

Export Capabilities From Small and Medium Enterprises in Turkey

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Abstract

The purpose of this study is to gain a richer understanding of Turkish small and medium enterprises and its evolvement over time. The study concentrates on the capabilities these businesses possess in regard with exports. It focuses on the number of exports accounting to small and medium enterprises located primarily in Turkey; however, it also gives basic information about some other countries behavior. The hypothesis of this study is to prove that the Turkish SMEs are growing in importance for its industry; however, there are still obstacles and barriers which have to be solved. The study is a qualitative research made from primarily statistics from various papers and reports. Results show that there is an obvious increase in exports due to or as a result of a higher number of SMEs but also of government incentives.

Key words: Small and Medium Enterprises, Export, Market Expansion

1. Introduction

Today, a growing number of identical products can be found anywhere you look at. This does not mean that each country produces everything wanted and the quantity demanded; on the contrary, countries are mainly importing things they do not produce themselves.

Thus firms are forced to compete on a higher level – globally. However, small and medium enterprises are not always capable to compete against the larger firms.

As stated before, small and medium enterprises are more likely to fail when expanding their market and can at most cases not carry out the burden of costs left on them as entering new or expanding existing markets. But then the question appears how is it possible that the small and medium enterprises can add that much of exporting statistics (in the U.S.) when exporting is too costly for them?

The Organization for Economic Co-operation and Development (OECD) stated that SMEs play a very important role in the Turkish economy, because of various reasons; the major one is the great number of SMEs existing in Turkey and the second one is the large share of workforce they involve. Thus, the government authorities have for a long time carried out a variety of programs to support such enterprises as they have seen their potential. (OECD, 2004)

Moen (1999) noted in the International Small Business Journal that SMEs can be “pushed” into exporting owing to a small or decreasing domestic market or as Westhead, Ucbasaran and Binks (2004) stated rural SMEs with limited resources may be pulled into foreign markets by the

internationalization activities of customers in the domestic market. (Westhead, Ucbasaran and Binks, 2004)

According to Albaum, Strandskov, Duerr and Dowd, exporting is the most common way for manufacturers to undertake business in foreign markets. Even firms which are long involved in international business are still exporting on a continuing and permanent basis. Exporting is seen to be a major factor in the economy, and an important ingredient in the growth of many firms, mostly SMEs. (Albaum, Strandskov, Duerr and Dowd 1994)

In exporting its products, a firm has to make two major strategic decisions: (1) choose the target country market, where it sees its potential; and (2) identify the most suitable type of export distribution channel structure to use for. (Johnson, W. and Johnson, H., 2001)

2. Literature review

According to KOSGEB, small and medium-sized enterprises (SMEs) are defined as “firms that employ not more than a given number of employees; while this number varies across national statistical systems, its most frequent upper limit is 250 employees, but again this upper limit also varies between 50 and 500 across countries.” The share of SMEs in total firms can account for as high as 95% in some EU countries. They are viewed to be the biggest contributors to creating new job opportunities within economies. It is found that SMEs with 250 employees or less, generate 86% of the new jobs in an economy. (KOSGEB, 2012)

In the early 1990s, Turkey has loaded one of the most important policy goals which aims to foster the small and medium sized enterprises (SME) due to the downsizing of larger firms (Isik, 2005). Across the members of the European Union, SMEs are becoming the important agendas for economic policy makers to stimulate the economic growth and increase significantly to them. Moreover, SMEs are becoming the most significant tools for an increase in economic development, gross domestic product and the workforce in Turkey. (Isik, 2005)

Nurrachmi, Abd Samad and Foughli from the International Islamic University in Malaysia state that, despite the shining SMEs growth in Turkey, a number of limitations appeared during the development of Turkish SMEs. Namely, the most visible and in the same time the most influencing one is the access to finance. The Turkish Industrial Strategy Document stated that SMEs have difficulties in getting through to finance due to four main reasons: problems arising from the credit limits given by the banking sector due to financial renovation in 2001, insufficient development of the capital market, weaknesses of SMEs structure, and administrative and legal obstacles to access finance. (Nurrachmi, Abd Samad and Foughli, 2012) As a fundamental weakness of the SMEs sector is considered to be insufficient know-how and low level of technology. According to the Organization for Economic Co-operation and Development, a considerable proportion of Turkish SMEs, mainly the smallest ones outside urban centers, produce for either the national or local markets. The design of their products is nowadays frumpish and in many cases they are produced with insufficient security guarantees and outdated tools. To compete with others that will develop as Turkey becomes increasingly an open economy; these firms will need help in the areas of technology transfer, design, management and education. (OECD, 2004)

