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Article

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Entrepreneurship and the Business Environment in Azerbaijan: A Qualitative Analysis of Institutional Barriers

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ABSTRACT

This study investigates the institutional barriers faced by entrepreneurs in Baku, Azerbaijan, using qualitative in-depth interviews combined with systematic thematic coding and quantitative content analysis. Twenty-six entrepreneurs were recruited across five business sectors using snowball sampling. Interview transcripts were coded into eight institutional barrier categories (T1–T8) using conservative, explicitly defined coding rules. Corruption and bribery (T3) emerged as the most prevalent barrier (34.6%), followed by political capitalism (T6) and business culture deficit (T7), each at 30.8%. One-way ANOVA and Kruskal–Wallis tests indicated no statistically significant effect of age group on total barrier diversity ($p>0.05$). Chi-square analysis showed that corruption is disproportionately concentrated in the Hospitality sector [$\chi^2(4)=16.427$, $p=0.003$, $V=0.795$], while business culture deficit is more common among young entrepreneurs [$\chi^2(2)=7.712$, $p=0.021$, $V=0.545$]. These findings are interpreted through the concept of "formal systemness", referring to a condition in which a formally developed legal framework coexists with informally gated enforcement practices. All results are treated as exploratory.

Keywords: *entrepreneurship; institutional barriers; corruption; political capitalism; business culture; post-Soviet transition; formal systemness; Azerbaijan.*

1. Introduction

Azerbaijan's transition from a Soviet republic to a market economy has, over the past three decades, produced a formally developed institutional framework for private enterprise, including a Civil Code, a Tax Code, competition and consumer protection legislation, a private land ownership regime, and successive state programmes supporting small and medium-sized enterprises. From a purely formal perspective, the country's legal and regulatory environment appears broadly sufficient to support productive, market-oriented entrepreneurship (North, 1990; Williamson, 2000).

However, a substantial body of research on post-Soviet economies cautions against equating statutory development with institutional quality in practice. Formal rules represent only one component of the institutional environment that shapes economic behaviour. Informal institutions, such as norms, conventions, and the practical enforcement of formal rules, tend to evolve more slowly and may persist long after formal reforms have been introduced (North, 1990). In resource-rich successor states, the political allocation of market opportunities can remain significant even as formal legal modernisation advances (Jones Luong & Weinthal, 2010).

Research question: What institutional barriers do entrepreneurs in Baku, Azerbaijan, encounter in practice, and do these barriers vary systematically across age groups and business sectors?

The study makes three main contributions. First, it provides an empirically grounded account of the institutional barriers experienced by entrepreneurs in Baku, Azerbaijan. Second, it develops a systematic qualitative coding framework that allows recurring barriers to be identified and compared across respondents. Third, it combines qualitative thematic analysis with exploratory statistical tests to examine whether the prevalence and distribution of institutional barriers vary across age groups and business sectors.

Importantly, the study shows that differences across business sectors and age groups are expressed not only in the overall number of barriers identified, but also in their composition, indicating that different groups of entrepreneurs encounter different configurations of institutional constraints.

2. Theoretical Framework

2.1 Productive, Unproductive, and Evasive Entrepreneurship

Baumol (1990) argues that the overall supply of entrepreneurial talent in an economy is relatively stable, while institutional arrangements determine whether this talent is allocated toward productive activities such as value creation or toward unproductive activities such as rent-seeking and political extraction. Coyne and Leeson (2004) extend this framework by introducing a third category, evasive entrepreneurship, which refers to efforts aimed at circumventing formal rules through informal payments or undeclared economic activity. Sobel, Clark, and Lee (2007) further demonstrate that barriers to market entry, rather than tax levels or regulatory intensity alone, are

the primary institutional mechanism redirecting entrepreneurial effort away from productive activity toward evasive forms.

2.2 Formal and Informal Institutions

North (1990) defines institutions as humanly devised constraints that structure economic interaction. These include formal rules such as laws and property rights, as well as informal constraints such as norms and conventions, along with their enforcement mechanisms. While formal rules can be altered through legislative action, informal constraints tend to evolve gradually across generations. In post-Soviet contexts, Smallbone and Welter (2012) show that informal practices are continuously reproduced through everyday experiences of operating within partially enforced formal systems, rather than being solely inherited from the Soviet period. Williamson (2000) places this slow-changing informal layer at the foundation of governance structures, emphasizing that misalignment between formal and informal institutions is a central source of dysfunction in transition economies.

2.3 Post-Soviet Institutional Legacy: Blat and Political Capitalism

Ledeneva's (1998) study of the Soviet "economy of favours" documents how blat, a system of reciprocal personal exchanges used to obtain goods and exemptions outside official channels, persisted into the post-socialist period due to the continued scarcity of reliable formal alternatives such as enforceable contracts and predictable licensing systems. Hankiss (1990), examining Eastern European cases, reaches a similar conclusion, showing that informal networks of reciprocal obligation did not disappear after the collapse of communist institutions but instead adapted to the new formal environment. Staniszkis (1991) characterizes the resulting system as "political capitalism," in which formal market institutions exist nominally, yet significant economic opportunities remain dependent on political position. Eyal, Szelényi, and Townsley (1998) describe this outcome as "capitalism without capitalists," where administrative authority rather than entrepreneurial capability becomes the main mechanism of wealth accumulation in post-socialist societies.

2.4 Formal Systemness: Conceptual Positioning

The interview evidence analyzed in this study is interpreted through the concept of "formal systemness," defined as a condition in which a formally complete legal framework coexists with informal mechanisms that effectively gate access to it and are not fully accountable to formal rules. This concept relates to, but differs from, several established frameworks in institutional economics and comparative politics.

Helmke and Levitsky (2004) classify interactions between formal and informal institutions into four types: complementary, accommodating, competing, and substitutive. Formal systemness corresponds most closely to their category of competing informal institutions, where informal rules operate in ways that undermine or bypass formal institutions for actors disadvantaged by them. Hellman's (1998) notion of a "partial reform equilibrium" captures a related dynamic in which initial beneficiaries of reform block further liberalization to preserve rents; however, formal systemness differs in that it focuses on the ongoing operational conditions faced by firms rather than the macro-political dynamics of reform. Streeck's (2009) concept of "institutional incongruence" describes the coexistence of contradictory institutional orders, whereas formal systemness is a narrower construct concerned specifically with the gap between formal regulation and informal enforcement as experienced by entrepreneurs in practice. The term is used here as an analytical device for organizing empirical findings and is not intended as a general theory of institutional change, pending further comparative validation.

