

ARTICLES

AN EVALUATION ON FINANCIAL PROBLEMS OF SMALL AND MEDIUM SIZED ENTERPRISES (SMSEs) IN TURKEY*AUTHOR***Memiş Karaer**

Banking and Insurance Department, Taskent Vocational School, Selcuk University, 42960 Konya, Turkey. E-mail: mkaraer@selcuk.edu.tr

UDK: 911.3:338+336 J(4-672EU:560)

ABSTRACT

An evaluation on financial problems of small and medium sized enterprises (SMSEs) in Turkey

Turkey also consists of a majority of businesses are small and medium-sized organizations that we define as Kobi. But despite their large numbers, their contribution to the country's economy is not so much. The main reasons are financial problems, financial management problems, productivity problems. The fact that they are not able to follow the developments in the world of finance, the lack of auto financing facilities, the collateral problems they encounter in credit purchases, the low credit volumes, and the high credit costs, the inability to enter the capital market, and other similar problems prevent SMEs from having strong financial structures and reduce their competitiveness. Based on the fact that SMEs that cannot overcome their financial problems in the globalizing world will not survive in the national/international intensive competition environment, the financial conditions of our country's SMEs should be analyzed well, constructive, long-term, and solutions to increase efficiency should be produced.

KEY WORDS

Financial Problems of SMES. Financing Policies. Productivity.

1. Introduction and methodology

SMSEs undertake an important function not only in economic life but also in social life. Since SMSEs spread over a large area in Turkey, they can have considerable importance in eliminating regional developedness differences, spreading property over a large area, creating employment possibilities, and supporting democratic structure. Property passions of SMSE entrepreneurs, their desires to become successful, their courageous steps, and their desires to invest can also be viewed among the main mechanisms of political stability (Akgemci, 2001).

No matter how different their economic structures are, in both developed and developing countries, specific importance is given to Small and Medium Sized Enterprises (SMSEs). Also, with the effect of globalization, at present, in which competition and change are intensively experienced, SMSEs, which provide a large part of production and employment and comprise of more than 98% of a total of enterprises, are supported and encouraged by governments for the various socioeconomic reasons. Especially the USA, Japan, and countries of European Union view SMSEs as an instrument in increasing socioeconomic developedness level. SMSEs, which also occupy an important place in the Turkish economy, are obliged to be ready for the increasing international competition in the EU access process that is increasingly globalizing. These enterprises, which can provide a competitive advantage, evaluating flexibility and compliance abilities their small sizes provide for themselves, will be able to survive by only developing. The enterprises, which cannot provide this, due to their problems that are increasingly growing, will be obliged to withdraw from commercial life completely. These enterprises have many problems with surviving and developing themselves. One of the most important ones of these problems is, of course, financing problems (Yılmaz, 2006). With this study, it was aimed to examine financing problem SMSEs being active in Turkey are experiencing and evaluate alternatives associated with the solution to this problem.

2. SMSEs in Turkey and the world

2.1 SMSEs in Turkey

For SMSEs in Turkey, in definition made according to regulations, the enterprises, which employ less than 10 people, and whose annual return does not exceed YTL 1 million are defined as “micro enterprises”; which employ less than 50 people and whose annual net sale return does not exceed YTL 5 million, as “small enterprises”, and which employ less than 250 people and whose annual sale return does not exceed YTL 25 million “medium sized enterprises”.

Also, according to regulations, while the quality of SMSE is identified, it was stated that the enterprises, which lost and exceeded their considered criteria between two accounts periods, would modify their classes (Karacibioglu, 2007).

As a result of these studies, in the Official Journal dated November 4, 2012, and numbered 28457, "Regulations Associated with Amending Regulations about the Definition, Qualities, and Classifications of Small and Medium Sized Enterprises" were published. With the amendment of regulations. The economic units or enterprises, classified as a micro enterprise, small enterprise, and medium sized enterprise, which employ less than 250 people and whose annual net sale return and any of their financial balance sheets do not exceed TL 40 million, were defined as SMSE. According to the scales, the criteria of the definitions of national SMSE take place in Table 1 (Uçkun, 2009).