3. Background of the SMEs issues

Another major issue concerning Turkish SMEs is the access to finance. Namely, more and more Turkish SMEs express their desire to improve their technological capacity and modernize their plant and equipment. However, this will be difficult to achieve due to the difficulty of obtaining financing and of access to credit and equity.

Regardless of the fact that they account for 99.5% of the establishments in the industrial sector, 66.5% of employment in the sector, and 34% of value added in the sector, less than 5% of available bank credit is provided to industrial SMEs. (OECD, 2004) Also, it is known that a major share of the owners/managers of the SMEs have a technical or engineering background, which means that they have not the sufficient knowledge of businesses nor are they a desirable client for a credit program.

The statistic shows that the number of SMEs in Turkey is growing as compared to the data in 2004 where SMEs comprise 99.8% of total establishment, 77% of total employment, 27% of value added, 38% of capital investment, approximately 10% of exports, and despite the great portion of economic contribution only 5% of bank credit in 2000 in Turkey (OECD, 2004a).

4. Methodology

This study is a combination of all three groups of methodology research – it is descriptive, explanatory and exploratory. It is exploratory at the beginning because it is aiming to formulate and define problems. It also contains an orientation in the question at issue, and about existing theories in the subject of the study. This will help to achieve the purpose of the study which is to gain a better understanding of SMEs capabilities to export, its major obstacles, weaknesses but also benefits. In addition, I have to state that most of the data gathered was from Articles and International Reports concerning mainly the Turkish SMEs as these are the issue.

I have chosen a quantitative approach in order to obtain more in depth information. The purpose of my study is to define the capabilities of Turkish SMEs and therefore I am studying SMEs evolvement in Turkey by comparing the statistics now and then.

With a quantitative approach I can obtain a richer understanding of what has changed in regard to some government-invented policies, financial motivation to go global and of course the number of SMEs still exporting and having a sustainable profit-margin.

In addition to that, in the last part of the thesis, I will present a survey conducted on Turkish SMEs which will give an insight of the problems and barriers the SMEs itself are facing. This survey may be form a great use and importance for the government which is searching for ways to help improve the situation of the SMEs.

5. Results and Findings

In order to make some statement regarding the outcome of the thesis which should either prove or dismiss my hypothesis, a survey had to be conducted specifically in this topic. As this is a rather rear issue in today's researches, I have chosen to take the data from the survey. As the survey is composed of five major units, I will present briefly each of it.

The first unit is the demographics, providing questions regarding the name of the firm, number of employees and some basic financial data. The second unit is the Decisions firms have to take

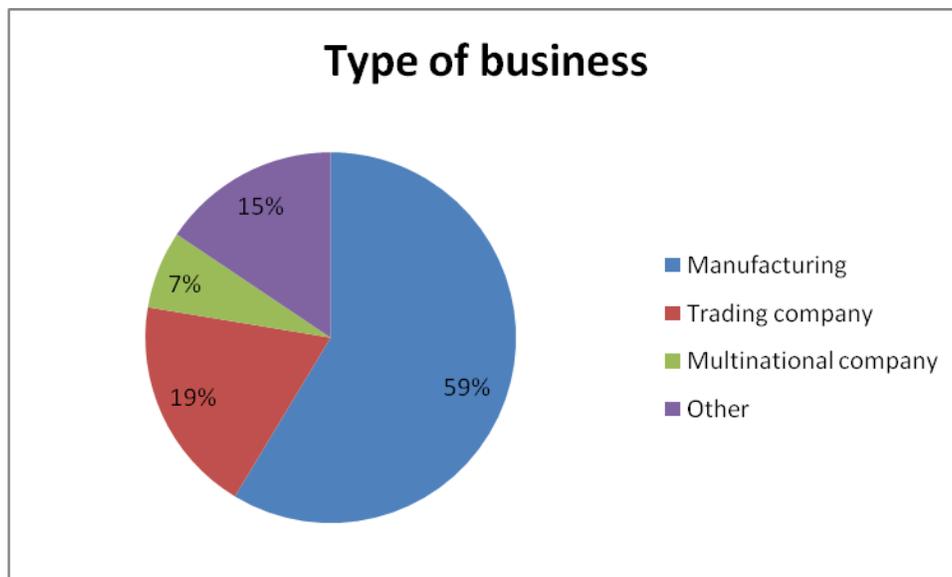
when entering new markets; in this section of the survey, the respondent is asked to answer which factors, in his opinion, are mostly influencing firms to go global.

