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THE ADJUSTMENT OF TURKISH SME POLICY TO THE EU REQUIREMENTS:
ARE TURKISH SME'S INTERNATIONALIZED ENOUGH TO PLAY ON EU SCENE?

Joint Master's Programme European Studies Master Thesis

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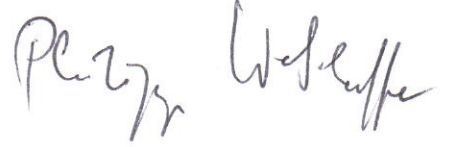
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Fulya MERİÇ'in bu çalışması, jürimiz tarafından Uluslararası İlişkiler Ana Bilim Dalı Ortak Avrupa Çalışmaları Yüksek Lisans Programı tezi olarak kabul edilmiştir.

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Tez Başlığı:

The Adjustment of Turkish SME Policy to the EU

Requirements: Are Turkish SME's Internationalized enough to Play on EU Scene?

Türkiye KOBİ Politikası'nın AB Gerekliliklerine Uyumu: Türkiye'deki KOBİ'ler AB Sahnesinde Oynayacak Kadar Uluslararasılaştılar mı?

Onay : Yukarıdaki imzaların, adı geçen öğretim üyelerine ait olduğunu onaylarım.

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Müdür

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LIST OF ABBREVIATIONS

- BEST:** Business Environment Simplification Taskforce
- DPT:** Undersecretariat of State Planning Organization
- DTM:** Undersecretary of Foreign Trade
- EU:** European Union
- EUROSTAT:** European Statistics Office
- FDI:** Foreign Direct Investment
- ICT:** Information and communications technology
- IGEM:** Enterprise Development Centre of KOSGEB
- ISGEM:** Business Development Center
- ISKUR:** Turkish Employment Organization
- ITKIB:** Istanbul Textile and Apparel Exporters' Association
- KOBINET:** Small and Medium Enterprises Network
- KOSGEB:** Small and Medium Industry Development Organization
- SBA:** Small Business Act
- SFTC:** Sectoral Foreign Trade Companies
- SIS:** State Institute of Statistics
- SME:** Small and Medium Sized Enterprise
- SPK:** Capital Markets Board
- SPO:** State Planning Organization
- TEKMER:** Technology Development Centre of KOSGEB
- TESK:** Confederation of Turkish Tradesmen and Craftsmen
- TOBB:** Turkish Union of Chambers and Commodity Exchanges

SUMMARY

THE ADJUSTMENT OF TURKISH SME POLICY TO THE EU REQUIREMENTS: ARE TURKISH SMES INTERNATIONALIZED ENOUGH TO PLAY ON EU SCENE?

Small and Medium Enterprises (SMEs) play a vital role in the country's economic development. In this context SMEs' importance in Turkish economy is considerable due to their number and contributions to the economy and workforce and there is a clear understanding that there's a necessity to begin a process of international integration on the way to EU for Turkey.

The one of main instrument for this integration is internationalization that has been triggered by current trend of economic growth and the rapid industrial development. The focus of this paper is to determine the main objectives of internationalization for SMEs in Turkey and measure their compatibility with 16th chapter which concerns Small and Medium sized Enterprises (SME) Policy by choosing exports as an internationalization tool in Textile Sector in Marmara Region, Turkey.

Keywords: SMEs, Internationalization, European Union, Globalization, Market, Export, Textile Sector

ÖZET

TÜRKİYE'DEKİ KOBİ POLİTİKASI'NIN AB GEREKLİLİKLERİNE UYUMU: TÜRKİYE'DEKİ KOBİ'LER AB SAHNESİNDE OYNAYACAK KADAR ULUSLARARASILAŞTILAR MI?

Küçük ve Orta Ölçekli İşletmeler (KOBİ) bir ülkenin ekonomik gelişiminde büyük rol oynamaktadır. Bu bağlamda Türkiye için de AB yolunda uluslararası entegrasyon sürecinin başlaması gerekliliğine dair algının oluşması da göz önünde bulundurulduğunda Türkiye'nin ekonomisinde KOBİ'lerin gerek sayıları ile gerekse ekonomi ve iş gücüne katkıları ile önemleri yadsınamaz.

Mevcut ekonomik büyümenin ve hızlı endüstriyel gelişimin tetiklediği bu entegrasyonun ana enstrümanlarından birisi de uluslararasılaşmadır. Bu çalışmanın odak noktası Türkiye'deki KOBİ'lerin uluslararasılaşma süreçlerindeki başlıca amaçlarını belirleyerek, AB Mevzuatında 16. Başlıkta yer alan Küçük ve Orta Ölçekli İşletmeler (KOBİ) Politikası ile uyumluluğunu ölçmektir. Bu çalışmada Marmara Bölgesinde ki Tekstil Sektörü hedef alınıp, ihracat uluslararasılaşma aracı olarak öngörülerek saptamalar yapılmıştır.

Anahtar Kelimeler: KOBİ'ler, Uluslararasılaşma, Avrupa Birliği, Globalizasyon, Pazar, İhracat, Tekstil Sektörü

INTRODUCTION

Turkey opened entry talks with the European Union on 3 October 2005 and from that time on Turkey need to harmonize its policies in line with EU. According to the *acquis communautaire* which consists of 35 chapters, the 16th chapter concerns Small and Medium sized Enterprises (SME) Policy. SMEs have a vital importance in the Turkish economy due to their number and contributions to the economy and workforce and Turkey understood that there's a necessity to begin a process of international integration on the way to EU.

In Turkey there is a difficulty in adjoining the issue of SMEs and the issue of internationalization. However there are many firms under the statute of SMEs that completed its internationalization process and compete in the market currently.

SMEs face many difficulties by their nature during the internationalization process but the introverted behaviors of a firm don't let it to compete in the market actively. In direct contradiction in order to survive in the liberalizing and globalizing market they need to be the part of the internationalization process. During the last decades when the efforts that SMEs have been through to internationalize, it can be assumed that SMEs also have desire to be a part of this process and steal a market share.

In this point the firms have many question marks on how to internationalize due to the lack of their knowledge regarding to the issue. The question marks do not only come into existence in firms' minds, at the same time the countries, the related governments in the countries, councils and non governmental organizations try to figure out the answer of the question on how to internationalize. Why has the answer vital importance? Before trying to find out the answers regarding to the issue of internationalization it is important to give the answer of the previous question. Unlikely to the issue of internationalization the answer is so easy and obvious that SMEs are the engines of the economy in case of job creation and productivity that's why their contribution through the international operations and processes means a lot as an added value for the economy of a country.

In case of Turkey 99.5 percent of the enterprises in are considered within SMEs' category.

There's a lot of survey, case studies or applied researches in the literature regarding to the internationalization processes of SMEs. But all these studies are applied on the SMEs that operate actively in abroad thus there is plenty of case study that includes limited part of Turkish SMEs under the issue of internationalization.

The purpose of this study is to examine the internationalization process of small and medium sized firms (SMEs) and determining the behaviors of Turkish SMEs with the evaluation of the past studies made about this topic.

The first part of the study aims to show the effect of globalization which is the key driver of current sustained economic growth. The mentioned effect is the internationalization which can not be considered as a separate part of an enterprise and is an engine for competitiveness and economic growth.

The second part of the study examines the way of understanding European Union with its policies towards SMEs and SME internationalization. European perspective on the issue of SMEs and internationalization is important because to understand the general idea of a policy making to promote greater SME internationalization could be way for Turkey as a potential Member State to help the Turkish SMEs which have a long way to go.

The third part includes the Small and Medium Sized Enterprises in Turkey. Under the issue the aim is gathering the information regarding to the performance of SMEs with their advantages and disadvantages and forming a basis for an introduction to the internationalization of Turkish SMEs in line with findings from the SME sector.

Before concluding and finding the answer of a question on "Are Turkish SMEs internationalized enough to play on EU scene?" the last part aims to minimize the indicators regarding to show the internationalization level of SMEs.

