

# Beyond Market Failure: Business Support Organizations, Institutional Intermediation, and Gendered Futures of Entrepreneurship

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**Abstract:** *This study develops a meso-institutional analysis of Business Support Organizations (BSOs) within Azerbaijan's post-2015 economic restructuring. While entrepreneurship policy is traditionally framed as market-failure correction, such perspectives often overlook the structural constraints inherent in resource-dependent transition economies. Drawing on second-best equilibrium theory, institutional economics, and collective action theory, this paper conceptualizes business associations not as first-best corrective mechanisms, but as institutional intermediaries stabilizing structurally constrained environments. The 2014–2015 oil price collapse, where hydrocarbons accounted for 95% of export revenues, triggered a 3.06% GDP contraction in 2016, marking a critical structural inflection point. In response, the Azerbaijani government's 2016 Strategic Roadmaps repositioned SME development as a national priority, embedding business associations within formal public-private dialogue (PPD) and governance structures. This transformed their role from consultative entities into operational intermediaries. Utilizing qualitative institutional mapping and macroeconomic evidence (2016–2024), the findings indicate that associations exerted measurable influence in technical coordination domains, such as export facilitation, EU PGI certification in agriculture, and regulatory simplification. Conversely, redistributive domains like fiscal policy remained centralized. The study observes that SME growth and increased financial access for women-led enterprises correspond temporally with this institutionalized participation..*

**Keywords:** *Business Support Organizations; Institutional Intermediaries; Gender and Economic Inclusion; Public-Private Dialogue; SME Development; Transition Economies*

## 1. Introduction

It is commonly acknowledged that entrepreneurship is a key driver of structural change and economic diversification (Audretsch & Belitski, 2021). Micro, small, and medium-sized businesses (MSMEs) are positioned as catalysts for innovation, job creation, and the growth of the non-resource sector in transition economies (Ayyagari et al., 2007). The empirical results of SME-centered policy, however, differ greatly, especially in resource-dependent contexts where structural restrictions, institutional concentration, and macroeconomic instability limit firm-level dynamism and inclusive development outcomes.

These constraints are multidimensional: limited access to finance (Beck & Demirgüç-Kunt, 2006), fragmented market coordination, weak institutional trust networks, uneven participation in formal economic governance structures, and coordination failures between state and market actors. In such environments, entrepreneurship-led growth does not automatically translate into broad-based diversification or equitable economic futures. The question becomes not merely how to support individual enterprises but how to design institutional architectures that reduce coordination failures, mitigate information asymmetries, and stabilize interactions across economic actors.

Business Support Organizations (BSOs) and business associations represent one such institutional mechanism. Traditionally encompassing SME development agencies, incubators, export promotion agencies, and advisory bodies, BSOs aim to mitigate coordination failures and reduce transaction costs by strengthening firm capabilities and facilitating market integration (Piza, 2016). Yet their role is frequently misunderstood. They are often evaluated solely in terms of service provision training sessions delivered, advisory hours provided or export missions organized without considering their systemic governance function. Recent scholarship suggests that BSO effectiveness depends not only on the volume of services delivered but on institutional design, governance quality, and integration within broader policy ecosystems (Cravo & Piza, 2019).

In post-transition economies, these dynamics become more complex. Weak associational traditions, centralized governance legacies, and limited horizontal trust among firms constrain the spontaneous emergence of collective action mechanisms (Estrin & Prevezer, 2011). Under such conditions, business associations and sectoral unions may function as critical meso-level intermediaries linking firms to policy processes, coordinating market upgrading strategies, and stabilizing second-best equilibrium conditions (Lipsey & Lancaster, 1956).

Azerbaijan offers a compelling case for examining the deeper institutional role of associations. Between 2005 and 2014, the country experienced rapid growth fueled primarily by hydrocarbon exports (Humbatova et al., 2023). Oil and gas revenues financed large-scale infrastructure, urban modernization, and fiscal expansion. However, this model also generated structural concentration. Non-oil exports remained limited in diversification and sophistication, while SME integration into global value chains was modest.

The global oil price collapse of 2014–2015 represented a structural rupture (Sachs & Warner, 2001). The decline in global energy prices reduced fiscal revenues, pressured the currency, and exposed vulnerabilities in the banking system. GDP contracted by 3.06 percent in 2016, marking Azerbaijan's first recession in two decades. The crisis revealed that diversification required not only capital reallocation but institutional redesign.