Table 1: Definition of SMSE in Turkey.

Scale	The Number of Employees	Annual Return (TL)	Annual Balance Sheet (TL)
Micro Enterprise	< 10	< 1 Million	< 1 Million
Small Enterprise	10 to 49	< 8 Million	< 8 Million
Medium Sized Enterprise	50 to 249	< 40 Million	< 40 Million

- SMSEs consist of 99.9% of a total of enterprises in Turkey.
- The share of SMSEs in total sales of goods and services is 65.5%.
- The share of SMSEs in production value is 56.2%.
- The share of SMSEs in gross investment associated with tangible goods is 53.2%.
- The share of SMSEs in the number of employees is 75.8%.
- The share of SMSEs in a total of added value is 55.%.
- The share of SMSEs in a total of sales is 65.5%.
- The share of SMSEs in imports is 39.9%.
- The share of SMSEs in investment is 50%.
- The share of SMSEs in export is 59.2%.
- The share of SMSEs in a total of credits in the banking sector is 26%.
- The distribution of SMSEs according to the groups of the main sector is as follows: Agriculture, 9%, Industry, 12.5%, Trade, 51.4 %, Other, 27.1%.

It shows a total of 1881433 business activities in Turkey. The count includes all establishments operating in non-agricultural sectors with a tax registry at the Ministry of Finance. 6484168 people are employed in these establishments. Sectors where businesses are concentrated, trade, brokerage, repairs, transportation, storage, communication, manufacturing industry, hotels and

restaurants; other social, community and personal service activities and real estate, leasing, and business activities. 94.6% of the total enterprises operate in these sectors. In the manufacturing industry, enterprises, respectively, textile, garment, skin; metal goods industry; furniture; food, drink, tobacco; wood and cork products and machinery and equipment sectors. The average size of enterprises is 3-4 people (Yılmaz, 2006).

Within the total number of enterprises, the share of micro-scale firms employing less than 10 workers is 96.32%, the share of small-scale firms employing 10-49 workers is 3.09%, and the share of medium-sized firms employing 50-250 workers is 0.48%. In this regard, 99.89% of the enterprises in Turkey enters the EU SME definition compatible. It is seen that a significant portion of SMEs is micro-scale companies.

2.2 SMSEs in European Union

EU developed a new definition of SMSEs in such a way that it did not cause any confusion on either national or Union basis. In the framework of Council decision, SMSE definition, prominently introduced, includes the measures consisting of the criteria of the number of employees, size of balance sheet, and independency (Independent enterprises are enterprises, 25% or more of whose capitals or stocks are not undertaken by an enterprise or whose capital do not consist of enterprises remaining out of the definition of Small and Medium Sized Enterprise).

Micro Sized Enterprise is defined as enterprises employing less than 10 workers and having independency criteria; Small Sized Enterprises, as enterprises which employ less than 50 workers, whose annual return does not exceed EUR 5 Million, whose the value of its balance sheet is less than EUR 2 Million, and which have independency criteria; and Medium Sized Enterprises, as enterprises which employ 50 to 100 workers, whose annual return is less than EUR 20 Million, whose the value of its balance sheet does not over EUR 10 Million, and which have independency criteria (<http://danismend.com>).

EU SMSE criteria, which have been used since 2005 by recommendation decision, prepared by European Commission and published in the EU official journal dated May 20, 2003, take place in Table 2 (Uçkun, 2009).

Table 2: Definition of SMSE in the European Union.

Scale	The Number of Employees	Annual Return (Euro)	Annual Balance Sheet (Euro)
Micro	< 10	< 2 Million	< 2 Million
Small	10 to 49	< 10 Million	< 10 Million
Medium	50 to 249	< 50 Million	< 43 Million

The total number of enterprises in the European Union is 16,350,000. 99.78 percent of these enterprises are considered as SMES. The total employment provided within these businesses is 101,350,000 people; 71.48% of this employment is in SMES. Within these figures, the average employment is 6 workers per enterprise. SMSE labor productivity in the European Union is EUR 45000 per worker. The rate of labor cost in value added created in SMSE is 59 percent Numerical Distribution of SMSEs in the European Union.

