Resilient SMEs Strong Tomorrows

Needs Analysis Report

Needs Analysis Report

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Executive Summary

This study aims to perform a needs analysis for the trainings to be organized in the scope of the "Resilient SMEs Strong Tomorrows (RSST)" project, which is implemented by TÜRKONFED in cooperation with SPARK and funded by the Qatar Fund for Development. The objective of the DSSF project is to build resilience of 50 SMEs, including 25 Syrian SMEs, against economic effects of natural disasters and epidemic diseases, and to improve cooperation between these. The other major objectives of the project include ensuring social cohesion in the business world, improving economic inclusiveness, preventing loss of jobs, boosting digital transformation and diversifying the labor market.

In the scope of this need analysis, the existing vulnerabilities of SMEs will be identified, and training modules will be developed accordingly. For this purpose, we studied the industries in which the SMEs were most actively involved in, the employ ment and productivity dynamics, export activities, indicators of innovation and financial status of these enterprises. This was followed by a SWOT (strengths, weaknesses, opportunities and threats) analysis of SMEs using descriptive statistics and other sources available in literature. In this analysis, the following weaknesses were identified among the SMEs in Turkey: low productivity, lack of knowledge on marketing and branding, problems of human resources and organizational issues, lack of export infrastructure, restricted access to bank loans and alternative sources of financing, lack of sufficient use of opportunities brought by digitalization, lack of experience on preparing project for national and international funds. Besides, Syrian SMEs are faced with challenges in understanding Turkish legislation on commerce and the world of business.

In addition to existing weaknesses, the SMEs in Turkey are also faced with risks arising from digitalization in foreign trade and manufacturing today and in the near future. Particularly the digitalization in manufacturing and increasingly flexible manufacturing capabilities of large companies may mean that they will be able to compete against SMEs in areas in which SMEs were unrivalled. As a result, it is expected that international large companies will rely less and less on SMEs in developing countries. Besides, the rapid developments in information technologies and globalization mean more exposure of service manufacturing SMEs to global competition.

To strengthen the weaknesses of SMEs in Turkey, and to make sure they can better cope with potential risks in the future, the following trainings will be helpful in the scope of the RSST project: trainings on marketing and branding, trainings on human resources and institutionalization, trainings on quality management and process development, trainings on foreign trade, trainings on financial management and economic literacy, trainings on writing projects for national and international projects, trainings on new digital technologies. Besides, offering consultancy to SMEs established with Syrian capital on applicable law and legislation on business will help them perform better in the world of business in Turkey.

Yönetici Özeti

Bu çalışmada TÜRKONFED ve SPARK ortaklığında yürütülen ve Katar Kalkınma Fonu tarafından finanse edilen "Dayanıklı KOBİ'ler, Güçlü Yarınlar (DKGY)" projesi kapsamında oluşturulacak eğitimler için ihtiyaç analizi yapılması hedeflenmiştir. DKGY projesi kapsamında yarısı Suriye sermayeli olmak üzere toplam 50 KOBİ'nin doğal afetlerin ve salgın hastalıkların ekonomik etkilerine karşı dirençlerinin artırılması ve bu iki KOBİ türü arasındaki iş birliklerinin güçlendirilmesi amaçlamaktadır. İş dünyasında sosyal bütünlüğün sağlanması, ekonomik kapsayıcılığın artırılması, istihdam kaybının önlenmesi, dijital dönüşümün sağlanması ve emek piyasasının çeşitlendirilmesi projenin diğer önemli hedefleri olarak belirlenmiştir.

İhtiyaç analizi kapsamında KOBİ'lerin mevcut kırılganlıklarının tespit edilerek uygun eğitim modüllerinin oluşturulması amaçlanmaktadır. Bu amaçla KOBİ'lerin en çok faaliyet gösterdiği sektörler, istihdam ve verimlilik dinamikleri, ihracat aktivitesi, inovasyon göstergeleri ve finansal durumları incelenmiştir. Bunu takiben tanımlayıcı istatistikler ve literatürdeki diğer kaynaklar kullanılarak KOBİ'ler için bir GZTF (güçlü, zayıf, fırsatlar, tehditler) analizi yapılmıştır. Analiz sonucunda Türkiye'deki KOBİ'lerin zayıf yanlarının şunlar olduğu tespit edilmiştir: düşük verimliliğe sahip olmaları; pazarlama ve markalaşma konusundaki bilgi eksikleri; insan kaynakları ve organizasyonel sorunlar; ihracat yapma konusunda yetersiz altyapıları; banka kredilerine ve alternatif finansman kaynaklarına erişimlerinin kısıtlı olması; dijitalleşmenin ortaya çıkardığı imkanlardan yeteri kadar faydalanamamaları; ulusal ve uluslararası fonlara proje hazırlama konusunda deneyimsiz olmaları. Bunların yanında Suriyeli KOBİ'ler Türkiye'deki ticaret mevzuatlarını ve iş yaşamını anlama konusunda zorluk çekmektedirler.

Türkiye'deki KOBİ'lerin mevcut zayıflıklarının yanında yakın gelecekte ve günümüzde dış ticaret ve imalattaki dijitalleşmeden kaynaklı riskler de bulunmaktadır. Özellikle imalattaki dijitalleşme ile büyük şirketlerin artan esnek üretim yetenekleri KOBİ'lerle daha önce rekabet etmedikleri alanlarda rekabet etmeye başlamalarına neden olabilecektir. Bunun sonucu olarak uluslararası büyük şirketlerin gelişmekte olan ülkelerdeki KOBİ'lere olan ihtiyaçlarının azalması beklenmektedir. Bunun yanında enformasyon teknolojilerinde görülen hızlı ilerlemeler ve globalleşme hem mal hem de hizmet üreten KOBİ'lerin küresel rekabete daha fazla maruz kalmalarına neden olmaktadır.

Türkiye'deki KOBİ'lerin zayıf yanlarını güçlendirmek ve ileride karşılaşabilecekleri risklerle daha iyi baş edebilmelerini sağlamak için DKGY projesi kapsamında şu başlıklardaki eğitimlerin yararlı olabileceği düşünülmektedir: pazarlama ve markalaşma ile ilgili eğitimler; insan kaynakları ve kurumsallaşmaya ilişkin eğitimler; kalite yönetimi ve süreç geliştirme eğitimleri; dış ticaret konusunda eğitimler; finansal yönetim ve ekonomi okur yazarlığı eğitimleri; ulusal ve uluslararası fonlar için proje yazım eğitimleri; yeni dijital teknolojilerle ilgili eğitimler. Bunların yanında Suriye sermayeli KOBİ'ler için ticaret hukuku ve mevzuatları hakkında danışmanlık, bu firmaların Türkiye'deki iş yaşamında daha başarılı olmalarına katkı sağlayacaktır.

موجز المدير

تهدف هذه الدراسة إلى إجراء تحليل لاحتياجات التدريبات التي سيتم إنشاؤها في نطاق مشروع "المستقبل القوي مع الشركات الصغيرة والمتوسطة المرنة" المنفذ بالشراكة مع (DKGY) و (TÜRKONFED) والممول من قبل صندوق قطر للتنمية. في نطاق مشروع (SPARK) يُهدف إلى زيادة مرونة وصمود 50 شركة صغيرة ومتوسطة (DKGY)، الحجم، نصفها من أصحاب رأس المال السوريين، ضد الآثار الاقتصادية للكوارث الطبيعية والأوبئة وتعزيز التعاون بين هذين النوعين من الشركات الصغيرة والمتوسطة. ومن الأهداف المهمة الأخرى للمشروع، ضمان التماسك الاجتماعي في عالم الأعمال، وزيادة الشمول الاقتصادي، ومنع فقدان الوظائف، وضمان التحول الرقمي، وتنويع سوق العمل.

في نطاق تحليل الاحتياجات، يُهدف إلى تحديد نقاط الضعف الحالية للشركات الصغيرة والمتوسطة وإنشاء أنماط تدريبية مناسبة. ولهذا الغرض، تم النظر في القطاعات التي تعمل فيها الشركات الصغيرة والمتوسطة في الغالب، وديناميكيات التوظيف والإنتاجية، ونشاط التصدير، ومؤشرات الابتكار، والوضع المالي. بعد ذلك، إجراء تحليل للشركات الصغيرة (نقاط القوة والضعف والفرص والتهديدات)(GZTF) والمتوسطة باستخدام الإحصاء الوصفي ومرجعيات أخرى في المصادر. أظهر التحليل أن نقاط ضعف الشركات الصغيرة والمتوسطة في تركيا هي كما يلي: كفاءة منخفضة؛ نقص المعرفة حول التسويق والعلامات التجارية؛ المشاكل في الموارد البشرية والمشاكل التنظيمية. عدم كفاية البنية المعلوماتية الأساسية في موضوع التصدير؛ الوصول المحدود إلى القروض المصرفية ومصادر التمويل البديلة؛ عدم القدرة على الاستفادة بشكل كافٍ من الفرص التي توفرها الرقمنة؛ عدم وجود الخبرة حول إعداد المشاريع لصناديق التمويل الوطنية والدولية. إلى جانب ذلك، تواجه الشركات السورية الصغيرة والمتوسطة صعوبة في فهم اللوائح التجارية والحياة التجارية في تركيا.

يوجد إلى جانب أوجه الضعف الحالي للشركات الصغيرة والمتوسطة في تركيا، مخاطر ناجمة عن الرقمنة في التصنيع والتجارة الخارجية، في يومنا الحالي وفي المستقبل القريب. قد تؤدي القدرات الإنتاجية المرنة المتزايدة للشركات الكبيرة إلى التنافس مع الشركات الصغيرة والمتوسطة في المجالات التي لم تتنافس فيها من قبل، خاصة مع الرقمنة في التصنيع. ونتيجة لذلك، من المتوقع أن تنخفض احتياجات الشركات الدولية الكبيرة للشركات الصغيرة والمتوسطة في البلدان النامية. بالإضافة إلى ذلك، يتسبب التقدم السريع والعولمة في تكنولوجيا المعلومات في جعل الشركات الصغيرة والمتوسطة التي تنتج السلع والخدمات أكثر عرضة للمنافسة العالمية.

لتعزيز نقاط ضعف الشركات الصغيرة والمتوسطة في تركيا ولضمان قدرتها على التعامل بشكل أفضل حتى مع المخاطر التي قد تواجهها، وفي نطاق مشروع المستقبل القوي مع الشركات الصغيرة والمتوسطة المرنة، يُعتقد أن التدريبات على الموضوعات التالية يمكن أن تكون مفيداً: التدريبات المتعلقة بالعلامات التجارية والتسويق؛ التدريبات على الموارد البشرية والمؤسساتية؛ تدريبات على إدارة الجودة وتطوير العمليات؛ تدريبات على التجارة الخارجية؛ التدريب على الإدارة المالية ومحو الأمية الاقتصادية؛ تدريبات كتابة المشروع للصناديق المالية الوطنية والدولية؛ تدريبات على التقنيات الرقمية الجديدة. إلى جانب ذلك، تقديم المشورة للشركات الصغيرة والمتوسطة ذات أصحاب رأس المال السوريين بشأن القانون التجاري والتشريعات، وهذا سيساهم في جعل الحياة التجارية في تركيا لهذه الشركات أكثر نجاحاً.

1. Introduction

Like the rest of the world, Turkey was adversely impacted by the Coronavirus, both in terms of economy and social life. Following the first peak of the epidemic, the appearance of global growth in 2020 weakened due to the decline in foreign trade, tourism and domestic demand; ambiguity and severe financial conditions have caused a discernible decline in global economic activity. Domestic and transnational travel bans to prevent the spread of the epidemic caused serious employment losses in the service sector, while adversely impacting supply-chain channels related to procurement prices and production. Contrarily, thanks to the rapid credit growth that was promoted in 2020, Turkey has positively distinguished itself from many countries of the world with an annual growth rate of 1.8 percent. As of the year 2021, the Coronavirus epidemic is still continuing. In the upcoming period, the speed of vaccination studies and the efficacy of current vaccines shall be indicative of the economic panorama seen in 2021.

The economic slowdown due to the pandemic in 2020 caused Turkey's current issues to intensify. With respect to European countries, Turkey has a younger population with a lower dependency ratio. Although Turkey's current demographics are promising in terms of higher potential for growth speed, Turkey cannot utilize its labor force in an efficient manner. According to January 2021 data, the participation level in the labor force decreased by almost 3 percent due to the pandemic, dropping down to 49.5 percent. Additionally, the broadly defined unemployment rate has risen to 30.2 percent as of January 2021.

The high growth rates seen after 2002, which were promoted with the abundance of liquidity in the world and positive microeconomic and political advancements in Turkey, were difficult to recapture after 2011. Additionally, Turkey's gross domestic product per capita in USD was $3,581 in 2002, and then exhibited a rapid rise to $12,582 in 2013; however, due to the systematic devaluation of the Turkish Lira and low growth rates, it fell back down to $8,599 in 2020, to levels seen 13-14 years before. The vicious cycle that entraps Turkey is difficult to break because the country's export performance and middle/high-tech goods production capacities are not at the desired levels.

Aside from structural issues, Turkey has been undergoing an economic and sociocultural transformation due to the roughly 3.7 million Syrian refugees that have sought asylum in Turkey due to the Syrian civil war that started in 2011. This extensive migration has given rise to both risks and opportunities in regards to the Turkish economy. Syrian refugees play a role in the Turkish economy, typically working in labor-intensive sectors due to their generally low education level, the language barrier, and bureaucratic issues (Caro, 2020; Erdoğan, 2020; Kirişçi and Uysal, 2019). Nonetheless, Syrian entrepreneurs have started 9,030 Syrian-capitalized companies between the years 2013 and 2020.

Along with the pressure of the pandemic, the digitalization process that started in the 2000s is becoming more diffusive across different sectors of the economy and throughout diverse business processes. While SMEs constitute half of GDP figures in developing countries, they also play a significant part in terms of employment. Nearly 99.8 percent of Turkey's business ventures are comprised of micro-, small- and mid-scale companies. As of 2019, 50.4 percent of total turnover, about 72.4 percent of employment, and nearly 44 percent of the added value in Turkey's non-agricultural sectors can be traced back to SMEs. On the other hand, while an important part of SMEs hold low efficiency and pricing levels, they demonstrate a lower adoption of current technologies and innovation-related activities. SMEs also exhibit weak performance in terms of internationalization and participation in global value chains.

SMEs contribute to the development of the entrepreneurship ecosystem and competition thanks to their dynamic structure. The ability of SMEs to adapt to technological developments is a prerequisite for being competitive and sustainable. When evaluated within this framework, supporting the enhancement of efficiency, risk management, competitiveness, and innovation capacities of SMEs in many developing and developed countries is key to the fulfilment of development targets. This study aims to perform a needs analysis for the training to be organized as part of the "Resilient SMEs, Strong Tomorrows (RSST)" project, which is implemented by TÜRKONFED in cooperation with SPARK and funded by the Qatar Fund for Development.