One international entrepreneurship expert explained the motivations to internationalization as follows:

Certainly the overall motivation is increased sales, but that is the simple answer. A more complex analysis opens the door to the real fun – the larger game. Ultimately the goal of global trade is to expand the scope and reach of your company so that the tools and

resources available to fight your competition give your company an unbeatable edge – an edge that renews and transforms itself faster than the competition can keep up.¹

¹ Foley J. F., *The Global Entrepreneur: Taking Your Business International*, 2004, p.5

CHAPTER 1

SMALL AND MEDIUM SIZED ENTERPRISES IN A GLOBALIZED WORLD

1.1 Globalization and the SMEs

Globalization is a decorous phenomenon when it is discussed in the economic context because it is not new. According to the Kindleberger's article on the roots of globalization this development has kept going since the eighteenth century. Globalization is not a closed effect which means that it could be affected by political decisions, crises or technological development and so on.² It shows that if the external factors that affect the globalization vary in themselves, the responses or the interpretation of the concept also varies.

The diversity that mentioned in the previous paragraph also affects the organizations' operations on the international markets. This effect makes up a question mark. Should the firms standardize or differentiate its operations on international markets?³ In accordance with the statement it can be assumed that there's a reciprocal relationship between globalization and organizations.⁴ This means the organizations are not affected by their adaptability to the developments; they are affected also by their individual activities. These activities on an individual and an organizational perspective stimulate, facilitate, sustain and extend globalization.⁵ Although there has been reciprocal relationship in its diversified terms, it is important to mention the basic and fundamental characteristics of the phenomenon referred as the relationship between a firm and globalization. First of all during the globalization process the distances become closer which causes to disappearance of the national barriers that decreases the physical location of the firms. Secondly it is important to mention the political and social consequences under the fundamental characteristics. Because these consequences include the rules, standards or values that help the firms to cope with the complexity and uncertainty that may cause the uncontrollable situations in the market.

The concept of globalization from a company perspective shows;

² Kindleberger C. P., *The Historical Roots of Globalization*, 2000, 12 (1) pp.1-26

³ Douglas S. P., Wind Y., *The Myth of Globalization*, 1987, 22 (4) pp. 19-29

⁴ Jones M., Dimitratos P., *Emerging Paradigms in international entrepreneurship*, 2004, p.129

⁵ Parker B., *Globalization and Business Practice: Managing Across Boundaries*, 1998

- *The ability to move flexibly and to identify and take advantage of opportunities everywhere in the world,*
- *The ability to source inputs, to distribute products and services and to move capital across borders,*
- *The lack of a home or national base (in the sense of not being committed to maintaining headquarters or a presence in a specific 'home' country),*
- *Presence (usually as establishments, alliances or parts of networks) in a number of different countries,*
- *Management that thinks and acts 'globally',*
- *The ability to market products and services successfully in different nations (although the products and services may be adapted to specific markets).⁶*

The more globalization of the economy is affecting the nature of economic context, the more structure of industrial system has an impact on the operations of small and medium sized enterprises.⁷ With the effect of globalization through opening new markets offers new opportunities and accelerates the internationalization of SMEs. According to Varaldo and Pagano⁸ (1998) SMEs are affected by globalization because the increasing competition and complexity in foreign markets require more effort to deal with those complexities.

Globalization has positive and negative effects in the economic context. It involves elements that may hinder the internationalization process of small firms which are not able to compete with the challenges that can occur everyday. It shows the traditional view of SME internationalization because of their limited sources and lack of their management skills. These weaknesses affect SMEs more than larger firms in the age of globalization.⁹

It is important to mention the related actors and indicators to expound the potential impacts of globalization on internationalization of SMEs. Recently researchers have pointed out that globalization and its effects are converging small and large firms closer to each other as the small firms encounter the global competition but competition also requires local

⁶Marian Jones. Pavlos Dimitratos, *Emerging Paradigms in international entrepreneurship*, p.129

⁷ Varaldo R., Pagano A., *Can Small and Medium Enterprises Survive in the Global Economy?*, 1998

⁸ Varaldo R., Pagano A., *Can Small and Medium Enterprises Survive in the Global Economy?*, 1998

⁹ Knight G., *Entrepreneurship and Marketing Strategy: The SME under Globalization*, 2000, 8 (2) pp. 12-32

See also Etemad H., *Globalization and the Small and Medium Sized Enterprises: Search for Potent Strategies*; 1999, 11 (3) pp. 85-104

responsiveness from large multinationals.¹⁰ To manage the globalization process as an argument shows that the large firms have become coordinators in broader networks of companies that also includes SMEs.¹¹ But large firms take a more visible role in SME internationalization. That's why it would be harder to see the indistinct line between SMEs and MNEs which are nested in globalization process. SMEs' identities also have an important role to measure the internationalization level with the impact of globalization because SMEs can not be always considered as a homogenous group of firms. Even it is considered as a homogenous identity the impact of globalization also varies in itself.

Globalization is a context dependent phenomenon¹² which means that it also considerably varies across the industries.

As a result globalization and internationalization are strongly linked with each other. The driving forces of globalization affect the SME internationalization. Globalization creates such an atmosphere with diminishing the barriers, increasing the speed of business operations that forces the SMEs to operate internationally and increasing the competition that forces the SMEs to improve their ability to make plans for the further development in their own sake and to use new approaches to internationalize.

1.2 After Globalization Comes Internationalization

Globalization and internationalization are strongly interrelated and interconnected with each other. However there are opposite views in the academic literature because of the confusion that is between globalization and internationalization. According to Prasad¹³ on the one hand these two terms could be interpreted as synonyms but on the other hand as Julien¹⁴ stated that these two phenomenons are usually distinguished from each other. This differentiation arises from the different interpretations of these terms. In accordance with the referred statement the globalization is interpreted as the ongoing macroeconomic phenomenon of disappearing trade barriers and increasing communication with the help of advanced technology. Internationalization is interpreted as a company-level activity that

¹⁰ Jones M., Dimitratos P., *Emerging Paradigms in international entrepreneurship*, 2004, p.131

¹¹ Acs Z. J., B. Yeung, *Entrepreneurial discovery and the global economy*, 1999, 11 (3) pp. 63-71

¹² Jones M., Dimitratos P., *Emerging Paradigms in international entrepreneurship*, 2004, p.131

¹³ Prasad S., *Globalization of Smaller Firms: Field Notes on Processes*, 1999, 13 (1) pp. 1-7

¹⁴ Julien P.A., *Globalization: Different Types of Small Business Behaviour*, 1996, 8 (1) pp. 57-74

provides the involvement of the firm to the foreign markets and increases its competition level.

Internationalization with its brief and common definition means business activities responding to the opportunities and challenges that globalization brings.¹⁵ For a long time the researchers tried to figure out the internationalization process of a small firm but they couldn't manage to come up with a conclusive theory on SME internationalization. However there are two broad theoretical concepts in the SME internationalization that they could be a part of the academic literature. The first concept the traditional internationalization theories such as stage theory that consists of the factors those have an influence on internationalization within the larger firms.¹⁶ The second concept arises from the criticisms of the traditional internationalization approaches that consider the inability of traditional internationalization approaches. Therefore even there's conflict on the theoretical background, with the views of the Bell and Young¹⁷ it can be assumed that there is no agreed definition of internationalization. Internationalization can be defined as *the process of increasing involvement in international markets*.¹⁸

The internationalization process could be categorized as inward and outward activities with terms of generalizing the differentiation. Importers, licensees, franchisees symbolize the inward activities. Although many firms start their international activity on its inward side¹⁹, the main focus is basically on the outward activities such as exporting, licensing, franchising and foreign direct investment (FDI).²⁰

But the internationalization process of SMEs can not be explained step by step as a linear process. The linkage between large-scale enterprises (LSEs) and SMEs can not be ignored. The openness of economies goes hand in hand with increased levels of SME activity. The relationship between SMEs and LSEs through internationalization process is

¹⁵ European Commission; Final Report of the Export Group on Supporting the Internationalization of SMEs, Belgium, 2007; p.13

¹⁶ Johanson J. and Vahlne J., The Internationalization Process of the Firm: A Model of Knowledge Development and Increasing Foreign Market Commitments, 1977, 8 (1) pp. 23-32

¹⁷ Bell J. and S. Young, Towards an Integrative Framework of the Internationalization of the Firm, 1998

¹⁸ Welch L. S., Luostarinen R., Internationalization: Evolution of a Concept, 1988, 14 (2) pp. 46-58

¹⁹ Gerald I. Susman, Small and Medium Sized Enterprises and the Global Economy, 2007, p.281

²⁰ Gerald I. Susman, Small and Medium Sized Enterprises and the Global Economy, 2007, p.281

reinforced by the fact that as global competition increases, LSEs pay attention to innovation.²¹ According to the OECD²² between 30-60 percent of some of the SMEs can be categorized as innovative in the broader perspective. That's why during the internationalization process LSEs tend to build up stronger relationships with SMEs instead of competing with them in same markets with the same products.