3. Research Methodology

3.1 Research Design

This study employs qualitative in-depth interviewing as the primary data-collection method, combined with systematic thematic coding and subsequent quantitative content analysis. It does not follow a mixed-methods design in the strict sense defined by Creswell and Plano Clark (2018), which presupposes the parallel collection and integration of independent qualitative and quantitative datasets. Instead, interview transcripts are first analysed qualitatively and then coded by the researcher into binary categories (presence of barrier: 1; absence: 0). These codes are subsequently subjected to descriptive and inferential statistical analysis. This approach is best described as qualitative research with quantitative content analysis (Hsieh & Shannon, 2005). All statistical outputs therefore reflect the researcher's coding decisions and are not independent of the

qualitative interpretation. Their function is to summarise patterns within the coded dataset rather than to provide separate quantitative validation.

3.2 Researcher Positionality

The author is an academic researcher in entrepreneurship and institutional economics based at a university in Azerbaijan. All interviews, transcription, and coding were conducted by the author. Prior familiarity with the Azerbaijani business environment served as both an advantage and a potential source of bias. On the one hand, it facilitated access, rapport-building, and context-sensitive probing during interviews. On the other hand, it introduced the risk of interpretive bias. To address this issue, strict conservative coding rules were applied (see Section 3.5). Where evidence was ambiguous, the relevant code was not assigned. No inference, implication, or expectation was used as a basis for coding; only explicit statements in the transcripts were accepted. All coding decisions were recorded in a reflexive coding log available from the author upon reasonable request.

3.3 Sampling and Data Collection

A total of twenty-six entrepreneurs in Baku were recruited using snowball (chain-referral) sampling (Biernacki & Waldorf, 1981), a method suitable for accessing populations that may be reluctant to disclose sensitive information to unknown researchers. Initial contact points were established across five business sectors, and recruitment chains were diversified to reduce dependence on any single network. No more than four participants were drawn from a single referral chain to minimise homophily effects.

Semi-structured interviews lasting between 40 and 60 minutes were conducted at respondents' places of business. With consent, interviews were audio-recorded and transcribed verbatim; otherwise, detailed field notes were expanded within 24 hours of each interview. Respondents were assigned identifiers (R1-R26) to ensure anonymity. Data collection continued until thematic saturation was reached, defined as the point at which no new barrier categories emerged across three consecutive interviews. This point was reached at approximately interview 22, while interviews R23-R26 largely served to confirm existing themes rather than introduce new ones.

3.4 Respondent Profile

Table 1. Sample Demographics (N = 26), Baku, Azerbaijan

Category	*Group*	*n*	*%*
Age Group	Young (27-39)	8	30.8
	Middle (40-54)	13	50.0
	Senior (55-70)	5	19.2
Business Sector	Trade & Import	4	15.4
	Retail & Commerce	6	23.1
	Hospitality & Services	6	23.1
	Construction & Manufacturing	6	23.1
	Agro & Food	4	15.4
Age (overall)	Mean = 46.2; SD = 10.1; Range = 27-70		
Location	All respondents: Baku, Azerbaijan		
Total Sample	***N = 26***	***26***	***100***

3.5 Thematic Coding Framework and Conservative Coding Rules

The data were analysed using Braun and Clarke's (2006) six-phase thematic analysis approach. Eight institutional barrier categories (T1-T8) were developed through iterative comparison across transcripts and operationalised as binary variables. The coding framework, including inclusion and exclusion criteria, is presented in Table 2.

Three coding decisions require explicit clarification. First, R1's account of corruption involving a court case was not coded as T3 (Corruption & Bribery), since T3 requires direct personal payment by the respondent. The excerpt was instead coded as T1 (Tax Enforcement Gaps), as the central issue concerns VAT obligations and enforcement disconnect. Second, R5's comparative remarks on tax culture were assigned to T7 (Business Culture Deficit) as the primary code; dual coding with T1 was avoided to prevent overlap within a single analytic unit. Third, R10's statement regarding informal agreement with a food safety specialist was not coded as T3 due to insufficient explicit evidence of a monetary or material exchange. In all cases, the conservative rule applied: without explicit confirmation, the code was not assigned.

Table 2. Thematic Coding Framework: Institutional Barrier Categories (T1-T8)

Code	*Theme*	*Definition and inclusion criteria*	*Illustrative quote*
T1	Tax Enforcement Gaps	Misalignment between formal tax obligations (e.g., VAT) and actual payment collection mechanisms; informal resolution of tax disputes; systemic tax avoidance pressures. Excludes third-party bribery not involving the respondent directly (coded as T3 only when directly experienced).	"The tax office requires I pay VAT for goods I sell, and it is up to me to collect the principal amount." (R1)
T2	Finance / Credit Access	Lack of access to formal credit markets; loan refusal due to prior indebtedness; insufficient capital for expansion or technological upgrading.	"We applied for a loan, but were told: since you have bad loans, we cannot help." (R7)
T3	Corruption & Bribery	Direct requests or acceptance of informal payments from the respondent by officials as a condition for operation, inspection, or dispute resolution. Excludes indirect observations and ambiguous references.	"I pay the inspectors and they don't touch me. This is an invisible extra expense." (R3)
T4	Procurement Capture	Pre-arranged public procurement outcomes mediated through networks or intermediaries; exclusion from competitive tender processes.	"In rare cases, a random person can participate in a tender. Everything is agreed in advance." (R8)
T5	Human Capital Shortage	Lack of qualified domestic specialists; dependence on foreign expertise; administrative barriers to hiring foreign professionals.	"300 agronomists from abroad work in Azerbaijan - $300,000 leaves the country monthly." (R10)
T6	Political Capitalism	Market access concentrated among politically connected actors; structural exclusion of non-connected entrepreneurs from large-scale economic activity.	"When we talk about a large entrepreneur in Azerbaijan, this refers to officials. Otherwise, this is impossible." (R13)
T7	Business Culture Deficit	Low trust between firms; weak business ethics; imitation rather than innovation; nepotism in hiring practices.	"We do not have the roots of business ethics." (R25)
T8	Property Rights Uncertainty	Risk or perception of arbitrary asset seizure; relocation of capital abroad; concealment of business scale due to institutional pressure.	"If agencies notice large funds, they create obstacles and take away property." (R22)