The Strategic Roadmaps adopted in December 2016 articulated a new development trajectory (Government of the Republic of Azerbaijan, 2016). Diversification, SME development, and export promotion were elevated to strategic priority. Crucially, these Roadmaps positioned business associations not as peripheral civil society actors or lobbying entities but as formal participants in public-private dialogue (PPD) structures, regulatory review processes, and sectoral coordination initiatives.

## **2. Historical and Institutional Context (2000–2014)**

During the oil boom period, Azerbaijan's GDP growth rates were among the highest in the post-Soviet region (Humbatova et al., 2023; Khalil & Ibrahimov, 2023). Energy exports accounted for approximately 95 percent of total exports and more than 60 percent of fiscal revenues. The State Oil Fund of the Republic of Azerbaijan (SOFAZ, 2023) accumulated substantial reserves, contributing to macroeconomic stability and financing large-scale public investment in infrastructure, urban modernization, and social programs.

Structural diversification, however, significantly trailed aggregate growth metrics. Due to limited technological advancement and poor integration into global value chains, manufacturing has not yet reached its full potential (Williamson, 2000). Dispersed landholdings, poor cold chain and storage infrastructure, uneven quality standards, and restricted access to export markets were all ongoing obstacles to agricultural output. SMEs operated in a regulatory environment that was administratively difficult and inconsistently implemented across industries and regions, albeit gradually improving via successive reforms.

Institutionally, business associations existed but were not deeply embedded in systematic policymaking processes. The National Confederation of Entrepreneurs (ASK), established in 2001, served as an umbrella organization representing business interests across sectors. Yet engagement with government structures was predominantly consultative and episodic rather than institutionalized within formal governance mechanisms (Doner & Schneider, 2000). Public-private dialogue (PPD) structures were ad hoc, lacking regularized feedback loops linking firm-level experience to policy adjustment and regulatory refinement.

## **3. Literature Review and Theoretical Framework**

### *3.1 Business Support Organizations in Development Policy*

Business Support Organizations (BSOs) have become central instruments in entrepreneurship and SME development strategies worldwide (Hajiyeva et al., 2024). The scholarly literature on BSOs spans multiple intellectual traditions yet remains analytically fragmented in its conceptualization of their systemic role.

Traditional development policy frameworks situate BSOs within a market-failure paradigm. In this view, SMEs face structural disadvantages arising from information asymmetries, capital market imperfections, scale inefficiencies, and coordination failures that prevent efficient resource allocation (Beck & Demirgüç-Kunt, 2006). Business support institutions are therefore designed to correct these distortions through training programs, advisory services, export promotion, technology transfer, and facilitation of credit access. Through such interventions, BSOs aim to enhance firm competitiveness and integration into domestic and international markets.

However, empirical assessments of BSO effectiveness produce notably mixed results. While some evaluations report improvements in firm survival rates, export participation, and managerial capability development (Cravo & Piza, 2019), others find limited long-term productivity impact or demonstrate that benefits accrue disproportionately to already advantaged enterprises (Dvouletý et al., 2021). These variations are frequently attributed to differences in institutional governance quality, targeting strategies, ecosystem integration and the broader policy environment rather than simply service scale or program design.

Recent scholarship increasingly emphasizes ecosystem perspectives that reconceptualize BSOs as embedded components within complex adaptive systems (Stam & van de Ven, 2021). Entrepreneurship ecosystems consist of interconnected actors—firms, financial institutions, regulatory agencies, universities, and intermediary organizations—whose interactions shape entrepreneurial outcomes through network effects, knowledge spillovers, and institutional complementarities. Within such systems, associations do not merely deliver discrete services; they mediate relationships, aggregate dispersed information, coordinate collective upgrading processes, and stabilize expectations across market participants.

### *3.2. The General Theory of Second Best and Institutional Constraints*

The General Theory of Second Best (Lipsey & Lancaster, 1956) provides a critical analytical foundation for understanding associational development in structurally constrained economies. The theory posits that in economic systems characterized by multiple simultaneous distortions, removing a single distortion does not necessarily improve overall welfare. When first-best conditions are unattainable due to binding constraints, partial reforms may generate suboptimal or even counterintuitive effects depending on the interaction of remaining distortions.