The number of SMSEs, the number of employees, and average employment in the European Union show that micro-scale enterprises are in the majority in the European Union (Table 3).

Table 3: Number of SMSEs in the European Union.

	Scale	Number of Businesses	Number Of Employees	Average Employment
Micro	0-9	15.210.000	31.450.000	2,07
Small	10 - 19	605.000	8.250.000	13,64
	20 - 49	370.000	12.250.000	33,11
Middle	50 - 99	70.000	4.950.000	70,71
	100 - 249	60.000	10.400.000	173,33
	250 - 499	15.000	5.100.000	340,00
Big	500 (+)	20.000	28.900.000	1445,00
Total		16.350.000	101.300.000	

Belgium is the country with the highest SMSE labor productivity in the European Union. SMSE labor productivity shows the relationship between the value of the number of goods or services produced and the labor used to realize production (Table 4).

Table 4: Average Employment and Labor Productivity in European Union Countries.

Country	Employment	Average Employment	Class	Productivity
Finland	150	12	SMSE	98
Swedish	150	13	SMSE	95
Denmark	170	9	SMSE	100
France	1980	7	SMSE	90
Germany	2290	9	SMSE	102
Greece	715	3	Mikro	94
Ireland	180	8	SMSE	91
Italy	3920	4	Micro	90
Luxembourg	15	10	SMSE	94

Netherlands	420	110	SMSE	99
Portugal	600	5	SMSE	88
Spain	2460	4	Micro	92
England	2630	8	SMSE	83

3. The place of small and medium sizes in economy

SMSEs have an important place in the national economies with their employment, added value, investments, and their share in total taxes. Although the definitions of SMSEs vary between countries, as stated in the OECD Istanbul /2004 declaration 3, SMSEs generally account for more than 95% of the total number of enterprises in the country. SMSEs definitions generally differ according to the size of the national economy shows. SMSEs classification, according to the definition made in a country, for example, an enterprise in which it is located, can be considered as large-scale in another country.

However, if each country is assessed under its circumstances according to the classification made by the SMSEs It will not be wrong to emphasize that occurred. SMEs in the development of national economies with their innovative and dynamic structures are the determining force. Especially for developing countries like our country This feature of SMEs becomes more important. Recently Ireland and Thousands of SMEs established in India their contribution to national economies is a good example in our country. Showing similarities with a young population and labor force in Turkey in terms of quality India's IT sector exports were 10 billion and 14 billion in 2003-2004, respectively, 2008 target of 60 billion dollars and sectoral employment target 3 million.

SMSEs, like other large enterprises, they are positively affected by the viability of the markets. During the recession period, they have significant advantages over the enterprises. Flexible structures they can adapt more easily. High mobility means that countries coupled with the high ratio of the total number of enterprises. The importance of SMEs and support and incentives in this regard can be understood more easily. These enterprises are important not only because they are the locomotives of the national economy, but also in terms of the crisis and recession. Current statistical studies, these days in Turkey is approximately 4 million workplaces, When Basel II criteria are used, almost all of these enterprises are SMSEs.activity limits. For example, the Istanbul Chamber of Industry Which is published annually by Turkey's biggest company is determined to ride. According to the survey, only 440 of these companies had a turnover of more than EUR 50 million for 2004. Still, SIS (TSI) general industry and businesses, according to the 2002 census in Turkey There are 1.9 million businesses in total. According to the EU's SME size, 99.9 % of these enterprises fall within the definition of SMSEs, as can be seen from Table 5.

Table 5: A significant portion of total employment.