3.6 Research Hypotheses

- **H_1:** The total number of institutional barriers differs significantly across age groups (ANOVA and Kruskal-Wallis tests).
- **H_2:** The total number of institutional barriers differs significantly across business sectors (Kruskal-Wallis H test).
- **H_3:** The prevalence of corruption and bribery (T3) differs significantly across business sectors (chi-square test).
- **H_4:** The prevalence of business culture deficit (T7) differs significantly across age groups (chi-square test).

Given the non-probability sampling design (N = 26), limited subgroup sizes (n = 4-6 per sector; n = 5 for the senior group), and exploratory nature of the study, these hypotheses are treated as directional propositions for initial investigation rather than confirmatory tests. Statistical significance is set at $\alpha = 0.05$, with Bonferroni-adjusted thresholds ($\alpha' = 0.0125$) reported where multiple comparisons apply. All results are interpreted as hypothesis-generating and require replication using larger, probability-based samples.

3.7 Limitations

Several limitations should be acknowledged. First, all coding was conducted by a single researcher, and inter-coder reliability measures (e.g., Cohen's κ) were not calculated. This limits the transparency and reproducibility of the coding process, and the findings should not be interpreted as fully independent of the researcher's judgement. Future studies should incorporate multiple coders and formal reliability testing.

Second, the snowball sample drawn from entrepreneurs in Baku cannot be generalised to other regions of Azerbaijan, where institutional conditions may differ substantially. Third, the statistical analyses should be interpreted with caution, particularly chi-square tests with small expected cell counts. In such cases, exact tests (e.g., Fisher's exact or Freeman-Halton permutation approaches) would be more appropriate. The present analysis is therefore intended as an exploratory tool for pattern identification rather than confirmatory hypothesis testing.

4. Statistical Results

4.1 Coding Matrix and Theme Frequency

Table 3 presents the corrected 26×8 binary coding matrix. Blue cells (value=1) indicate that the respondent's transcript contained direct evidence of the corresponding barrier category. Yellow-shaded total cells identify respondents who reported evidence of more than one barrier type. The total is 35 distinct barrier codes across 26 respondents.

Table 3. Interview Coding Matrix (N=26 × 8 Categories) Conservative Binary Coding

R#	*Age*	*Group*	*Sector*	*T1*	*T2*	*T3*	*T4*	*T5*	*T6*	*T7*	*T8*	*Σ*
R01	47	Mid.	Trade	**1**	0	0	0	0	0	1	0	2
R02	36	Yng.	Trade	**1**	0	0	0	0	0	1	0	2
R03	38	Yng.	Hosp.	0	0	**1**	0	0	0	0	0	1
R04	53	Mid.	Retail	**1**	0	**1**	0	0	**1**	0	0	**3**
R05	41	Mid.	C&M	0	0	0	0	0	0	**1**	0	1
R06	44	Mid.	Hosp.	0	0	**1**	0	0	0	0	0	1
R07	59	Sen.	Agro	0	**1**	0	0	0	0	0	0	1
R08	62	Sen.	Trade	0	0	0	**1**	0	**1**	0	0	**2**
R09	70	Sen.	Agro	0	0	0	0	**1**	0	0	0	1
R10	58	Sen.	Agro	0	0	0	0	**1**	0	0	0	1
R11	27	Yng.	Retail	0	0	0	0	0	0	**1**	0	1
R12	33	Yng.	Agro	0	0	0	0	0	0	**1**	0	1
R13	44	Mid.	Retail	0	0	0	0	0	**1**	0	0	1
R14	51	Mid.	Hosp.	0	0	**1**	0	0	0	0	0	1
R15	45	Mid.	Hosp.	0	0	**1**	0	0	0	0	0	1
R16	42	Mid.	Retail	0	0	**1**	0	0	0	0	0	1
R17	38	Yng.	Hosp.	0	0	**1**	0	0	0	0	0	1
R18	49	Mid.	Retail	0	0	0	0	0	**1**	0	**1**	**2**
R19	46	Mid.	Retail	0	0	0	0	0	**1**	0	0	1
R20	54	Mid.	C&M	0	0	**1**	0	0	**1**	0	0	**2**
R21	44	Mid.	Hosp.	0	0	**1**	0	0	0	0	**1**	**2**
R22	49	Mid.	Trade	0	0	0	0	0	**1**	0	**1**	**2**
R23	39	Yng.	C&M	0	0	0	0	0	0	**1**	0	1
R24	39	Yng.	C&M	0	0	0	0	0	0	**1**	0	1
R25	59	Sen.	C&M	0	0	0	0	0	0	**1**	0	1
R26	33	Yng.	C&M	0	0	0	0	0	0	**1**	0	1
Identified barrier frequency (n):				***3***	***1***	***9***	***1***	***2***	***7***	***9***	***3***	***35***

Note: Conservative binary coding was used at the interview level: ***1*** *indicates that the corresponding theme was explicitly identified in the interview, whereas* ***0*** *indicates that it was not identified. Each interview was counted once per theme, regardless of how many times the theme was mentioned. Because an interview could contain more than one theme, theme frequencies are non-mutually exclusive and therefore do not sum to N = 26. The Σ column reports the total number of identified themes for each interview.*

Table 4 presents theme frequencies ranked by prevalence.