Under the terms of internationalization that is the major effect in the process of globalization of SMEs, it is important to mention the push and pull factors regarding to the process. The push factors mainly consist of firms' tendency to extra growth which could be achieved through pull factors as moving their home market into potential growth markets.²³ To be an actor in the globalized economy and act internationally immunize the SMEs to have a tendency to make strategic planning through these push and pull factors.

In this concept through international trade SMEs could have different roles regarding to their business concept. SMEs could have a role as domestic suppliers of inputs to products that exported by larger enterprises. SMEs could have a role as exporters of specialized niche products. SMEs could have role as importers/distributors of goods from foreign SMEs. Lastly SMEs could be providers of support services to international trade transactions such as inland transport or foreign forwarding.²⁴

In the literature while explaining the internationalization processes of SMEs, most of the academicians emphasized the heterogeneous structure of SMEs. These heterogeneous structures as it is mentioned in the previous paragraph are also proofs of their diversified commercial environments.

According to Leonidou and Katsikea²⁵ (1996) there are three broad perspectives that are following each other phase by phase. The first phase is pre-engagement. It consists of

²¹ Johnson Debra, Turner Colin, *International Business: Themes and Issues in the Modern Global Economy*, 2003, p. 129

²² OECD, *Türkiye'deki Dinamik Küçük ve Orta Ölçekli İşletmelerin Geliştirilmesine ve Finansmanına Yönelik Çerçeve*, 2005, p. 35

²³ Johnson Debra, Turner Colin, *International Business: Themes and Issues in the Modern Global Economy*, 2003, p. 130

²⁴ Johnson Debra, Turner Colin, *International Business: Themes and Issues in the Modern Global Economy*, 2003, p. 130

²⁵ Leonidou LC, Katsikeas CS, *The Export Development Process: An Integrative Review of Empirical Models*, 1996

firms that operate on domestic markets and that are not interested in exporting. The second broad phase is the initial. The initial includes the firms that are marginally dependant on exporting. The last phase is the advanced phase. Here the firms are professional exporters and they have an experience on international markets. If internationalization means greater integration and reducing barriers in the context of international competition, it starts at home. Even the firm primarily focuses on the domestic market; it has to compete internationally in order to secure long-term survival and growth.²⁶ To provide this sustainability and growth SMEs have to follow technology and improve their managerial and operational skills that based on innovation inside the SME.

The forms of internationalization are changeable regarding to the heterogeneous structures of the SMEs. The most mentioned form of internationalization is exporting as a traditional way but importing is also important through the acquisition of new technology and abilities. The other forms are foreign direct investment (relocation or outsourcing), technology transfers, participation in international value chains and other forms of inter SME cooperations. These forms will be categorized under the theme of “Different Forms of Internationalization” as a next topic in detail.

With the effect of globalization the firms have opportunities that they face in the international markets. These opportunities could be named as contributors. The contributors to the globalization of SMEs;

In macro level;

- *The emergence of common or open markets and the reduction of protectionist barriers*
- *The increased globalization of large firms*
- *Increased levels of foreign investment and world trade*
- *Increased mobility of capital, technology and management*
- *Increased currency movements that have changed the relative competitiveness of different states*

In micro level;

- *Changing technology, communications and organizational forms*

²⁶ Karagozoglou N., M. Lindell, Internationalization and Small and Medium-Sized Technology-Based Firms: An Exploratory Study, 1998, 36(1) pp. 44-59

- *Increased opportunities for SMEs to extend their value chains across boarder as a result of cost differentials, etc.*
- *Changing attitudes and management skills*

*Source: OECD 1997*²⁷

The mentioned contributors represent the opportunities. But the important issue is the attitude of the firms that have to respond to them. According to Varaldo and Pagano²⁸ (1998) the firms could be whether reactive or proactive. Generally the reactive firms try to follow the changes and respond to them. The proactive firms try to take and transform the new opportunities and create innovative solutions. During the internationalization process if the firm wants to provide sustainability and growth, it has to be both reactive and proactive. In that case the firms can compete internationally in order to secure long-term survival and growth.

1.2.1 Different Forms of Internationalization of SMEs

The literature on the internationalization shows that the firms' entry to international markets has got different characteristics in different firms within the same industry.²⁹ This statement is supported by the authors such as Fryges (2000), Johanson and Mattsson (1988) and Bernard and Jensen (2004).

Julien (1996) classifies typology of internationalization of SMEs under five categories regarding to the businesses and their respond to globalization.

1. *locally competitive SMEs: these operate in highly specific markets or are protected from international competition through their location in remote regions*
2. *SMEs using international resources: these SMEs utilize international resources to support their competitiveness in local markets*
3. *exporter SMEs: these firms have the necessary information to sell abroad. They tend to be innovative firms, seeking to expand the scope of their markets*

²⁷ OECD, Globalization and Small and Medium Enterprises, Vol.1, Synthesis Report, 1997, p. 40

²⁸ Varaldo R., Pagano A., Can Small and Medium Enterprises Survive in the Global Economy?, 1998

²⁹ Fryges H., Productivity, Growth and Internationalization: the Case of British and German High techs, 2000
 Johanson J. and Mattson L. G., Internationalization in Industrial Systems: A Network Approach, 1988
 Bernard A. B. and Jensen J.B., Exceptional Exporter Performance: Cause, Effect or Both?, 1999, pp. 1-25

personalized communication,
 High quality standards and individualized product and service offering,

- WEAKNESSES** → Difficulties in recruiting qualified employees,
 Centralized decision-making may be inappropriate for an internationalized enterprise,
 Competitive disadvantage through weak position to negotiate,
 Limited market influence and lack of knowledge of target markets,
 Shortage of financing opportunities and increased risk potential with small equity base,
 Mostly involved with day to day activities with limited time for strategic management and focus on marketing,
- OPPORTUNITIES** → More efficient production process,
 Utilization of standardization/differentiation,
 Optimal resource usage,
 Realization of price, cost and time advantages,
- THREATS** → High information costs,
 Long decision-making processes caused by lack of knowledge,
 New legal and cultural frameworks,
 Market insecurity facilitated by economic insecurity and exchange rate risks,
 Uncollectables because of unknown payment ethics,
 Increase in transport costs incurred by centralized production, tariff and other trade barriers,
 Cost of reorganizing,
 Need for capital,

Source: OECD, 1997³²

1.2.2 The Barriers to the Internationalization of SMEs

In order to be active in the international competition the greater integration and the reduced barriers are not a choice but a matter of necessity. To fill the needs there has to be

³² OECD, Globalization and Small and Medium Enterprises, Vol.1, Synthesis Report, 1997

successful policies with the aim of increasing the number of internationalized SMEs. To create successful policies there has to be a clear understanding and the understanding should consider the main barriers that SMEs face. According to the OECD the main barriers that SMEs face are:

- *Shortage of working capital to finance exports;*
- *Identifying foreign business opportunities;*
- *Limited information to locate/analyze markets;*
- *Inability to contact potential overseas customers;*
- *Obtaining reliable foreign representation;*
- *Lack of managerial time to deal with internationalization;*
- *Inadequate quantity of and/or untrained personnel for internationalization;*³³

The main barriers to internationalization that are mentioned above are also repeated many times in other surveys. According to these repeated statements, these barriers can be grouped under the three main areas.

