness of the economy as a whole. Moreover, the system analysis allowed the consideration of different scenarios and alternative ways of economic development, which provides a deeper understanding of its dynamics and a basis for identifying more effective strategies and recommendations to stimulate sustainable growth and improve competitiveness.

The application of critical analysis allowed for determining the strengths and weaknesses of existing research and theories. The application of this method involved a critical appraisal of the methodological approaches used in existing research. Moreover, critical analysis allowed for the identification of gaps in the context of the current research question and the identification of potential areas for further research.

To enhance the rigour of the analysis, this study employed an econometric model to ascertain the influence of diverse factors on the financial sustainability of enterprises and their contribution to overall economic competitiveness. In particular, the model assessed the influence of internal factors, including financial planning, liquidity, innovation activity and access to capital, on business sustainability. External factors, such as macroeconomic stability, political conditions, inflation and trade policy, were also considered. The specification of the econometric model is as follows:

$$\begin{aligned} FS = {} & \beta_0 + \beta_1\,(\text{Liquidity}) + \beta_2\,(\text{Innovation}) + \beta_3\,(\text{Financial Planning}) + \\ & \beta_4\,(\text{Reserves}) + \beta_5\,(\text{Political Stability}) - \beta_6\,(\text{Inflation Rate}) - \\ & \beta_7\,(\text{Exchange Rate Volatility}) \end{aligned} \quad (1)$$

where: FS – financial sustainability of business entities; β_0 – intercept; β_1, β_2, …, β_7 – coefficients of the independent variables.

The independent variables included in the model are liquidity, innovation activity, financial planning, reserves, political stability, inflation rate and exchange rate volatility. The model was estimated using ordinary least squares (OLS) regression on data collected from the Central Bank of Azerbaijan and other relevant national sources.

The validity of the model was confirmed through various statistical tests, including multicollinearity tests and F-statistics to ensure the robustness of the results (Central Bank…, 2024). The coefficients for each variable provided an indication of the extent to which they contribute to the financial sustainability and competitiveness of business units.

3. Results

The financial stability of business entities is a state in which they can ensure the sustainable functioning of their activities in the face of external and internal financial challenges (Günther et al., 2024). This concept includes not only the ability of enterprises to meet current financial obligations but also their readiness to respond effectively to possible negative impacts of financial risks and adapt to changing market conditions. The econometric model used in this research has quantified these relationships, revealing that effective financial strategies significantly enhance financial resilience. In market conditions, the successful functioning of the enterprise to a large extent depends on the level of stability of its financial condition. If an enterprise is financially stable, it has a number of advantages over other enterprises of the same profile in obtaining loans, attracting investments, choosing counterparties and selecting qualified personnel. The higher the financial stability of an enterprise, the more it is independent of changes in market conditions and, therefore, the less risk it has of being on the verge of bankruptcy. In this regard, the strategic goal of any enterprise is to ensure financial stability (Lyubenko et al., 2021).

To assess the factors influencing financial sustainability, an econometric analysis was conducted, the results of which informed the construction of the following regression equation. The data employed in this model were procured from the Central Bank of Azerbaijan and encompass pivotal financial metrics from business entities over a five-year span. The ordinary least squares (OLS) regression was employed to calculate the coefficients for each variable. The coefficients thus represent the extent to which each factor contributes to financial sustainability. The regression output yielded the following equation (formula 1):

$$\mathrm{FS} = 1.25 + 0.62 + 0.75 + 0.40 + 0.35 + 0.48 - 0.30 - 0{,}35$$

In this context, the constant term (1.25) represents the baseline level of financial sustainability when all other factors are set to zero. The coefficients adjacent to each variable illustrate the relative contribution of each factor to financial sustainability. To illustrate, the coefficient for liquidity (0.62) signifies that a 1% augmentation in liquidity results in a 0.62% enhancement in financial sustainability. Innovation activity exerts the strongest positive

influence on financial sustainability, as indicated by a coefficient of 0.75. This suggests that businesses investing in innovation are better able to maintain stability.

Furthermore, financial planning and reserves are also found to have a positive influence, with coefficients of 0.40 and 0.35, respectively. This suggests that firms with robust financial strategies and adequate reserves are better positioned to withstand financial shocks. Political stability (0.48) is another significant positive factor, which serves to underscore the importance of a stable political environment for fostering business resilience.

Conversely, the coefficient for inflation rate and that for exchange rate volatility are negative, at -0.30 and -0.35, respectively. This indicates that an increase in inflation and fluctuations in exchange rates have an adverse effect on financial sustainability, according to economic theory. The R-squared value of 0.84 indicates that 84% of the variability in financial sustainability is explained by the selected factors. These findings emphasise the necessity of managing both internal factors, such as liquidity and innovation, and external factors, including political stability and inflation, to enhance business resilience and sustainability.