The objective of the RSST project is to foster resilience among 50 SMEs, including 25 Syrian SMEs, against the economic effects of natural disasters and epidemic diseases, and to improve cooperation between these SMEs. Other major objectives of the project include ensuring social cohesion in the business world, promoting economic inclusiveness, preventing loss of jobs, boosting digital transformation, and diversifying the labor market.

Within the scope of this needs analysis, the existing vulnerabilities of SMEs will be identified, and training modules will be developed accordingly. This report consists of six parts. In the second part that follows the introduction, the current status of the SMEs that are active in Turkey is discussed. In this respect, sectors that SMEs are mostly active in, their employment dynamics, sectorial efficiencies (added value per employee), export activities, and innovation indicators are evaluated within the framework of descriptive statistics. The third part of the report discusses the financial status and risk analysis of SMEs, while the fourth part evaluates Turkey's labor market and Syrian-capitalized business dynamics. The fifth part presents SMEs' strengths and weaknesses, and the final part offers recommendations on training needs.

2. Status of SMEs in Turkey

The definition of SME was updated with a decree issued by the Council of Ministers (2018/11828) in June 2018. With this new decree, the annual net sales volume or financial balance-sheet criteria upper limit necessary for a business to be defined as an SME was increased from 40 million TRY to 125 million TRY; thus a higher number of companies became eligible to be classified as SMEs. In this respect, businesses that are classified as micro-, small- or mid-scale are grouped according to the threshold values laid out in Table 1.

When calculated according to the threshold values provided in Table 1, a total of 3.2 million non-agricultural SMEs were operational in Turkey as of 2019, while SMEs accounted for 99.8 percent of the total number of business ventures. When we analyze the situation based on the scale in Table 2, the share of micro businesses in the total number of ventures is 92.3 percent, while small- and mid-scale companies account for 6.4 percent and 1.1 percent of the total number of business ventures, respectively. SMEs account for 72.4 percent of total employment, 50.4 percent of total turnover, and 44 percent of added value.

In this part, the sectors that SMEs are mostly active in, their employment dynamics, sectorial efficiency (added value per employee), export activity and innovation indicators are provided within the framework of descriptive statistics.

Table 1: Official Description of SMEs in Turkey

Criteria	Micro-Scale SME	Small-Scale SME	Mid-Scale SME
Number of Employees	< 10	< 50	<250
Annual Net Sales Volume	≤ 3 Million TRY	≤ 25 Million TRY	≤ 125 Million TRY
Annual Financial Balance-Sheet Total	≤ 3 Million TRY	≤ 25 Million TRY	≤ 125 Million TRY

Table 2: Number of business ventures in non-agricultural sectors based on business scale, turnover, added value with factor cost, number of employees, and added value per employee (2019)

Scale	Number of business ventures	Turnover	Added value with factor cost	Number of employees	Added value per employee
Micro	2,979,417	1,063,492,546,716	123,219,566,278	5,620,395	21,924
Small	207,634	1,733,129,451,114	205,754,940,534	3,110,953	66,139
Middle	34,182	1,710,134,944,016	280,437,623,907	2,597,928	107,947
SME Total	3,221,233	4,506,756,941,846	609,412,130,719	11,329,276	53,791
Large	7,188	4,433,836,622,62	776,484,687,417	4,327,295	179,439
Their percentage in the total (%)					
Micro	92.3	11.9	8.9	35.9	24.8
Small	6.4	19.4	14.8	19.9	74.7
Middle	1.1	19.1	20.2	16.6	121.9
SME Total	99.8	50.4	44.0	72.4	60.8
Large	0.2	49.6	56.0	27.6	202.7

2.1. Sectorial Distribution

When SMEs are classified according to the added turnover, their highest sectors of activity are the following: wholesale and retail (G), manufacturing (C), construction (F), and transportation and storage (H). The total non-agricultural turnover share of these SMEs that are active in these sectors is around 44 percent. The share of these four sectors in SME turnover is around 86 percent. The wholesale and retail trade sector constitutes more than half of SME total turnover. When we look at OECD countries, it is observed that SMEs are generally more active in service sectors with lower input costs and resource requirements, including wholesale and retail and construction. SME activity is generally less dense in sectors that require capital, skill, and a larger scale of production.

On the other hand, small-scale companies may be dominant in sectors such as legal, accounting and management services, as well as advertising, market research and other professional, scientific and technical activities that provide knowledge and skill-oriented services. In Figure 1, where turnover distribution is reviewed based on a sectorial breakdown, it is observed that SME volume is high in certain sectors. For instance, while the total sectorial turnover share of SMEs that are active in other service activity sectors is 96 percent, their share in electrical, gas, steam and air-conditioning sector turnover is around 12 percent. The same can be observed in employment distribution, which is presented in Figure 2.

Figure 1: Sectorial SME distribution based on turnover (2018)

Figure 1: Sectorial SME distribution based on turnover (2018)

Figure 2: Sectorial SME distribution based on employment (2018)
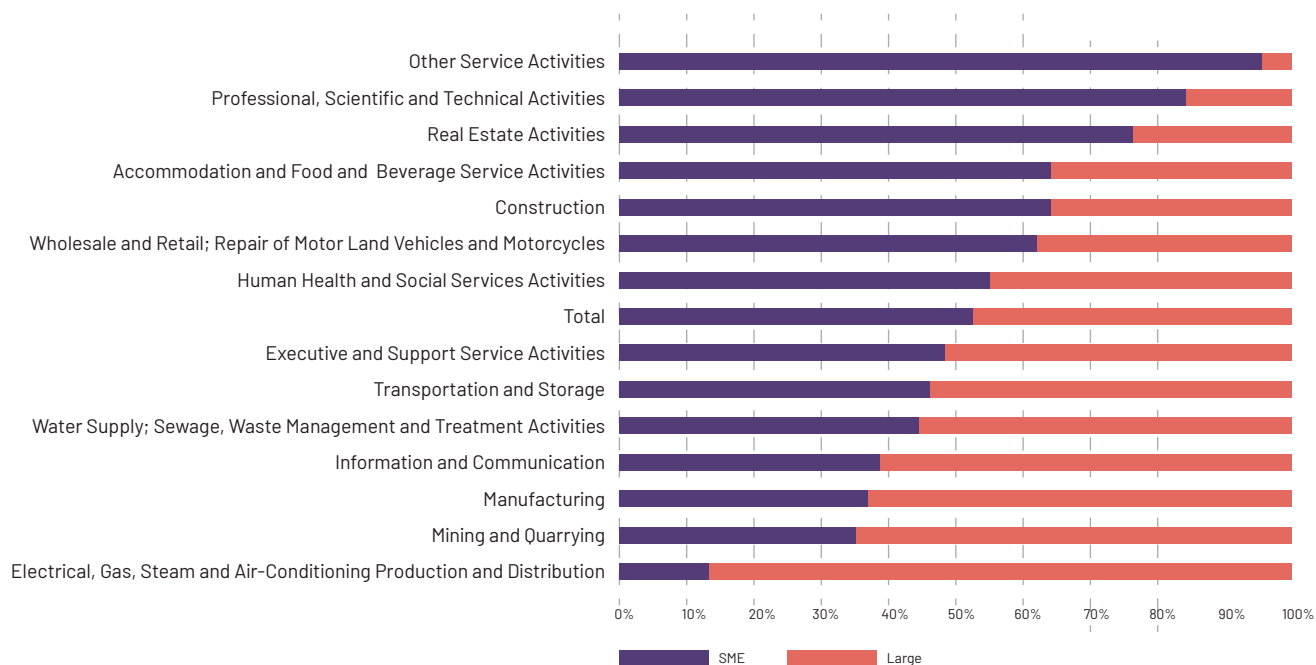
Figure 2: Sectorial SME distribution based on employment (2018)
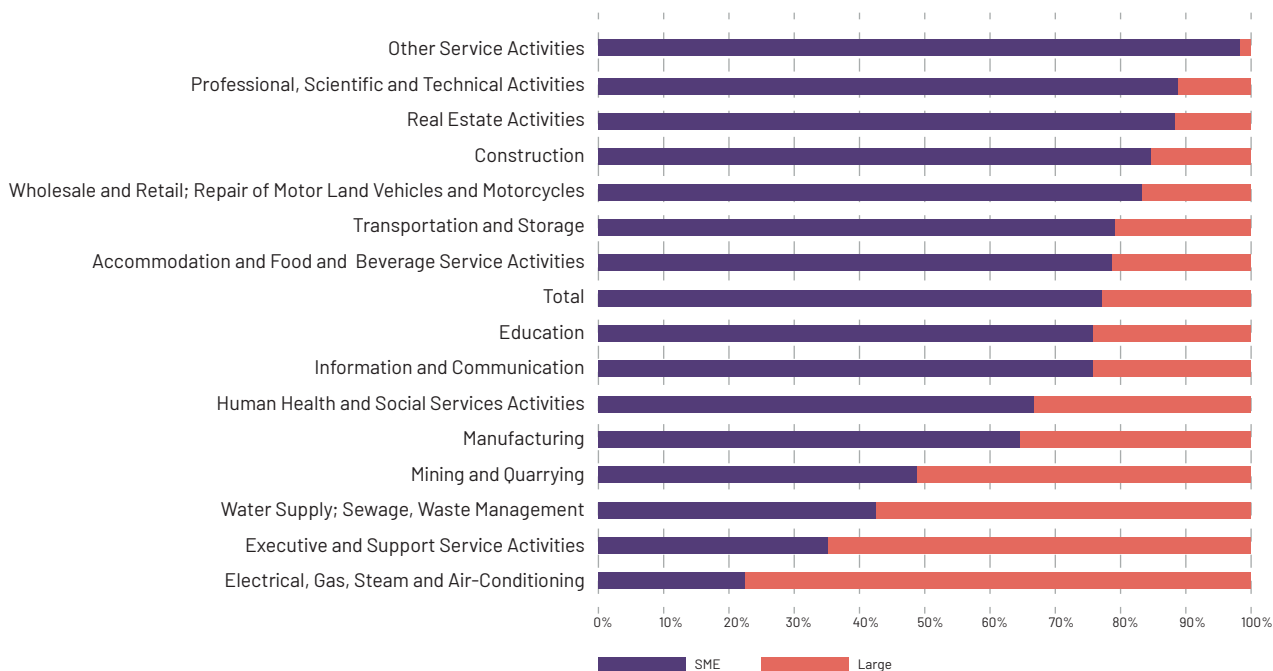
Figure 3: SME share in regional turnover (non-agricultural)(2018)
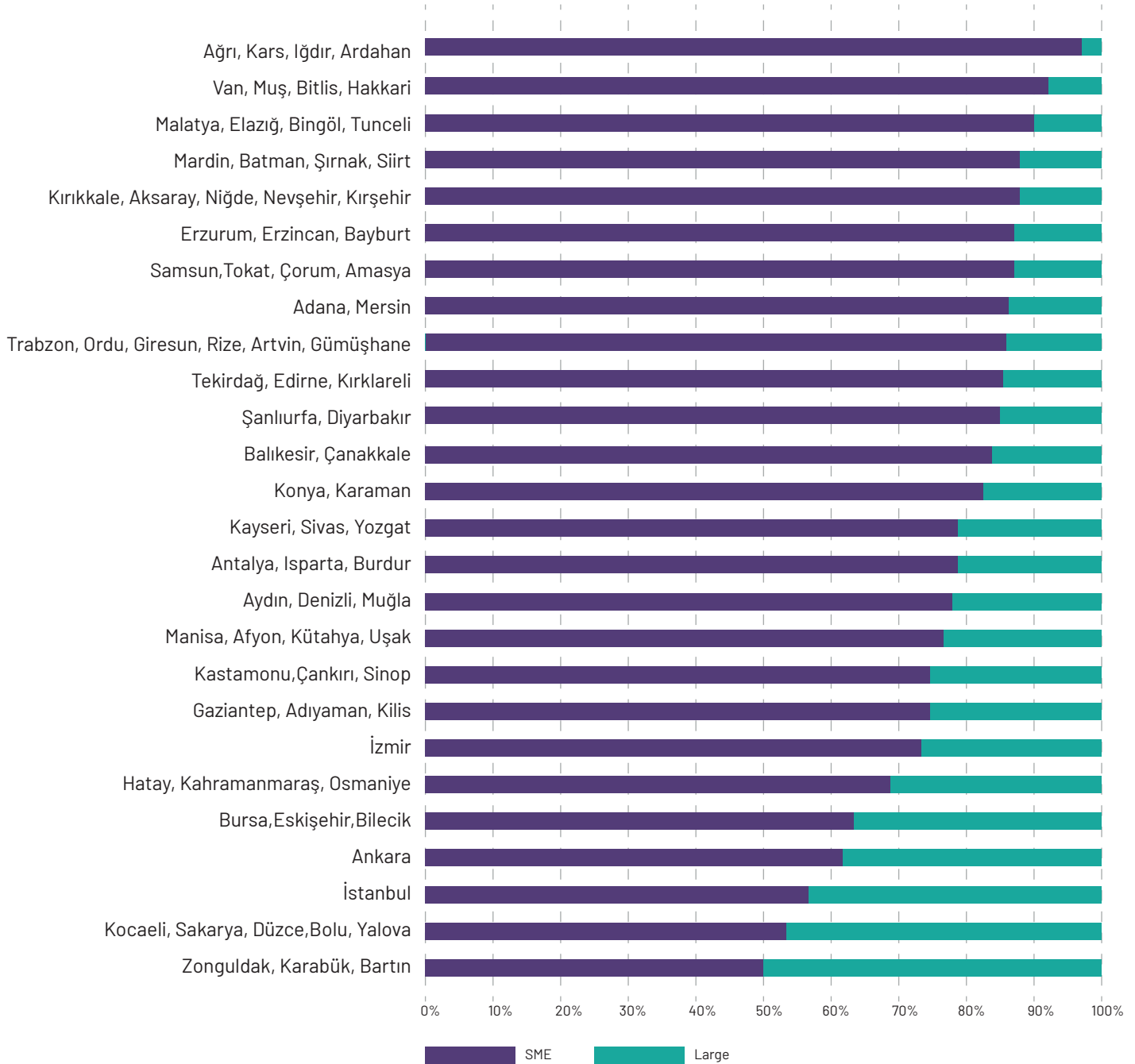
2.2. Regional Distribution

When we take a look at the distribution of SME business venture numbers by city based on annual industry and service statistics of 2018, the most densely populated cities in terms of venture centers are Istanbul (25%), Ankara (7.3%), Izmir (6.4%) and Antalya (4%). The SMEs that are active in these cities account for nearly 47 percent of the total SME number. In non-agricultural sectors, the SMEs that are active in these four cities account for nearly 61 percent of total SME turnover.

Large-scale companies that are active in these cities account for nearly 74 percent of total turnover delivered by large-scale businesses. Parallel to the fact that large-scale companies are rather active in more developed regions, economic activity in less developed regions is largely attributable to SMEs. For instance, as seen in Figure 3, SMEs account for 97 percent of the non-agricultural economic activity in the region comprising Ağrı, Kars, Iğdır and Ardahan (NUTS2 TRA2), while the rate is 57 percent in Istanbul.