Table 4. Institutional Barrier Theme Frequency (N=26), Ranked by Prevalence

Code	*Theme*	*n*	*%*	*Highest sector*	*Highest age group*
T3	Corruption & Bribery	9	34.6%	Hospitality & Services (100.0%)	Middle (53.8%)
T6	Political Capitalism	8	30.8%	Trade & Import (75.0%)	Middle (30.8%)
T7	Business Culture Deficit	8	30.8%	Construction & Manufacturing (83.3%)	Young (75.0%)
T1	Tax Enforcement Gaps	3	11.5%	Trade & Import (50.0%)	Middle (15.4%)
T8	Property Rights Uncertainty	3	11.5%	Trade & Import (25.0%)	Middle (15.4%)
T5	Human Capital Shortage	2	7.7%	Agro & Food (50.0%)	Senior (40.0%)
T2	Finance / Credit Access	1	3.8%	Agro & Food (25.0%)	Senior (20.0%)
T4	Procurement Capture	1	3.8%	Trade & Import (25.0%)	Senior (20.0%)

Note: Theme frequencies are reported as the number and percentage of participants (N = 26) whose interviews contained explicit evidence corresponding to each coded theme. Themes are non-mutually exclusive because a respondent could report more than one barrier. T3 was the most prevalent theme (34.6%), followed by T6 and T7 (30.8% each). T3 was concentrated in Hospitality & Services, where it was present among all six respondents. T7 was most prevalent in Construction & Manufacturing (5 of 6 respondents, 83.3%), while T6 was most prevalent in Trade & Import (3 of 4 respondents, 75.0%).

4.2 Descriptive Statistics by Age Group

Table 5 summarises the descriptive statistics for the number of barriers identified by respondents in each age group.

Table 5. Descriptive Statistics by Age Group: Total Identified Barriers per Respondent

Age Group	*n*	*Mean age*	*Mean barriers*	*SD*	*Most frequent identified barrier*
Young (27-39)	8	35.4	1.125	0.354	T7: Business Culture Deficit (75.0%)
Middle (40-54)	13	46.8	1.538	0.660	T3: Corruption & Bribery (53.8%)
Senior (55-70)	5	61.6	1.200	0.447	T5: Human Capital Shortage (40.0%)
Total	***26***	***46.2***	***1.346***	***0.562***	***T3: Corruption & Bribery (34.6%)***

Note: The Young group has a relatively restricted distribution, with seven of eight respondents reporting one identified barrier and one respondent reporting two (SD = 0.354). The Kruskal–Wallis test is therefore reported as the primary non-parametric comparison, while ANOVA is retained as a descriptive parametric analysis.

4.3 Hypothesis H_1: Age Group → Total Barriers

Table 6a shows the results of the one-way ANOVA, which was used to examine whether the number of identified barriers varied across age groups.

Table 6a. One-Way ANOVA: Age Group × Total Identified Barriers

Source	*SS*	*df*	*MS*	*F*	*Sig.*
Between Groups	0.979	2	0.489	1.630	0.218
Within Groups	6.906	23	0.300	–	–
Total	**7.885**	**25**	**–**	**–**	**–**

Note: F(2,23) = 1.630, p = .218. The result is not statistically significant at α = .05 or at the Bonferroni-adjusted threshold α′ = .0125. η^2 = .124, indicating a small-to-moderate effect. The Kruskal–Wallis test provides a robust non-parametric check: H(2) = 3.023, p = .221.

Table 6b reports the Tukey-Kramer post-hoc comparisons, showing which age groups differed from one another.

Table 6b. Tukey-Kramer Post-Hoc Comparisons

Comparison	Mean Difference	SE	q	Sig.
Young vs Middle	−0.413	0.190	2.174	0.234
Young vs Senior	−0.075	0.239	0.314	0.969
Middle vs Senior	0.338	0.211	1.604	0.480

Note: No pairwise comparison is statistically significant. Post-hoc comparisons are presented for descriptive purposes because the omnibus ANOVA is not significant.

- **H_1** was not supported. The one-way ANOVA showed no statistically significant difference in the total number of identified barriers across age groups, F(2,23) = 1.630, p = .218, η^2 = .124. The non-parametric Kruskal–Wallis test produced a consistent result, H(2) = 3.023, p = .221. Thus, the data do not provide evidence that the overall number of identified institutional barriers differs systematically across the three age groups. Given the small

sample size and non-probability sampling design, this finding should nevertheless be interpreted as exploratory rather than as evidence of equivalence between groups.

4.4 Hypothesis H_2: Sector → Total Barriers

Table 7 shows the results of the Kruskal-Wallis test comparing the number of identified barriers across different business sectors.

Table 7. Kruskal-Wallis Test: Business Sector × Total Identified Barriers [H_2]

Sector	*n*	*Median*	*Mean*	*Mean Rank*	*H*	*Sig.*
Trade & Import	4	2.0	2.00	19.875		
Hospitality & Services	6	1.0	1.17	11.583		
Retail & Commerce	5	1.0	1.00	9.500		
Construction & Manufacturing	7	2.0	1.57	16.643		
Agro & Food	4	1.0	1.00	9.500		
Overall (H)	26	1.0	1.35	-	***3.333***	***0.504***

Kruskal–Wallis H(4) = 10.467, p = .033.

Note: The Kruskal–Wallis test indicates a statistically significant difference in the total number of identified institutional barriers across business sectors at the conventional α = .05 level. However, the result does not remain statistically significant under the Bonferroni-adjusted threshold of α′ = .0125. Mean ranks are based on tied-rank assignments. The relatively high mean rank for Trade & Import reflects the fact that all four respondents in this sector reported two identified barriers.

H_2: *The Kruskal–Wallis test was used to examine whether the total number of identified institutional barriers differed across the five business-sector groups. As shown in Table 7, the analysis yielded a statistically significant difference at the conventional α = .05 level,* ***H(4) = 10.467, p = .033****. Accordingly,* ***H_2 was not supported****. The result indicates that the overall number of institutional barriers identified by respondents varied across business sectors, although the effect did not remain statistically significant under the Bonferroni-adjusted threshold of* ***α′ = .0125****.*

The highest mean rank was observed for Trade & Import (19.875), followed by Construction & Manufacturing (16.643), Hospitality & Services (11.583), and both Retail & Commerce and Agro & Food (9.500). These differences should be interpreted cautiously given the small sector-specific

sample sizes. Importantly, H_2 concerns the total number of barriers identified by respondents rather than differences in the specific composition of those barriers. Differences in the types of barriers reported across sectors are examined separately under H_3.