Activities	Operating	Share (%)	Working	Share (%)	% enterprises
Mining and Quarrying	2.394	0,1	70.953	1,1	29,6
Manufacturing Industry	267.184	14,2	2.110.277	32,5	7,9
Food, Drink, Tobacco	30.988	1,6	267.871	4,1	8,6
Textile, Apparel, Leather	63.412	3,4	749.932	11,6	11,8
Wood and Cork Products	28.334	1,5	78.120	1,2	2,8
Paper & Paper Products	2.119	0,1	35.680	0,6	16,8
Publication	9.340	0,5	46.274	0,7	5,0
Coke Coal, Refined	157	0,0	6.940	0,1	44,2
Chemical Products	4.171	0,2	75.730	1,2	18,2
Plastic, Rubber Products	8.999	0,5	83.746	1,3	9,3
Stone and Soil Products	12.323	0,7	131.485	2,0	10,7
Basic Metal Industry	6.027	0,3	75.467	1,2	12,5
Metal Goods Industry	35.258	1,9	137.163	2,1	3,9
Machinery and Equipment	18.955	1,0	139.525	2,2	7,4
Office, Accounting, Computing	415	0,0	2.524	0,0	6,1
Electric Machines	4.355	0,2	37.764	0,6	8,7
Radio, Tv, Communication	562	0,0	11.955	0,2	21,3
Medical, Precision, Optics	2.198	0,1	16.729	0,3	7,6
Motor Vehicles	4.075	0,2	84.171	1,3	20,7
Other Transportation	984	0,1	13.052	0,2	13,3
Furniture	34.427	1,8	115.200	1,8	3,3
Scrap Revaluation	85	0,0	949	0,0	11,2
Electricity, Gas and Water	3.790	0,2	67.464	1,0	17,8
Build	35.782	1,9	219.702	3,4	6,1
Wholesale and Retail Trade	872.155	46,4	2.057.683	31,7	2,4
Hotel and Restaurants	175.604	9,3	550.376	8,5	3,1
Transportation, Storage	267.729	14,2	505.475	7,8	1,9
Financial Institutions	20.540	1,1	174.544	2,7	8,5
Real Estate Rental	94.883	5,0	327.263	5,0	3,4
Business Training Services	6.699	0,4	78.770	1,2	11,8
Health Affairs	33.333	1,8	99.179	1,5	3,0
Other Social Affairs	101.340	5,4	222.482	3,4	2,2
GRAND TOTAL	1.881.433	100	6.484.168	100	3,4

SMEs provide them. In terms of personnel structures, SMEs differ from businesses. A relatively small number of these enterprises staff work, fewer hierarchical levels, usually labor factors such as intensive work of SME employees' closer relations with each other causes. Proximity to employee-employer relations, trust, and the unity of fate in the crisis periods and even dismissing workers as a last resort. This understanding prevents the deepening of crises by increasing unemployment at a time. Another contribution of SMEs to the economy is the emergence of new entrepreneurs' incentives. Employees who see and learn the work at their place, many new businesses are established each year. This thus creating self-nurturing employment and new entrepreneurial impact. It is When Table 3 shows the economic indicators of SMEs in various countries, Despite the small investment and credit shares of SMEs in our country, reasonable employment, and production shares.

SMEs can respond to economic policies with their small and flexible structures. The units. These features can also be used for mobility between geographical regions. It applies. Turkey's geographical disparities between regions are important. The problem is. In this sense, the economic development of less developed regions will be able to play a key role in providing (Yılmaz, 2006).

4. The new economy and financial problems of SMSEs

In Turkey, in applied studies conducted on the problems of SMSEs, financial problems can take place at the top of the list. Since most of SMSEs in our country are individual firms and small family firms, their equities are not sufficient. Because of this, they need external financing. Especially, that SMSEs, which do not have a sufficient amount of resource in the foundation stage, survive has become very difficult. SMSEs in Turkey utilize less credit compared to those in other countries. The share of the credits SMSEs use from the banking system in total credits is not too much. Specialists suggest being formed the private, public, and semi-public financial institutes, to allocate middle and long-term credits to SMSEs in suitable rates under the name of flexible guarantee agreements. Providing low-cost credits to SMSEs in industrial areas has great importance. That Turkish SMSEs can sufficiently have necessary credit possibilities should be provided. The most important duty on this issue belongs to the government (Akgemci, 2001).

The most important problem of SMSEs is credit and financing. Because SMSEs, whose profit margins are low, and banks, which are specialized in forming either-or business capital, are both inadequate and that their resources cannot satisfy with needs, at the moment, when industrialist, who cannot utilize this resource applies to general banking system for their credits, he/she may face with several bureaucratic applications, interest rates too high them to pay and (difficult) payment conditions (Akgemci, 2001).