In Table 3, when we take a look at the regional breakdown in NUTS2, the sector in which SMEs seem most active is wholesale and retail trade. At second place on the list is the manufacturing sector, while construction is observed at third place. Additionally, in parallel with large-scale businesses' low activity level in regions outside Istanbul, 90 to 100 percent of retail sector turnover is accounted for by SMEs.

Table 3: Sectors in which SMEs are most active based on regional scale (2018)

Region	NUTS2	Sector 1	Turnover$_{sr}$ / Total Turnover	Sector 2	Turnover$_{sr}$ / Total Turnover	Sector 3	Turnover$_{sr}$ / Total Turnover
İstanbul	TR10	G	14.44%	C	%4.78	F	2.38%
Tekirdağ,Edirne,Kırklareli	TR21	G	0.42%	C	%0.30	D	0.08%
Balıkesir, Çanakkale	TR22	G	0.42%	C	%0.14	F	0.05%
İzmir	TR31	G	2.19%	C	%0.87	F	0.26%
Aydın, Denizli, Muğla	TR32	G	0.90%	C	%0.37	F	0.12%
Manisa, Afyon, Kütahya, Uşak	TR33	G	0.56%	C	%0.34	H	0.08%
Bursa, Eskişehir, Bilecik	TR41	G	1.26%	C	%0.91	F	0.20%
Kocaeli, Sakarya, Düzce, Bolu, Yalova	TR42	G	1.56%	C	%0.83	F	0.23%
Ankara	TR51	G	2.67%	F	%1.38	C	0.84%
Konya, Karaman	TR52	G	0.81%	C	%0.40	F	0.11%
Antalya, Isparta, Burdur	TR61	G	0.90%	N	%0.22	C	0.20%
Adana, Mersin	TR62	G	1.42%	C	%0.40	F	0.19%
Hatay, Kahramanmaraş, Osmaniye	TR63	G	0.91%	C	%0.31	F	0.09%
Kırıkkale, Aksaray, Niğde, Nevşehir, Kırşehir	TR71	G	0.32%	C	%0.10	H	0.04%
Kayseri, Sivas, Yozgat	TR72	G	0.62%	C	%0.26	F	0.10%
Zonguldak, Karabük, Bartın	TR81	G	0.23%	C	%0.08	F	0.03%
Kastamonu, Çankırı, Sinop	TR82	G	0.10%	C	%0.04	F	0.02%
Samsun, Tokat, Çorum, Amasya	TR83	G	0.69%	C	%0.16	F	0.08%
Trabzon, Ordu, Giresun, Rize, Artvin, Gümüşhane	TR90	G	0.48%	C	%0.16	F	0.11%
Erzurum, Erzincan, Bayburt	TRA1	G	0.15%	F	%0.05	C	0.02%
Ağrı, Kars, Iğdır, Ardahan	TRA2	G	0.10%	F	%0.02	H	0.01%
Malatya, Elazığ, Bingöl, Tunceli	TRB1	G	0.25%	F	%0.09	C	0.08%
Van, Muş, Bitlis, Hakkari	TRB2	G	0.22%	F	%0.12	C	0.03%
Gaziantep, Adıyaman, Kilis	TRC1	G	0.99%	C	%0.49	F	0.11%
Şanlıurfa, Diyarbakır	TRC2	G	0.52%	F	%0.17	C	0.14%
Mardin, Batman, Şırnak, Siirt	TRC3	G	0.39%	C	%0.09	H	0.09%

sr: sector-region

2.3. Efficiency

The difference between the efficiency levels of SMEs and large-scale companies is a significant obstacle on the path to economic growth and in the elimination of income inequality. To establish the efficiency that is deterministic of long-term growth, it is essential to generate policies that focus on SMEs' efficiency issues. As can be observed in Table 4, added value per employee, which is considered as an indicator of labor efficiency, demonstrates an increase directly proportional to the company scale. In Turkey, the average efficiency that is calculated in non-agricultural sectors accounts for 30 percent of large-scale companies, while this figure can rise to 56 percent in certain service sectors. The difference in efficiency between micro-scale and large-scale businesses is observed to be quite high. Especially in the manufacturing industry, increasing intra-sectorial efficiency levels and maximizing production in sub-sectors that have high efficiency both carry strategic significance (KOSGEB, 2015).

Difference of efficiency between large-scale companies and SMEs is generally more tangible in the manufacturing sector where scale economy has more significance, as opposed to the service sector. In a 2008-2014 analysis of OECD countries, the efficiency level of micro-scale businesses corresponds to nearly 40 percent of large-scale companies in the manufacturing sector, while this rate can rise up to 68 percent in the service sector (Marchese et al., 2019). The average efficiency of small and middle-scale businesses that are active in the service sector is comparable to large-scale companies. When sub-categories of the manufacturing sector are analyzed, the efficiency difference between micro- and large-scale businesses may differ (Marchese et al., 2019). When assessed in general, the efficiency difference between SMEs and large-scale businesses is observed to be less in the retail sector, which harbors lower capital volume and higher labor efficiency.

An increase of efficiency in SMEs is dependent on factors such as management skills, labor skills, leverage of information and communication technologies, and R&D investments. Management skills and implementations like strategic planning, human resources management, accounting, marketing, logistics, and quality control are listed as factors that boost efficiency in SMEs

*(Bloom ve Van Reenen, 2010; Peterson ve Van Fleet, 2004).

On the other hand, workplace-oriented training that aims to boost labor skill levels is good for increasing efficiency, while providing a positive impact in terms of information and technology use and opening up to international markets.

An additional factor that plays a role in efficiency increase is SMEs' participation in the global value chain. With participation in global value chains, SMEs are able to have a larger client base while increasing their productivity through access to technology and information via the channel of large-scale companies. SME issues regarding access to financing and the informal economy are both related to low efficiency. Efficiency is lower and unqualified labor use is quite common in businesses that operate under an informal economy. While informal economies offer cost effectiveness to businesses in developing countries, thus promoting their chance of survival, it causes the low-efficiency production model to become more prevalent. Access to financing is becoming more difficult, especially in sectors where an informal economy is widespread.

Table 4: Added value per employee based on company scale (2019)

	SME	Large	Total	SME/Large Added Value Ratio (%)	Micro/Large Added Value Ratio (%)
Mining and Quarrying	91,805	308,580	205,008	29.8%	6.7%
İmalManufacturing	67,322	208,779	119,678	32.2%	12.1%
Electrical, Gas, Steam and Air-Conditioning Production and Distribution	616,587	650,248	642,911	94.8%	50.8%
Water Supply; Sewage, Waste Management and Treatment Activities	-	247,720	179,188	-	9.7%
Construction	44,046	204,112	67,249	21.6%	9.9%
Wholesale and Retail	49,926	167,017	70,497	29.9%	12.3%
Transportation and Storage	33,112	207,586	71,587	16.0%	7.9%
Accommodation and Food and Beverage Service Activities	31,685	99,257	46,959	31.9%	13.4%
Information and Communication	113,014	463,545	216,931	24.4%	9.4%
Real Estate Activities	88,624	423,947	122,183	20.9%	3.3%
Professional, Scientific and Technical Activities	59,787	154,525	68,714	38.7%	25.7%
Executive and Support Service Activities	47,437	64,215	58,258	73.9%	39.1%
Education	40,714	108,767	60,551	37.4%	16.1%
Human Health and Social Services Activities	50,853	86,809	63,366	58.6%	55.7%
Culture, Art, Entertainment, Leisure and Sports	296,562	693,401	348,517	42.8%	3.4%
Other Service Activities	12,888	91,134	13,615	14.1%	8.8%
Total	53,791	179,439	**88,519**	30.0%	12.2%

Table 5: Companies' share in employment based on scale and sector (percentage, 2019)

	Mikro	Small	Middle	Large
Mining and Quarrying	0,1%	0,1%	0,2%	0,4%
Manufacturing	5,0%	5,1%	6,3%	9,7%
Electrical, Gas, Steam and Air-Conditioning Production and Distribution	0.0%	0,0%	0,1%	0,6%
Water Supply; Sewage, Waste Management and Treatment Activities	0.1%	0,1%	0,1%	0,3%
Construction	2,9%	2,8%	1,9%	1,3%
Wholesale and Retail; Repair of Motor Land Vehicles and Motorcycles	12,3%	4,9%	2,7%	4,2%
Transportation and Storage	4,7%	1,4%	0,8%	1,9%
Accommodation and Food and Beverage Service Activities	3,6%	1,7%	1,2%	1,9%
Information and Communication	0,4%	0,3%	0,3%	0,4%
Real Estate Activities	0,5%	0,1%	0,1%	0,1%
Professional, Scientific, and Technical Activities	2,8%	1,0%	0,4%	0,4%
Executive and Support Service Activities	0,6%	0,7%	1,2%	4,7%
Education	0,4%	0,7%	0,6%	0,7%
Human Health and Social Services Activities	0,5%	0,6%	0,5%	0,9%
Culture, Art, Entertainment, Leisure and Sports	0,3%	0,1%	0,1%	0,1%
Other Service Activities	1,6%	0,3%	0,1%	0,0%
Total	35,9%	19,9%	16,6%	27,6%

2.4. Employment

SMEs play an important role in decreasing unemployment by creating jobs. 72.4 percent of total employment provided by companies operating in the non-agricultural sector in Turkey is generated by SMEs. When analyzed on a scale basis, the share of micro-enterprises in total employment is 36 percent, the share of small enterprises is 20 percent, and the share of medium-sized enterprises is 16.6 percent. When we look at the sectoral section in Table 5, employment provided by the wholesale and retail trade, manufacturing, construction, and transportation sectors, where SMEs operate intensively, constitutes approximately 50 percent of total employment.

Following the global economic crisis, approximately 4.7 million formal employment opportunities were created in non-agricultural sectors between 2010 and 2019, and 67 percent of this employment was provided by SMEs. Micro-enterprises provided 45 percent of total SME-driven employment growth and 30 percent of total employment growth. The employment-generation potential of SMEs differs considerably in different sectors. It is observed that SME-driven employment growth is mostly in the manufacturing, wholesale and retail trade, accommodation and catering, and construction sectors. When we examine the situation in terms of sector and scale, the most employment was created by medium-sized companies operating in the manufacturing industry (7.4 percent) and by micro-enterprises in the wholesale and retail trade sector (6.8 percent).

Figure 4: Contribution to employment and efficiency (2010-2019)[1]

Added Value Per Employee — SME Share in Employment (2010-2019 Period)
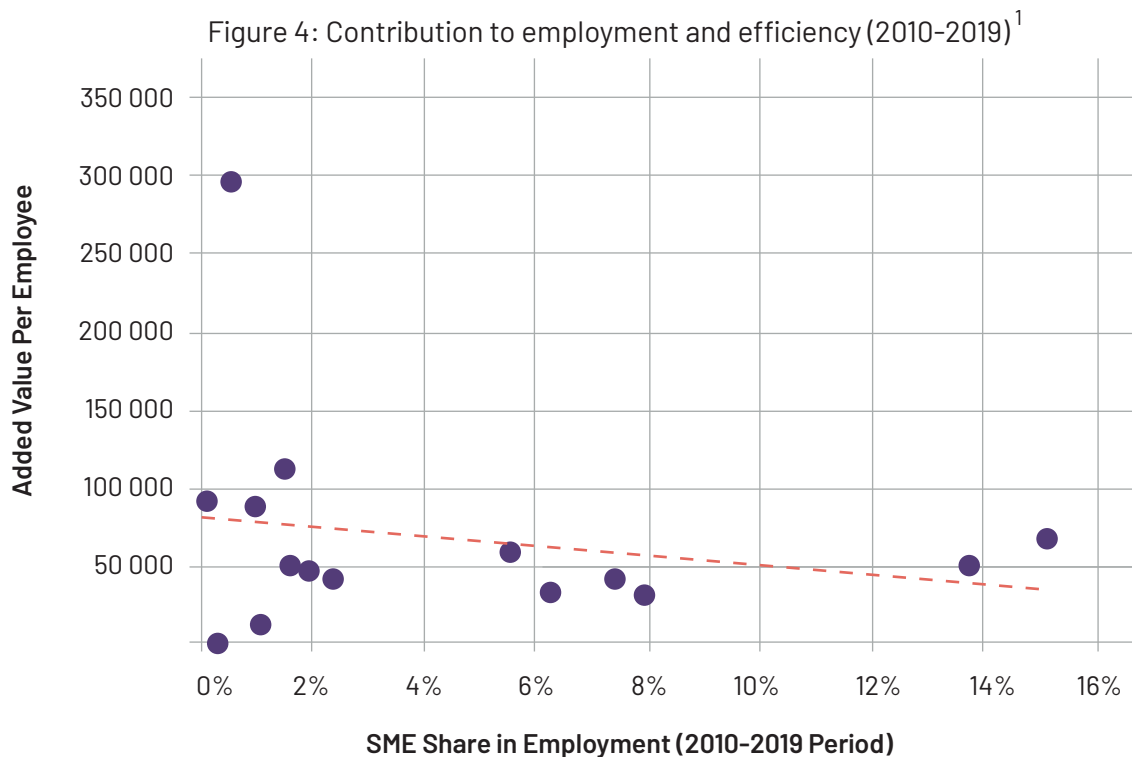
[1] The median efficiency level is calculated as 50,853 TL/number of employees

The sectors in which SMEs generate employment generally have below-average productivity levels (OECD, 2019). According to Figure 4, Table 4 and Table 5, approximately 70 percent of the jobs created by SMEs in Turkey were created through industries below the median level of productivity. SMEs have the potential to contribute to employment growth, especially through the creation of companies operating in fast-growing sectors, such as information and communication technologies (ICT). Employment created by SMEs in the information and communication industry between 2010 and 2019 accounted for only 1.5 percent of total employment creation, while employment from the construction sector accounted for 7.4 percent of new employment.

While most of the employment is created by micro-enterprises, these enterprises also have a more vulnerable structure. Therefore, it is also important that newly established companies survive, and that the employment created is sustainable. The survival chances of companies depend on internal factors, such as company productivity, management skills, profitability, age, and financial characteristics, as well as local macroeconomic indicators and sectoral dynamics, especially exchange rates.

In addition, factors affecting the survival of newly established SMEs may be different from those affecting long-established SMEs. For newly established SMEs, determinants of scale effects, such as sales growth rate, financial status and macroeconomic conditions, are relatively more important for survival than they are for older companies. On the other hand, technology intensity stands out as a determining factor in the survival of older SMEs

* (Nunes vd., 2012).