4.5 Hypothesis H_3: Corruption (T3) × Sector

Table 8a shows the relationship between corruption and bribery (T3) and business sector based on the chi-square cross-tabulation.

Table 8a. Chi-Square Cross-Tabulation: Corruption & Bribery (T3) × Business Sector [H_3]

Sector	*T3 Absent (0)*	*T3 Present (1)*	*Row Total*	*% with T3*	*χ^2 / Sig.*
Agro & Food	4	0	4	0.0%	
Const. & Manufacturing	5	1	6	16.7%	
Hospitality & Services	0	6	6	100.0%	
Retail & Commerce	4	2	6	33.3%	
Trade & Import	4	0	4	0.0%	
Total	***17***	***9***	***26***	***34.6%***	$\chi^2(4) = 16.427$, $p = .0025$, Cramér's $V = .795$.

Note: All expected cell frequencies are below 5, with the minimum expected frequency equal to 1.385. Therefore, the Pearson chi-square approximation should be interpreted cautiously. A Fisher–Freeman–Halton exact test is more appropriate for confirmatory inference; the corresponding exact p-value is approximately .0014. The association is nevertheless large in magnitude, with Cramér's V = .795.

- **H_3:** The prevalence of specific institutional barriers varies by business sector. H_3 was supported by the exploratory Pearson chi-square analysis. The association between business sector and the presence of the T3 barrier was statistically significant, $\chi^2(4) = 16.427$, $p = .003$, with a Cramér's V of .795, indicating a strong association. The distribution of T3 differed substantially across sectors, with the barrier most prevalent among entrepreneurs in Hospitality & Services, where all respondents in the group were coded as experiencing T3, whereas no cases were identified in the Agro & Food and Trade & Import groups. The result remains statistically significant under the Bonferroni-adjusted threshold of $\alpha' = .0125$.

However, because several expected cell frequencies are below 5, the finding should be interpreted cautiously and ideally confirmed using the Freeman–Halton exact test. Overall, the result indicates that although the total number of barriers does not differ significantly across sectors, the composition of institutional barriers does vary systematically by sector**.**

4.6 Hypothesis H_4: Business Culture Deficit (T7) × Age Group

Table 8b shows the relationship between business culture deficit (T7) and age group based on the chi-square cross-tabulation.

Table 8b. Chi-Square Cross-Tabulation: Business Culture Deficit (T7) × Age Group [H_4]

Age group	**n**	**T7 Present, n (%)**	**T7 Absent, n (%)**
Young (27–39)	8	6 (75.0%)	2 (25.0%)
Middle (40–54)	13	1 (7.7%)	12 (92.3%)
Senior (55-70)	5	1 (20.0%)	4 (80.0%)
Total	26	8 (30.8%)	18 (69.2%)
Test		χ^2 df p	Cramér's V
Pearson chi-square		10.869 2 . 004	.647

Note: Because several expected cell frequencies are below 5, the Pearson chi-square result should be interpreted cautiously and ideally confirmed using an exact test.

- **H_4:** Business culture deficit varies by age group. H_4 was supported by the exploratory Pearson chi-square analysis. The association between age group and the presence of a business culture deficit (T7) was statistically significant, $\chi^2(2) = 10.869$, $p = .004$, with a Cramér's V of .647, indicating a relatively strong association. The prevalence of T7 was substantially higher among young entrepreneurs (75.0%, 6/8) than among middle-aged entrepreneurs (7.7%, 1/13), while 20.0% (1/5) of senior entrepreneurs were coded as experiencing this barrier. The result remains statistically significant under the Bonferroni-adjusted threshold of $\alpha' = .0125$. However, because several expected cell frequencies are below 5, the finding should be interpreted cautiously and ideally confirmed using an exact test. Nevertheless, the result provides evidence that the composition of institutional barriers differs systematically across age groups rather than merely reflecting differences in the overall number of barriers identified.

4.7 All Statistical Results

Table 9 provides an overview of the statistical results obtained for the four hypotheses.

Table 9. Statistical Test Results Summary: All Four Hypotheses (α = .05; Bonferroni α′ = .0125)

H	Test	Variables	Statistic	p	Effect Size	Interpretation
H_1	One-way ANOVA	Age Group → Total Barriers	$F(2,23) = 1.630$	.218	$\eta^2 = .124$	ns
H_1	Kruskal–Wallis	Age Group → Total Barriers	$H(2) = 3.023$	.221	–	ns
H_1	Tukey HSD	Young vs Middle	$q = 2.174$	.234	–	ns
H_1	Tukey HSD	Young vs Senior	$q = 0.314$	.969	–	ns
H_1	Tukey HSD	Middle vs Senior	$q = 1.604$	.480	–	ns
H_2	Kruskal–Wallis	Sector → Total Barriers	$H(4) = 10.559$	.032	$\varepsilon^2 \approx .303$	Exploratory; not Bonferroni-significant
H_3	Pearson chi-square	T3 × Sector	$\chi^2(4) = 16.427$	.0025	V = .795	Significant; exploratory
H_3	Fisher–Freeman–Halton	T3 × Sector	Exact test	≈ .0014	V = .795	Significant
H_4	Pearson chi-square	T7 × Age Group	$\chi^2(2) = 10.869$	.0044	V = .647	Significant
H_4	Fisher–Freeman–Halton	T7 × Age Group	Exact test	≈ .0051	V = .647	Significant

Note: *ns = not statistically significant. H_2 is significant at the conventional α = .05 level but does not survive the Bonferroni-adjusted threshold α′ = .0125. H_3 and H_4 remain below the Bonferroni-adjusted threshold. Because several expected frequencies are below 5 in the chi-square analyses, exact tests are reported as robustness checks. All results remain exploratory because of the small, non-probability sample and single-coder design.*

5. Qualitative Findings by Theme

This section presents the substantive content of each barrier theme through verbatim evidence. Statistical results reported in Section 4 establish the prevalence and demographic distribution of each theme; this section provides the interpretive context underlying those patterns. All quotations are attributed to respondent codes in Table 1 and Appendix A.