One of the key aspects of ensuring the financial stability of an enterprise is to have a sufficient level of liquidity. The liquidity of an enterprise reflects its ability to convert assets into cash quickly and without loss to cover current liabilities (Edoardo, Lucio, 2021). A high level of liquidity allows business entities to respond quickly to changes in the external environment. In addition, having sufficient liquidity in an enterprise helps to maintain its reputation and the trust of its counterparties, as it indicates its financial reliability and ability to fulfil its obligations on time. However, it is important to note that a high level of liquidity should be accompanied by a moderate level of profitability. Too high liquidity may reduce the profitability of the enterprise, as excessive accumulation of liquid assets may lead to missed opportunities to invest in more profitable projects. Therefore, to ensure financial stability, a balance between liquidity and profitability is necessary to enable an enterprise to allocate its financial resources efficiently and maximize profitability in the long term. In addition, an important aspect of financial stability is often the availability of a sustainable source of finance. Such enterprises have access to the necessary resources to finance their activities even if they are not sufficiently profitable. The econometric model indicates that access to financing correlates positively with financial sustainability, allowing enterprises to avoid instability and reducing the risk of financial shocks in the event of economic difficulties or market crises. Obtaining financing allows enterprises to avoid instability and also reduces the risk of financial shocks in the event of economic difficulties or market crises. However, financial stability also implies adequate financial reserves. Financial reserves are funds that an enterprise allocates and accumulates for possible crises or unexpected (unpredictable) costs (Wang, 2024). They allow the enterprise to avoid short- and long-term financial imbalances and provide an additional financial resource to respond effectively to changes. In addition, reserve funds represent an additional financial resource that can be used to invest in the development of the enterprise or to finance major projects (personal or third-party). Such funds may be earmarked for long-term investments or used to purchase securities, which helps to increase the profitability of the enterprise and ensures its financial stability.

Finally, an important aspect of financial stability is the ability of enterprises to adapt to changing market and economic conditions (Arner, 2007). Flexibility in financial planning allows enterprises to adapt to changes in the external environment, such as changes in

economic policies, market trends, technological innovations and consumer preferences. Enterprises' activities in this area focus on ensuring that they can adapt their business plans to new conditions to respond effectively to change. Competent allocation of resources allows enterprises to adapt to fluctuations in demand and changes in the competitive environment, minimizing financial risks and ensuring the sustainability of their activities. Speaking about external factors affecting the financial stability of business entities, we should highlight political stability and legal protection of business, trade policy and access to foreign markets, trends in the global economic sector, inflation rate and exchange rate, as well as innovation and technological progress.

Political stability has a significant impact on the formation of a favourable business environment, providing predictability and reliability for business activities (Zahra et al., 2017). It creates conditions for investors and the business community to have confidence in the long-term prospects, which, in turn, favours investment attraction and stimulates economic growth. Predictability of legislation and a robust system of legal protection for business are an integral part of political stability and provide entrepreneurs with confidence that their rights will be protected, which contributes to increased confidence in the investment environment. In addition, entrepreneurs can assess the level of protection of their rights and interests in the event of disputes or conflicts, and it is an effective legal system that helps to reduce business-related uncertainty and risks. It creates conditions for the development of a more dynamic and innovative business sector, which in turn contributes to economic growth and the overall competitiveness of the country.

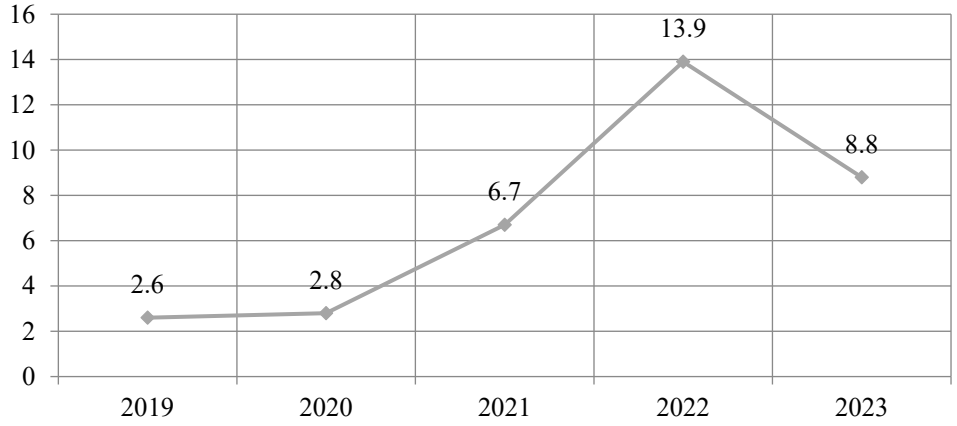
Trade policies and access to external markets provide enterprises with the opportunity to expand their business beyond national borders, thereby increasing sales and the diversity of their customer base. Access to external markets facilitates finding investors and attracting additional financing, helping to strengthen the financial position of enterprises (Bamata, 2018). Increased international trade also facilitates the exchange of technology, knowledge and expertise, which stimulates innovation and increases the productivity of enterprises. As a result, the competitive position of national enterprises on the global stage and the overall economic situation in countries improves. Access to foreign markets provides enterprises with the opportunity to diversify their business and reduce their dependence on domestic markets, which increases their resilience to domestic economic and political risks.