2.5. Export

The development of export-oriented growth through SMEs is limited due to the high cost of exporting and existing financial constraints on SMEs. Exportation comes with costs, such as transportation, marketing and advertising, customs and regulatory compliance processes, and the establishment of sales networks. As a result, only a small number of companies can afford these costs. Empirical studies show that exporters are more efficient, larger and pay higher salaries (Aw and Hwang, 1995; Bernard and Jensen, 1997, 1999). According to studies examining the relationship between exportation and productivity, the concepts of self-selection and learning-by-exporting particularly stand out. According to the self-selection hypothesis, more productive firms can become exporters because they can afford the high fixed costs of selling goods and services to foreign markets. The learning-by-exporting hypothesis claims that when companies enter export markets, they gain new knowledge and skills from their export partners, thereby increasing their productivity level. In parallel with the assertions of the self-selection hypothesis, it is observed in the studies that companies above a certain level of productivity engage in export (Aw et al., 2000). There are also findings in the literature that support the learning-by-exporting hypothesis (De Loecker, 2007). For example, when exporter and non-exporter companies operating within the same industry are compared, it is observed that the total sales and employment of exporters are greater (Bernard and Jensen, 1999).

When we look at exporter companies in Table 6, it is observed that 2.5 percent of the SMEs are exporters, while approximately half of the large firms engage in export activities. The percentage of exporter enterprises increases in direct proportion to the scale. In 2019, the industry with the most exporter SMEs was the retail trade sector, with 46 percent. When we examine the sectoral distribution of exports by SMEs, 58.4 percent of total exports by SMEs in 2019 were carried out by SMEs operating in the trade sector, while SMEs in the industrial sector accounted for 37.5 percent of exports. In large-scale enterprises, the industrial sector had the largest share of exports, with 69.3 percent in 2019, followed by retail trade, with 29.4 percent.

The main obstacles SMEs face in terms of export activities are competitive disadvantages observed in parallel with the low productivity levels of SMEs; insufficient international experience; organizational problems; lack of knowledge about target markets and difficulties obtaining information; insufficient demand in the export market; macroeconomic uncertainties; and insufficient incentives provided by the government

* (Paul vd. 2017).

Companies' tendency to export is also closely related to their financial situation. As export costs must be paid in advance, the working capital requirements of exporter companies are higher than those operating exclusively in the domestic market. As a result, exporter companies need higher levels of financing. Small, young companies are more at risk and exposed to more credit restrictions than their larger, older counterparts because they generally lack sufficient internal and external collateral

* Beck ve Demirguc-Kunt 2006).

Credit constraints emerge as a more serious problem, especially in developing countries, where support for SMEs is insufficient. Therefore, the tendency to export is not only related to a company's productivity, but is also closely related to financial constraints. In fact, it is not possible for companies with insufficient liquidity to enter export markets even if they are above a certain level of productivity

* (Berman ve Hericourt, 2010).

Table 6: Number of business ventures that export and their total percentages (2019)

	Non-agriculture	B-E	G
Exporting Ventures			
Micro	38,430	11,802	21,002
Small	30,728	14,394	13,447
Middle	10,520	6,395	3,354
SME Total	79,678	32,591	37,803
Large	3,373	2,273	798
Their total percentages (%)			
Micro	1,3	3,3	1,9
Small	14,8	30,4	18,9
Middle	30,8	54,6	36,0
SME Toplamı	2,5	7,9	3,2
Large	46,9	74,4	53,4

While digital transformation becomes prominent as an effective strategy for limiting the costs of foreign trade, it also contributes to the export sector via platforms that ease the inclusion/participation of SMEs into the global economy. Today, thanks to global value chains, the production process is divided into individual segments in different countries, and although global value chains are dominated by large-scale and multi-national companies, small-scale companies can still enjoy an advantage thanks to their flexible production structures. SMEs can reinforce their export activities through participation in global value chains.

2.6. Innovation

Innovation is defined as the generation, development and implementation of a new product, service or process. SMEs' adaptation to changing market conditions and customer demands, and their ability stay competitive despite these changing conditions, is dependent on innovative solutions. Providing an innovative setting for SMEs is closely associated with technology investments, business management, financial conditions, and the skill and education level of the workforce.

SMEs' high short-term expectations from their investments, and the fact that they find high-budget investments unnecessary, are the main reasons why Turkey's SMEs are insufficient in terms of R&D and innovation activities (KOSGEB, 2015). According to the results of TUIK's Innovation Research, which covers the 2016-2018 period with businesses of 10 or more employees, it is observed that 36 percent of companies are active in terms of innovation. Innovation activity is classified as product or business process novelty, while the total percentage of companies that implement novelties in such categories is seen to increase in direct proportion to business scale. 33.9 percent of ventures with 10-49 employees, 43.3 percent of ventures with 50-249 employees, and 58.2 percent of ventures with 250 or more employees have implemented innovations. When analyzed on a sectorial basis, the ratio of ventures that implement novelties in the industrial sector is higher than the service sector. In Figure 5, when obstacles to innovation activities are analyzed, 52.7 percent of businesses cite high costs, 32.9 percent cite strong market competition, and 29 percent cite the scarcity of financing resources within the venture as significant impediments.

For SMEs to implement innovation, it is imperative that they place technology investments at the center of their growth strategies. The share of R&D investments within Turkey's total GDP, which is one of the prerequisites of innovation, stands at 1 percent. This figure is far below Turkey's GDP average, which is 2.4 percent. 64 percent of the 45.9 billion worth of R&D expenditures made in 2019 was disbursed by financial and non-financial companies. When we look at these expenditures' sectorial distribution, the manufacturing sector and information and communication sector respectively account for 61 percent and 26 percent of total R&D spending. On the financing side, 84 percent of total R&D spending is financed by businesses' own equities. When we analyze the situation based on a business scale, it is observed that 33 percent of total R&D spending is disbursed by SMEs. Within OECD countries, the median value associated with SMEs' share in total R&D investments is 35 percent.

According to the results of TUIK's Information Technologies Leverage Research, over 95 percent of

all-scale Turkish businesses have internet access, while the rate of small-scale companies with 10-49 employees that have a website is 49.2 percent, mid-scale companies that have a website is 74 percent, and large-scale companies with a website is 89 percent. When companies with internet access are analyzed, 24.2 percent are accounted for by large-scale companies that receive goods/service purchase orders through computer networks, 9.2 percent are accounted for by small-scale companies, and 10.5 percent are accounted for by mid-scale firms.
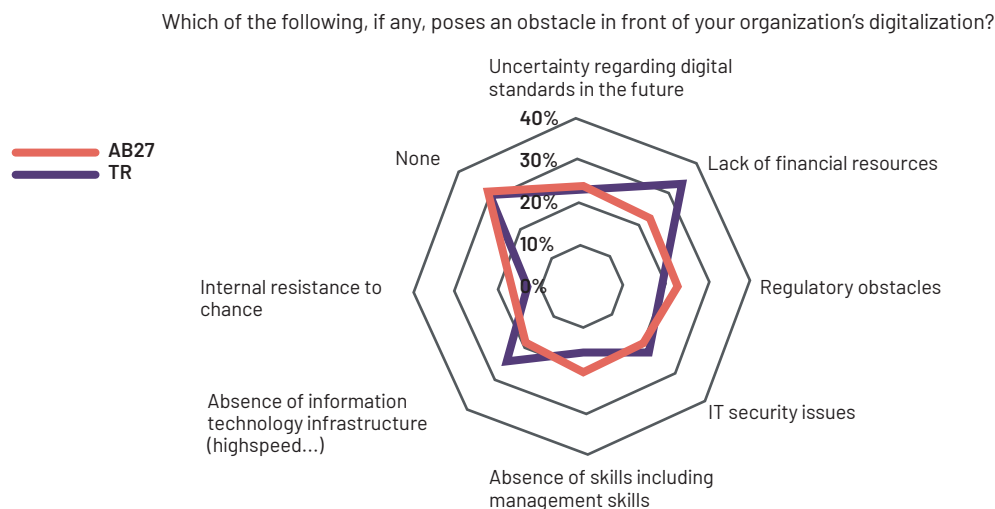
Figure 5: Obstacles to innovation activities (2016-2018)
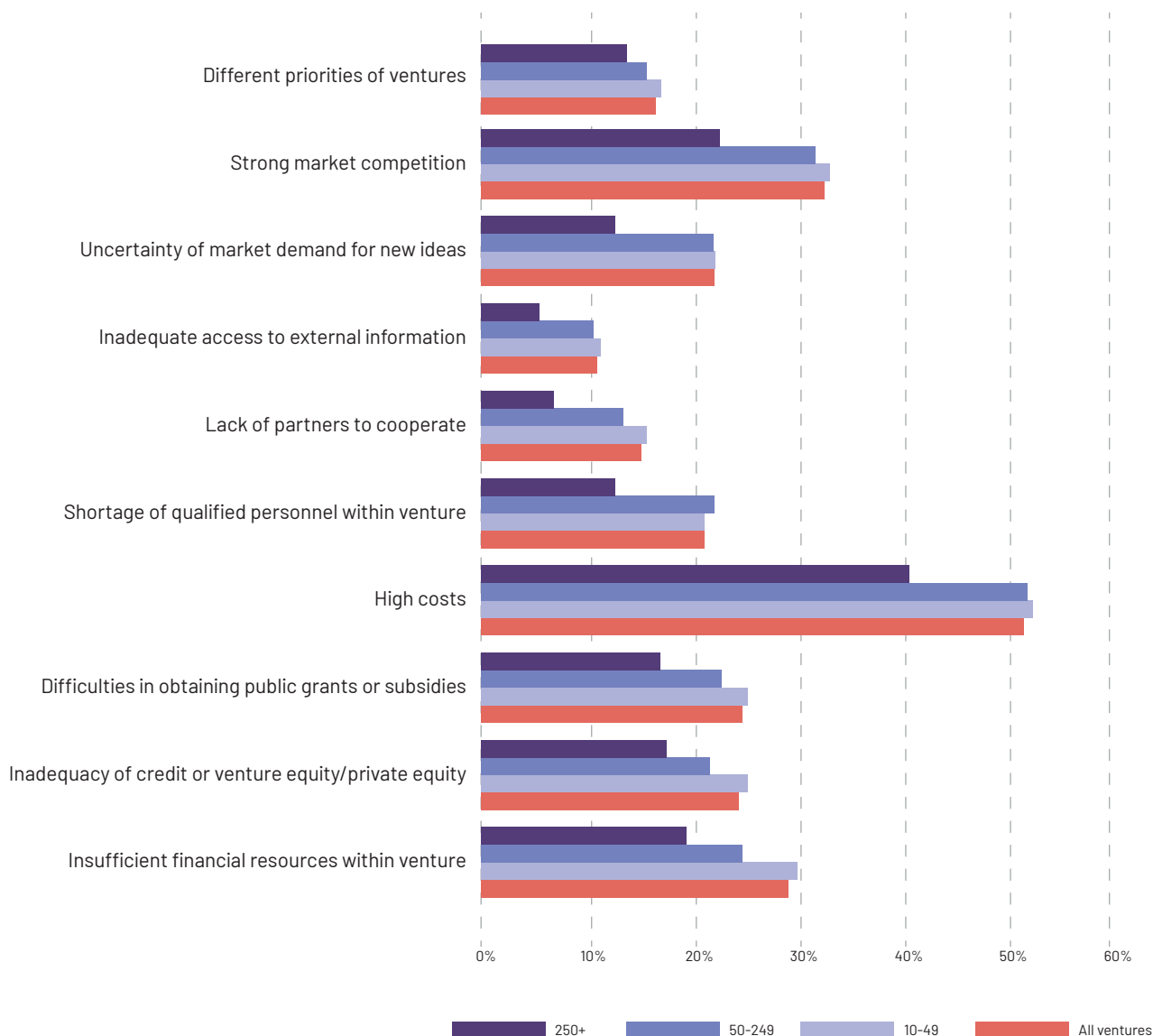
Digitalization supports the rapid growth of small-scale businesses by expediting the distribution of information and enables the emergence of new business models (OECD, 2017). With the "new normal" that started with Covid-19, digital payments became more common, while significant changes on both the consumer and manufacturer side have taken effect. In this new period, consumers' flexible character in terms of product selection is becoming more prominent; also, digitalization has gained significance in the competitive environment that has emerged due to companies' changing business models aimed at adaptation. According to a study that was conducted by the World Bank of 51 countries and nearly 10,000 companies, almost 34 percent of companies have increased their use of the internet, social media and digital platforms during the pandemic period, and 17 percent of these companies have been seen to invest in new equipment, software and digital solutions in response to the crisis. The increase in the use of digital platforms also seems to be heterogeneous among countries, and associated with business scale. The probability of using and increasing digital technologies, and the probability of investing in digital solutions, is observed to increase in direct proportion to company scale (Apedo et al., 2020).

In Turkey, around 34 percent of SMEs cite financial resource scarcity as the greatest obstacle to digitalization . In Figure 6, when other obstacles to digitalization are analyzed, insufficient information technology infrastructure, ambiguity regarding future digital standards, and safety issues with respect to information technologies are listed. When the characteristics of companies that demonstrate high digitalization are analyzed, 36.2 percent of start-ups are included in this group. What's more, it is observed that companies that exhibit growth, that have high turnover, that are positioned within the global value chain, and that are members of an industrial group or other SME business support organization, tend to demonstrate higher digitalization performance. Additionally, SMEs that have larger scales, scale-ups, or angel investor partnerships, along with SMEs that operate in the information and communication sector or the finance and insurance sectors, have higher digitalization rates.[2]

Figure 6: Obstacles to digitalization (2020)

Which of the following, if any, poses an obstacle in front of your organization's digitalization?

SMEs also make use of new technologies that are part of the digital economy. According to the results of TUIK's 2020 Information Technologies Research, the leverage rate of cloud computing is only 11 percent in small-scale businesses, while it is 41 percent in large-scale companies. When we look at the use of other technologies, such as 3D printer and robot computing technologies, leverage rates are observed to be quite low for SMEs.

While new technologies represent an opportunity for SMEs to boost their efficiency, they are also regarded as a significant threat. With the integration of new technologies into production processes, the level of competitiveness will plummet for those SMEs that cannot handle this transformation. Along with technological developments, changes in business processes, and a parallel depletion of certain jobs that include routine tasks in the workforce, are expected. As a result, new job descriptions, and even new fields of expertise, are expected to emerge. For instance, in a study focusing on the USA, 47 percent of businesses in the manufacturing, logistics and executive support sectors, which are mostly accounted for by SMEs, will face a high risk of automation within the next 20 years (Pascual-Ramsay, 2015). In another study conducted by McKinsey, tasks carried out by professions are analyzed, and it is predicted that 30 percent of the tasks carried out by 60 percent of these professions will eventually be subjected to automation (Manyika et al., 2017). When evaluated within this

framework, it is imperative that companies effectively make use of new technologies, such as robotics, automation, artificial intelligence and large-data analytics. If they cannot adapt to this process, the level of competition for SMEs that are active in the manufacturing sector could come under threat, and there is a possibility that the amount of employment they provide could decline (Asgary et al., 2020).

Along with technological transformation, it is expected that the need for a high-skill workforce will increase, while, in parallel, companies that employ workers with high skill levels will benefit from this transformation. Although this is a significant factor in generating a high-skill workforce, promoting an innovation ecosystem, and boosting efficiency, SMEs are facing challenges due to their inability to provide convenient work environments for qualified workforces, and, in some regions, due to supply-related issues. When evaluated in terms of supply, Turkey demonstrates a performance that is behind other OECD countries in terms of adult literacy, education and skill level. In the adult skill-set research conducted by OECD, when verbal, mathematical and problem-solving skills in a technology-rich environment are analyzed, Turkey seems to perform well below average. For example, in terms of problem-solving skills in a technology-rich environment, 46.7 percent of Turkish adults are seen to demonstrate the lowest level of proficiency, which is much lower than the OECD average of 10.9 percent (OECD, 2016).