In Azerbaijan's post-2015 institutional reforms, macroeconomic policy authority and fiscal resource allocation remained concentrated within central government structures (Government of the Republic of Azerbaijan, 2016). Business associations were embedded primarily in regulatory review processes, export facilitation mechanisms, and sectoral coordination initiatives rather than in monetary policy or large-scale industrial policy formulation. This institutional configuration is consistent with second-best equilibrium logic (Rodrik, 2008): incremental institutional adjustment within constrained political-economic structures, focusing interventions where associational intermediation can meaningfully reduce coordination costs without requiring fundamental redistribution of policy authority.

### *3.3. Institutional Intermediation and Meso-Level Governance*

Institutional economics further clarifies the role of business associations as intermediaries operating between state structures and market actors. North (1990) conceptualizes institutions as comprising formal rules (laws, regulations, contracts), informal norms (conventions, codes of conduct), and enforcement mechanisms that collectively structure economic interaction and reduce transaction costs. Organizations both operate within these rule systems and actively shape their evolution through collective action and norm diffusion.

Meso-level governance theory (McDermott et al., 2009) highlights the importance of such intermediary institutions in stabilizing interactions between macro-level policy frameworks and

micro-level firm behavior. Without effective intermediation, regulatory reforms may fail due to implementation gaps, informational asymmetries between policymakers and firms, or misalignment between policy design and operational realities.

#### *3.4. Business Associations as Collective Action Platforms*

Collective action theory (Olson, 1965) provides critical insight into the internal organizational dynamics of business associations. Because advocacy efforts produce collective goods that are non-excludable improved regulations benefit all sector participants regardless of association membership firms face incentives to free ride on others' contributions.

Empirical research demonstrates that associations combining advocacy with operational service delivery sustain more stable membership bases and financial sustainability than organizations focused exclusively on lobbying (Perez-Aleman, 2003). Tangible member services generate recurring value propositions that maintain engagement even when advocacy outcomes are uncertain or delayed.

#### *3.5. State-Led Associational Ecosystems in Transition Economies*

In post-transition contexts, the spontaneous emergence of strong, member-driven business associations is often constrained by historical legacies of centralized governance and weak horizontal trust among economic actors (Estrin & Prevezer, 2011). During planned economy periods, business organizations typically functioned as administrative transmission mechanisms rather than autonomous collective action platforms.

Azerbaijan's post-2015 reforms illustrate a coordinated ecosystem-building approach in which associations were systematically embedded within formal governance mechanisms rather than operating as peripheral civil society actors (Government of the Republic of Azerbaijan, 2016). The Strategic Roadmaps explicitly assigned associations operational roles in sector upgrading strategies, incorporated association representatives into SME Agency collegial governance structures, and linked institutional development targets to measurable economic outcomes.

#### *3.6. Gendered Access and Structural Inequalities*

Institutional structures frequently interact with gendered patterns of asset distribution, social norms, and economic opportunity in ways that reproduce or amplify existing inequalities (Brush et al., 2009). Credit systems relying heavily on collateral requirements may systematically disadvantage women entrepreneurs in contexts where property ownership, land titles, and asset registration are unevenly distributed by gender (Marlow & Patton, 2005).

In Azerbaijan's post-2016 period, women's entrepreneurship associations participated in consultative processes that contributed to preferential lending program adjustments and targeted support mechanisms (World Bank, 2020). The observed increase in women's participation in SME lending suggests incremental mitigation of structural asymmetry through institutional intermediation. However, persistent socio-economic disparities across regions, sectors, and household structures indicate that associational intermediation functions within structural limits rather than eliminating inequality comprehensively.

#### **4. Conceptual Framework and Research Propositions**

Integrating the theoretical strands discussed above, this study conceptualizes business associations as meso-level institutional intermediaries operating within second-best environments characteristic of resource-dependent transition economies (Cravo & Piza, 2019). Their effectiveness is neither universal nor transformative, but rather domain-specific and contingent upon two critical factors: the degree of governance embedding within formal policy structures, and the operational capacity to deliver tangible member services alongside representational functions.