1. *Insufficient managerial time and/or skills required for internationalization*
2. *Lack of financial resources*
3. *Lack of knowledge of foreign markets, mostly consequence of the pervious two.*³⁴

According to the study in OECD's Report 'Removing Barriers to SMEs Access to International Markets' the barriers are not uniform and constant to all SMEs.³⁵ To reduce the barriers the governments and the policy makers need to know the kind of SMEs that they are planning on and the stage of their internationalization levels.

³³ OECD Working Party on SMEs and Entrepreneurship, Removing Barriers to SME Access to International Markets, 2008, p. 59

³⁴ European Commission, Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007, p. 11

³⁵ OECD Working Party on SMEs and Entrepreneurship, Removing Barriers to SME Access to International Markets, 2008, p. 53

CHAPTER 2

EU: A SUPPORT FOR THE INTERNATIONALIZATION OF SMES

2.1 General Overview on SMEs in EU

The Six Founder Member State decided on 25 March 1957 to establish a European Economic Community (EEC) with the Treaty of Rome. According to the Six the EEC was meant to be based on a common market that would compass a whole range of goods and services.

With the Single European Act of 1993 the necessity of supporting the SMEs has been accelerated because this act has legally created a union of western European countries, allowing free movement of goods, services, capital, and labor. One of the major aims of this union is to develop the economic potential of Europe so it can compete as a world power with the USA and Pacific Basin countries.³⁶ The most important reason of support was that EU was aware of that the small- and medium-sized enterprise (SME) sector was the key for European competitive development.

Why does EU need a SME Policy? This question's answer points out the importance of SMEs and their contributions to economy and employment in EU because SMEs represent the 99% of the SME across Europe. With their dynamic and flexible structures SMEs are most active actors also with their contribution to the job creation, make up the conditions of competition. The more government authorities support the SMEs' with policies with the aim of increasing their contributions to the economy, the more macroeconomic level increases through employment and competition.

There were almost 20 million enterprises active within the EU-27 in 2005 in the non-financial business economy. The overwhelming majority of these (99.8 %) were SMEs, with less than 250 persons employed. Their relative importance was; however, lower in terms of their contribution to providing jobs and wealth, as 67.1 % of the non-financial business economy workforce in the EU-27 was employed in an SME, while 57.6 % of the non-financial business economy's value added was generated by SMEs.³⁷

³⁶ Alan Mulhern, *The SME Sector in Europe: A Broad Perspective*, Vol. 33, 1995, p. 3

³⁷ Schmiemann Manfred, *Enterprises by Size Class: Overview of SMEs in the EU*, 2008, p. 2

Table 2.1 Key Indicators for Enterprises in the Non-financial Business Economy, EU 27, 2005

	Total	SMEs	Micro	Small	Medium	Large
Number of enterprises (millions)	19.65	19.60	18.04	1.35	0.21	0.04
Share in total (%)	100.0	99.8	91.8	6.9	1.1	0.2
Persons employed (millions)	126.7	85.0	37.5	26.1	21.3	41.7
Share in total (%)	100.0	67.1	29.6	20.6	16.8	32.9
Value added (EUR billion)	5 360	3 090	1 120	1 011	954	2 270
Share in total (%)	100.0	57.6	20.9	18.9	17.8	42.4
Apparent labour productivity (EUR 1 000 per person employed)	42.3	36.4	29.9	38.7	44.8	54.4
Relative to total (%)	100.0	86.1	70.7	91.5	105.9	128.6

Source: Eurostat (SBS size class)

⁽¹⁾ Including rounded estimates based on non-confidential data; SMEs (1-249 persons employed); micro enterprises (1-9 persons employed); small enterprises (10-49 persons employed); medium-sized enterprises (50-249 persons employed); large enterprises (250 or more persons employed).

The numbers and the percentages shown on the Table 2.1 remind their considerable role in the economy.

2.1.1 The Definition of SME through a European Perspective

Why are the definitions so important or why has the definition of SME deserve a single title in this working paper? The Six Founder Member State decided on 25 March 1957 to establish a European Economic Community (EEC) with the Treaty of Rome. According to the Six the EEC was meant to be based on a common market that would compass a whole range of goods and services. In a single market that has no internal frontiers in business, it is inevitable that measures in favour of SMEs are based on a common definition to improve their consistency and effectiveness, and to limit distortions of competition.³⁸

The importance of SMEs was mentioned many times in many phrases in the EU documents. Once the documentary system of EU was combed out, it is essential to coincide many metaphors for SMEs such as ‘engine of the economy’, ‘providers of the services’, ‘the pulse of the economy’ and so on... Günter Verheugen as a member of the European Commission and responsible for Enterprise and Industry pointed out the importance of SMEs in the following phrase.

‘Micro, small and medium-sized enterprises (SMEs) are the engine of the European economy. They are an essential source of jobs, create entrepreneurial spirit and innovation in the EU and are thus crucial for fostering competitiveness and employment. The new SME definition,

³⁸ European Commission; The New SME Definition: User Guide and Model Declaration; Enterprise and Industry Publications, 2005 p.8

*which entered into force on 1 January 2005, represents a major step towards an improved business environment for SMEs and aims at promoting entrepreneurship, investments and growth...*³⁹

The importance of the definition of SMEs from an European perspective is also one way or another arisen from the 'Lisbon strategy' that adopted by EU in March 2000 with the aim of modernizing the European economy and enabling it to compete on the world market with other major players such as the United States and the newly industrialized countries.

At the same time Lisbon Strategy was planned to be a solution for the unemployment and the rising cost of pensions. To solve the unemployment issue EU once again has to support the SMEs because 23 million SMEs in EU provide around 75 million jobs and represent 99% of all enterprises.⁴⁰ Therefore SMEs are one of the priorities of European Commission for economic growth and job creation.

The new SME definition that was adopted as a new Recommendation 2003/361/EC on 6 May 2003 by the Commission and replaced with the old Recommendation 96/280/EC includes the revision that was made up regarding to the economic developments and the lessons drawn the application of the old definition.⁴¹ The concept of new definition increases the legal certainty on the one hand, reduces the possibilities of its abuse regarding to the state aid, Structural Funds and the Research and Development Framework Programme on the other hand.

This revised Recommendation addresses all the Community policies applied within the European Economic Area in favour of SMEs and to the Member States, the European Investment Bank and the European Investment Fund.⁴²

³⁹ European Commission; The New SME Definition: User Guide and Model Declaration; Enterprise and Industry Publications, 2005 p.3

⁴⁰ European Commission; The New SME Definition: User Guide and Model Declaration; Enterprise and Industry Publications, 2005 p.4

⁴¹ European Commission; The New SME Definition: User Guide and Model Declaration; Enterprise and Industry Publications, 2005 p.4

⁴² European Commission; The New SME Definition: User Guide and Model Declaration; Enterprise and Industry Publications, 2005 p.4

In accordance with the new definition an enterprise *is considered to be any entity engaged in an economic activity, irrespective of its legal form. This includes, in particular, self-employed persons and family businesses engaged in craft or other activities, and partnerships or associations regularly engaged in an economic activity.*⁴³

According to the definition that is shown in the table enterprises categorized as small and medium-sized enterprises (SMEs) are defined officially by the EU as those with fewer than 250 employees and which are independent from larger companies. Furthermore, their annual turnover may not exceed €50 million, or their annual balance sheets exceed €43 million. This definition is critical in establishing which companies may benefit from EU programmes aimed at SMEs, and from certain policies such as SME-specific competition rules. SMEs may be divided into three categories according to their size: micro-enterprises have fewer than 10 employees, small enterprises have between 10 and 49 employees, and medium-sized enterprises have between 50 and 249 employees.⁴⁴

