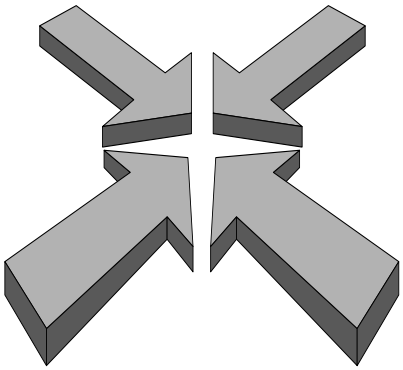
NAZİLLİ TİCARET ODASI



SOME ASPECTS OF TURKISH SMALL &

MEDIUM SIZED ENTERPRISES

A Case Study: Nazilli

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Abstract

Small and medium sized enterprises (KOBIs in Turkish) make up about 98 percent of all manufacturing firms in Turkey. They make a significant contribution to the economy in terms of output, employment, value-added and economic growth.

Unfortunately, there seems to be many obstacles restraining the growth of KOBIs, such as financial bottlenecks, lack of qualified human resources and bureaucratic procedures.

In order to identify the prevailing conditions as well as the major impediments to growth of KOBIs, a study was carried out in an Aegean town called Nazilli with 100 thousand inhabitants. The findings indicated that the major problems of KOBIs in Nazilli seem to have rather close resemblance to the nationwide problems of KOBIs, in general.

SOME ASPECTS OF TURKISH SMALL & MEDIUM SIZE ENTERPRISES
A Case Study In Nazilli

Liberalization of foreign trade regimes through various GATT (now called WTO, World Trade Organization) agreements has contributed significantly to the growth of world trade since World War II. In our era, globalization of production and distribution has made the politically independent nations highly interdependent on one another. No nations, neither the giants like US and Russia nor the developing or socialist countries, can even be imagined in a position advocating foreign trade constraints any more. Without participating in the globalization of production and distribution, growth of the GDP seems rather limited. All nations and all enterprises within the nations, whether of small, medium or large size, must restructure their production distribution and develop global visions to economic opportunities.

Turkish industry adopted the export-biased growth model rather late compared to countries like Korea, Taiwan, Malaysia. Between 1963-1980, a concentrated inward oriented development policy was adopted. According to the First 5-Year Plan's goals, Turkey would become self -sufficient by the end of Third Five Year Plan, that is in late 1970s. But the economic realities turned out to be rather different then expected. As in all nations pursuing an import oriented growth model, Turkey faced with serious foreign currency shortages, neglect of agricultural sector, capital-intensive production methods, low degree of capacity utilization thus high unit costs of production. Unfavorable economic conditions reached their peak by 1979.

The decrees of January 24, 1980 were the turning point of Turkish industrial development, which encouraged exports with generous subsidies. Import-biased growth was abandoned and rather bilateral trade agreements with Iran and Iraq gave a burst to export growth, in addition to increased exports to west European countries.

Nowadays, there are no special bilateral trade agreements with Iran or Iraq, nor extremely generous financial incentives like 20 percent tax-return on textile exports. But the Turkish

businesspeople know now that exports are vital for the industry and nobody wishes to go back to the period before 1980.

Since 1995, Turkey entered a Customs Agreement with the European Union which indicates Turkish industry's dedication to take part in the new global economic order. In order to have a continuous stable and rapid economic growth, Turkish industry must increase her exports. Relying on workers; remittances and tourism to cover the foreign trade deficit as in the past is not a sound policy for a nation of 62 million inhabitants . To achieve the targeted rapid economic growth level, Turkish industry must rapidly increase her exports; especially of the small and medium sized enterprises (KOBI's in Turkish). Because the larger size firms usually have the better financial ability and the experienced/educated human resources, and frequently cooperates with the foreign companies to expand the present markets and to find new ones. But the KOBIs usually lack such facilities. The figures support this view; though KOBIs constitute 98 percent of total firms, 92 percent of export is realized by large size firms, and KOBIs share is only 8 percent.