The third section deals with Trade barriers. In this unit of the survey, respondents may answer which factors they believe are the most influencing ones and limiting firms from exporting.

The fourth section of the survey is dealing with Risks. Namely, at this point the respondent is able to “grade” his or hers most risky factors he or she is expecting to face when going global. Thus, for the purpose of this study, this one is among the most important ones.

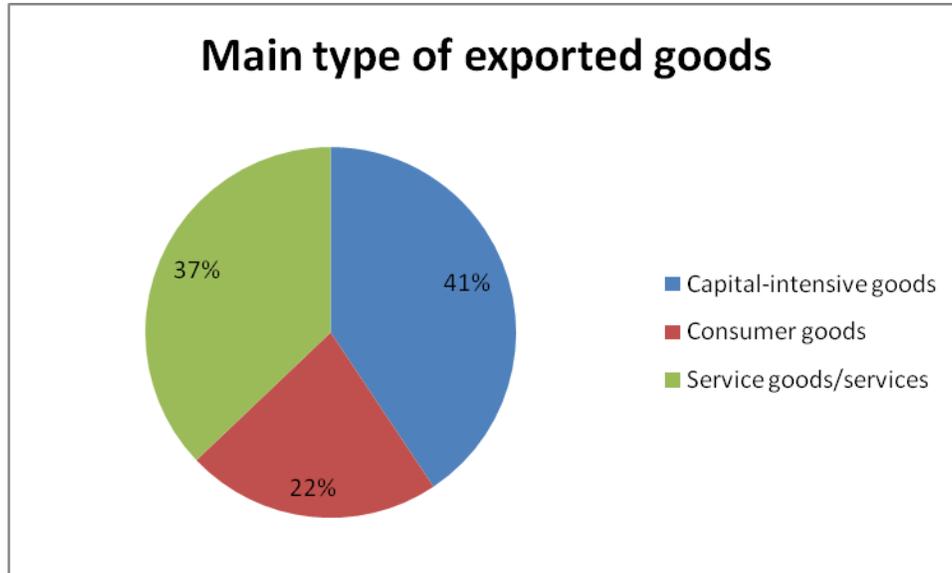
The fifth and last section of the survey is the Assistance one. In this section respondents are asked to provide information regarding their believes what is the most important the government may undertake to improve the situation the SMEs are in. Therefore, this section is also considered to be of high importance for this study.

The first question relevant to this study is which type of business the firm is engaged in. 7% of the firms answered that they are operating as a multinational cooperation; 15% are considered to be “other” engaged in business; 19% are possessing a trading company, while the majority, 59% of them are engaged in manufacturing business.