3. Financial Outlook for SMEs

In this section, SMEs' financial structure is evaluated with the micro-, small-, middle-, and large-scale business differentiation, based on the sectorial balance statement data shared by the T.R. Central Bank.[3] In the performed sectorial analysis, the wholesale and retail trade, production, and construction sectors are analyzed, which are the key sectors that SMEs are most active in. As can be seen in Figure 7, these sectors account for at least 60 percent of each company number, employee number, net sales, and total asset item.

Figure 7: Sectorial analysis of businesses based on number of companies, number of employees, net sales figures, total assets, and equities (2019)[4]
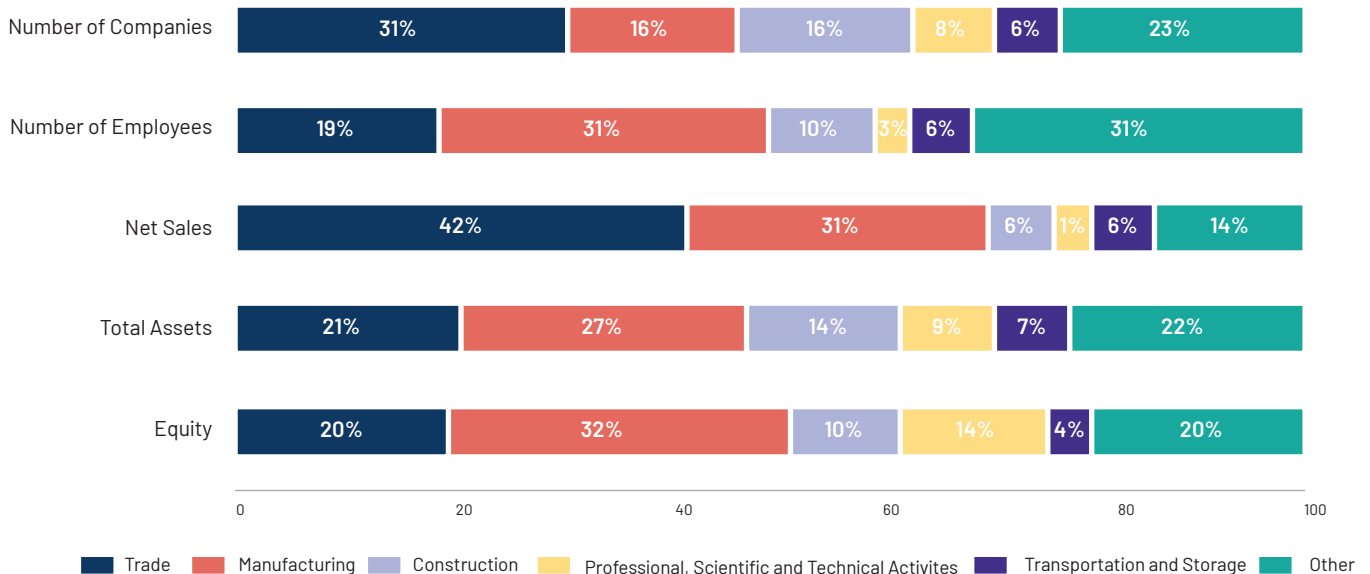
[3] While sectorial balance statement data comprises a limited number of companies that have maintained credit transactions with banks in past years, it was published in an extensive format that comprises executive records conducted in the recent period with the Turkish Statistical Institute (TUIK). When we compare sectorial balance statement data with the business record data published by TUIK, it includes a smaller number of micro-scale businesses, and large-, middle- and small-scale business numbers are variable based on scale.

[4] Cited from CBRT sector balance statements main indicators: http://www3.tcmb.gov.tr/sektor/2020/#/tr.

Figure 8: Financial balance-sheet magnitudes of micro-, small-, middle-, and large-scale businesses (2019)

Manufacturing

- 2%
- 11%
- 18%
- 69%

Construction

- 5%
- 17%
- 18%
- 60%

Trade

- 7%
- 26%
- 25%
- 42%

Legend:
- Micro
- Small
- Medium
- Large
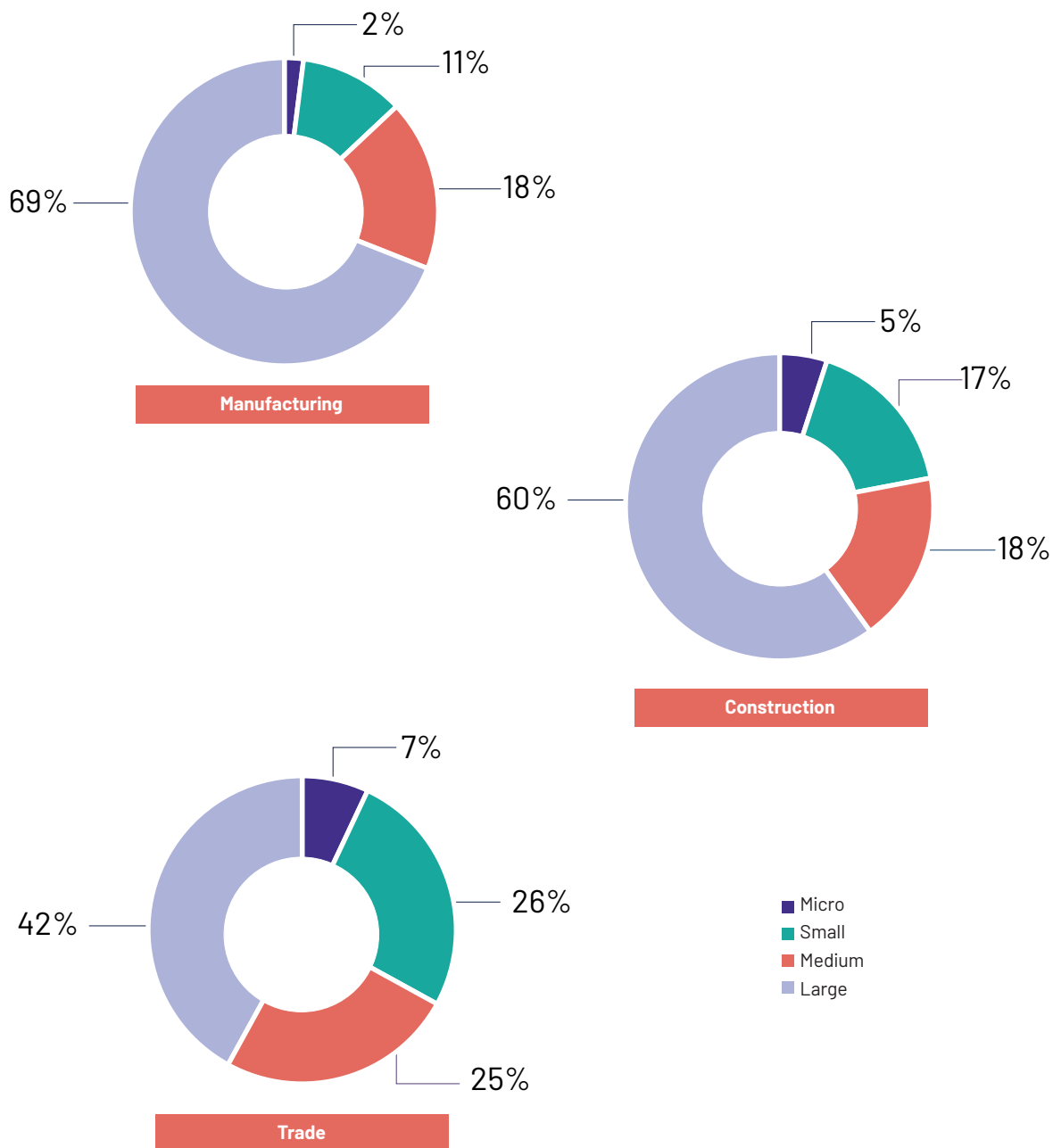
In Figure 8, micro-, small-, middle- and large-scale businesses' financial balance statement magnitudes in the manufacturing, construction and trade sectors are listed. In the manufacturing industry, the total financial balance statement magnitudes of large-scale companies correspond to 69 percent of the total balance statement magnitude of the sector. Although micro-businesses constitute more than 50 percent of the manufacturing industry, the financial balance-sheet magnitude accounts for only 2 percent of the total balance-sheet magnitude of the sector. A similar distribution is observed in micro- and large-scale companies that are active in the construction sector. The ratio of total balance statement magnitude for middle- and small-scale businesses with respect to the total sectorial balance statement magnitude is 29 percent in the manufacturing industry and 35 percent in the construction industry. Contrary to this, the distribution of financial balance magnitudes in the trade sector seems more balanced. Figure 8 indicates that the financial balance statement magnitude difference between large- and small-scale companies in the trade sector is smaller than that observed in the manufacturing and construction sectors.

Table 7: An average company's main balance-sheet magnitudes by business scale and sector (Thousand TRY, 2019)

| | Micro | | | Small | | |
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Dönen Varlıklar	659	659	686	5.126	5.114	6.277
Duran Varlıklar	175	151	126	1.678	1.458	1.275
Toplam Aktifler	834	758	812	6.804	6.572	7.551
Kısa Vadeli Yabancı Kay.	552	476	524	3.984	4.156	4.690
Uzun Vadeli Yabancı Kay.	71	86	76	878	1.052	922
Öz Kaynaklar	210	195	212	1.942	1.363	1.940
Toplam Pasifler	834	758	812	8.804	6.572	7.551

| | Middle | | | Large | | |
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Dönen Varlıklar	25.742	28.738	35.014	335.544	375.093	315.982
Duran Varlıklar	10.963	10.475	8.655	186.430	204.062	112.978
Toplam Aktifler	36.706	39.213	43.669	521.975	579.156	428.960
Kısa Vadeli Yabancı Kay.	17.416	23.905	25.982	221.405	285.152	241.762
Uzun Vadeli Yabancı Kay.	5.806	7.444	5.769	120.639	183.698	65.551
Öz Kaynaklar	13.484	7.864	11.918	179.931	110.306	121.647
Toplam Pasifler	36.706	39.213	43.669	521.975	579.156	428.960

Table 7 shows the average micro-, small-, middle-, and large-scale business's main balance-sheet items in the manufacturing, construction and trade sectors. Table 7 was compiled by dividing the total balance magnitudes according to sector and business scale by the number of businesses of the same scale in the respective sector. Let's say, a micro-company's average financial balance-sheet magnitude is 834,000 Lira. Table 7, the average balance-sheet magnitudes of large-scale businesses in the trade sector, are less in comparison to construction and manufacturing businesses. In turn, the balance-sheet magnitudes of middle- and small-scale businesses in the trade sector are higher with respect to construction and manufacturing businesses of the same caliber. Generally, as the business scale gets larger, the rate of fixed assets in the total actives becomes higher. While an average manufacturing business has 175,000 TRY worth of fixed assets representing 21 percent of total actives, a large-scale business in the same sector has an average fixed asset worth of 186 million TRY, and this figure constitutes 35.7 percent of total active assets. A similar trend can be observed in the construction and trade sectors.

Table 8: An average company's main credit items by business scale and sector, and their share in foreign currency (Thousand TRY, 2019)

	Mikro			Small		
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Cash Credit	75.2	62.4	97.6	910.1	566.4	1,047.6
- YP	6.0	1.3	5.3	86.3	22.4	64.7
Non-Cash Credit	15.7	29.2	30.8	200.3	267.6	400.5
- YP	0.9	3.8	1.1	41.0	24.3	36.5
Credit to Be Liquidated	19.0	20.2	20.2	104.4	123.2	94.4
- YP	0.5	0.3	1.2	3.3	1.3	2.3
Total	109.8	111.8	148.5	1,214.8	957.1	1,542.5
	Middle			Large		
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Cash Credit	6,806.7	3,800.0	6,736.6	148,109.8	112,494.5	95,314.7
- YP	1,923.9	769.1	1,038.8	101,110.3	75,377.7	45,300.2
Non-Cash Credit	2,187.2	2,988.2	3,161.5	69,401.7	94,476.9	43,974.9
- YP	1,030.5	558.5	620.1	57,943.0	60,473.0	23,875.1
Credit to Be Liquidated	607.4	1,053.1	606.7	3,116.9	9,524.7	4,188.4
- YP	52.8	92.6	17.2	250.2	574.1	300.7
Total	9,601.3	7,841.3	10,504.8	220,628.4	216,496.1	143,478.0

Obtaining bank loans may be a challenge for small businesses due to the scarcity of assets that can be collateralized (Yilmaz, 2016; Civelek and Dursun, 2018). Micro and small businesses that are active in manufacturing operate with higher leverage and lower financing rates in comparison to large-scale businesses.[5] This exposes the businesses to higher risks. Although not as prominent, a similar setting is observed in the trade sector; construction, however, does not exhibit the same trend, since it has a more distinct structure. It is also observed that the liquidity rates of micro and small businesses in the manufacturing sector are lower with respect to large-scale businesses, and this causes insolvency for the payability of short-term debts.

Table 9: Profitability ratios based on company scales and sector (2019)

	Micro			Small		
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Economic Profitability	2.5	-1.9	2.1	7.0	2.8	5.8
Profitability Ratio	0.9	-1.2	0.6	2.2	0.8	1.6
Operating Profit Margin	2.6	1.1	1.5	4.5	3.5	2.9
Net Profit Margin	1.8	0.2	1.0	2.3	1.7	1.4
Operating Costs Rat.	23.7	25.8	23.5	11.9	12.1	11.8
	Middle			**Large**		
	Manufacturing	Construction	Trade	Manufacturing	Construction	Trade
Economic Profitability	13.6	3.1	8.7	20.8	2.7	10.4
Profitability Ratio	4.3	0.9	2.0	6.0	0.6	2.5
Operating Profit Margin	6.6	4.7	4.0	9.2	7.3	4.5
Net Profit Margin	3.5	2.2	1.4	5.4	3.2	1.8
Operating Costs Rat.	9.6	9.1	9.8	9.4	10.6	12.7

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[5] Financial leverage rate = Total foreign resources/Total actives; Financing rate = Equities/Total foreign resources

Table 8 shows the number of cash loan, non-cash loan, and loans to be liquidated, and how much of these are in foreign currency. Debt dollarization is a much-debated issue in Turkey *

Although foreign currency loans cause financial fragility and damage to the balance sheet in times of crisis, foreign currency

loans facilitate the financing of companies due to the difficulty of obtaining long-term loans in Turkish Lira

This indicates that long-term foreign currency loans are useful for businesses when financial risks are well managed. Considering the loans in foreign currency, the rate of foreign currency loans of small and micro enterprises is quite low, whereas the majority of loans used by large companies consist of foreign currency loans, especially in the manufacturing and construction industries.