5.1 T1 Tax Enforcement Gaps (n = 3, 11.5%)

Three respondents from Trade and Retail described a structural mismatch between the timing of VAT obligations and the actual receipt of commercial payments.

- *"The tax office requires I pay VAT for the goods I sell, and it is up to me to collect the principal amount. The entrepreneur is forced to pay to keep the budget full. It is not right. It is almost impossible to go to court and win a case here; the other side gives the judge a certain amount and gains time." (R1, 47 years, agricultural fertilizer importer)*

- *"This pushes the entrepreneur to trade in black, in a roundabout way. Because the entrepreneur realizes that if this process occurs, he will have dead capital." (R2, 36 years, construction materials importer)*

The Bina shopping centre case (R4) adds another dimension. A private intermediary with reported official backing appears to intercept the formal tax channel, collecting payments from tenants at approximately twice the official rate and retaining the difference. This suggests that formal tax administration may operate alongside parallel informal extraction mechanisms linked to political access, a pattern consistent with what this study terms formal systemness.

Note: R1's reference to bribery involving a judge reflects reported third-party conduct and was not coded as T3, as it does not indicate direct participation by the respondent.

5.2 T2 Finance and Credit Access (n = 1, 3.8%)

- *"Today, the state gives loans at low-interest rates of 5%. However, we applied for a loan and were told that since we have bad loans, we cannot be given credit. As a result, we cannot buy advanced technologies. With access to finance, we could achieve much greater success." (R7, 59 years, meat and dairy producer)*

R7's account indicates that the constraint is not the absence of formal credit instruments but the application of rigid banking practices that exclude applicants with prior non-performing loans,

regardless of the underlying cause. The 2015 currency devaluation created a cohort of distressed borrowers, which continues to shape access to credit in the present system.

5.3 T3 Corruption and Bribery (n = 9, 34.6%) - Most Prevalent Theme

Corruption is the most frequently reported barrier and, as shown in Section 4.5, is highly concentrated in the Hospitality and Services sector. The accounts range from routine informal payments to recurring administrative pressure.

- *"I use workers without contracts. I deal with inspectors directly. I pay them and they do not interfere. Police officers also come. In practice, you still have to pay when they arrive. There are many hidden costs." (R3, 38 years, pastry chef)*

- *"They come from an organization and require me to take insurance from a specific company. I ask to choose my own provider, but they insist. This is the same type of intervention." (R15, 45 years, hostel owner)*

- *"From the executive committee, indirect demands are made for material assistance. They come and ask for support. I comply to avoid problems, but this is not lawful." (R16, 42 years, retailer)*

- *"I agreed to pay 400 manats to avoid procedural delays and court processes. It was simply easier." (R17, 38 years, hostel owner, city centre)*

The concentration of T3 in Hospitality can be explained by the sector's high regulatory exposure, including food safety, fire safety, licensing, environmental, advertising, and building regulation controls. Each interaction increases opportunities for informal extraction. In this sense, corruption emerges not as isolated behaviour but as a structurally embedded feature of high-contact regulatory environments.

5.4 T4 Procurement Capture (n = 1, 3.8%)

- *"In our country, in rare cases, a random person can participate in a tender. Everything is agreed in advance. The allocated funds are concentrated in one hand, and goods are delivered to consumers at a pre-determined price." (R8, 62 years, food supplier).*

This reflects rent-seeking behaviour in the sense of Baumol (1990), where economic value is redistributed through administrative control rather than market competition.

5.5 T5 Human Capital Shortage (n = 2, 7.7%)

- *"Today, the lack of specialists is the main problem. Previously, there were technical schools and institutes in this field. Today, these no longer exist." (R9, 70 years, dairy producer)*

- *"I currently employ a specialist from Turkey. The salary is 2,000 dollars, plus accommodation, travel costs, and immigration fees twice a year. Around 300 agronomists from abroad work in Azerbaijan, and significant funds leave the country each month." (R10, 58 years, agro-industrial producer)*

The findings indicate that the collapse of vocational training structures has not been replaced by equivalent institutional capacity. Bureaucratic requirements for foreign qualification recognition further constrain access to skilled labour.

Note: R10 was not coded under corruption, as no explicit informal payment or illicit transaction is reported.

5.6 T6 Political Capitalism (n = 8, 30.8%)

- *"We have officials at the head of large businesses. A normal entrepreneur cannot open supermarkets or chains. Large business in Azerbaijan is essentially controlled by officials." (R13, 44 years, grocery store owner).*

- *"If you expand too much, you become visible. That is risky. I opened a second shop under a different name to avoid attention." (R18, 49 years, clothing store owner)*

- *"For growth, you need support from above. Otherwise, it is not possible." (R19, 46 years, grocery store owner)*

These accounts correspond to the concept of political capitalism (Staniszkis, 1991; Eyal, Szelenyi & Townsley, 1998), where market outcomes are shaped primarily by political affiliation rather than competition.

5.7 T7 Business Culture Deficit (n = 8, 30.8%)

As shown in Section 4.6, this theme is particularly concentrated among younger entrepreneurs.

- *"You cannot trust businessmen. They cheat. Goods are taken but payments are not made." (R11, 27 years, retail distribution executive)*

- *"Many people open businesses but do not innovate. There is a lack of business ethics." (R25, 59 years, manufacturing owner)*

- *"Regionalism and nepotism affect positions. This leads to unprofessional practices." (R26, 33 years, manufacturer)*

5.8 T8 Property Rights Uncertainty (n = 3, 11.5%)

- *"Without formal contracts, people gradually move their activities abroad. Uncertainty is the main reason." (R21, 44 years, restaurant entrepreneur)*

- *"If authorities detect large funds, they may create obstacles and seize property. There is widespread fear among entrepreneurs. Many invest in Turkey and Georgia instead." (R22, 49 years, trader)*

T6 and T8 together create a reinforcing incentive structure for capital relocation. The limits on domestic business expansion combined with perceived asset insecurity make external investment a rational alternative.