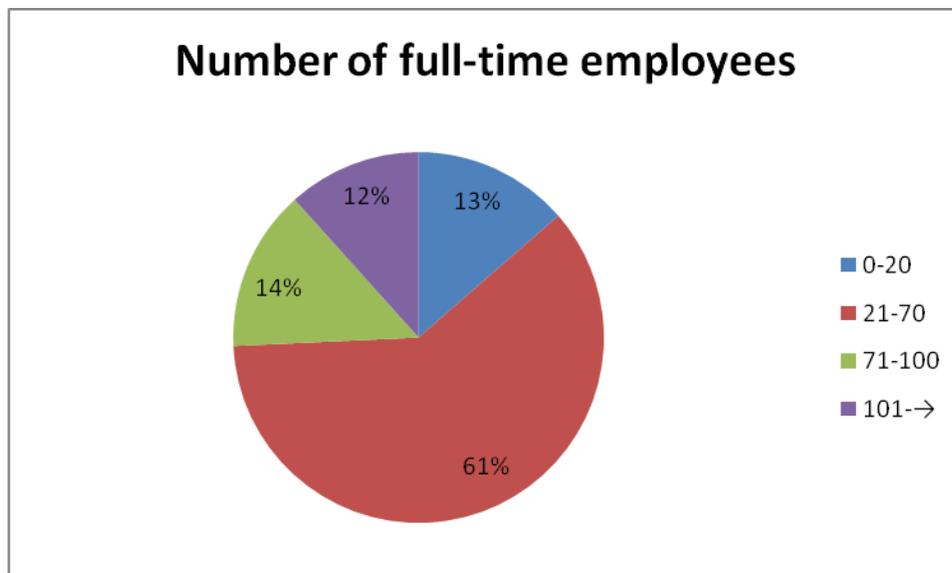
Graph 1. Type of business

The second question is concerned about the products which the SMEs are exporting. 63 out of 310 firms answered that they export consumer goods; 105 out of 310 answered that they export service goods, while the majority of them, 115 out of 310 exports capital-intensive goods.



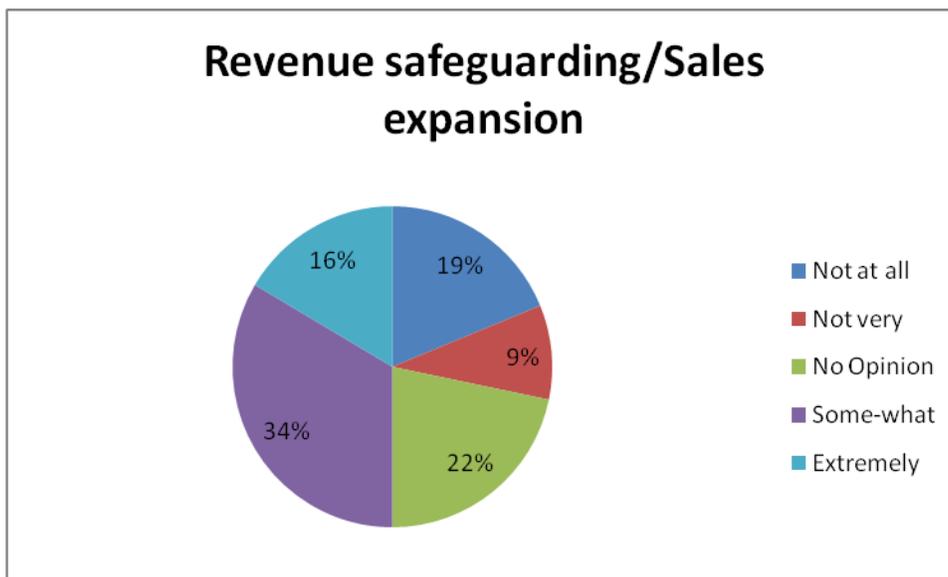
Graph 2. Main type of exported goods

Question five is concerned about the number of the employees working in SMEs. As there were 310 different answers, I have chosen to make a grouping; namely, I have put the diverse numbers in groups to get a result. Thus, the first group is firms with 1 to 20 employees, and there are 13% of them in Turkey, which had been questioned. The second ones are firms having from 21 to 70 employees, and there are the majority, 61% of them. The third ones are firms having from 71 to 100 employees, and there are 14% of them. And the fourth ones are firms having 100 and more employees, and those 12%. Thus this statistics is also proving the previously stated theoretical background, suggesting that SMEs mostly have from 20 to 60 workers employed.