⁴³ European Commission, Commission Recommendation of 6 May 2003 concerning the definition of micro, small and medium-sized enterprises (2003/361/EC); 2003, p.3

http://europa.eu/eur-lex/pri/en/oj/dat/2003/l_124/l_12420030520en00360041.pdf

⁴⁴ European Commission, Putting Small Businesses First: Europe is Good for SMEs, SMEs are Good for Europe, 2008 p. 7 http://ec.europa.eu/enterprise/entrepreneurship/docs/sme_pack_en_2008_full.pdf

Table 2.2 The Definition of SMEs From European Perspective

OLD DEFINITION		NEW DEFINITION (AS FROM 1.1.2005)
Micro Enterprise	Employees: < 10 Annual Turnover: not defined Or Balance Sheet: not defined	Employees: < 10 Annual Turnover: < 2 Mio Euro Or Balance Sheet: < 2 Mio Euro
Small Enterprise	Employees: < 50 Annual Turnover: < 7 Mio Euro Or Balance Sheet: < 5 Mio Euro < 25% of its capital or voting rights controlled by a public body	Employees: < 50 Annual Turnover: < 10 Mio Euro Or Balance Sheet: < 10 Mio Euro < 25% of its capital or voting rights controlled by a public body
Medium Enterprise	Employees: < 250 Annual Turnover: < 40 Mio Euro Or Balance Sheet: < 27 Mio Euro < 25% of its capital or voting rights controlled by a public body	Employees: < 250 Annual Turnover: < 50 Mio Euro Or Balance Sheet: < 43 Mio Euro < 25% of its capital or voting rights controlled by a public body

The new definition is the result of discussion between the related bodies such as Commission, Member States, experts and business organizations. It encloses the different types of SMEs and the relations between different types of enterprises. Member States apply the new definition voluntarily but Commission suggests them to apply the definition as much as they can for the sake of the SMEs.

2.1.2 The Performance of SMEs in EU

To measure and show the indicators regarding to the European SMEs should be in detail which means that it needs to include business demography, profitability, their turnover, employment impacts of SMEs, their sectoral dimension or regional dimension, their contribution to the labor and productivity and it goes on. But under this theme the aim is to underline their large amount of existence in Europe and to understand the reason of importance that Europe gave to its SMEs.

The latest reports and documents show that the facts European SMEs represented are:

- 99.8% of all European enterprises
- 67.1% of private-sector jobs
- More than 80% of employment in some industrial sectors such as the manufacture of metal products, construction and furniture.⁴⁵

According to the Annual Report on EU Small and Medium-sized Enterprises between 2002 and 2007, the number of SMEs has increased by over 2 million, the number of large enterprise by only 2,000. Most new firms are created in the service sector and are micro enterprises.⁴⁶ Another finding based on the same annual report About two-third of total employment in the private sector is found in SMEs. Micro firms (who have on average 2 occupied persons) employ 30% of the total private labor force.⁴⁷

2.2 What's Behind the "Think Small First"?

The answer of the question is really broad and it changes from sector to sector and the results of the support of EU changes from Member State to Member State. Thus the aim is trying to understand and show the understanding of EU policy and support issues to embrace its perspective. The whole picture includes funding opportunities for SMEs, help and support services, the significance of SMEs both for Europe's economy and job creation, how to take full advantage of the single market and range of policies for SMEs.

⁴⁵ Source: Eurostat, key indicators for enterprises in the non-financial business economy, EU27, 2005

⁴⁶ European Commission, Audretsch David, Horst van der Rob, Kwaak Ton and Thurik Roy (eds), First Section of the Annual Report on EU Small and Medium-sized Enterprises, 2009, p.41

⁴⁷ European Commission, Audretsch David, Horst van der Rob, Kwaak Ton and Thurik Roy (eds), First Section of the Annual Report on EU Small and Medium-sized Enterprises, 2009, p.41

The Small Business Act (SBA) for Europe is *a set of principles which should guide the conception and implementation of policies both at EU and national level. This is essential to create a level playing field for SMEs throughout the EU and improve the administrative and legal environment to allow these enterprises to release their full potential to create jobs and growth.*⁴⁸

SBA includes a set of 10 principles which should guide the conception and implementation of policies both at EU and national level. Turkey as a potential Member State has to go in the direction of the principles in the process of policy making. Because this ambitious package has also legislative framework that should be implemented both at EU and Member State level.⁴⁹

These legally 10 binding principles has an importance for the development of SMEs that operate in the Member States because they are designed to ensure the full political commitment of both the Commission and the Member States together with regular monitoring of its implementation and it is come in to force in 1 December 2008 with the approval of Member States.

- *Create an environment in which entrepreneurs and family businesses can thrive and entrepreneurship is rewarded*
- *Ensure that honest entrepreneurs who have faced bankruptcy quickly get a second chance*
- *Design rules with “Think Small First” principle*
- *Make public administrations responsive to SMEs’ needs*
- *Facilitate SMEs’ participation in public procurement and better use State Aid possibilities for SMEs*
- *Facilitate SMEs’ access to finance and develop an environment supportive to timely payments in commercial transactions*
- *Help SMEs to benefit more from the opportunities offered by the Single Market*
- *Promote the upgrading of skills in SMEs and all forms of innovation*
- *Enable SMEs to turn environmental challenges into opportunities*
- *Encourage and support SMEs to benefit from the growth of markets*⁵⁰

⁴⁸ European Commission, Putting Small Businesses First: Europe is Good for SMEs, SMEs are Good for Europe, 2008 p.5

⁴⁹ See http://ec.europa.eu/enterprise/entrepreneurship/sba_en.htm

⁵⁰ European Commission, Ulla Hudina; EU Finance Day for SMEs, 2009, p. 7

Above mentioned legally binding principles overlapped with the policy measures and issues of the SMEs and the internationalization of SMEs which is on the one hand requirements of EU Member States and on the other hand a necessity for the Turkish SME policy and ensuring the level of internationalization of Turkish SMEs that has to be adjusted to EU requirements.

2.2.1 The Level of European SME Internationalization and Policy Issues

Internationalization by SME differs from size to size which shows that there could be a direct proportion between SME size and its internationalization level. The charts that are shown at the bottom also confirm that there is a relationship between the company size and internationalization level.

Table 2.3 Percentage of Inputs Purchased Abroad (% , EU 27)

Size Class	Percentage (%)
EU 27 SMEs	11,7
1-9 persons employed	11,5
10-49 persons employed	13,3
50-249 persons employed	15,8
250+ persons employed	17,6

Source: European Commission, Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007

According to the European Commission's Final Report of the Export Group on Supporting the Internationalization of SMEs there are key facts regarding to the internationalization of European SMEs.

The level of internationalization of SMEs is low. Level of internationalization is closely related to company size. There seems to be plenty of scope for growth in the number of internationalized SMEs, particularly the smallest (micro and small) companies. Even though trade beyond EU has gained weight in the last ten years as a percentage of both imports and exports, for the average European SMEs Europe remains the main and key trade partner across all sectors and company size and even more so in the case of services. SMEs

*themselves are showing that internationalization is growing well beyond just exports and moving into more developed levels of cooperation.*⁵¹

2.2.1.1 The Understanding of Policy to Support the Internationalization of SMEs

Internationalization of SMEs is one of the important elements for the European Government policies in the terms of export promotion. Even the existing programmes that EU created for the SME internationalization are mainly focused on promoting exports and are treated independently from other policy issues. Actually 70% of these programmes are focused on supporting exports. The reason of being partial in favour of exports is that 1 € of support produces a 40 € return in terms of increased exports⁵² and this evaluation could be shown as a proof of their high value in terms of return for investment.⁵³

Before investigating the detail of understanding of EU's policy issues for SMEs it is important to mention the necessity of government support. As it is mentioned many times SMEs play an important role for the stability of a national economy that's why government has to support SMEs for national economy's sake. The reason is that most of the SMEs' main problem is the limitations regarding to resources which could be named as a barrier for them to compete actively in the international market. A survey that compasses an evaluation in the Walloon Region of Belgium shows that an important number of SMEs that have been through EU Programmes wouldn't have internationalized with out the government support.⁵⁴