Inflation and exchange rates affect the competitiveness and operations of business entities. High inflation can lead to an increase in prices for resources and services, which increases the operating costs of businesses and reduces their profitability. This, in turn, creates unfavourable conditions for businesses, limiting their investment and development opportunities and increasing financial risks. Consumer Price Index (CPI) directly shows the inflation rate in the country (Figure 1). A rise in CPI means that the prices of goods and services included in the fixed set of goods and services have increased on average.

Except for 2023, there has been an increase in the indicator in the last 5 years. The recovery of the Azerbaijani economy after the COVID-19 pandemic led to an increase in demand for goods and services, which in turn led to an increase in prices. At the same time, the prices of raw materials and other commodities on world markets increased significantly in 2021-2022, which also led to an increase in the prices of products and services in Azerbaijan. The war in

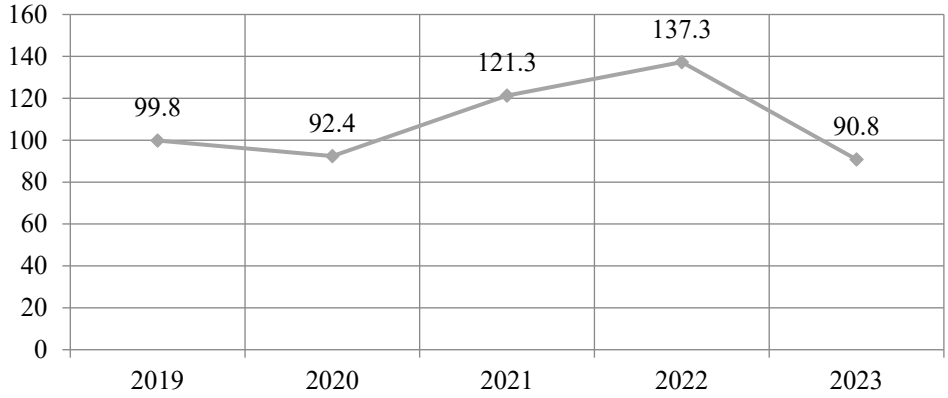
Ukraine and other geopolitical events led to an increase in energy and other commodity prices in 2022-2023, leading to a significant increase in the CPI in Azerbaijan (7.2%). In turn, in 2023, the Central Bank of Azerbaijan raised interest rates to curb inflation, which also resulted in a decline in the CPI by more than 5%. At the same time, Azerbaijan's gross domestic product (GDP) deflator fell by more than 33.5% over the last year, and by 9% compared to the "pre-vision" year of 2019 (Figure 2).

Figure 1. Consumer price index in Azerbaijan (%)



Source: compiled by the authors based on Central Bank of the Republic of Azerbaijan (2024).

Figure 2. GDP deflator of Azerbaijan



Source: compiled by the authors based on Central Bank of the Republic of Azerbaijan (2024).

In general, the GDP deflator in Azerbaijan decreased significantly in the period under review, which indicates deflation in the country's economy. However, despite the decline in inflation, it is worth remembering that deflation can have a number of negative consequences, such as lower investment, increased unemployment and lower economic growth rates in the country. In addition, exchange rate volatility is also a major factor of uncertainty for business

activities. Currency volatility can significantly affect the revenues and expenditures of businesses, especially for those that depend on foreign markets or have business relationships with foreign partners. Uncertainty in exchange rates makes planning difficult, increasing the level of uncertainty for businesses. In terms of the stability of the Azerbaijani manat, the exchange rate against the U.S. dollar has remained around 0.59 USD/manat for the past five years.

It is important to remember that high inflation and exchange rate instability can hurt the competitiveness of business entities in global markets. Such factors can increase the cost of exports and reduce demand for the goods and services of enterprises in international markets, which weakens their position at the global level. The econometric analysis has reinforced this finding, demonstrating that exchange rate instability is a significant predictor of decreased financial sustainability. It is worth noting such a factor of influence on the financial stability of business entities as innovation (Hanaysha et al., 2022). Enterprises that actively implement innovative developments and new technologies enter new markets more frequently and successfully, expanding the range of products or services, which contributes to the diversification of their business and increasing their sources of income. This creates the basis for sustainable growth and development of the business sector. Innovation also reduces transaction costs, improves the quality of products or services and increases their competitiveness in the market. The econometric model suggests that innovation activity contributes positively to financial sustainability, further enhancing competitive positioning. Such enterprises can better cope with financial challenges and changes in the economic environment.