6. SWOT Analysis

Table 10 presents the SWOT matrix developed from the qualitative findings. The matrix distinguishes between factors supported directly by interview data and those identified through policy documents or the authors' interpretation. This distinction ensures analytical transparency, given that the different components of the matrix are not equally supported by empirical evidence.

Table 10. SWOT Analysis Matrix: Azerbaijan's SME Business Environment (N = 26, Baku)

S - Strengths (interview-grounded)	***W - Weaknesses (interview-grounded)***
• Entrepreneurial persistence: all N=26 remain active despite barriers (entire sample); • SME legal framework relatively developed (Civil Code, Tax Code, ASAN service); • Subsidised credit at ~5% exists, though access is limited (R7); • Inspection frequency reported to have decreased over time (R6); • Active trade corridors with Russia, Turkey and EU (R2, R22).	• Corruption as operational cost (34.6%, n=9; 100% in Hospitality sector); • Informal tax intermediation via private actors (R4); • Credit exclusion linked to 2015 devaluation and bad debt history (R7); • Weak inter-firm trust and contract enforcement issues (R11, R21); • Nepotism and skilled labour outmigration (R10, R24, R26).
O - Opportunities (evidence-grounded†)	***T - Threats (interview-grounded)***
• Unmet skilled labour demand in agro-food and manufacturing sectors (R9, R10); • Hospitality sector expansion despite regulatory pressure; • Younger entrepreneurs show demand for competitive business culture (R23, R25); • † Non-oil diversification policy supports SME development; • † Digitalisation may reduce direct official contact in licensing processes.	• Political capitalism limits market entry at higher levels (R13); • Capital flight to Turkey and Georgia (R21, R22); • Asset seizure risk encourages business concealment (R18, R22); • Procurement concentration limits SME participation (R8); • Normalisation of corruption in high-contact sectors, especially Hospitality.

Note: † Items marked with a dagger are derived from secondary sources (government documents) or author inference, not from interview evidence. All other items are directly supported by interview data with respondent codes cited. This distinction is included to ensure transparency in qualitative research synthesis.

7. Discussion

The findings reveal a more differentiated pattern than a simple claim that institutional barriers are uniformly distributed across demographic groups and business sectors. Based directly on the corrected coding matrix, the overall number of identified barriers does not differ significantly across age groups (H_1: ANOVA $p = .218$; Kruskal–Wallis $p = .221$). By contrast, the number of identified barriers does show an exploratory sector difference (H_2: $H(4) = 10.559$, $p =$

.032), although this result does not survive the Bonferroni-adjusted threshold of $\alpha' = .0125$. More importantly, the composition of barriers varies substantially across groups. Corruption and bribery are strongly associated with the business sector (H_3: $\chi^2(4) = 16.427$, $p = .0025$, $V = .795$), while Business Culture Deficit is significantly associated with age group (H_4: $\chi^2(2) = 10.869$, $p = .0044$, $V = .647$). Both associations remain below the Bonferroni-adjusted threshold. The distinction between overall barrier burden and the composition of barriers is therefore central to interpreting the findings.

The strongest sectoral pattern concerns corruption and bribery. T3 was reported by all six respondents in Hospitality & Services, compared with none of the respondents in Agro & Food or Trade & Import. The magnitude of the association is substantial (Cramér's V = .795), although the small cell counts require caution. The Fisher–Freeman–Halton exact test also produces a statistically significant result ($p \approx .0014$), strengthening the interpretation that the observed concentration is unlikely to be attributable solely to random variation within the sample. One plausible interpretation is that hospitality businesses experience a relatively high density of regulatory and administrative interactions, including food safety, fire safety, licensing, advertising, and building-related controls. Such repeated points of contact may create more opportunities for informal demands and payments.

The age-group pattern is also pronounced. Business Culture Deficit was identified in 75.0% of young respondents, compared with 7.7% of Middle respondents and 20.0% of Senior respondents. The association is statistically significant, χ^2 (2) = 10.869, $p = .0044$, with a large effect size ($V = .647$), and the Fisher–Freeman–Halton exact test remains significant ($p \approx .0051$). This pattern suggests that younger entrepreneurs may be particularly exposed to problems involving trust, business ethics, nepotism, and competitive practices. However, the cross-sectional design does not establish that age itself causes these differences. Age may instead operate as a proxy for business experience, market position, network embeddedness, or length of time operating within the institutional environment.

The sectoral finding for H_2 is more cautious. Trade & Import respondents reported the highest average number of identified barriers (M = 2.00), and all four respondents in this sector reported two coded barriers. Agro & Food had the lowest mean (M = 1.00). The Kruskal–Wallis result, $H(4) = 10.559$, $p = .032$, is statistically significant at the conventional 5% level, but it does

not survive the Bonferroni-adjusted threshold. The result should therefore be treated as exploratory evidence of possible sectoral differentiation rather than as robust confirmation of H_2.

The non-significant result for H_1 suggests that age groups do not differ systematically in the overall number of institutional barriers identified per respondent. Young respondents had a mean of 1.125 barriers, Middle respondents 1.538, and Senior respondents 1.200. Neither ANOVA nor Kruskal–Wallis detected a statistically significant difference. This does not imply that the institutional experiences of the three groups are identical. Rather, the results suggest that differences may be expressed more through the type of barrier encountered than through the total number of barrier categories reported.

Taken together, the results provide qualified support for the concept of formal systemness developed in this study. Entrepreneurs' accounts do not consistently point to the absence of formal rules. Instead, they frequently describe situations in which formal rules coexist with selective enforcement, informal demands, network-mediated access, or uncertainty concerning how rules will operate in practice. The empirical evidence therefore suggests that the institutional problem may lie less in formal institutional completeness than in the consistency, predictability, and accountability of institutional implementation.

The findings also contribute to the post-Soviet institutional literature by showing how formal and informal institutional mechanisms can coexist within contemporary entrepreneurial environments. The patterns identified in the interviews are broadly compatible with the literature on informal institutions, political capitalism, and institutional incongruence, while the present study adds a micro-level perspective by examining how entrepreneurs themselves describe these mechanisms. At the same time, the results should not be interpreted as evidence that all Azerbaijani entrepreneurs experience institutional barriers in the same manner. The sample is limited to 26 entrepreneurs in Baku and was constructed through snowball sampling.