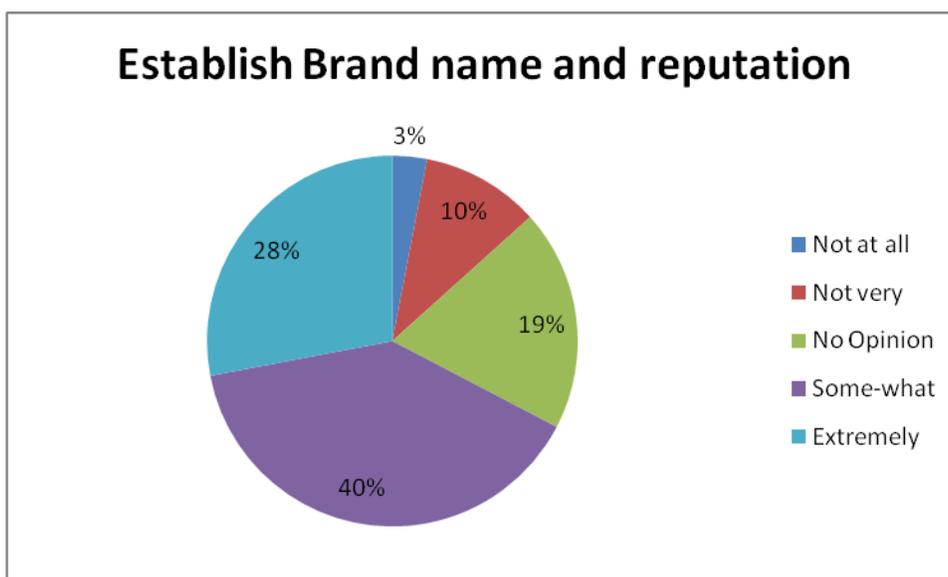
Graph 3. Number of full-time employees in questioned SMEs

Question eight asked the respondents which determinant they find most influencing for going abroad and exporting. In the graph below, the exact statistics is shown; namely, 19% of the questioned firms do not find sales expansion important at all as a determinant when exporting, while 34% of them state that they find it some-what important. However, 16% of the questioned firms believe that sales expansion is an extremely benefit of exporting.



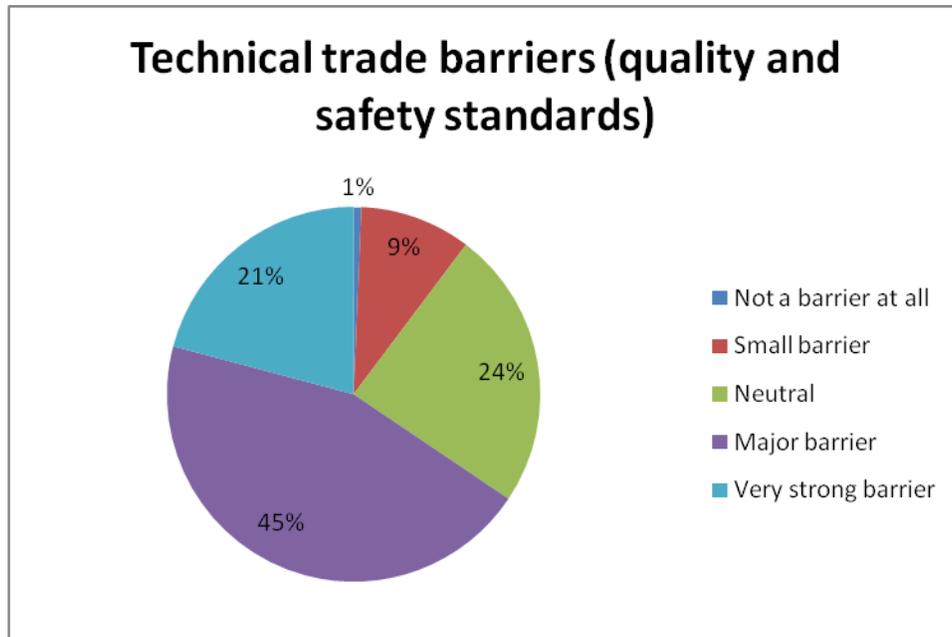
Graph 4. Revenue safeguarding/Sales expansion as a determinant for exporting

Question thirteen is concerned with the same question of which determinant is most influential when considering exporting. Here, just 3% of the questioned firms state that their name establishment and reputation are not important at all when exporting. 40% of the firms state that they export because of their reputation, however, 28% of the firms state that this is an extremely important factor that has to be taken into consideration when exporting.