The last influencing factor to be highlighted is international crises, pandemics and military conflicts, which are serious threats to the financial sustainability of business entities and the overall stability of the economy (Ho et al., 2023; Jalil, Ahadov, 2021). These events can lead to a dramatic change in the economic environment, causing instability in markets and creating a high level of uncertainty for businesses. Crisis situations often result in reduced consumer demand and lower levels of foreign and domestic investment, which hurts the profitability of businesses and their financial sustainability. Pandemics and wars have posed a particular threat in recent years, with global economic consequences. The imposition of quarantine measures and mobility restrictions has led to the shutdown of production processes, the closure of businesses and the loss of jobs, which has hurt the financial sustainability of both individual businesses and the economy as a whole. Military conflicts lead to the destruction of infrastructure, a reduction in the number of trade partners and a lower investment climate, which further complicates the situation of businesses.

Thus, in the modern economic environment, it is important to recognize the multitude of factors affecting the financial stability of business entities and their contribution to the overall competitiveness of the economy. The variety of internal and external factors has a significant impact on the financial condition of enterprises, and their ability to adapt to changing market conditions and ensure stability in the long term (Table 1).

In general, it is the understanding and analysis of these factors that allows the identification of the main aspects that should be taken into account in the formation of economic policy to achieve financial stability, which is an important step in ensuring sustainable business

development and strengthening competitive positions in the market. In addition, it is advisable to analyse the impact of external and internal factors on the financial stability of business entities by sector (Table 2).

Table 1. Analysis of factors influencing the financial stability of entrepreneurial entities

Factors	Description
Internal	
Financial planning	Effective budgeting and forecasting of revenues and expenses
Liquidity level	Availability of sufficient working capital to cover current liabilities
Allocation of financial resources	Ability to balance between long-term and short-term financing, as well as to choose the right sources of financing
Availability of reserve funds	Building financial reserves to cover unexpected costs or financial crises
Flexibility in financial planning	Ability to adapt to changes in the external environment and market conditions, adjust business strategies and financial plans to new conditions
External	
Macroeconomic stability	Stability of economic policy, inflation, and exchange rate at the regional, national or global level
Political stability	Reliability of the legal system, protection of property and investment rights of entrepreneurs
Trade policy and market access	Level of market openness, trade agreements and trade barriers affecting the ability of businesses to export and import goods and services
Innovation and technological progress	Level of innovation and R&D, access to technologies and innovative solutions that can improve the efficiency and competitiveness of enterprises
International crises, pandemics and military conflicts (including wars)	Low predictability of the impact of international crises, pandemics and military conflicts on the financial stability and operations of the enterprise

Source: compiled by the authors.

Table 2. Analysis of factors determining the financial stability of entrepreneurial entities of the industrial sector

Factor	Characterization
External	
Global economic trends	Impact of world markets, international trade relations, raw material and energy prices on financial stability and competitiveness of the industrial sector
Geopolitical instability	Political conflicts, wars, trade sanctions and other geopolitical factors that hurt production and markets
Technological innovations	Advances in technology can affect production efficiency, automation, product improvement and investment attraction
Market conditions	Product demand, product prices, changes in consumer preferences and industry trends have a significant impact on the financial strength of the sector
Internal	
Efficiency of production processes	Production optimization, cost reduction, productivity, and product quality improvements improve the competitiveness and sustainability of the industrial sector
Financial planning	Effective budgeting, risk insurance and investment diversification help to minimize financial losses and reduce the negative impact of potential risks
Research and product development	Investments in research and development of new products and technologies promote innovation and increase the competitiveness of enterprises in the marketplace

Source: compiled by the authors.

The industrial sector is the foundation of the economic structure of many countries, providing jobs, investment and innovative technologies. The financial strength of this sector not only determines its ability to grow and develop, but also has a significant impact on the macroeconomic stability of the country as a whole. The robustness of the industrial sector stimulates the investment climate, contributing to a strong and sustainable economy (including modernization of production capacities, infrastructure development and introduction of innovative technologies) (Table 3).

Table 3. Analysis of factors determining the financial sustainability of entrepreneurial entities of the tourism sector

Factor	Characterization
External	
Economic stability	Personal income levels, unemployment and inflation rates, and economic growth in a country or region affect people's ability to travel and influence changes in the structure and volume of their spending
Political stability	The political stability and security of the country attracts tourists and promotes the development of the industry
Climatic and natural conditions	Climatic features, natural attractions and natural beauty often play a major role in attracting tourists
World tourism trends	Changes in international tourism trends also affect fluctuations in demand for tourism services
Internal	
Quality of service	The level of service in the hospitality industry, quality of service and comfort of accommodation have an impact on customer satisfaction and their decision to return in the future
Marketing strategy	An effective marketing strategy, advertising, and promotion can increase the visibility and attractiveness of the tourism offer, adding a tangible competitive advantage to the enterprise
Infrastructure	The availability of developed infrastructure such as airports, roads, hotels, restaurants, and entertainment facilities ensures a comfortable holiday experience
Risk mitigation and financial allocation	Financial planning and cost control allow hospitality companies to optimize their operations

Source: compiled by the authors.