This conceptualization departs from conventional approaches that evaluate business support solely through service delivery metrics or treat associations as peripheral lobbying entities. Instead, it positions associations as components of institutional architecture that shape coordination mechanisms, stabilize expectations, and mediate information asymmetries between state agencies and dispersed firm populations. First, associational effectiveness exhibits domain-specific variation, achieving the highest impact in technical coordination areas while remaining peripheral in redistributive policy domains (Doner & Schneider, 2000). Technical coordination encompasses regulatory simplification, quality standards harmonization, certification processes, and export documentation facilitation areas where information aggregation and procedural alignment generate measurable efficiency gains.

Second, associations that combine advocacy functions with operational service delivery demonstrate superior organizational sustainability and measurable impact compared to purely representational entities (Perez-Aleman, 2003). This proposition draws on collective action theory's insight regarding selective incentives (Olson, M. 1965). Third, in transition economies characterized by weak spontaneous collective action traditions, state-facilitated associational ecosystem building can accelerate coordination mechanisms that would otherwise emerge slowly or incompletely (Estrin & Prevezer, 2011)

Fourth, institutionalized public-private dialogue mechanisms improve regulatory predictability and reduce compliance uncertainty by creating structured feedback channels between policymakers and firm populations (OECD, 2021). Fifth, gender-sensitive associational advocacy can contribute to incremental mitigation of structural financing asymmetries when embedded within broader institutional adjustment processes (Marlow & Patton, 2005; Brush et al., 2009).

#### **5. Research Design and Methodology**

This study adopts a qualitative-dominant mixed-method research design combining institutional process analysis with descriptive macroeconomic evaluation. The methodological approach reflects the structural and governance-oriented nature of the research questions, which center on institutional transformation processes rather than discrete intervention impacts amenable to experimental or quasi-experimental evaluation (Dvouletý et al., 2021).

##### *5.1 Case Selection and Analytical Justification*

Azerbaijan is treated as a structured single-case study situated within the broader analytical category of resource-dependent transition economies. The case offers several characteristics that enhance analytical leverage for examining state-led associational ecosystem building under

second-best conditions. First, Azerbaijan experienced a clearly identifiable structural shock through the 2014–2015 global oil price collapse (Sachs & Warner, 2001). Second, the government adopted comprehensive formal strategic reform instruments through the Strategic Roadmaps framework in December 2016 (Government of the Republic of Azerbaijan, 2016).

### *5.2 Data Sources and Analytical Materials*

The analysis integrates multiple documentaries and statistical sources. Primary policy documents include the Strategic Roadmaps adopted in December 2016 (Government of the Republic of Azerbaijan, 2016). Implementation progress reports issued by the SME Development Agency (KOBIA, 2024) provide operational detail on institutional mechanisms, program deployment, and coordination activities. Annual reports and statistical bulletins from the Central Bank of Azerbaijan (Central Bank of the Republic of Azerbaijan, 2023) supply macroeconomic context. International comparative data drawn from World Development Indicators (World Bank, 2023) and World Bank Doing Business reports situate Azerbaijan's trajectory within regional and global contexts.

### *5.3. Analytical Framework and Proposition Evaluation*

Each proposition developed in the conceptual framework is evaluated through domain-specific alignment assessment rather than aggregate impact attribution. Technical coordination domains are examined through regulatory simplification initiatives, quality certification processes such as the EU PGI designation for pomegranates (Goedhuys & Sleuwaegen, 2013), and export documentation facilitation mechanisms. Gendered financial access is evaluated through trends in women's participation in SME lending programs (World Bank, 2020). The adoption of the Strategic Roadmaps in December 2016 (Government of the Republic of Azerbaijan, 2016) marked a systemic reconfiguration of Azerbaijan's SME governance structure, transforming fragmented sectoral programs into coordinated institutional architecture with embedded associational participation. Prior to this reform, business support initiatives were distributed across multiple ministries and agencies with limited horizontal coordination mechanisms or systematic feedback channels connecting firm-level experience to policy adjustment processes.

The SME Development Agency (KOBIA, 2024) emerged as the primary coordinating institution for SME policy implementation, consolidating functions previously dispersed across agencies while developing collegial governance mechanisms incorporating business association representatives. Beyond delivering financial subsidies and advisory services directly to firms, KOBIA established structured consultation processes through which associations participate in regulatory review discussions, program evaluation processes, sectoral bottleneck identification, and policy implementation feedback loops.

