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Impact of the Economic Crisis on Smes (Small And Medium-Sized Enterprises): A General Evaluation on Smes in Turkey

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Abstract

Liberalization taking place in the global capital and financial market in recent years and correspondingly the lack of adequate control mechanisms have caused economic crisis at global, regional and country level. While the crises have affected the overall economy, the greatest negative impact has been observed on SMEs. Considering the share of SMEs in total initiatives and employment in worldwide economy, it is seen that they are key points for economies. In this respect, the determination and analysis of the impact of economic crisis on SMEs are very important for a healthy economic development. Starting with this point, in this study, especially in the context of recent global crisis, a general assessment on economic crisis has been made and the position of SMEs in the economic structure, the effect of crisis on SMEs has been tried to put forward especially on the basis of Turkey. Several scientific studies and statistical data conducted on SMEs and economic crisis have been examined for this purpose.¹

Keywords: SME, crisis, 2008 crisis, stability, development.

Introduction

The emerging wave of globalization in recent years has brought the result of rapid and effective dissemination of positive and negative impacts on all fields including the economic field. While the governments generate policies to ensure their citizens benefit from the growing global economy insofar as possible on one hand, they also

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feel obliged to take measures for the economic crisis emerging in various qualities and dimensions, on the other hand. Economic crises, due to either financial or real reasons reduce the quality of life and decrease the competitiveness of companies and in particular the competitiveness of SMEs. SMEs which constitute the backbone of the economy in both developed and developing countries are the most affected sectors from the emerging crises.

SMEs have an important function in terms of getting rid of crisis thanks to the flexible structures thereof. In this regard, it has great importance to support SMEs in crises for a healthy national and international economic life. Delays in taking measures against crisis lead to occurrence of a high cost both at company and national level (Karaatlı et al., 2009: 144). Determination of the nature of impacts on SMEs in economic crisis will increase the accuracy in forming the policies to be developed in micro-and macro-level. Much as, the economic crises mostly have negative effects, they can be converted into an advantage with the right decisions to be taken. The crises make the economic structures more resilient to crises that may occur in the future if lessons are derived therefrom. Sure enough, especially the banking sector relatively had a healthy structure as a result of the decisions taken after the economic crisis in 2001 in Turkey's economy and the 2008 crisis could be survived with a less amount of damage.

Numerous economic crisis have been experienced until present, however the 2008 Global Financial Crisis has shown a different development in terms of its appearance, severity and the areas affected thereby (Karaçor et al., 2012: 90). The U.S. economy's becoming the focus of the 2008 crisis, effects of which still continue, has become an important factor in determining the purview and severity of the effects thereof. Advanced globalization in the world economy in recent years, and increased openness of national economies to foreign economies have increased the impact of the crisis. Significant declines in growth rates have occurred with the crisis and the volume of foreign trade of the countries has narrowed. SMEs have experienced a number of challenges with the crises such as increase of production costs, decrease in capacity utilization rates, and difficulties in accessing bank loans Information as to the economic crises and especially the crisis of 2008 is given below and subsequently general information and problems concerning SMEs are revealed basing on the Turkish SMEs particularly. The impacts of economic crises within the purview of the 2008 crisis and the effects thereof especially on Turkish SMEs are analyzed under the following heading. The main indicators revealing the effect of the crises on SMEs in this context are briefly examined.

Economic Crises and the Global Financial Crisis in 2008

Economic crises denote occurrences arising suddenly and unexpectedly which affect the country's economy at the macro level and functioning of the companies at the micro level (Aktan and Şen, 2001: 5). Economic crises can be classified in various categories. The economic crises may occur in the form of global and local crises in

terms of their nature. While local crises only affect a country and a region, global crises affect many countries; however, local crises may cause global effects depending on the country where the crises have taken place and to extent of development of the region same has occurred.

Much as the concepts of economic crisis, real sector crisis and financial crisis have been employed in the same sense in this study, economic crises can be divided into two as the real industry crises and the financial crises. The real sector crises are crises that take place in good, service and labor markets and generate effects such as leading to decline in production as well as decrease in employment. However, financial crises denote financial market disorders that may lead to devastating effects on the real sector and which may hinder the functioning of the markets in an effective manner (<http://www.ekodialog.com/konular/finansal-kriz-nedir.html>). According to another point of view, financial crisis means rapid depreciation of the domestic currency due to overt or covert speculative attacks and decrease in the amount of the country's international (Gençtürk, 2008:6). On the other hand, both types of crisis also have the possibility to trigger each other. For instance, the 2008 Global Financial Crisis has begun in the housing market due to the "mortgage" loans in the USA and then turned into a global economic crisis which has affected the whole world.