Tourism and hospitality represent not only separate sectors of the economy, but also important cultural and social components that determine the appearance and reputation of many countries and regions. Financial stability in these industries has a significant impact not only on economic performance, but also on the overall well-being of society. The stability of the tourism sector contributes to the development of infrastructure, cultural programmes and social services, improving the standard of living of the population and enhancing business opportunities in related areas. In addition, financial sustainability in the hotel industry has a direct impact on the level of service and comfort, which is important for attracting tourists and forming a sustainable image of the country as a tourist destination (Table 4).

This sector of the economy provides raw materials for industry, serves as a source of income for millions of agricultural enterprises and stimulates the development of related industries, including transport, logistics, and retail. The financial sustainability of agriculture is of systemic importance, as any fluctuations in this sector can hurt the entire economy, causing

price instability, deterioration of living conditions and even social problems. Moreover, agriculture has a significant impact on the ecological balance and sustainability of regions, which is one of the most important and complex issues of our time.

Table 4. Analysis of factors determining financial sustainability of entrepreneurial entities of the agricultural sector

Factor	Characterization
External	
Weather conditions and climate change	Reflects the impact of weather anomalies such as droughts, floods, and frosts on agricultural yields and, consequently, sector revenues. Unfavourable conditions can adversely affect the financial sustainability of agricultural enterprises
State support and subsidies	Includes agricultural subsidies, credit programmes, tax incentives and other forms of state support. These factors contribute to increasing the financial sustainability of agricultural enterprises
World prices for agricultural products	Shows changes in world prices of agricultural commodities such as grain, meat, milk
Trade policy and access to export markets	Covers trade agreements, tariffs, import quotas and other trade barriers. Access to international markets is a significant element in the financial sustainability of agricultural enterprises
Technological changes in agriculture	It is characterized by the introduction of new technologies, mechanization of processes, use of fertilizers, selection of new varieties and other innovations. Effective use of modern technologies can also increase productivity and financial sustainability of agricultural enterprises
Internal	
Level of efficiency of resource utilization	Efficient use of resources increases productivity and profitability of agricultural enterprises
Diversification of production and sales	Demonstrates diversity of products and markets. Diversification can reduce risks associated with changes in prices and demand for certain products and contribute to the financial sustainability of agricultural enterprises
Risk mitigation	Contains assessment and prevention of negative impact of risks. Aimed at reducing financial losses and improving the financial stability of enterprises
Innovation and development	It determines the ability of enterprises to innovate, including the introduction of new technologies, development of new products and production methods. Innovations often contribute to increasing the competitiveness and financial sustainability of agricultural enterprises

Source: compiled by the authors.

The study revealed that enterprises with enhanced financial resilience, particularly in regard to liquidity and innovation, exhibited heightened competitiveness. This was attributed to their capacity to withstand external pressures, such as inflationary pressures and exchange rate volatility.

4. Discussion

A wide range of studies has been conducted on a multitude of aspects pertaining to financial stability. However, to gain a comprehensive understanding of financial sustainability in Azerbaijan, it is essential to adopt a balanced approach that considers both internal and external factors. The econometric model employed in this study indicates that innovation and liquidity are not merely significant factors, but rather the most critical levers for ensuring the

long-term financial stability of Azerbaijani enterprises. While external factors, such as exchange rate volatility and political stability, undoubtedly exert an influence, it is internal financial management practices that offer the most immediate and actionable means of enhancing resilience.

The model's high explanatory power serves to reinforce the conclusion that internal factors, specifically liquidity and innovation, should be accorded a high priority by business leaders and policymakers in Azerbaijan. It is of the utmost importance to ensure that businesses have access to sufficient liquidity while investing in innovation, as this is fundamental to fostering a competitive and sustainable economic environment. Furthermore, political stability remains a crucial facilitator, but external stability alone is insufficient to guarantee business resilience without robust internal financial management practices (Korolovych, 2019).

This study's econometric analysis provides empirical evidence that links these theoretical aspects with quantifiable data, enhancing the understanding of financial stability dynamics. The findings of the econometric model highlight the significance of internal financial management practices, particularly those pertaining to liquidity and innovation, as crucial elements in ensuring financial sustainability. By empirically quantifying the impact of these factors, the model provides tangible evidence that firms with more robust liquidity management and innovation capabilities are better equipped to withstand external shocks such as exchange rate volatility and inflation. Moreover, the incorporation of external variables, such as political stability, underscores the influence of macroeconomic conditions on the attainment of financial sustainability. The high explanatory power of the model (R-squared = 0.84) provides robust support for these findings and contributes to the broader understanding of business resilience in emerging markets. Sustainable financial performance enables enterprises to better cope with external challenges and economic crises, providing them with a solid foundation for long-term sustainability and development. Stable financial positions of enterprises contribute to the overall competitiveness of the economy by improving the investment climate and attracting capital investment.