* (Alp, 2013; Taşsev and Çınar, 2015; Incekara et al., 2017).

* (Toraganlı and Yalçın, 2016)

Also, the rate of bank loans used by SMEs in total assets is less than that of large companies. Insufficient collateral, high loan interest rates, and failure to present transparent and reliable financial statements are the main reasons why SMEs have difficulty in accessing bank loans (Erdoğan, 2015; Yılmaz, 2016; Civelek and Dursun, 2018; Çoban et al., 2018). In addition, the number of loans to be liquidated according to Table 8 generally decreases as the size of the company increases. It is noticed that micro and small companies are riskier for creditors than large companies.

Finally, Table 9 gives information about profitability rates according to sectoral and company sizes. As expected in the manufacturing and business sectors, economic profitability calculated by dividing profit before interest and tax by total liabilities, the profitability ratio calculated by dividing net profit by total liabilities, the operating profit margin calculated by dividing operating profit by net sales, and the net profit margin calculated by dividing net profit by net sales increase in direct proportion to the size of the company. Small and micro companies operate with very low profitability rates when compared to their larger counterparts. While profitability rates are similar except for micro companies in the construction industry, the profitability rates of micro enterprises are negatively different from other companies of other sizes. What's more, the ratio of operating expenses calculated as the ratio of operating expenses of micro companies to net sales in all sectors is at very high levels, which negatively impacts profitability rates.

4. The Turkish Labor Market and Syrian-Capital Enterprises

Demographically, this is one of the most important periods of Turkish history. Despite slowing population growth, the fact that the elderly population is still relatively low creates a demographic window of opportunity by decreasing the country's dependent population. If the working-age population is used effectively in this period, both education expenditures and social security expenditures can be funded more easily, and, accordingly, other investments that will increase economic productivity can be financed more easily, and national income per capita can increase rapidly (Bloom et al., 2003; Vallin, 2005). However, this demographic window of opportunity will be temporary. Figure 9 shows the change and dependency rates of the 0-14, 15-65, and 65+ age groups in the total population until 2080, according to 2018 TUIK[6] projections. According to Figure 9, the dependency rate stands below 50 percent between 2007 and 2025. The dependency rate will reach 55 percent in 2040, and 60 percent in 2050. As a result of the decrease in Turkey's working population and the sudden increase in social security expenses after missing the demographic window of opportunity, Turkey may have difficulty transferring resources to necessary investments for the economy. It is important, therefore, to solve Turkey's fundamental structural economic problems before this point is reached.

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[6]   It is calculated by dividing the sum of young and elderly population ratios by the proportion of the population between 15 and 65.

Figure 9: Ratio of 0-14, 15-65, and 65+ age groups in the total population (left axis) and their dependency rates (right axis) (2000-2080)
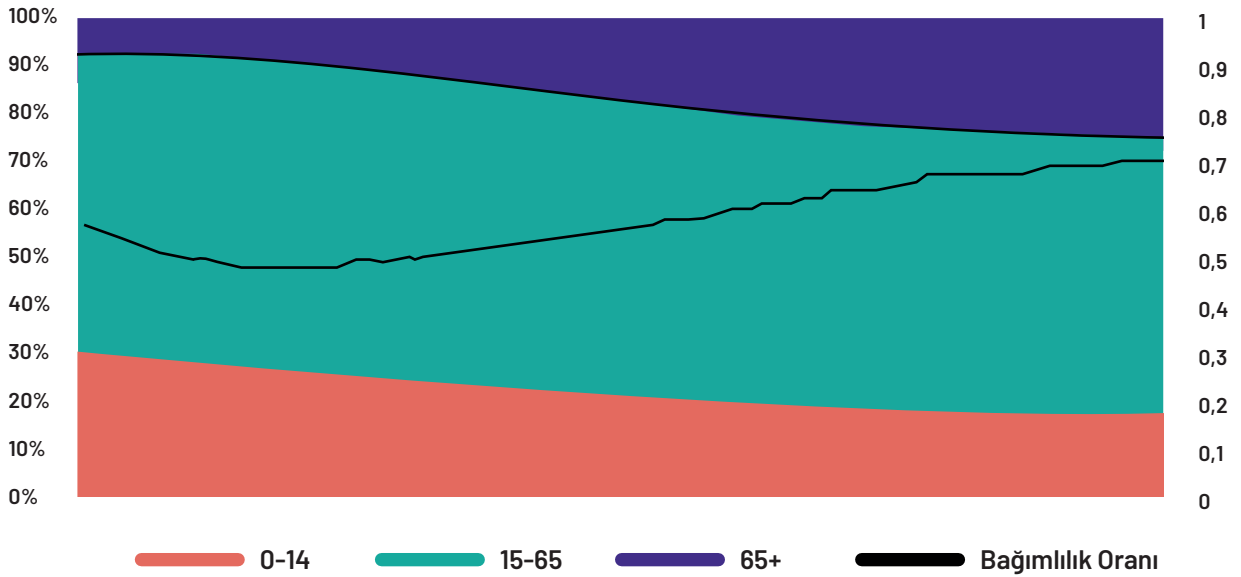
Comparing workforce participation and unemployment rates, it is evident that Turkey is not able to use this demographic window of opportunity efficiently. The workforce participation rate, which was 44.4 percent in 2007, stood at 53 percent in 2019. The OECD average, meanwhile, was 61.1% in 2019. While the labor force participation rate for men was relatively good at 72 percent in 2019, the work force participation rate for women stood at 34.4 percent, which is the lowest among the OECD countries. In 2020, the workforce participation rate fell sharply to 49.3 percent.

Besides, Turkey's economy is not able to employ those who are participating, or wish to participate, in the workforce in an effective way. The unemployment rate, which was 9.9 percent in 2014, increased to 13.7 percent in 2019. The average unemployment rate among OECD countries was 5.4 percent for 2019. Female and youth unemployment rates are higher than the general unemployment rate. While the female unemployment rate increased to 16.5 percent in 2019, unemployment rates for young men and young women rose to 20.4 percent and 30.6 percent, respectively. The number of those who are not officially considered unemployed since they gave up looking for jobs, but who are ready to work, has increased significantly, especially during the pandemic period. The number of people who gave up looking for jobs, but who are ready to work, was 2.3 million in 2019, and this number increased to 4.2 million in 2020. According to new workforce statistics revised by TUIK, the rate of idle labor force (generally defined as the unemployment rate), consisting of time-dependent underemployment, potential labor force and the unemployed, was recorded as 30.2 percent as of January 2021.

SMEs provide a significant share of newly created employment. Therefore, Turkey needs strong SME employment to create ecosystems able to employ the jobless, along with those who will participate in the workforce in future. As seen in Figure 10, more than 70 percent of both male and female employees work for small enterprises with less than 50 employees. Increasing the strength of SMEs helps facilitate the emergence of new SMEs and faster growth of micro and small businesses, thus contributing significantly to solving Turkey's employment problem.
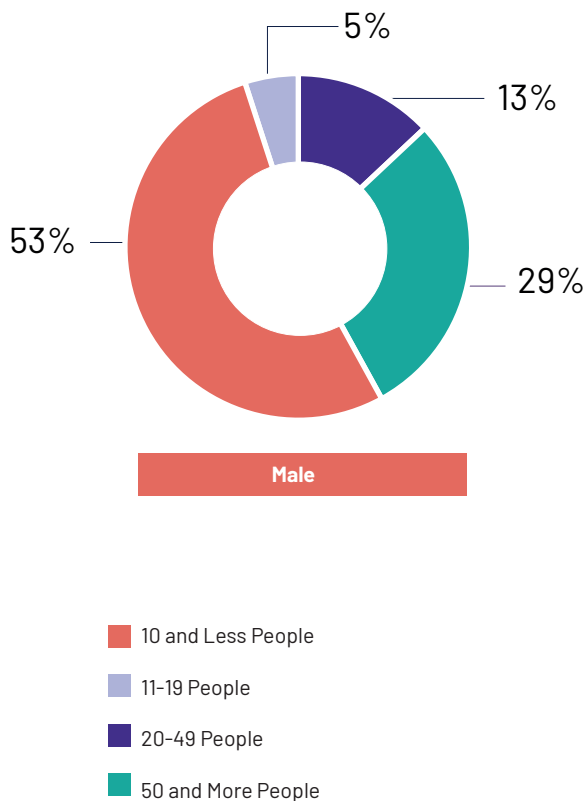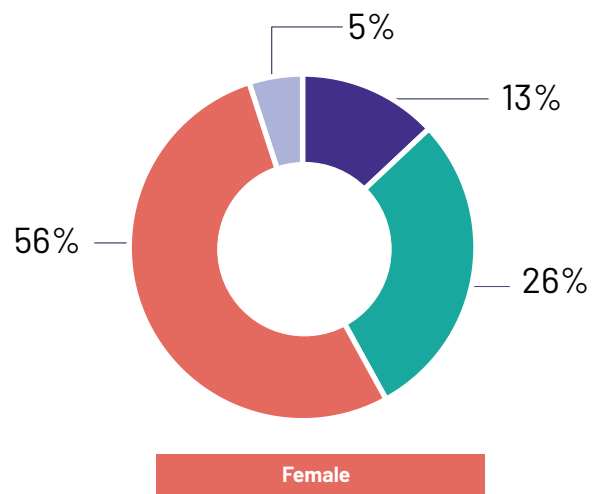

Figure 10: Employment by company size and gender (2019)

Legend:
- ■ 10 and Less People
- ■ 11–19 People
- ■ 20–49 People
- ■ 50 and More People

With regards to the expected workforce to be employed by companies in Turkey, it is seen that the level of education is significantly low. Figure 11 shows the rates of the female and male workforce according to the highest level of education. 50 percent or less of those participating in the workforce (both women and men) are high-school or higher-education graduates. In addition, the education level of women who do not participate in the workforce is very low when compared to the education level of women participating in the labor force.

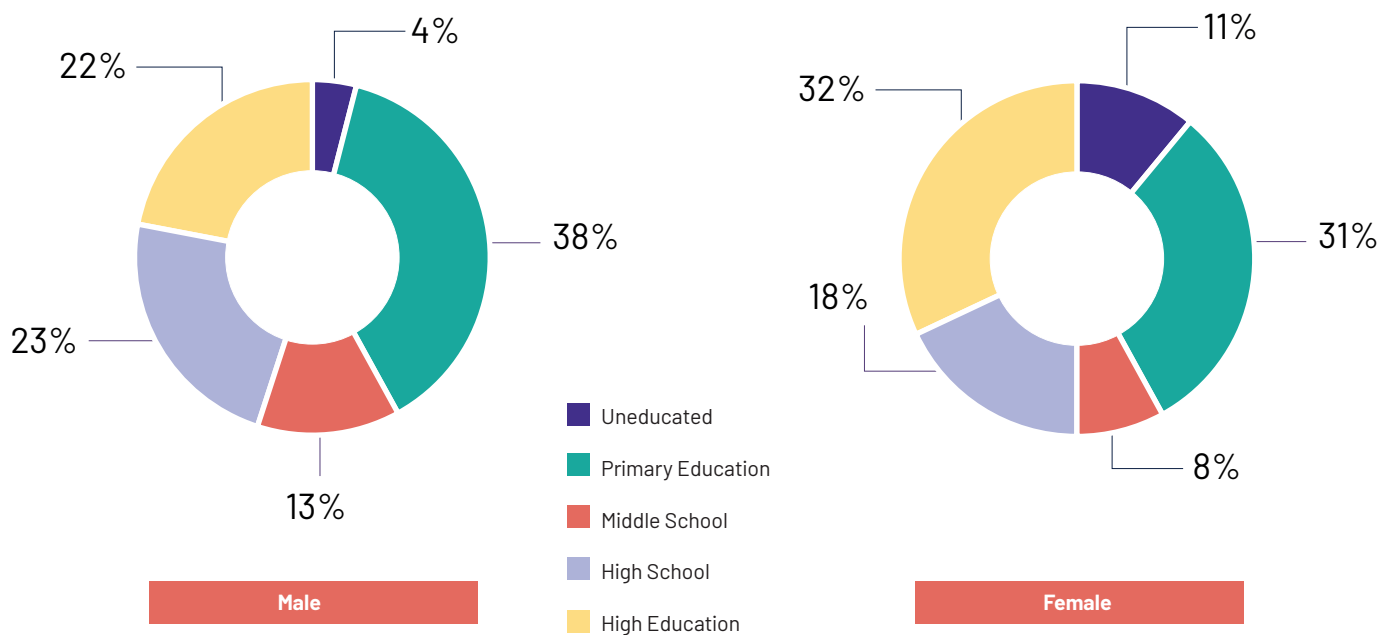## Figure 11: Workforce by highest level of education and gender (2019)

Male

- 4% Uneducated
- 38% Primary Education
- 13% Middle School
- 23% High School
- 22% High Education

Female

- 11% Uneducated
- 31% Primary Education
- 8% Middle School
- 18% High School
- 32% High Education

Legend:
- Uneducated
- Primary Education
- Middle School
- High School
- High Education