Formalization of public-private dialogue transformed episodic consultation into a systematic institutional mechanism with defined membership, regular convening schedules, documented agendas, and follow-up accountability structures (OECD, 2021). Prior to reform, government-business engagement occurred through irregular meetings convened at executive discretion without standardized procedures or outcome documentation.

Women's entrepreneurship associations evolved from informal networking platforms into formal policy intermediaries embedded within PPD structures. These associations documented gender-specific financing constraints arising from collateral requirements tied to property ownership

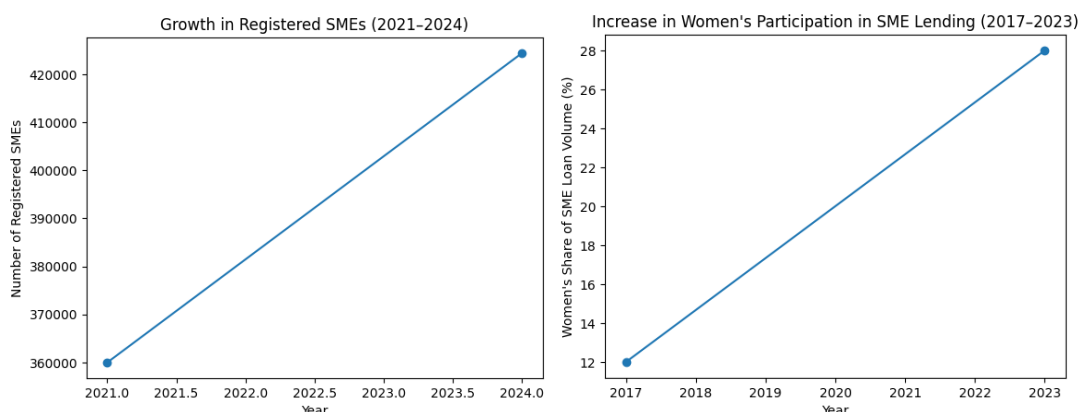
patterns<sup>7</sup> and contributed to institutional adjustments in preferential lending programs, including reduced collateral thresholds, introduction of guaranteed schemes, and expansion of advisory support (World Bank, 2020).

## 6. Empirical Developments and Domain-Specific Effectiveness Assessment

### 6.1. SME Population Dynamics and Regulatory Environment

Administrative data indicate sustained growth in registered SME populations during the consolidation phase following initial institutional reforms. Between 2021 and 2024, officially registered SMEs increased from approximately 360,000 to 424,437 enterprises (KOBIA, 2024), representing roughly 18 percent cumulative growth over the three years. This expansion reflects multiple contributing factors operating simultaneously rather than any single intervention effect.

Post-pandemic economic normalization following COVID-19 disruptions created improved demand conditions and reduced uncertainty, encouraging entrepreneurial entry. Regulatory simplification measures reduce the administrative procedures required for business registration, with the digitization of registration processes lowering time costs and bureaucratic complexity (OECD, 219). Structured PPD mechanisms created channels through which associations identified redundant licensing requirements and overlapping permit systems, feeding into iterative regulatory refinement processes.



**Figure 1.** Growth in Registered SMEs (2021-2024) and Increase in Women's Participation in SME Lending (2017-2023)

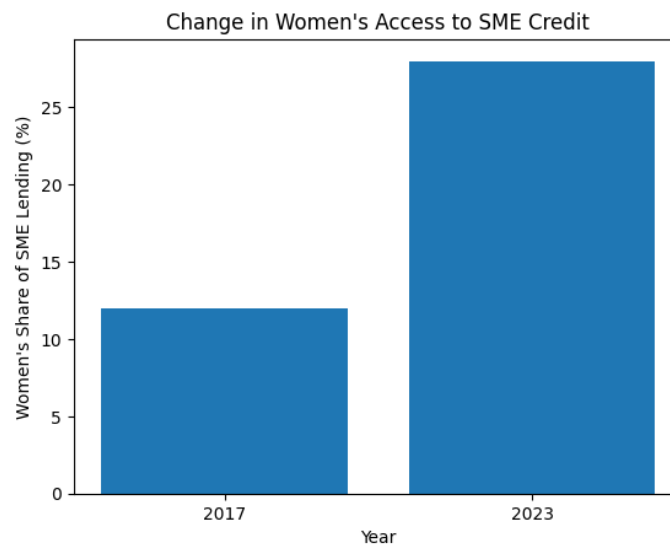
**Source:** SMBDA, 2024

### 6.2. Gendered Access to Finance and Institutional Adjustment

Prior to institutional reforms, SME lending practices relied heavily on collateral structures tied directly to immovable property ownership, reflecting standard risk management approaches in financial systems characterized by information asymmetries and limited credit history data (Stiglitz & Weiss, 1981). In contexts where property ownership and land title registration exhibit systematic gender disparities, collateral-dependent lending generates structural financing asymmetries that disadvantage women entrepreneurs regardless of business plan quality (Marlow & Patton, 2005).