Much as the real sector has resisted for a long time in terms of production, investment and employment, it also has been affected by the financial crisis over time. Thousands of companies have closed due to the crisis, growth rates have become negative and unemployment has reached high amounts (Danacı and Uluyol, 2010: 870). Two important points stand out in the crisis of 2008; first cause of the crisis is the fact of the lack of supervision in the financial sector. Financial institutions have performed transactions with a high level of risk due to this uncontrolled and disorderly situation (Hiç, 2009:2). Hence, it has become an inevitable necessity to take action for making a healthy arrangement for financial markets around the world again. The second issue that the crisis has revealed has been brought forward in clearly by a survey conducted through the United Nations Conference on Trade and Development (UNCTAD). Accordingly, the level of countries in terms of being affected through the crises increases in parallel with the integration thereof with external markets (Ayrıçay, 2010:172). Countries like Turkey which strive to open to external markets and be more effective in the world markets in recent years have been dramatically affected through the global crisis.

Status of SMEs in the Economic Structure and Main Issues

SMEs are the structures which stand out as the most dynamic, flexible and pioneering of economies in all countries in our day. SMEs constitute the major part of production, employment and the number of enterprises in the U.S., EU and almost all the countries worldwide. The number of SMEs constitutes approximately 99% of the total number of enterprises in the U.S., EU and in other countries of the world while they have a great importance in terms of production and employment. Much as there are

differences in terms of definition between countries, in general, SMEs can be defined as businesses which use less capital, operate with labor-intensive production technology, and which have a relatively small number of employees.

SMEs are important elements of resistance against the economic crises due to their flexibility. SMEs also have some inferior sides in addition to the superior sides thereof. And such issues may risk the existences thereof in times of changes in the economy and crisis. Accordingly, it is required to determine the problems incident to SMEs which are deemed as a resistance against the crises with the flexible structures thereof in order that they can fulfill their function. When the issues are examined, it is observed that these issues have the nature of triggering and feeding one another.

For instance, while financial problems prevent the employment of professional managers on one hand; lack of professional managers in the face of economic crisis leads to the growth of the problems on the other hand. Another example is that while lack of funding causes insufficiency of technology it also leads to difficulties as to competition at the same time. In this respect, it is necessary not to consider the problems of SMEs independently. Much as the issues of SMEs may vary according to the status of the country and sector they are in, they can be listed as following briefly (Akgemici, 2001; Ban and Yörük, 2003: 23-24; Erdoğan and Develioğlu, 2011: 141-157):

- Issues due to the Problems of Management and Organization: SMEs are businesses in which ownership, entrepreneurship and business management mostly are performed through the same person. This restriction makes it difficult for SMEs to find professional solutions against the major problems they encounter.
- Financial Issues: SMEs face a variety of financial issues such as lack of resource primarily. The high cost of credits, hardship in conditions as to maintaining credits, the ignorance of the business owners in terms of financial resources constitute a number of the foregoing.
- Hardship as to Production, Marketing and Export: SMEs experience production problems primarily due to financial insufficiency as well as other various issues. Difficulties in obtaining raw materials, supply of expensive raw material, lack of qualified personnel and expensive production due to low amount of production are some of the said issues.
- Lack of Technology: SMEs have hardship in particular as to renewing their technological levels due to financial limitations.
- Lack of feasibility works, and mistakes made in selection of establishment place constitute the other problems experienced through the businesses.

Impact of the Economic Crises on SMEs

SMEs constitute the backbone of the economy with the qualifications they have however they may be affected from the economic crises more compared to large

enterprises due to some weakness they have. The impacts of the economic crisis on SMEs may emerge arising from numerous causes. A part of these impacts will be discussed on the basis of the 2008 Global Economic Crisis and SMEs in Turkey due the limited purview of our study.

The 2008 crisis began to be felt in the last quarter of 2008 in Turkey and intensified the impact thereof in 2009. The crisis has affected Turkey's Economy in many ways including supply of foreign resources, reduction in domestic credit sources, contraction of foreign trade as well as decrease in confidence between producers and consumers. (Ban et al., 2010:59-70). The measures taken by the financial sector due to the crisis experienced in Economy of Turkey in 2001 have led to be being affected less by the crisis. The crisis has been rather effective on the real sector.

As is known, SMEs constitute approximately 99% of the businesses in the world and in Turkey. The economic crises that emerge affects SMEs primarily through various channels. The issues ignored regarding SMEs during stable times of the economic life begin to create vital significance in times of crisis.

The impact of the economic crises on SMEs can be examined in two ways. First of them is examining the impacts of the economic crisis on the functions of the business; second of them is examining the crisis in terms of various indicators. The economic crises prevent SMEs to fulfill the various functions thereof in a healthy manner. The resulting macro-negativities affect the production, marketing, finance and administration functions of businesses are by putting them under pressure. The cited functional impairments will be not be discussed in more details in our study.

It is possible to reveal the impacts of the economic crises by virtue of various indicators. Financial difficulties, decrease in capacity usage rates, increase in production costs, decrease in employment, changes in the workplace closures, difficulties in import and export and decrease in investments are some of the outstanding issues among them.