Since SMSEs operate with limited capital, they cannot submit security deposits banks demand. Besides this, the balance sheet structure of this sort of enterprise cannot respond to the demands of banks, generally. Banks also prefer to work with large enterprises instead of small enterprises. When SMSEs use credit, due to the relevant reasons, as a result of the increasing credit risk, they subject to higher interest than necessary. Because banks want to work as low risk as possible, they can sometimes want several times more security deposit in exchange for credit demanded. While large enterprises can submit their assets as a security deposit in exchange for credit they demand, the owners of small enterprises generally submit their individuals' properties as a security deposit. A small enterprise can face the risk of losing all property; depending on that business, life goes bad. This case can cause small enterprises to behave timidly in financing via credit (Kutlu and Demirci, 2007).

Another dimension of the problem with financing SMSEs is that large enterprises generally have separate departments of finance and financial affairs and that the specialists employed in these departments enable the most suitable financial decisions to be made for enterprise, evaluating alternative possibilities and credit conditions. In SMSEs, in general, such departments are not existent. In general, for following these works, (a single) "Financial Affairs, Administrative Affairs, and Accounting Department" is existent. But also in this department, financial affairs are considered sub-work. The personnel employed here is already in the position of a person responsible for all the administrative, financial, and accounting works of enterprise, rather than becoming a specialist about financial subjects. The reason for not being able to employ the personnel with this qualification is the high cost (Ekinici, 2003).

5. Conclusion

Forming policies that are long term, rational, and directed to increase productivity emerge as an unavoidable obligatory. These enterprises should be supported, supervised, and encouraged by the government, making necessary legal regulations.

For taking over the problems experienced problems in obtaining credit, forming standards of credit reporting, being able to provide transparency, developing technological infrastructure, and being able to reduce tax and bureaucracy loads, it is useful for both public and private agencies to work in cooperation. With moving from the fact that change is an infinite and continuous phenomenon, it is necessary to realize the structural, managerial, and financial change without delaying. This change, which will be realized through using contemporary management applications such as Total Quality Management and the like, a transparent management approach, and technological possibilities as much as

possible, will provide advantages to SMSEs not only in the financial area but also in the other areas. It is useful to form mechanisms, which will enable be transmitted the data obtained from every sort of studies, conducted by academicians, regarding SMSEs and their financial problems, to the owners and managers of SMSEs. In addition, in the foreign projects that will be prepared, giving weight to SMSEs, a contribution will be made to accelerating the process regarding that SMSEs catch world standards (Kutlu and Demirci, 2007).

6. References

- Akgemci, T. 2001: Kobi'lerin temel sorunları ve sağlanan destekler. Kosgeb.
- Ekinci M. B. 2003: Türkiye’de Küçük ve Orta Ölçekli İşletmelerin Finansal Sorunları. http://www.akademiktisat.net/calisma/isletmeler/kobi_finans.htm
<http://danismend.com/kategori/altkategori/avrupa-birliğinde-kobiler/>
- Karacibioğlu, S. R. 2007: Kobilerin finansman sorunları ve çözüm önerileri: Muğla örneği (Doctoral dissertation, Adnan Menderes Üniversitesi).
- Kutlu, H. A., Demirci, N. S. 2007: KOBİ’LERİN FİNANSAL SORUNLARI ve ÇÖZÜM ÖNERİLERİ. 4. KOBİ’ler ve Verimlilik Kongresi, 187.
- Uçkun, N. 2009: KOBİ’lerin Finansal Sorunlarına Melek Sermaye Çare Olabilir mi?. Muhasebe ve Finansman Dergisi, Vol. 41, 121-131.
- Yalçın, İ. 2006: Türkiye’de Küçük ve Orta Boy İşletmelerin Sorunları Çerçevesinde Finansman Sorunu ve Çözümüne Katkı Olarak Kredi Garanti Fonları. Yayınlanmamış Yüksek Lisans Tezi.