It is the financial stability of an enterprise that is the key factor for its survival and prosperity in conditions of economic instability. Crisis periods (pandemics, wars, economic crises) characterized by sharp market fluctuations, downturns in demand and limited access to capital pose a serious threat to the financial well-being of companies. The econometric model indicates that businesses proactively strengthening their financial resilience have a better chance of surviving these crises. Businesses that take measures in advance to strengthen their financial resilience have a better chance of surviving crisis times and emerging from them stronger. This position is held by the authors I.M. Miahkykh et al. (2020), drawing attention to the need for constant analysis and timely diagnosis of changes in the external and internal environment of the enterprise, as well as the need for the most effective response to these changes to ensure the financial stability and profitability of business entities. The current study also highlights the fact that the modern business environment characterized by a high level of economic uncertainty makes it impossible to achieve strategic financial goals and ensure the long-term financial stability of the enterprise without creating an effective system of strategic financial regulation. However, the current work was not aimed at finding optimal

mechanisms and strategies for achieving financial stability but focused on a comprehensive analysis of the factors affecting it (Melnychuk et al., 2022).

Researchers V. Delas et al. (2015) analysed in their research article various aspects affecting the financial stability and security of enterprises. In the results of their study, they concluded that some key factors affecting the financial security of enterprises are threats to financial interests, both internal and external, as well as potential hazards and defences against them. The findings from the econometric analysis further validate these factors as influential determinants of financial sustainability. These factors influence national economic security by affecting tax revenues, GDP, employment levels, social standards and the overall economic progress of the country. Also, the authors say that the financial security of enterprises is an integral part of the overall economic security of the state. Whereas, improving the financial sustainability of enterprises contributes to the strengthening of the national economy as a whole and creates favourable conditions for sustainable socio-economic development of the country. They are convinced that attention to these factors is of strategic importance to reduce risks and ensure the long-term sustainability of the business. The results obtained in the current research work additionally highlight the fact that the financial sustainability of entrepreneurial entities plays an important role in shaping the overall competitiveness of the economy. The econometric data reinforces the assertion that robust financial management practices are crucial in this regard. The development of balanced and sustainable financial systems at all levels, from small businesses to large corporations, and in all sectors, contributes to economic growth, innovation activity and social stability, which is a key aspect of the sustainable development of society (Rexha et al., 2024).

In the article written by A. Alhadhrami & H. Nobanee (2019), the authors considered the factors that determine the sustainability of financial growth of enterprises, as well as methods to improve financial stability in modern market conditions. The paper emphasized that to improve the efficiency of the financial mechanism of enterprises, it is necessary to develop a system of indicators to analyse and evaluate financial regulation, and the greatest attention should be paid to the diagnostics of the functioning of the control system of the financial mechanism, which the researchers consider a key aspect of ensuring the stability and further development of enterprises. In turn, the current research work considered the influencing factors on financial stability as a complex and multifaceted aspect. The results of the conducted research emphasized the need to take into account both external and internal influencing factors. It is important to assess both the negative and positive effects of their impact on business entities. A. Alhadhrami & H. Nobanee (2019) suggested focusing on the internal processes of the enterprise. However, the findings also pointed out the need for external regulation and support, as the influence exerted by external influencing factors is equal to internal factors.

The importance of taking into account the external factors of impact on the financial stability of enterprises is also described by the Chinese scholar J. Ma (2023). He emphasized the objective existence of financial risks that significantly affect the development of enterprises. At the same time, J. Ma (2023) as well as A. Alhadhrami & H. Nobanee (2019) sees a high potential in strengthening the prevention and control of financial risks, presenting it as a necessary step in ensuring the stability and long-term development of business. His work

proposed a comprehensive approach, including the establishment of an internal control system, a robust risk prevention system, the development of an early warning indicator system and the implementation of cash flow distribution measures, for the successful application of effective enterprise development practices.

To summarize, the study presented in the current paper was designed to identify and analyse the factors affecting the financial stability of business entities in various sectors of the economy, as well as to outline their contribution to overall competitiveness. The study covered several sectors of the economy, including industrial, agricultural and tourism sectors, to ensure that patterns and trends in their financial stability could be identified. The econometric analysis performed offers a valuable quantitative perspective, complementing the theoretical insights provided throughout the study. External factors such as global economic trends, geopolitical instability and climatic conditions are important for all three sectors. They affect demand, prices of goods and services, and access to resources and markets. Technological innovation also has a significant impact on all three sectors, improving production efficiency and competitiveness. That said, however, each sector has its unique factors that determine its financial sustainability. For example, in the industrial sector, the efficiency of production processes is important. In the tourism sector, in addition to economic and political stability, the quality of services and infrastructure are important. In the agricultural sector, factors such as weather conditions, government support and access to global markets play a crucial role in determining financial sustainability. Thus, although there are general trends, each sector has its specific characteristics that need to be taken into account when analysing the financial stability of enterprises.