Figure 12: Ratio of the workforce in enterprises employing less than 50 people and those employing 50 or more compared to the highest level of education (2019)
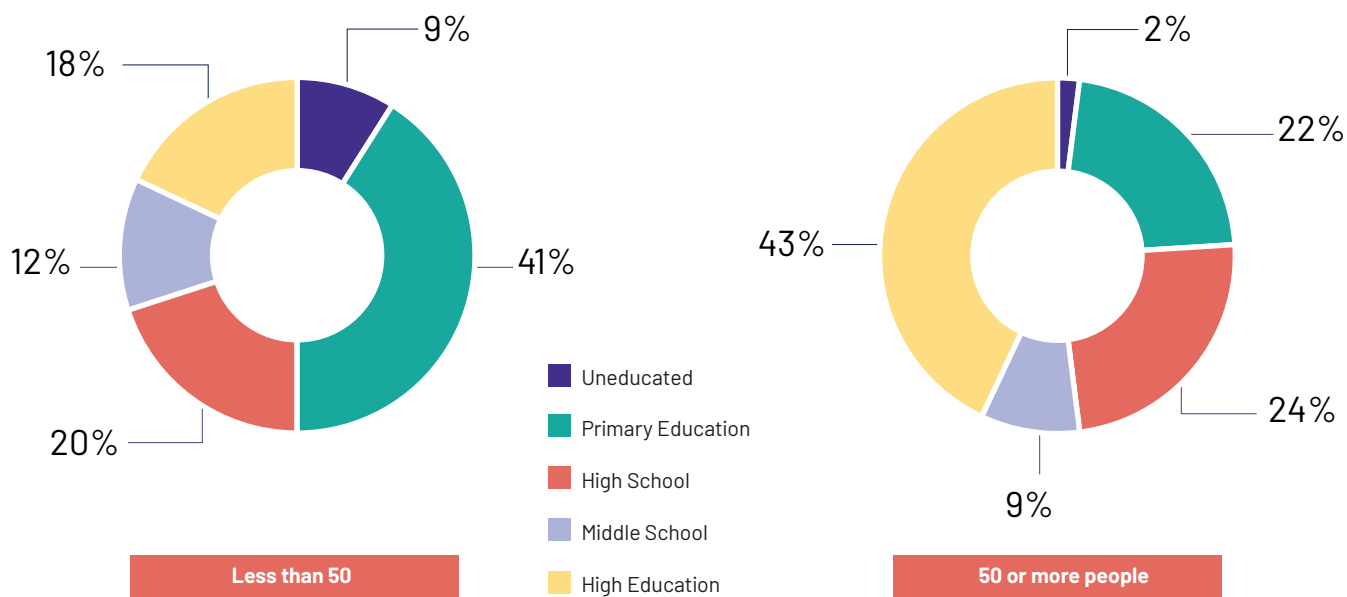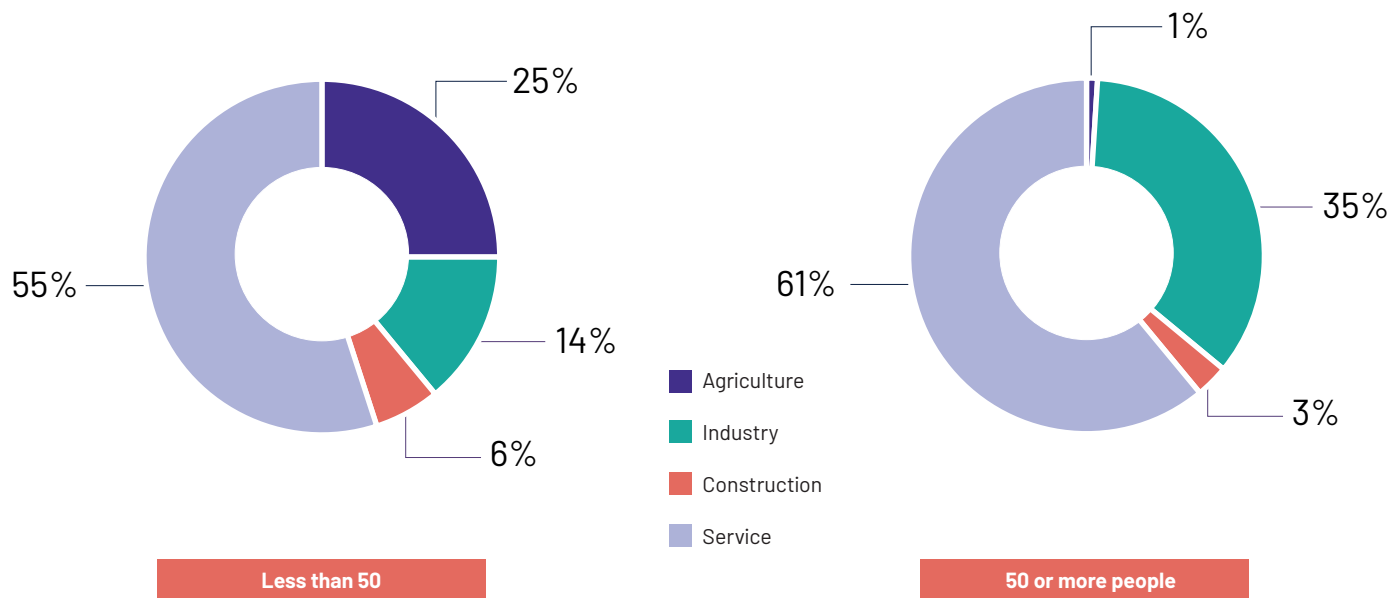
Less than 50

- 9% Uneducated
- 41% Primary Education
- 20% High School
- 12% Middle School
- 18% High Education

50 or more people

- 2% Uneducated
- 22% Primary Education
- 24% High School
- 9% Middle School
- 43% High Education

Legend:
- Uneducated
- Primary Education
- High School
- Middle School
- High Education

Figure 13: Sectoral distribution of enterprises employing less than 50 people and those employing 50 or more (2019)

Less than 50

50 or more people

- Agriculture
- Industry
- Construction
- Service

In Figure 12, the education information of the employed workforce is classified according to the highest level of education and the size of the company at which they are employed. While 38 percent of the workforce in companies with less than 50 employees consists of only higher-education and high-school graduates, 67 percent of the workforce in enterprises employing 50 or more people consists of higher-education and high-school graduates. To better understand the reason for this, Figure 13 shows that 25 percent of businesses with less than 50 employees operate in the agricultural sector, and only 14 percent operate in the industrial sector. On the other hand, the share of agriculture in employment is very low in enterprises employing 50 or more people. The employment of mostly unqualified workers in the agricultural sector partially explains the differences in the distribution of education indicated in Figure 12. It is also known that micro enterprises employ less qualified personnel than large enterprises.

Syrian refugees fleeing the civil war have also participated in Turkey's workforce since 2011. As of February 2021, there were 3.7 million Syrians under temporary protection. Syrian refugees have spread to different regions of the country, and have become a part of the labor force in these regions. There are over 2 million Syrian immigrants of working age in Turkey, and it is estimated that between 500,000 and 1 million Syrian refugees have joined the labor market (Kirişçi and Uysal, 2019). Syrian refugees' level of education is generally known to be below the average in Turkey. Caro (2020) reveals that 31.8 percent of Syrian refugees never graduated from school, according to 2017 data on the household workforce. It is seen that Syrian refugees work informally in labor-intensive industries due to bureaucratic obstacles, inadequate qualifications, and language problems (Caro, 2020; Erdoğan, 2020; Kirişçi and Uysal, 2019).

Figure 14: Number of joint-stock and limited companies established with Syrian capital (left axis) and total capital in the companies owned (right axis) (2013-2020)
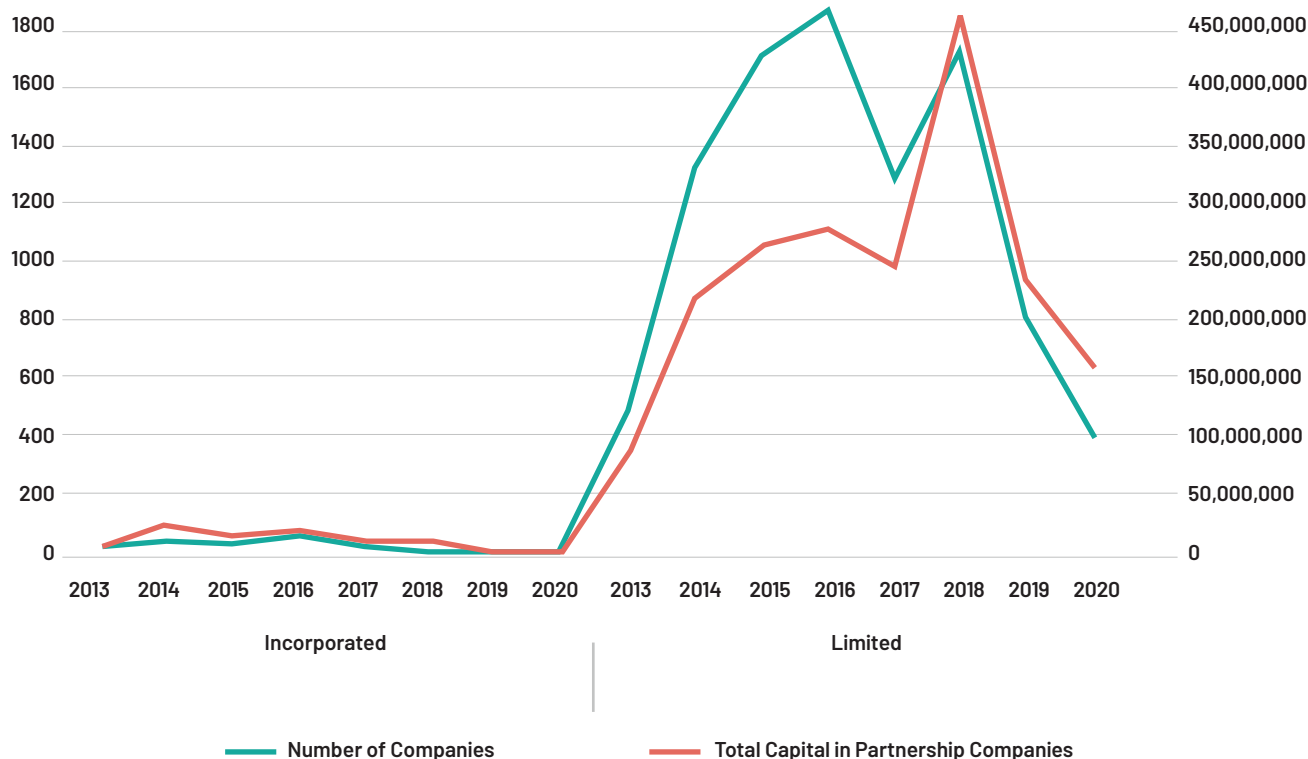
According to data from the Turkish Union of Chambers and Exchange Commodities, many Syrian capital companies have been established since 2013. Figure 14 shows the number of joint-stock and limited companies established with Syrian capital between 2013 and 2020, and the total capital of the companies owned. Between 2013 and 2020, 182 joint-stock companies and 8,848 Syrian-partnered limited companies were established. The low number of joint-stock companies established may be interpreted as a sign of insufficient capital among Syrian migrants. Although the number of Syrian-capital limited companies established in 2020 decreased to 370, at least 1,000 Syrian-partnered companies were established each year between 2014 and 2018. Figure 15 shows the ratio of companies with Syrian capital established between 2013 and 2019 to foreign-capital companies established in the same year. 28 percent of the foreign-capital limited companies established in 2014 were established with Syrian capital, while this increased to 37 percent in 2015, later rising to 41 percent. It started to decrease after 2016, falling to 4 percent in 2020.

Figure 15: Ratio of companies with Syrian capital established to foreign-capital companies established in the same year (2013-2020)
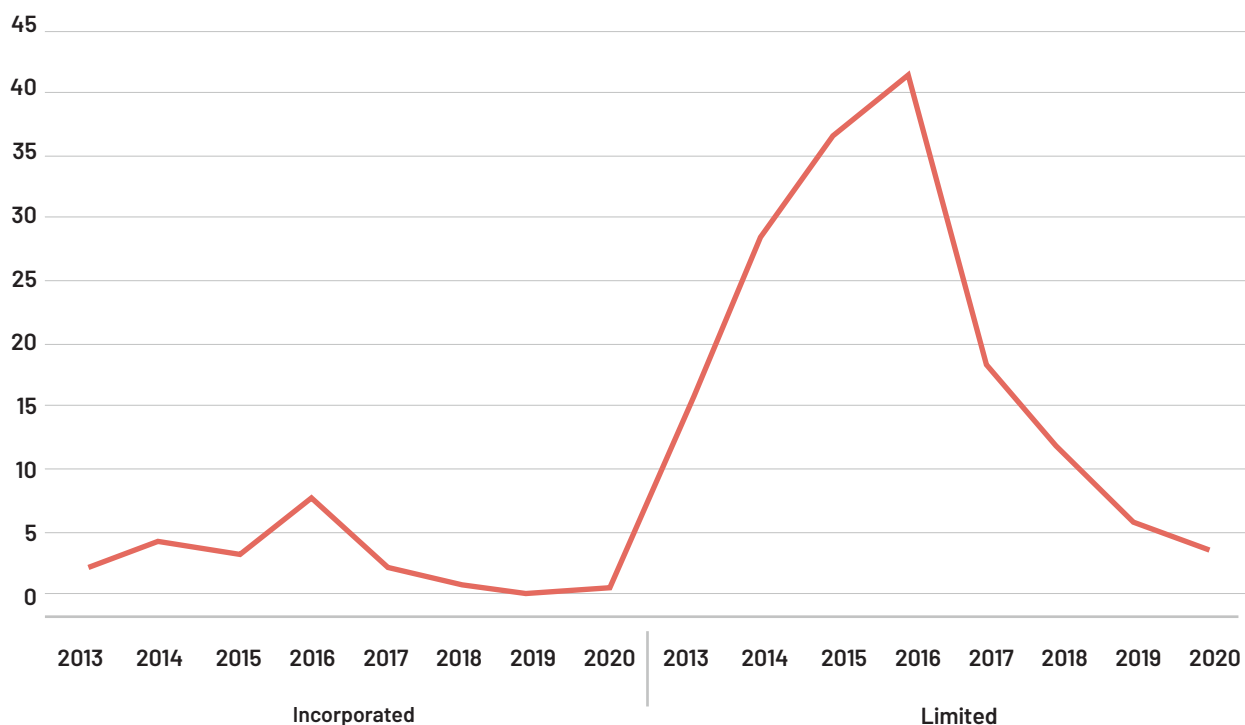
In Figure 16, it is observed that 79 percent of the companies were established in the service industry, and the remaining 20 percent in the construction and manufacturing industries. Finally, it is seen in Figure 17 that most companies were established in Istanbul, followed by cities such as Mersin, Hatay, Bursa, Gaziantep and Kilis, according to the distribution of companies established with Syrian capital between 2017 and 2020. These provinces are those in which Syrian population density is highest. Although this data suggests that companies established with Syrian capital provide services to their communities, a survey conducted among companies established by Syrian refugees, carried out within the framework of a project supported by the European Bank for Reconstruction and Development (EBRD) and the Economic Policy Research Foundation of Turkey (TEPAV) (2018), found that these companies were engaged in export activities to a larger extent than similar Turkish companies.