In order to reveal the present situation and the some major problems of KOBIs as of August 1997, a case study was made in an ordinary Anatolian township with ca. 100,000 inhabitants, called Nazilli is not a significant industrial area like Istanbul, Izmir, Kocaeli. Nazilli's share in the GNP is 0.33 percent or alternatively it ranks as the 69th among the 910 townships in Turkey with regard to wealth (**Economic Forum, 15.03.1997**). There were 115 registered industrial firms of which 84 (70 percent) responded to our questionnaire. Here are some of our major findings.

Of the 84 firms, 34 percent are individually owned, 52 percent partnership and 12 percent incorporated (Table-1). How degree of incorporation may be interpreted as a sign of less-developed capitalist bourgeois culture in relation to production.

The largest share of production was in Textiles-Ready Wear and Leather Sector (27.4 percent), followed by Food-Beverages-Tobacco Sector (17.8 percent), Metal Ware-Machinery (12 percent) and Land-Stone Products (10.7 percent) (Table-3). These percentages are similar to those in general industrial production in Turkey.

Table-1. Status of Firms

	Number	%
Partnership	44	52
Personal	29	34
Incorporated	11	12

In most of the individually owned or partnership firms, the manager and the owner is usually the same person. Professional managers are usually employed by the incorporated firms, while others are normally run by the owners of the firm. Table-2 shows the educational background of the managers. It is a fact that some managers with low level of education do perform quite well. But it is also an established fact that there is a close correlation between the level of education and performance of the managers. Managers in Nazilli, in general, seem to be under-equipped with education.

Table-2. Educational Status of Managers

	%
Primary School 5 years	34.1
Junior High School 3 years	22.4
High School 3 years	14.1
Professional High School 3 years	5.9
Higher Education	9.4
Faculty Degree	14.1
Master's Degree	-

In Nazilli, 65 percent of KOBIs employed less than 10 persons indicating rather small size of firms. Firms employing less than 25 persons made up 81 percent and less than 50 persons, 90 percent of the total (Table-4). Since production methods employed are usually labor-intensive per capita output, an average, is lower than the OECD average. High unit costs due to low capacity utilization is another serious problem faced by KOBIs in Nazilli.

Table-3. Distribution of Firms by Sectors

	Number	**%**
Textile-Ready Wear-Leather	23	27.4
Food-Beverages-Tobacco	15	17.8
Metal Ware-Machinery	10	11.9
Land-Stone Products	9	10.7
Chemicals-Coal-Plastics	7	8.3
Forest Products-Furniture	6	7.1
Agricultural Products	5	5.9
Metal Main Industry	4	4.7
Paper Printing	-	-
Others	5	5.9
TOTAL	**84**	**100**

Table-4. Distribution of KOBIs by Number of Employees

	Number	**%**
1-9 Persons	55	65
10-24 persons	14	16
25-49 persons	8	9
50-99 persons	4	4
100-149 persons	-	-
150-199 persons	1	1
200 - + persons	2	2

Table-5 indicates only 8 percent of the firms used capacity between 91-100 percent and only 15 percent of the firms above 80 percent. 42 percent of the firms were employing less than 40 percent of the capacity.

Table-5. Distribution of Firms by Capacity Utilization

Capacity Used (%)	Number of Firms	%
0-20	17	20
21-40	18	22
41-60	21	25
61-70	10	12
71-80	5	6
81-90	6	7
91-100	7	8
TOTAL	**84**	**100**

Table-6. Major Causes Of Low Capacity Utilization

	Number of Firms	%
Financial Bottlenecks	41	54
Lack of Qualified Personnel	11	13
Marketing Problems	10	12
High Cost of Non-Labor Inputs	8	9
Inadequacy of Non-Labor Inputs	4	5
Domestic Ec. Instability	3	4
Inadequate Technology	1	1
International Economic Events	1	1
Insufficient Domestic Demand	1	1
High Labor Costs	-	-
Insufficient Foreign Demand	-	-
TOTAL	**84**	**100**

According to Table-6, major cause of capacity under utilization is financial with 54 percent. Firms seems to face no lack of demand, whether domestic or foreign. That no firms indicates insufficiency of foreign demand is not because there are markets abroad for

them but because only a limited number of them, mostly on textiles and ready-wear, ware outward oriented.