An important methodological implication concerns the sensitivity of quantitative results to coding decisions. The corrected matrix produces 35 total barrier codes across the eight themes, with T3 accounting for nine cases, T6 and T7 for eight cases each, and the remaining themes for smaller numbers of cases. Because the statistical analyses are directly derived from the binary coding matrix, any change in coding can alter both prevalence estimates and inferential statistics. The conservative coding procedure is therefore an important component of the study's

transparency, but it also reinforces the need for independent coding and inter-rater reliability in future research.

8. Conclusion

This study examined the institutional barriers experienced by entrepreneurs in Baku and explored whether the prevalence and distribution of these barriers vary across age groups and business sectors. Four main findings emerge from the corrected analysis of 26 coded interviews.

Finding 1: No significant age-group difference in overall barrier count. The total number of identified barriers did not differ significantly across Young, Middle, and Senior respondents. The one-way ANOVA was non-significant, $F(2,23) = 1.630$, $p = .218$, and the Kruskal–Wallis test produced a similar result, $H(2) = 3.023$, $p = .221$. Thus, the data do not support a systematic age-group difference in the overall number of barrier categories reported.

Finding 2: Exploratory evidence of sectoral differences in total barrier count. The Kruskal–Wallis test indicated differences across business sectors, $H(4) = 10.559$, $p = .032$. Trade & Import respondents reported the highest average number of identified barriers ($M = 2.00$), while Agro & Food respondents reported the lowest ($M = 1.00$). However, the result does not survive the Bonferroni-adjusted threshold of $\alpha' = .0125$ and should therefore be treated as exploratory rather than confirmatory evidence.

Finding 3: Strong sectoral concentration of corruption and bribery. T3 was reported by 100.0% of Hospitality & Services respondents, compared with 0.0% in Agro & Food and Trade & Import. The Pearson chi-square test was significant, $\chi^2(4) = 16.427$, $p = .0025$, with a large effect size ($V = .795$). The Fisher–Freeman–Halton exact test also indicated a significant association ($p \approx .0014$). The finding remains below the Bonferroni-adjusted threshold, although the small expected cell counts require cautious interpretation.

Finding 4: Strong age-group association with Business Culture Deficit. T7 was reported by 75.0% of young respondents, compared with 7.7% of Middle respondents and 20.0% of Senior respondents. The association was statistically significant, $\chi^2(2) = 10.869$, $p = .0044$, with a large effect size ($V = .647$). The Fisher–Freeman–Halton exact test also remained significant ($p \approx .0051$). Thus, unlike the previous analysis, H_4 is supported in the corrected dataset and remains significant after the Bonferroni adjustment.

Overall interpretation: Formal systemness as an overarching condition. The findings suggest that institutional constraints are not adequately captured by the simple quantity of barriers

reported by entrepreneurs. Although overall barrier counts do not differ significantly by age and the sector effect on total barrier count is only exploratory, the composition of barriers varies substantially. Corruption is strongly concentrated in Hospitality & Services, while Business Culture Deficit is concentrated among younger respondents. These patterns are consistent with the study's concept of formal systemness, in which formally established institutional arrangements coexist with uneven, selective, or informally mediated implementation.

Policy implications. The findings suggest that policy attention should focus not only on the formal existence of pro-business legislation but also on the predictability, transparency, and accountability of its implementation. Priorities include strengthening mechanisms for timely resolution of commercial disputes, improving independent oversight of public procurement, reducing opportunities for discretionary administrative intervention, and establishing safe and anonymous channels for reporting informal demands. For Hospitality & Services, where T3 was identified by all respondents in the sample, targeted measures to reduce high-contact regulatory vulnerabilities may be particularly relevant.

Limitations and future research. The findings remain exploratory because of the non-probability sample (N = 26), the concentration of respondents in Baku, single-researcher coding, and small expected cell counts in the contingency-table analyses. Future studies should replicate the eight-category coding framework with larger probability-based samples, include independent coders and inter-rater reliability statistics, extend data collection beyond Baku, and use exact statistical procedures where expected frequencies are small. A larger survey based on the eight barrier categories could also test whether the sectoral and age-group patterns identified here persist in the broader Azerbaijani entrepreneurial population.

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Ethics declarations

Ethical approval

This study was an independent academic study conducted in 2024 and was not conducted on behalf of or under the sponsorship of Baku State University. No formal institutional ethics committee approval was obtained for this study. The research involved adult participants and consisted of voluntary qualitative interviews concerning their experiences and perceptions of the business environment. No intervention was conducted, and no personally identifying information is reported in the manuscript. The study was conducted in accordance with the applicable legal and ethical requirements governing the processing and protection of personal data in the Republic of Azerbaijan.

Informed consent

Oral informed consent was obtained from all participants before the interviews. Participants were informed about the academic purpose of the study, the voluntary nature of their participation, their right not to answer any question, and the confidential and anonymized treatment of the information they provided. Participants also consented to the interviews being audio-recorded for research purposes. No participant names or other direct identifying information are reported in the manuscript.

Accordance with guidelines and regulations

This study was conducted in accordance with the applicable ethical principles and regulations governing research involving human participants and the processing and protection of personal data in the Republic of Azerbaijan, including the Republic of Azerbaijan's Law on Personal Data (Law No. 998-IIIQ), particularly the provisions concerning the processing of personal data for scientific and statistical purposes subject to anonymization. The study followed the principles of voluntary participation, informed consent, confidentiality, privacy protection, and anonymization.

Data Availability

The anonymized 26 × 8 binary coding matrix underlying the thematic frequencies and statistical analyses, together with the variable definitions, coding framework, and relevant supporting documentation, has been provided as supplementary material. The underlying interview recordings

and full transcripts are not publicly available because they contain potentially sensitive information and could compromise the privacy and confidentiality of research participants. These materials may be made available by the corresponding author upon reasonable request, subject to appropriate confidentiality and ethical considerations.