In addition, it was found that the financial stability of entrepreneurial entities is closely related to their ability to allocate resources efficiently, adapt to changing market conditions and participate in innovation processes. Also, attention was paid to external factors such as political stability, access to external markets and inflation rates, which have a significant impact on the financial stability and competitiveness of entrepreneurial entities. The results of the study emphasized the importance of balancing liquidity and profitability to ensure financial stability. The econometric findings reinforce this assertion, highlighting the critical nature of liquidity management in achieving financial resilience. Enterprises that actively implement innovative developments and new technologies demonstrate higher resilience to financial challenges and changes in the economic environment. Thus, the conducted research provides a comprehensive overview of the factors determining the financial stability of business entities of different sectors of the economy, as well as their contribution to the overall competitiveness, complementing the existing research base.

5. Conclusions

During the current research, it became clear that the formation of financial stability plays a crucial role in the economic development of both individual business entities and countries. This study presents empirical evidence regarding the factors that influence the financial sustainability of business entities, employing an econometric model to quantify their impact. The analysis demonstrated that internal factors, such as liquidity and innovation, are pivotal

determinants of sustainability, whereas external factors, including exchange rate volatility, represent considerable risks. The results, which are supported by the model's strong explanatory power, offer valuable insights for policymakers and business leaders with the objective of enhancing the financial resilience of enterprises in Azerbaijan. The results of the research article showed that the stable financial performance of companies creates favourable conditions for attracting investment and business expansion, which contributes to sustainable economic growth.

The study sought to identify both external and internal influencing factors. The importance of external factors such as political stability, access to markets, inflation and currency processes, and the impact of international crises and pandemics on the financial sustainability of the business environment was identified. Macroeconomic and political stability, trade policy and access to markets significantly affect the financial stability and competitiveness of enterprises. Political stability and a sound legal system contribute to the protection of property and investment rights, which strengthens financial stability. High levels of innovation and access to new technologies also significantly improve efficiency and competitiveness. In addition, analyses of Azerbaijan's macroeconomic indicators have shown that deflation can have both positive and negative effects, such as lower investment and higher unemployment. Exchange rate volatility creates significant uncertainty for businesses, affecting the revenues and expenditures of enterprises, especially those dependent on foreign markets. The above factors emphasize the need to create strategies to improve financial resilience to ensure the long-term stability and competitiveness of enterprises. The overall consideration and analysis of these factors directly affect the strategic decisions of businesses, determining their success or failure in the face of global instability.

However, it is also important to consider internal influences, which include: efficient resource allocation, innovation, and flexibility to adapt to change. It is important to remember that maintaining sufficient working capital and building reserves to cover unexpected costs or crises plays a key role in the stability of companies. All these aspects have a direct impact on the financial stability of companies and their ability to compete effectively. Thus, the study has emphasized the need to develop a comprehensive approach to ensuring the financial sustainability of business entities, including both external and internal factors, which requires joint efforts of government agencies, the business community and academia to develop effective strategies and policies that promote sustainable economic development.

For further research in the area of financial stability of business entities, it is important to deepen the analysis of the impact of various factors on financial performance, taking into account the unique characteristics of different countries and industries. There is also a need to focus on developing universal methodologies and tools for forecasting and financial stability that can be adapted to different economic environments and industries. It is also important to consider the impact of external factors, such as changes in global politics, the trading environment and technological advances, on the financial stability of the business environment. An in-depth study of these aspects will help to develop more accurate and effective strategies to support and develop businesses, contributing to sustainable economic growth and prosperity of society.

The findings of this study offer policymakers and business leaders tangible insights that can be acted upon, emphasising the necessity of cultivating liquidity and innovation within

enterprises to guarantee financial stability and enhance competitiveness, particularly in the context of external economic challenges.

References

Alhadhrami, A., Nobanee, H. (2019). Sustainability practices and sustainable financial growth. https://dx.doi.org/10.2139/ssrn.3472413.

Arner, D.W. (2007). Financial stability, economic growth, and the role of law. Cambridge: Cambridge University Press. https://doi.org/10.1017/CBO9780511511431.

Bamata, N.H. (2018). A framework to improve access to external finance by small and medium enterprise start-ups. KwaZulu-Natal: University of Kwazulu-Natal. Retrieved from https://core.ac.uk/download/pdf/344750292.pdf.

Bergmann, H., Rychener, M. (2021). The financial stability of SMEs in the Canton of Zurich in the Corona Crisis: Results of a survey of SMEs. Retrieved from https://www.alexandria.unisg.ch/server/api/core/bitstreams/270c7b92-f41b-4026-85dd-8e4f81cda895/content.

Central Bank of the Republic of Azerbaijan. (2024). Major indicators of the State Budget of the Republic of Azerbaijan. Retrieved from https://uploads.cbar.az/assets/3016bf02d1e12cd328d4ae6cb.xlsx.