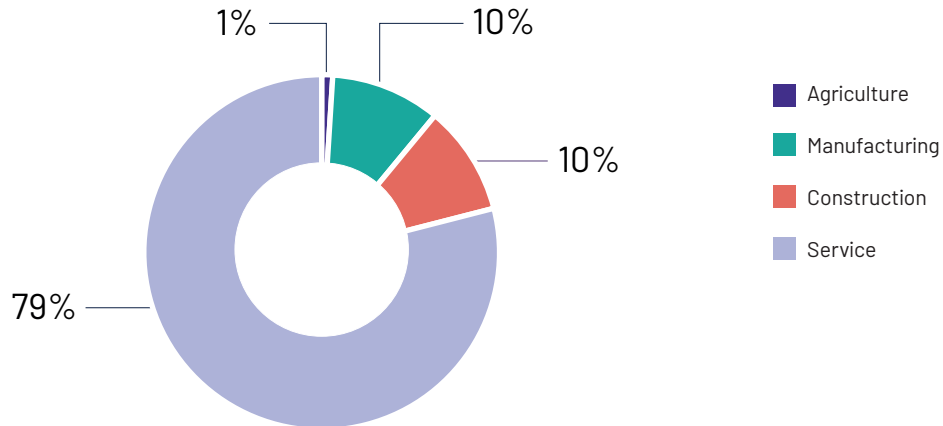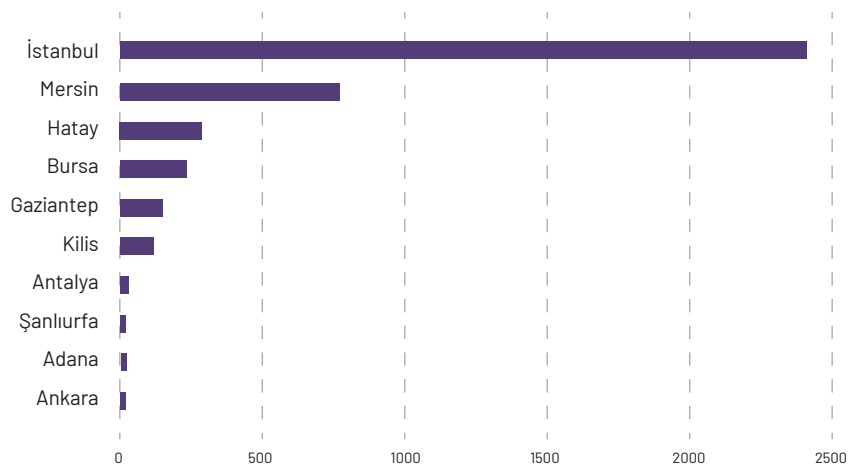Figure 16: Sectors of companies established with Syrian capital (2017-2020)

Figure 17: The 10 provinces with the highest number of companies with Syrian capital, and the number of companies established with Syrian capital (2017-2020)

STRENGTHS (+)

1 They contribute to the increase of employment

2 They support regional development

3 They van adapt to market changes and customer needs

4 They are enthusiastic about technological innovations and entrepreneurship and adapt faster to new production processes and technologies

5 They are important to global value chains

WEAKNESSES (–)

1 Their efficiency and profitability are low

2 There is a lack of infrastructure and knowledge in marketing and branding

3 They have problems regarding human resources and organization

4 They have insufficient infrastructure and knowledge regarding export

5 Their access to bank loans and alternative finance sources is limited

6 They are inexperienced in preparing projects for national and international funds

7 They cannot sufficiently benefit from the opportunities arise through digitalization

8 Syrian SMEs are having difficulties in understanding the accounting/trade regulations, and business life in Turkey

OPPORTUNITIES (+)

1 SMEs have rapid growth potential

2 There are national and international funds to support SMEs

3 Policymakers are increasingly paying more attention to SMEs

4 SMEs are still important to large companies

5 Advances in information technologies facilitate access to foreign markets

THREATS (–)

1 Competition due to globalization and new information technologies is gradually increasing in the world economy

2 Production bases are shifting again into the developed countries and large companies increase production flexibility due to digitalization in manufacturing

3 Turkey's foreign trade market problems

4 Long-term macroeconomic uncertainty and problems in Turkey

5. SWOT Analysis

In this section, a SWOT (strengths, weaknesses, opportunities, threats) analysis for SMEs will be made using other sources in the literature, international comparisons, and the information given in the previous section. A series of comprehensive or partial SWOT analyses have been conducted for SMEs in the last decade (Çatal, 2007; Avrupa Birliği Türkiye İş Geliştirme Merkezleri Ağı [ABİGEM], 2010; KOSGEB, 2015; TMMOB Makina Mühendisleri Odası, 2017; Peşkircioğlu, 2018). Since no significant progress has been made in the last 10 years for the process of solving SMEs' problems, it can be seen that these studies are generally still up to date. In addition, new risks have been included in our study since new risks for SMEs have arisen from digitalization in the last 10 years.

5.1. Strengths

In the first step of the SWOT analysis, the strengths of SMEs are listed below:
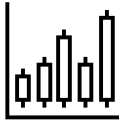
They contribute to the increase of employment

SMEs account for 72.4 percent of formal non-agricultural employment in Turkey. SMEs are also responsible for a significant part of new employment generation. 67 percent of new employment in the industry and service sectors between 2010 and 2019 was created by SMEs. SMEs contribute to the reduction of unemployment by employing unqualified workers who will have difficulty finding jobs since they generally work in labor-intensive sectors. In addition, SMEs are the workplaces where most young people start to work and gain the experience necessary to be successful in the labor market.

They support regional development

Large companies in Turkey suffer from a lack of infrastructure, access to market issues, and difficulty finding qualified staff, and thus refrain from investing in less developed regions. This creates high unemployment and poverty in these regions. Employment and investment in the less developed regions of Turkey is enabled by SMEs established by local entrepreneurs, particularly micro and small enterprises. According to TUIK's annual industry and service statistics, 90 percent of those employed in Istanbul work in enterprises employing 50 or more people, while this rate is between 20 percent and 35 percent in the Eastern Anatolia region. Accordingly, SMEs have a function of correcting regional income distribution and reducing unemployment in underdeveloped regions.
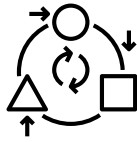
They can adapt to changes in the market and customer needs

SMEs have focused on areas where they will either make labor-intensive price competition or in more niche production areas, instead of areas where scale economies are dominant. Therefore, SMEs can change their product range at a much lower cost when compared to large companies, depending on changes in the market or emerging needs. In addition, SMEs generally work closely with a small number of customers, and customers' problems concern them a lot. SMEs can quickly meet the changing needs of customers and address their specific problems.

They are enthusiastic about technological innovations and entrepreneurship, and adapt faster to new production processes and technologies

SMEs can be established with low capital, and their more flexible structures compared to large companies allows them to enter new areas faster. Although SMEs operating in labor-intensive sectors are less innovative compared to large companies, some of them can reach the productivity rates of large companies by adopting innovative manufacturing solutions, products, business development processes, and management strategies, thanks to cheaper information technologies and more flexible corporate structures (OECD, 2018).

They are important for global value chains

Large national and international companies do not carry out all their production by themselves; some of their production processes are done by SMEs, who are specialized in the field and can do it cheaper than the large company itself. Accordingly, SMEs operate in a complementary manner to national and international companies. SMEs are often among the indispensable parts of national and international value chains.

5.2. Weaknesses

Besides the strengths of SMEs in Turkey, their weaknesses are listed below:

Their efficiency and profitability are low

Most SMEs provide production and services by using price competition and relatively older technology in labor-intensive sectors. This causes SMEs to have low productivity and low profitability rates, as they generate low added value.

They do not have the capacity and knowledge for marketing and branding

Even if SMEs want to increase their productivity and profitability, a number of factors prevent SMEs from achieving these goals. Except for those who manufacture directly for a single company as part of the supply chain of a large company, SMEs must be able to promote their products in order to compete and expand their market share. On the other hand, most SMEs do not have a marketing department and specialized staff working in their field. In addition, most SMEs have problems with pricing, positioning and marketing new products because they do not conduct market research, or lack the technical knowledge and human capital to do so. Apart from marketing, SMEs also have difficulties branding their company and products. They both fail to grasp the importance of branding and lack the human and financial capital to create and manage their brand. These inabilities in marketing, branding and market research prevent SMEs from delivering their goods and services to wider audiences with high added value.

They have problems with human resources and organization

While SMEs, especially those at the micro level, may conduct company management and human resources through traditional 'old boy' network relationships, governance and human resources emerge as major problems as the company grows. SMEs generally do not have human resources departments or qualified employees in this regard. This can create difficulties in the recruitment process, in measuring the performance of existing employees, and in ensuring the commitment of employees to the company. In addition, company owners and managers' lack of the necessary management skills and knowledge is also one of the major obstacles to the growth of SMEs and their ability to increase productivity and retain qualified employees.

Their capacity and knowledge about exporting is insufficient

SMEs in Turkey face a series of difficulties in regards to exporting. Because exporting is a costly process, most SMEs' capital is not enough for exports. The main difficulties SMEs face also include a lack of information about the export market and technological infrastructure, organizational problems, and insufficient international experience. Besides, the lack of quality in products and services offered by SMEs in Turkey, and the inability to meet certain standards, is a great disadvantage when it comes to exports.

Their access to bank loans and alternative sources of financing is limited

Another problem for SMEs in Turkey is the difficulty encountered in accessing financing. SMEs operating with a small amount of fixed assets and low profitability are perceived as riskier by banks when compared to large companies. Therefore, SMEs have difficulty in finding bank loans, especially long-term ones. Interest rates on loans granted to SMEs are also typically higher than those offered to large companies.

They lack experience in preparing projects for national and international funds

Unable to benefit from advanced financing opportunities, SMEs have a slower growth rate and therefore experience problems, especially in regards to high-tech machinery and equipment investments in the manufacturing sector. In this case, SMEs are expected to appeal to national and international funding sources. However, SMEs do not have sufficient information about creating project ideas and preparing projects, and this causes certain restrictions.

They are unable to sufficiently benefit from opportunities created by digitalization

In general, company owners and executives in Turkey have a limited knowledge of current information and digital technologies. Besides, SMEs' tendency to focus on the short term and see high-budget investments as unnecessary is another obstacle to digitalization. SMEs hoping to transfer resources to new technologies may face obstacles in financing new investments and finding qualified people to use these new technologies. For these reasons, SMEs in Turkey are progressing very slowly.

Syrian SMEs have difficulty understanding trade regulations and business life in Turkey

In addition to the existing SMEs in Turkey, around 9,000 Syrian-capital companies were established, as shown in the previous section, and most of these were SMEs. These studies on SMEs show that Syrian entrepreneurs have difficulties understanding trade/accounting legislation and business life in Turkey.

5.3. Threats

Risks that SMEs in Turkey might face today and in the near future are mainly due to digitalization in foreign trade and manufacturing. These risks are listed below.

Increasing competition in the world economy due to globalization and new information technologies

Rapid advances in information technologies cause not only those SMEs manufacturing goods but also those which offer services to be exposed to global competition. To give an example, someone living in Turkey and wishing to receive programming training can purchase this service online, not only from an enterprise in Turkey, but from any institution in the world.
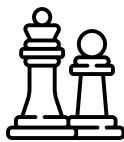
Shifting of production lines back to developed countries due to digitalization in manufacturing, and increasing the production flexibility of large companies

In the medium and long term, digitalization processes in manufacturing are expected to lead large companies in developing countries to prefer a mass-production style based on cheap labor through 'smart' factories closer to the market. This will reduce the need of large international companies for SMEs in developing countries, and the increasingly flexible production capabilities of large companies may cause them to compete with SMEs in areas in which they had not previously competed.

Problems in Turkey's foreign trade markets

Being Turkey's largest export market, the EU's free trade agreements with third countries pose a threat to SMEs, both in the EU and in the domestic market. The continuation of political and economic problems in the Middle East and North Africa, one of the major export markets of Turkey, also prevents SMEs from exploiting the full potential of this important export market. Besides, countries are implementing more protectionist measures, and this may make it difficult for SMEs to access foreign markets.

Long-term continuation of macroeconomic uncertainty and problems in Turkey

Finally, if Turkey's macroeconomic problems and uncertainties persist for a long time, this may prevent SMEs from developing medium- and long-term investment strategies. Also, these uncertainties may make it difficult for SMEs with insufficient equity to access loans compared to large companies. Particularly, periods of high inflation and exchange rate volatility may cause significant decreases in the number of new SMEs, while adversely affecting the performance and survival of existing one. SMEs operating in developing countries are not equipped with business continuity and crisis and risk management, making them vulnerable to external shocks. The durability of SMEs can also determine the strength of the national economy against possible shocks.

5.4. Opportunities

Finally, the opportunities for SMEs in Turkey are listed below:
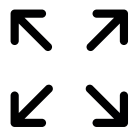
SMEs have rapid growth potential

SMEs in Turkey are still growing below their potential because of their weaknesses in many areas. Thanks to consulting and training in manufacturing and service processes, quality control, marketing, branding, management, human resources and other areas, SMEs in Turkey have a much faster growth potential.

The existence of national and international funds to support SMEs, and policymakers placing more importance on SMEs

Many funds have been created that SMEs can apply to, since both international and national institutions have begun to gradually understand the importance of SMEs. Through these funds, SMEs have the opportunity to increase their growth capacity.

Maintaining their importance for large companies

SMEs are an important partner both for local and international large companies. The ability of SMEs to enter the supply chains of large international companies enables them to obtain know-how quickly.

### Developments in information technology that make it easier to access foreign markets

Finally, developments in information technology enable SMEs to reach foreign markets more easily. SMEs, especially those operating in software and similar industries, can easily deliver their products and services to foreign customers.

6. Training Advice

According to the SWOT analysis above, it is believed that the training activities listed below will help SMEs offset their traditional weaknesses:
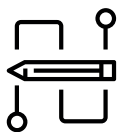
Marketing training, branding training, market/marketing research training, and business development training

As stated in the SWOT analysis, SMEs experience problems in pricing, positioning, and delivering both new and existing products to customers. Marketing, branding, market/marketing research, and business development training will provide the necessary tools to allow SMEs to collect information about potential customers; understand target markets and competitors; conduct proper SWOT analyses; and develop their products/services, marketing strategies and branding needs. The content of this training should include the use of both traditional and digital channels, given the importance of digital marketing today, especially in the service sector.
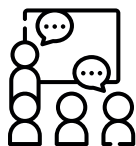
Human resources training, effective management training, and institutionalization training

SMEs generally face great difficulties in the management, measurement, and evaluation of their human resources, boosting their performance, and retaining qualified personnel. Human resources training, effective management training, and institutionalization training will help SMEs set their goals, vision and mission; create organizational charts; identify the job descriptions of their employees; effectively manage their workforce; accurately assess employee performance; and ensure the loyalty of their staff.

Quality management training and process development training

Another weakness detected in SMEs is related to quality and business process management. While the lack of holistic quality management causes customer dissatisfaction, it also makes it difficult to export. Problems found in process management also lead to reduced efficiency, increased costs, a lack of coordination between departments, an inability to measure department performance, and problems pertaining to quality management. Training in quality and business process management can contribute to more efficient company operations and a higher quality standard for services/goods.
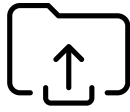
Foreign trade training

Apart from problems arising from productivity and bureaucratic legislation, SMEs in Turkey also have difficulties exporting due to a lack of information. Detailed explanations of foreign trade processes through foreign trade training, export market research, and information on the customer-gaining process and export incentives can help solve some of the problems caused by a lack of knowledge in this regard.

Financial management training, financial risk-management training, and economic literacy training

The difficulties that SMEs experience in finding long-term loans, and uncertainties related to Turkey's macroeconomic situation, cause a number of problems in managing cash flow and reducing financial risk. Since most SMEs do not have special finance departments, SME managers must have some knowledge of financial management (especially financial-risk management) in order to effectively manage their cash flow and sustain their investments. What's more, economic literacy training can also help SME managers in terms of financial management.

Project-writing training for national and international funds

SMEs can find funds through national and international organizations to finance their investments. However, application to these funds can often be complicated. Project-writing training for national and international funds can make it easier for SMEs to benefit from these opportunities.

New digital technologies training and training in industry 4.0/digitalization in manufacturing

SMEs in Turkey do not have enough information on industry 4.0/digitalization in manufacturing and information/digital technologies in general. Training on these subjects can expand the vision of SMEs and encourage the use of these important technologies.

Consultancy for Syrian-capital SMEs on commercial law and regulations

Finally, commercial law and accounting consultancy provided to Syrian-capital SMEs would help these SMEs better understand business life in Turkey and maximize their potential in their respective fields of endeavor.

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