Government support may be named as "additionality" and additionality could be realized through policies and there should be main consideration on the issue of internationalization of SMEs. For the competitiveness and effectiveness of SMEs governments should consider:

⁵¹ European Commission; Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007; p.16

⁵² Daniel Lederman, Marcelo Olarreaga, Lucy Payton, Trade Note 30, International Trade Department, The World Bank Group, 30 September 2006

⁵³ European Commission, Final Report of the Expert Group on Supporting the Internationalization of SMEs, December 2007, p.17

⁵⁴ "An evaluation of public support measures for private external consultancies to SMEs in the in the Walloon Region of Belgium", Lambrecht J., Pirnay F, Entrepreneurship and Regional Development, Vol. 17, No. 2, pp 89-108

- A successful policy for internationalization should consider the barriers such as shortage of working capital to finance exports; identifying foreign business opportunities; limited information to analyze markets; inability to contact potential overseas customers; obtaining reliable foreign representation. At the same time it also should consider the drivers to internationalization such as more efficient production process, utilization of standardization/differentiation, optimal resource usage, realization of price, cost and time advantages. With the prevision pf barriers and drivers that SMEs have to deal with the government could produce results for the short and middle term and create a successful and supportive policy in the long term.
- A fluid integrative and consultative process between all the stakeholders that compasses the government, support agencies and SMEs) is the best key to successful policy.⁵⁵ This sentence emphasizes the importance of coordination between central government, the support agencies, sectoral, local and regional actors because it is the only way to gather the available resources for SMEs.
- SMEs are not homogeneous identity. Many SMEs have different characteristics instead of their definition regarding to the size of the firm. When the SMEs differ in the way of their identities, the responses that they have to internationalization also differ. The Governments could whether concentrate on the companies that already has started to their internationalization processes and named as winners or they can be supportive for the larger amount of SMEs that have not internationalized yet or have a minimum internationalization level. The latest studies show that concentrating on the winners do not bring big advantages but the latter is the approach that the governments has to adopt in principle for a better efficiency. To make an increase on the number of the internationalized SMEs brings the growth. According to the De Clercq, Sapienza and Crijns⁵⁶ internationalization is one of the main engines for further internationalization.

⁵⁵ European Commission; Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007; p.18

⁵⁶ De Clercq D., Sapienza H., Crijns H., The Internationalization of Small and Medium Firms, Small Business Economics 24, 2005, pp 409-419

- Internationalization is an ongoing process. In other words internationalization is a moving target.⁵⁷ There is a relation between the size and resources of the SMEs and their internationalization level. According to the Neupert, Baughn and Dao⁵⁸ measuring the signals of the stage of the internationalization of SMEs could be assessed as the most important value in the internationalization of SMEs.
- The amount of the employers decreases, the vaster internationalization potential presents. Here the decreasing number of employers represents the micro and small companies.
- One of the main problems is non utilization of support due to the lack of awareness of the enterprises. There is inequality in using the support and promotion. To illustrate with an example from Germany only %34 of micro SMEs (up to 10 employees) participate in promotion programmes in contradiction to this the amount of participation increases for the rest of the sizes. The supports that are used by medium size enterprises (50 to 250 employees) are 54% and by companies over 500 employees are 70%. This problem arises from the lack knowledge about support measures.
- Governments should consider the importance of the individualized support to each SME. The effective support means considering the factors that come with the internationalization such as available financial and human resources, company size and stage of internationalization, sector, geographical location and target markets etc.⁵⁹ In this case all the stakeholders such as governments, support agencies and SMEs have the responsibility to pay attention in structuring the international departments of the company.

In the first paragraph of this theme as it is mentioned the existing programmes that EU created for the SME internationalization are mainly focused on promoting exports and are treated independently from other policy issues. But internationalization is not a closed issue which means that it also has to be adaptive to the other policy areas. According to the Welch and Luostarinen (1998) internationalization was defined as *the process of increasing*

⁵⁷ European Commission; Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007; p.18

⁵⁸ Neupert K. E., Baughn C. C., Dao T. T. L.; SME Exporting Challenges in Transitional and Developed Economies, Journal of Small Business and Enterprise Development, Vol. 13, no.4, pp 535-545

⁵⁹ European Commission; Final Report of the Export Group on Supporting the Internationalization of SMEs, 2007; p.19

*involvement in international markets*⁶⁰ in the previous chapters. This involvement brings competitiveness. To be competitive firms should be innovative and for innovation the firms need to be sufficient international knowledge management and it goes on. These requirements for the firms are related with each other like a domino effect.

The general relationship between technologies, knowledge, productivity and exports should be based on the integrating the other policy areas for competitiveness and growth. EU's effort to build up this linkage between the areas aims to provide sustainable long term competitiveness to support the SMEs during their internationalization process.

2.2.1.2 Success Factors for SME Policy Measures

During the last 20 years the average rate of economic growth decreases from 4% to 2, 5% in EU. In addition to this unemployment rate increased.⁶¹

If a policy measure is to encourage internationalization of SMEs successfully, it should be designed to take into account the barriers and problems identified and it should be organized in such a way that it enables the SMEs to benefit from the program.⁶² One of the best ways to identify the policy measures regarding to the barriers and problems is to look over and analyze the evaluations of the applied programs that EU created for the SMEs.

According to the findings of Annual Report on EU Small and Medium-sized Enterprises on 2008 there are four elements⁶³ to make the policy measure successful in the field of internationalization:

- Firstly, *managers of SMEs typically have limited time and management capacity*. In case of lack of time and management skills a policy measure should consider some of the tasks

⁶⁰ Welch L. S., Luostarinen R., *Internationalization: Evolution of a Concept*, 1988, pp. 46-58

⁶¹ European Commission, *Putting Small Businesses First: Europe is Good for SMEs; SMEs are Good for Europe*, 2008, p. 6

⁶² European Commission, Audretsch David, Horst van der Rob, Kwaak Ton and Thurik Roy (eds), *First Section of the Annual Report on EU Small and Medium-sized Enterprises*, 2009, p.38

See http://ec.europa.eu/enterprise/entrepreneurship/craft/sme_perf_review/doc_08/spr08_annual_report.pdf

⁶³ European Commission, Audretsch David, Horst van der Rob, Kwaak Ton and Thurik Roy (eds), *First Section of the Annual Report on EU Small and Medium-sized Enterprises*, 2009, p.39

with the aim of supplying manager's place especially in the case of SMEs which have no experience in internationalization issues.

- Secondly, *studies indicate that SMEs often need specific, targeted support. The services provided should be 'customized' i.e. be tailored to the problems of the individual company.* If the concept of the support doesn't be broad and is targeted, it could help the SMEs in identifying foreign business partner and measuring whether it is an appropriate partner or not.
- Thirdly, *one of the key findings of this report is that internationalization is more than just exporting.* Under this chapter it is mentioned that the export promotion is the dominant element of European Government policies and the programs to support the internationalization of SMEs have been based on promoting exports. Focusing on only exports is a negative effect in policy making thus policy measures should consider all the different forms and keys of internationalization and include the other activities, such as collaboration, foreign sub-suppliers, etc.
- Finally, *the fact that SMEs with only foreign suppliers perceive external barriers to internationalization to almost the same extent as exporting SMEs also suggest the need for policy measures to address internationalization in a broad manner.*

CHAPTER 3

SMALL AND MEDIUM SIZED ENTERPRISES IN TURKEY

As it is mentioned in the Turkey's 9th Development Plan (2007-2013) the 2000 Lisbon Strategy, which set forth the long-term economic and social development objectives of European countries, stipulated "to become the most competitive and dynamic knowledge-based economy in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion". In March 2004, developments towards this objective were observed to have been inadequate and the Strategy was reformulated.⁶⁴ In the new approach, "growth and job creation" continues to be the close and prior objective of the EU.