When asked why the KOBIs did not use credits to overcome their financial bottlenecks, 46 of them (55 percent) complained of rather high interest rates, 23 firms (27 percent) of bureaucracy, 17 firms (20 percent) said they did not want to use credits and 16 firms (19 percent) could not provide the necessary securities (Table-7).

Table-7. Major Reasons For Not Using Credits

	Number of Firms	**%**
High Interest Rates	46	54.7
Bureaucratic Procedures	23	27.3
Don't Use Credits	17	20.2
Difficulty of Finding Security	16	19.1

The globalization of production and distribution eliminates the trade barriers, thus opening up new markets for the producers. Customs Union Agreement with the European Community implies that Turkish industrialists have access to not only Turkish markets with 62 million inhabitants but also access to high income European countries. Do KOBIs in Nazilli take proper advantage of this immense opportunity? The answer is, unfortunately, negative.

Though 60 percent of the KOBIs in general aim to produce with regard to foreign markets, the corresponding figure in Nazilli is only 14 percent **(Finans Dünyası, August 1997, p.75)** In the questionnaire only 12 firms(14 percent) indicated that they were exporting their products and 53 firms (65 percent) had no exports at all while 1 firm did export in the past and 17 firms (20 percent) aimed to export in future (Table-8).

Table-8. Foreign Trade Position of the KOBIs

Do You Export Your Products?	**Number of Firms**	**%**
Yes	12	14
No	53	65
Yes, but in the past	1	1
No, but wish to in future	17	20

When asked, the firms indicated financial bottlenecks as the major impediment to export growth, followed by marketing problems, bureaucratic complexity and inadequacy of qualified human resources (Table-9).

Table-9. Major Problems Restraining Exports

	Number of Firms	**%**
Financial Bottlenecks	48	57.1
Marketing Problems	17	20.2
Bureaucratic Complexities	11	13.1
Inadequate Human Resources	7	8.3
Foreign Language Barrier	1	1.2
TOTAL	**84**	**100**

A significant position(47 percent) of the KOBIs in Nazilli do not seem to care too much about the standards set by the government authorities and international organization. Only 2 of the 84 firms participating in our questionnaire had the internationally valid 1SO 9000 certificate and 27 firms (32 percent) produced according to the TSE (Turkish Standards Institute) (Table-10)

Ignorance of international standards not only implies exclusion from the high income markets of the OECD countries but also disrespect to national consumers whose interests, in terms of quality, are violated.

Table-10. Quality Standard Certificates Possessed

	Number of Firms	**%**
TSE (Turkish Standards Institute)	27	32.1
ISO 9000	2	2.4
CE	-	-
Others	15	17.8
Possess No Certificates	40	47.6
TOTAL	**84**	**100**

CONCLUSIONS

According to the results of questionnaire, the major impediment to industrial growth and exports seems to be the financial bottlenecks faced by the KOBIs in Nazilli. In early 1980's and before, bureaucratic procedures also had discouraged many businesspeople and still continuous to be a serious bottleneck, but not as serious as it used to be inadequacy of human resources is not an easy problem to tackle with. It takes time to educate/train people. But, through learning-by-doing this problem can be overcome to some extent. The low degree of use of international standards certificates indicates that still many entrepreneurs's vision is short-sighted and ignores or is unaware of the great opportunities in the foreign markets, especially in the OECD countries. Turkish authorities must formalize policies to encourage and promote the use of international standards.

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