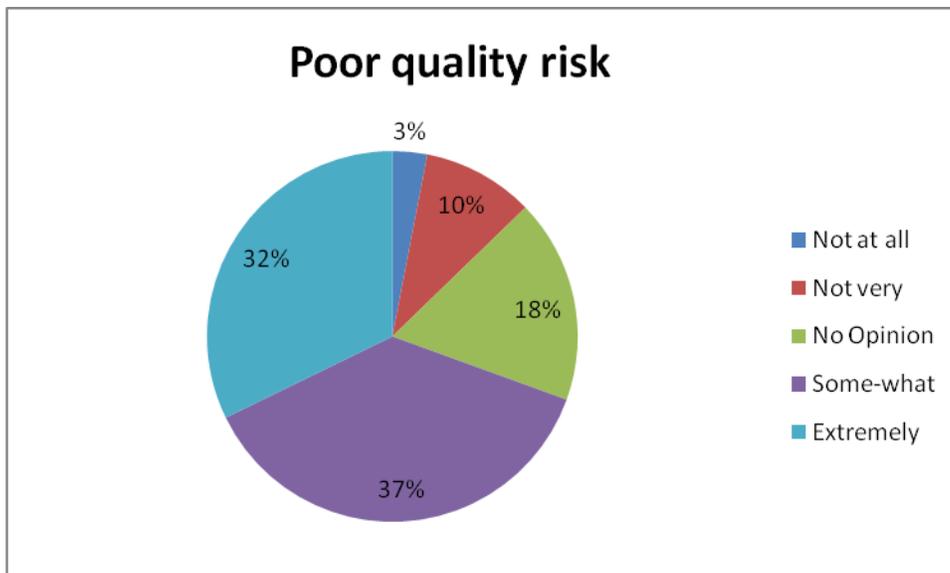
Graph 5. Establishing brand name and reputation as a determinant for exporting

In question nineteen, firms were asked what they find to be the greatest obstacles SMEs deal with when exporting. 45% of the firms stated that technical factors, such as quality and safety standards, are a major obstacle for exporting. Moreover, 21% of the questioned firms consider technical standards as a very strong barrier, thus their exports are not as high enough as they wish.



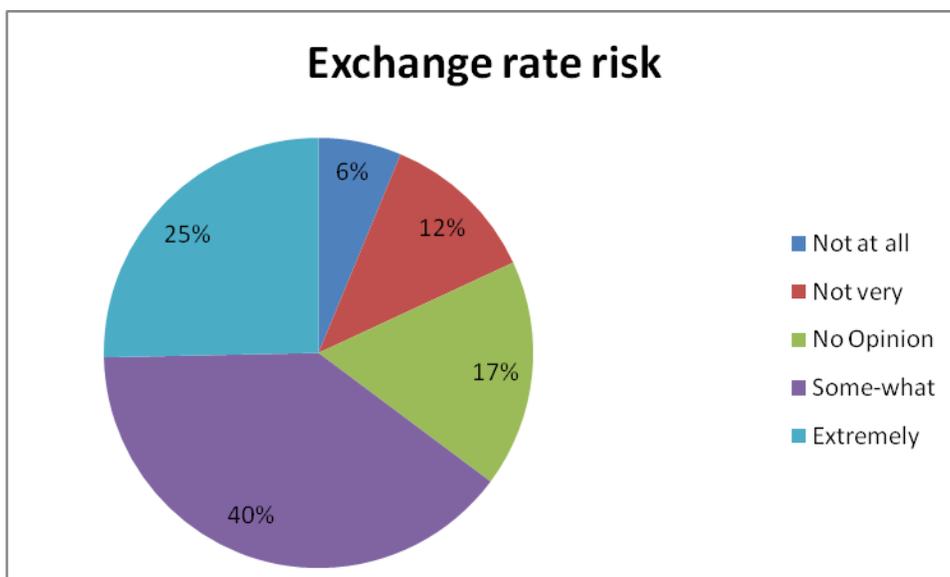
Graph 6. Technical trade barriers such as quality and safety standards

Question twenty-three is concerned with risks when exporting. 111 respondents out of 310 argued that they are mostly afraid of offering a poor quality product in foreign countries.