Financial Difficulties

Problems such as worsening of credit conditions, increase in interest rates, decrease in re-borrowing facilities, recall of old loans are experienced in times of crisis (Gençtürk et al., 2011: 188). Various empirical studies conducted in Turkey in 2008 have revealed the fact that SMEs are the most affected parties from the crisis in terms of having access to bank credits. For instance, although the share of SMEs from total loans has been at the level of 27% in Turkey prior to the crisis, it has decreased to the level of 21% in 2009 (BRSA, 2011). Businesses have difficulties in collecting their receivables and paying their debts in times of crises. Ay et al have revealed in their research the fact that 65.6% enterprises in Konya have experienced difficulty in collection of their receivables while 66.1% of them have experienced difficulty in paying the debts thereof.

Decrease in Capacity Utilization Rates

According to data from the TSI (Turkish Statistical Institute) and the Central Bank of the Republic of Turkey businesses in Turkey have experienced significant decline in production capacity utilization rate during the crisis. The production capacity utilization rate has shown a decline of 22% between August 2007 and March 2009. According to the data obtained from the questionnaires, lack of demand, lack of raw materials and financial impossibilities are the main causes of the decline in capacity rates (CBRT, 2011). The "Situation Assessment Survey" regularly conducted by Istanbul Chamber of Industry (ISO) has also revealed this decline in the first quarter of 2009. It has been determined in ISO's work that negativity has increased more in line with smaller scales of enterprises germane to the decrease in the capacity utilization rate.(ISO, 2009:47).

Changes in Closure of Workplaces

An increase has happened in the number of closed businesses while a decrease in the number of established businesses has occurred during the crisis. An increase of 8.79% has taken place in the number of closed businesses between the years of 2007 and 2009 compared to the number of closed businesses in 2004 and 2006. Similarly, an increase of 20% in the number of closed businesses has taken place in the 2001 crisis in Turkey compared to the previous years (Yüksel and Murat, 2012).

Change in Employment

Businesses have resorted to removal of employees upon the developments such as decline in the capacity utilization rate and reduction in domestic and external demand. It should be noted immediately that removal of employees have fallen behind the decrease in production. The decisions taken by the government in Turkey has become a factor to slow down the increase in unemployment during the crisis (Ersöz, 2012).

When the results of the Crisis of 2008 are analyzed it can be seen that the unemployment level has increased compared to the period prior to the crisis. The unemployment level at the level of 9% in August 2007 has raised to 16% in February 2009 unemployment (Turkish Statistical Institute, 2010). An interesting aspect of the impact of the crisis on employment in Turkey is that removal in the business at SMEs level has stayed at a lower level.

Decrease in Producer and Consumer Confidence

One of the most obvious consequences of the crises is the decrease in confidence to the economy. While the decrease in confidence is a result of the crisis on one hand it is also a factor aggravating the impacts of the crisis on the other hand. For instance, the household members living in fear of dismissal decrease consumption and a demand contraction emerges accordingly on the market. On the other hand, the employers resort to ways such as reducing investments and removing employees. When the real sector confidence index prepared through the Central Bank of the

Republic of Turkey is analyzed it can be seen that a decrease has commenced as from 2008. The cited decrease has continued until the beginning of 2009 and subsequently an increase has started (CBRT, 2008: 1-10).

Another important source of information in terms of revealing the impact of the crisis is the Consumer Tendency Survey prepared in collaboration with the a TSI (Turkish Statistical Institute) and the Central Bank of the Republic of Turkey. "Consumer Confidence Index" is obtained by virtue of the survey questioning the thoughts of the consumers germane to issues such as the general economic situation and job opportunities. The consumer confidence index which has been at fairly low levels in 2008-2009 has entered to a trend of increase as from 2010.

Conclusion

Globalization of the world economy, and financial liberalization in the recent years have also brought major issues therewith. Uncontrolled and irregular functioning of financial markets lead to significant problems over time and these problems have the potential to affect the whole world. Accordingly, necessity has arisen for taking serious measures incident to providing a healthy functioning of the national and international economy. In particular, the tools and institutions utilized in financial markets should be subjected to sufficient regulation.

In the light of the determinations made hereinabove, it can be observed that SMEs have great importance in terms of economic stability and development. SMEs also have major weaknesses in addition to the strengths they have. It is seen that SMEs experience bottlenecks particularly in the financial area in times of crisis. SMEs are indispensable institutions for the future of the economy which on the other hand need to be supported in the face of both global and local crises. It is required to analyze the issues experienced in times of crisis. Problems of SMEs worsen in times of crises and endanger the existence thereof. The problems for SMEs which have to be solved as a priority are decreases in capacity utilization rates, increase in costs and difficulties in access to finance in times of crisis.

Supporting SMEs in the face of crisis is an important issue, however it is also necessary to strengthen their structure independently from the crises and raise the awareness of SME managers sufficiently in financial, manufacturing, marketing issues primarily. It is necessary to facilitate access for SMEs to financial resources, including bank loans primarily in times of crisis. Many studies carried out in Turkey reveal that in times of crisis banks make the credit conditions harder for SMEs.

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