It does not so far from today. Legal regulations in line with the EU acquis regarding the SME definition were realized in 2005. After 2005 Turkey started to make the future plans in line with EU acquis in order to improve the business environment. Turkey's 9th Development Plan and SME Action Plan was also aware of the importance of developing the corporate governance of SMEs that have an important role in the Turkish economy, to provide technical assistance through supportive institutions similar to Business Development Centers (İŞGEM), and to increase diversified financing facilities with reasonable conditions.⁶⁵

The progress reports, development plans and progress reports have vital importance for a country because they reflect the common situation with the problems and solutions regarding to the existing problems. Access of enterprises to the financial sources under affordable conditions will be facilitated and diversification of these sources will be ensured. Access of enterprises, particularly of SMEs, to loans, will be facilitated through the development of venture capital; start-up capital and credit guarantee systems.

Under the success factors of policy measures it is mentioned that to take into account the barriers and problems identified with the statistics of SMEs has a vital importance. But in Turkey as SIS underlined there is no reliable data on SMEs. The main reason is the weakness of Turkey in registration issues. Thus as it exists in the 9th Development Plan the registered system will be strengthened to ensure the registration of unregistered enterprises, persons and

⁶⁴ State Planning Organization, 9th Development Plan, 2007-2013, p.18

⁶⁵ State Planning Organization, 9th Development Plan, 2007-2013, p.18

employees.⁶⁶ The registration issue in itself as a problem include many problems such as the pressure of administrative, financial and legal obligations, inelastic structure of business and labor market and complexity of bureaucratic formalities. Thus efficient collaboration and coordination will be ensured among institutions that play an active role in dealing with mentioned problems and fighting against the unregistered sector.

The relation between competitiveness and internationalization was stated in previous chapters. The efficient operation of business development stages is the key to increase the competitiveness of SMEs that also have a positive impact on internationalization levels of SMEs. Regarding to the necessity Business Development Centers (İŞGEM) and similar institutions will be spread.⁶⁷

3.1 The Main Features of SME in Turkey

Customs Union could be the beginning or the ending of the roadmap that EEC offered to Turkey. This roadmap was formalized by the 1963 Ankara Agreement and its supplemental protocol of 1970, which led to the creation of the Customs Union in 1995. With the Customs Union Turkey found itself in such integration without being a member of the European Union.

According to the Agreement Turkey has to *harmonize its commercial and competition policies (including intellectual property laws) with those of the EU, as well as extend most of the EU's trade and competition rules to the Turkish economy.*⁶⁸

Due to their number and involvement of the large share of the workforce SMEs play a vital role in the Turkish economy as a driver. The related authorities in government supported the SMEs for many years through different kinds of programs. But the existence of such supportive programs for SMEs became also more important since Turkey joined the Customs Union with the European Union on 1 January 1996 which could also be mentioned as a turning point for Turkish SMEs because of the necessity of the international cooperation through enterprises. As a result Turkish SMEs have already spent 10 years working within the framework of the customs union to adapt them to the EU.⁶⁹

⁶⁶ State Planning Organization, 9th Development Plan, 2007-2013, p.18

⁶⁷ State Planning Organization, 9th Development Plan, 2007-2013, p.18

⁶⁸ Gürsoy M., Development and Transition –EU Integration and Turkish SMEs, 2006, p. 9

⁶⁹ Gürsoy M., Development and Transition – EU Integration and Turkish SMEs, 2006, p. 9

With the accession of Turkey, with its young population and dynamic economy to the EU is expected to bring vitality to the EU economy, which has an expected long-term annual average growth rate of around 2 percent.⁷⁰

The economic context in Turkey has made the situation particularly difficult for SMEs in recent decades. Turkish firms have to start the game 0-1 as defeated against the Turkish economy for many years because of the necessity to operate in a particularly unstable and unfavorable macroeconomic environment that characterized by high inflation and a succession of deep recessions and sharp upturns. In addition to this increasing public sector debt and an inflationary economic climate caused an insecure atmosphere a series of financial crises, a sharp rise in real interest rates and marked depreciation of the Turkish lira.⁷¹

The data related to Turkish SMEs is not reliable because the State Institute of Statistics (SIS) produces no economy-wide data on SMEs. The main reason of the lack of statistical information about the sector is that Turkey does not currently carry out an exhaustive statistical census of SMEs on the basis of homogeneous definitions and criteria. Thus one of the most important priorities is to create a common definition for the SMEs.

The first SME Action Plan was thought and introduced at that time by the government authorities, but it was not implemented due to the funding problems. After the acceptance of Turkey's application for membership to the EU, the policy of support for SMEs was coordinated with that of the EU in order to enable Turkish SMEs, inter alia, to sustain competition with their counterparts in the EU and in other applicant countries. Creating a business environment conducive to entrepreneurship and the development of innovative SMEs has been high on the European Union policy agenda, and stressed in the Lisbon European summit in 2000 as part of a broader strategy for economic growth. The Turkish government signed the European Charter for Small Enterprises in 2002 and agreed to take concrete steps to develop policies and programmes for SMEs. These documents are written but realization of the written requirements does not fall into line with the economic context of Turkey.

⁷⁰ State Planning Organization, 9th Development Plan, 2007-2013, p.18

⁷¹ OECD, Small and Medium-sized Enterprises in Turkey: Issues and Policies, 2004, p. 27

3.1.1 The Definition of SME Through a Turkish Perspective

In case of Turkey the definition has also importance. It doesn't have to be always related with the Acquis Communautaire because the importance of the definition has been explained in detail in the previous chapter with the help of the European perspective. But on the other hand the adaptation of SME definition is the first priority for Turkey on the way to European Union. That's why in one way or another Turkey has to fulfill the requirement that is written as the priority in the Accession Partnership Document regarding to define the SMEs in line with the EU SME definition.

The national definitions of SMEs in Turkey were narrow in accordance with their coverage area. Actually they used to cover only manufacturing sector except the definition of the Undersecretariat of Treasury.⁷² With the triggering affect of the existence of the Accession Partnership Document the State Institute of Statistics' aim was to gather and publish reliable statistics that based on a single source that is consistent with the EU and including not only number of jobs but also the size of their balance sheets and turnovers. Because Turkey also understood that the aim of the concept of new definition is to increase the legal certainty on the one hand, reduces the possibilities of its abuse regarding to the state aid, Structural Funds on the other hand.

The attempts for the implementation of the required legal arrangements with the purpose of adapting the various definitions that are effective in Turkey to a common definition aligned with the EU requirements with all practices concerning SMEs were conducted by the Ministry of Industry and Trade, and the legal infrastructure for determining the definition was created by Law 5331 for the Addition of One Additional Article to the Law on the Organization and Duties of the Ministry of Industry and Trade, which entered into force upon its publication in the Official Gazette where new laws must be published before they go into effect, on 16 April 2005. The "Regulation Concerning the Definition, Characteristics and Classification of Small and Medium-Sized Enterprises" prepared in the framework of the activities for alignment with the "SME Definition" conducted under the said Law was published in the Official Gazette no. 25997 of 18 November 2005 as the annex to Council of Ministers Decision 2005/9617 and entered into force on 18 May 2006. In the framework of the activities for alignment, it was decided by the Council of Ministers on 19/10/2005 upon letter 5674 of 28/7/2005 from the Ministry of Industry and Trade, in

⁷² OECD, Small and Medium-sized Enterprises in Turkey: Issues and Policies, 2004, p.27

accordance with Additional Article 1 of Law 3143 on the Organization and Duties of the Ministry of Industry and Trade, that the “Regulation Concerning the Definition, Characteristics and Classification of Small and Medium-Sized Enterprises” should be brought into force.