Graph 7. Poor quality risk

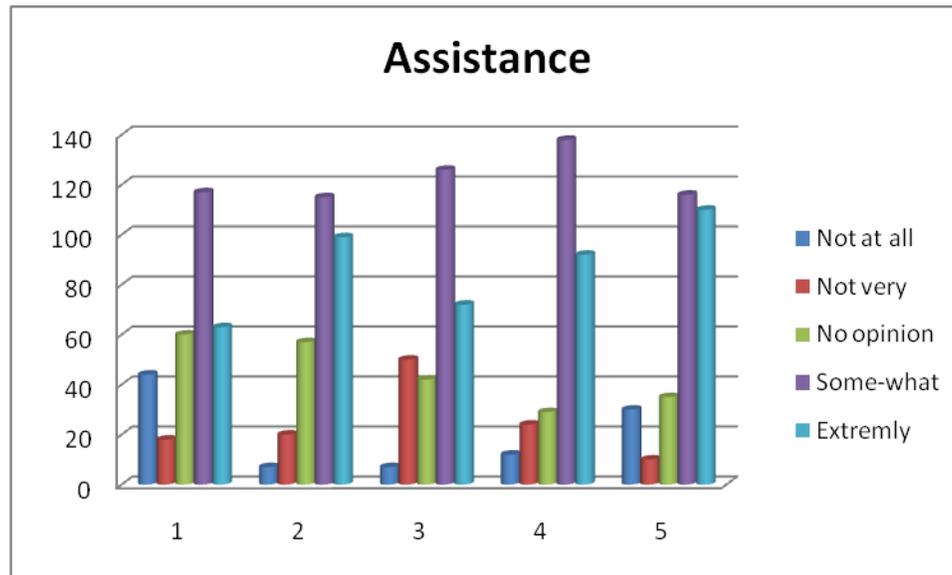
Question twenty-six was concerned with the same question regarding risks. 6% of the questioned firms are not at all concerned of exchange rate risks they might face. The majority of them, 40%, stated that they are to some extent concerned of the effects the exchange rates might have on them, while 25% of the firms believe that exchange rates are extremely risky.



Graph 8. Exchange rate risk

Question twenty-nine, thirty, thirty-one, thirty-two and thirty-three are all concerned with assistance; namely, firms were asked what the company needs as financial or technical support in order to develop or increase current exports. The last graph, graph 9., presents the responds from the questioned firms.

117 out of 310 answered that the company needs export credit and insurance agencies; 115 respondents argued that marketing studies and technological know-how would benefit their export; 126 stated that trade missions and commercial delegations would increase their exports; 138 answered that they would need local marketing services provided by the government; while 116 argued that shows and international exhibitions for market penetration provided by the government would mostly benefit the still growing industry.



Graph 9. Assistance SMEs demand in terms of exporting

6. Conclusion, contribution and limitation of the study

While progressing with this thesis, I have learned many new things. In the beginning of the research, I have many times had to write and paraphrase (older) papers and reports of some international organizations researching on Turkey's SMEs and its industry, stating that there are more lacks and costs than there ever will be profits and benefits. Therefore, I am even gladder to see how much the SMEs industry in Turkey has grown and expanded worldwide.

The fact that SMEs from Turkey are more than able to compete at the international level is obvious; wherever you go, you will for sure find something from Turkey; most clothes you buy are not more from India, instead there are from Turkey; whatever you wish to eat, you will find an Turkish supplement for it (Kola Turka, Ulker, etc.).

However, coming back to the quantitative indicators, I have stated in the literature review that "SMEs are counting for 99.90% of all businesses; they make up 80.57% of employment rate, 58.48% of value added taxes and 59.53% of total production value". Although these numbers seem to be too high, there are still growing, which is a positive indicator of the progress Turkey had the last decade.

First of all, it is important to notice that just a small number of researches exist on this particular issue. Even though it is a highly delicate topic when taken in consideration Turkey's status (as a European candidate) this is rather a bypassed issue.

Thus, as the literature review was rather limited, I have learned that the SMEs themselves were drowning in mess. Namely, before any government intervention, SMEs had difficulties to

finance its marketing, exporting and survival itself. Also, there were no government regulations which would facilitate the work or status of an SME in Turkey. In addition to that, the major problem the report of the International Organization states is the lack of know-how and missing technology the SME face.

Although not all of the problems could be solved in few years, there are positive indicators regarding the existence of the SMEs and its future; the government has implemented some regulations which should benefit the work and exporting capabilities of them.

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