Delas, V., Nosova, E., Yafinovych, O. (2015). Financial security of enterprises. – Procedia Economics and Finance, 27, pp. 248-266. https://doi.org/10.1016/s2212-5671(15)00998-3.

Edoardo, G., Lucio, G. (2021). Achieving financial stability during a liquidity crisis: a multi-objective approach. – Risk Management, 23(1-2), pp. 48-74. https://doi.org/10.1057/s41283-021-00067-6.

Gleißner, W., Günther, T., Walkshäusl, C. (2022). Financial sustainability: measurement and empirical evidence. – Journal of Business Economics, 92(3), pp. 467-516. https://doi.org/10.1007/s11573-022-01081-0.

Günther, T., Fuhrmann, D.Y., Gleißner, W., Walkshäusl, C. (2024). Financial sustainability. Key figures, empirical evidence and practical application. – Controlling, 36(1), pp. 4-13. Retrieved from https://futurevalue.de/wp-content/uploads/2024/02/FA-2281-Finanzielle-Nachhaltigkeit-2024.pdf.

Hanaysha, J. R., Al-Shaikh, M. E., Joghee, S., Alzoubi, H. M. (2022). Impact of innovation capabilities on business sustainability in small and medium enterprises. – FIIB Business Review, 11(1), pp. 67-78. https://doi.org/10.1177/23197145211042232.

Ho, K., Huang, H., Pan, Z., Gu, Y. (2023). Modern pandemic crises and default risk: Worldwide evidence. – Journal of International Financial Management & Accounting, 34(2), pp. 211-242. https://doi.org/10.1111/jifm.12172.

Jalil, H. C., Ahadov, V. B. (2021). Priority directions of state support to entrepreneurship subjects in Azerbaijan in the conditions of pandemics. – Scientific Works, Economics, 1, pp. 141-150. Retrieved from https://research.ebsco.com/c/ylm4lv/viewer/pdf/azrzq5s2hb.

Korolovych, O. O. (2019). Problems of financial sustainability analysis of manufacturing enterprise. – Scientific Bulletin of Mukachevo State University. Series "Economics", 6(1), pp. 124-130. http://www.doi.org/10.31339/2313-8114-2019-1(11)-124–130.

Lyubenko, A., Shurpenkova, R., Sarahman, O. (2021). Increasing the financial stability of enterprises with the help of financial analysis tools. – Herald of Economics, 4(98), pp. 185-196. https://doi.org/10.35774/visnyk2020.04.185.

Ma, J. (2023). Reflection on the countermeasures of enterprise financial management with the core of financial risk prevention and control. – Finance and Management International Academic Forum, 2(4), pp. 133-135. Retrieved from https://ojs.s-p.sg/index.php/fm/article/view/13243.

Melnychuk, N. Y., Dubas, R. H., Palokha, O. V. (2022). Energy independence and financial stability of economic entities in the conditions of war. – Ekonomika APK, 29(5), pp. 37-46. https://doi.org/10.32317/2221-1055.202205037.

Miahkykh, I. M., Shkoda, M. S., Radchenko, A. (2020). Factors ensuring enterprise financial stability in times of crisis. – Bulletin of the Kyiv National University of Technology and Economics. Series of Economic Sciences, 139(5), pp. 121-129. https://doi.org/10.30857/2413-0117.2019.5.11.

Naranchimeg, L., Enkhamgalan, C. (2020). Some issues of financial stability analysis. – iBusiness, 12, pp. 140-149. https://doi.org/10.4236/ib.2020.124010.

Nashkerska, M., Mykytyuk, N. (2018). Remarks concerning methodology improvement for integral assessment of a company's investment attractiveness. – Economics, Entrepreneurship, Management, 5(1), pp. 47-54. https://doi.org/10.23939/eem2018.01.047.

Qiu, H. (2023). Research on internal control and enterprise financial risk prevention. – World Economic Exploration, 12(3), pp. 254-259. https://doi.org/10.12677/wer.2023.123028.

Rexha, B., Osmani, F., Nimani, A. (2024). Importance of proper management of public finances in economic development. – Scientific Bulletin of Mukachevo State University. Series "Economics", 11(2), pp. 65-78. https://doi.org/10.52566/msu-econ2.2024.65.

Umurzakov, D. X. (2022). Analysis of financial sustainability analysis of business processes in the business process. – International Journal of Social Science & Interdisciplinary Research, 11(5), pp. 143-148. Retrieved from https://www.gejournal.net/index.php/IJSSIR/article/view/501.

Wang, R. (2024). Safeguarding enterprise prosperity: An in-depth analysis of financial management strategies. – Journal of the Knowledge Economy. https://doi.org/10.1007/s13132-024-01752-z.

Zahra, T., Waheed, A., Mahmood, H., Ali Rafique, M. (2017). Impact of political instability on financial development of Pakistan. – International Journal of Management Sciences and Business Research, 6(4), pp. 1-13. https://doi.org/10.5281/zenodo.3468918.