Lending data indicate measurable shifts in women's participation in SME credit markets during the post-reform period. Between 2017 and 2023, the share of total SME loan volumes extended to women-led enterprises increased from approximately 12 percent to around 28 percent of

aggregate SME lending (World Bank, 2020). This trend substantially exceeds the pace of change observed in preceding years and aligns temporally with policy adjustments advocated through women's entrepreneurship associations. To situate Azerbaijan's state-led associational ecosystem building within broader regional patterns, comparative reference to neighboring post-Soviet transition economies illuminates distinct institutional pathway variations shaped by divergent political economy configurations, resource endowments, and reform strategies (Estrin & Prevezer, 2011; Schneider, 2004).



**Figure 2.** Change in Women's Access to SME Credit

**Source:** SMBDA, 2024

Kazakhstan pursues a state-dominant industrial policy model characterized by substantial reliance on centralized development banking institutions, large-scale sectoral investment programs, and direct state participation in strategic enterprises (Schneider, 2004). Georgia adopted an aggressive liberal deregulatory model emphasizing radical tax simplification, comprehensive business licensing elimination, one-stop registration systems, and property rights strengthening (OECD, 2019). Azerbaijan's hybrid approach occupies an intermediate position between Kazakhstan's centralized industrial dirigisme and Georgia's liberal minimalist framework.

Despite measurable coordination improvements documented across multiple domains, structural limits on associational influence remain clearly evident, reinforcing the second-best equilibrium interpretation<sup>1</sup> that frames this analysis. These limits are not implementation failures or temporary constraints pending further reform, but rather constitute inherent boundaries reflecting political economy configurations characteristic of centralized transition economies.

Without systematic associational participation in decision-making processes, fiscal policy authority including the determination of tax rates, budget allocation priorities, design of subsidy programs, and distribution of development fund resources remains concentrated within executive and ministerial structures (Rodrik, 2008). Similarly, associational negotiation does not apply to macroeconomic stabilisation policy, which includes monetary policy tools, currency rate management, inflation targeting frameworks, and balance of payments adjustment procedures (Central Bank of the Republic of Azerbaijan, 2023).

Instead of being entirely self-sustaining through member fees or the provision of commercial

services, financial sustainability trajectories continue to rely in part on state-supported programs, grant financing, and project-based resources (Perez-Aleman, 2003). Long-term autonomy necessitates a progressive shift toward member-driven financial sustainability, even while hybrid finance methods can offer stability during organizational development phases.

## 6. Conclusion

This study analyzes the evolving role of Business Support Organizations and business associations in Azerbaijan's post-2015 economic transformation. It conceptualizes these organizations as meso-level intermediaries operating in a resource-dependent transition economy seeking diversification under centralized governance. Moving beyond technical evaluations of business support programs, the research examines how associations contribute to broader ecosystem coordination in a context marked by limited spontaneous collective action and persistent market distortions. Following the adoption of the Strategic Roadmaps in 2016, Azerbaijan shifted from fragmented consultation toward more structured and institutionalized public-private dialogue. Business associations including national entrepreneur confederations, sector-specific agricultural exporter groups, and women's entrepreneurship networks were formally integrated into governance processes. The findings show that associations were most effective in technical and coordination-oriented domains, such as regulatory simplification, quality certification, export facilitation, and incorporating sector-specific expertise into policy design. However, their influence remained limited in redistributive areas like fiscal incentives, where decision-making authority remains highly centralized. The study highlights three main contributions. First, it positions business associations as core components of meso-level ecosystem infrastructure. Second, it demonstrates that state-led associational development can accelerate ecosystem formation where collective action traditions are weak. Third, it underscores that delivering tangible value is essential for associational sustainability. Overall, business associations play a meaningful but complementary role in Azerbaijan's diversification strategy.

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