“Small and medium size enterprises are quick to adjust to economic change and innovations and they have a high capacity to create employment. These enterprises will be supported and developed through a special program taking account of the problems of adjustment they may face in the customs union process. The necessary legislative arrangements will be made to allow for more financing opportunities to be available. The institution of risk capital, which is important for putting productive ideas into production and for contributing to technological progress, will be put into effect along with a credit guarantee fund, and R&D activities will be encouraged.” (SPO, 1995: 75)

3.1.2 The Structure and the Size of the Sector

A very large share of SMEs is in the trade, crafts and industry sectors represented by TESK (Confederation of Tradesmen and Artisans of Turkey) and TOBB (Union of Chambers of Commerce, Industry, Maritime Trade and Commodity Exchanges of Turkey). As of 31 January 2003, TESK had registered more than 2.76 million trade and craft enterprises.⁷³ However, turnover of firms is substantial in this sector, which is highly sensitive to swings in the economy. In the trade and industry sector represented by TOBB, the number of enterprises was estimated at 1.2 million at the end of 2003.⁷⁴ While government activities affect these firms (revised business start-up procedures, for example, or government encouragement of the increased use of computers), there is no general policy regime for these SMEs. Some of the enterprises in TOBB are industrial enterprises that receive government support, but the wholesale and retail trade businesses do not appear to be covered by many programmes.

⁷³ OECD, *Small and Medium-sized Enterprises in Turkey: Issues and Policies*, 2004, p.27

⁷⁴ OECD, *Small and Medium-sized Enterprises in Turkey: Issues and Policies*, 2004, p.27

Table 3.1 Sectoral Distribution of SMEs

	Number of Enterprises	Percentage	Number of Employees	Percentage
Commerce	794,715	46.19	2,048,644	32.38
Manufacturing	246,899	14.35	2,043,815	32.31
Transport, Storage, Communications	244,490	14.21	500,104	7.91
Hotels and Restaurants	163,112	9.48	526,845	8.33
Other Social, Public and Private Service Activities	90,919	5.28	213,400	3.37
Property, Leasing and Business Activities	90,473	5.26	325,697	5.15
Construction	35,702	2.07	229,400	3.63
Health Care and Social Services	31,546	1.83	99,966	1.58
Activities of Financial Intermediary Organizations	13,538	0.79	123,178	1.95
Education Services	5,692	0.33	76,435	1.21
Mining and Quarrying	1,809	0.11	80,341	1.27
Electricity, Gas and Water Distribution	1,703	0.10	57,591	0.91
Total	1,720,598	100.00	6,325,036	100.00

Source: The data was adapted from Turkstat 2002, State Planning Organization, 2008

In geographical terms, the distribution of SMEs reflects that of the population as a whole. They are concentrated in the coastal regions along the Marmara and Aegean Seas, with 38% and 17% of the enterprises, respectively, and in Central Anatolia, with 16%. The Mediterranean coastal region (11%), the Black Sea region (9%), south-eastern Anatolia (6%) and eastern Anatolia have far less organized formal economic activity.⁷⁵

However the detailed data related to Turkish SMEs is not reliable because The State Institute of Statistics (SIS) produces no economy-wide data on SMEs. The reason of lack of definitive data is because these SMEs that differ from one sector to another are defined differently by the various organizations involved through SME policies and the problems regarding to the registration issues.

3.1.3 Main Weaknesses of the Sector

The characteristics of Turkish SMEs show that most Turkish SMEs operate as family enterprises. In the family enterprises usually the owner of the enterprise and the manager of the enterprise are the same individual. Due to this fact the enterprises have difficulty in disseminating the powers because the same individual has the power. Since the others have no power, the management skills of the enterprise have not enough efficiency and effectiveness that resulted with failure in risk-taking and decision-making. In many of the enterprises, there

⁷⁵ OECD, Small and Medium-sized Enterprises in Turkey: Issues and Policies, 2004, p.27

is neither certain human resource policy nor any strategy for technical training and development.⁷⁶ According to the research of KOSGEB the Table 3.2 also demonstrates the management issue of Turkey.

Table 3.2 Who Manage SMEs?

	Number of Enterprises	Percentage (%)
Owner	26.530	% 71.30
Professional Executive	7.662	% 20.9
Others	3.016	% 8.11

Source: KOSGEB, 2004

There are considerable problems concerning small and medium sized enterprises in the Turkish legal system. It is not possible for these enterprises to benefit from the same services as other enterprises.

According to the survey that applied on the 40,000 SMEs in Turkey and was conducted by the SMIDO (Small and Medium Industries' Development Organization)⁷⁷ (2005) shows that 56% of SMEs do not or can not make any exports. 46% of SMEs suffer from a lack of funds while 63% of them need additional financing but 70% do not use any loan. 56% of these enterprises have no registered trademark, utility model or patent while 60% do not benefit from statistical quality control, 72% from performance management, and 76% from computer-supported production and sales planning.⁷⁸ The indicators that the survey presented are evidentiary for the low level of internationalization of SMEs in Turkey.

⁷⁶ 25th Meeting of the EU-Turkey Joint Consultative Committee, Report on Access to Financing for SMEs in the EU and Turkey, 18-19 November 2008, p.6

⁷⁷ Small and Medium Industry Development Organization (SMIDO), established in 1990 by Law 3624 with the aims of enabling the rapid adaptation of small- and medium-sized industrial enterprises to technological changes, improving their competitiveness and increasing their contributions to the economy and their efficiency. The main types of support provided by the SMIDO include counselling and training, technology development and innovation supports, information supports, quality improvement, and loan interest supports. (Loan Interest Supports: The scope and conditions of employment, investment and export loans provided on favourable terms to SMEs under Council of Ministers Decision 2004/7131 are determined by protocols signed with banks.)

⁷⁸ SMIDO (2008), "The Report on Economic and Financial Instruments", June 2008, 25th Meeting of the EU-Turkey Joint Consultative Committee, Report on Access to Financing for SMEs in the EU and Turkey, 18-19 November 2008, p.6

Another problem that SMEs have face with and named as one of the general weaknesses of the sector is the capital structures of SMEs in Turkey. The problems regarding to the capital structures give rise to negative effects on their financial strength and growth and creates disadvantages in terms of self-financing.⁷⁹ Since they have low capital intensity and operate mainly in labor-intensive sectors, the amount of depreciation set aside on fixed assets is at low levels in SMEs. As a result, they are able to set aside fewer funds in this way and can not benefit from such an important possibility as the capacity extension effect of depreciations.⁸⁰

3.1.4 The Advantages and Disadvantages of SMEs in Turkey

Under the first chapter the advantages and disadvantages of internationalization process on SMEs have been discussed in the generalized framework. Here the aim is to establish a fact that how hard being an SME in Turkey.

The main weaknesses of the sector hinder the increase on level of internationalization of SMEs. Because of the weaknesses Turkish SMEs can not convert their advantages that come from their natural nature to a positive value while they are competing in the international markets. The advantages of the SMEs may come from the size and structure of the SMEs and easily generalized for all the SMEs. But disadvantages may not be generalized because the some of the disadvantages are the result of the national economy and policy structure thus it's important to give place to the disadvantages of Turkish SMEs.

The problems regarding to the production and technology such as adaption of technological advances is one of the most commonly mentioned disadvantages of the SMEs.⁸¹ There's a lack of technical knowledge thus SMEs had difficulty in selecting the appropriate technology and factory site and this difficulty causes lower quality and higher costs in terms of production.

⁷⁹ 25th Meeting of the EU-Turkey Joint Consultative Committee, Report on Access to Financing for SMEs in the EU and Turkey, 18-19 November 2008, p.6

⁸⁰ Alkin, K and Okay, E, The Process of Alignment with Basel II by SMEs in Turkey and Recommendations, No: 2008-4, pp. 68-74

⁸¹ State Planning Organization, SME Strategy and Action Plan, 2004, p. 34

Another disadvantage of Turkish SMEs is the high burden of Turkish labor law. Time issues regarding to the law process set a bar against SMEs in the terms of timely reaction to market forces, making new investment or capacity expansion decisions and establish effective relations with the public institutions.

There is only one subject that could be neither named as an advantage nor disadvantage for Turkish SMEs because it is based on the assumptions. The first assumption is that European Union membership would be an advantage for Turkish SMEs because once EU opens its doors to Turkey, it brings advantages for Turkish SMEs such as reaching cheaper supply, ease of market entry, access to new markets, positive contribution of the EU membership to the Turkish economy, increasing living standards, and forcing us to shape up.⁸² The second assumption is that the EU membership is a threat for the Turkish SMEs which creates disadvantages because Turkish firms are not ready for the market conditions which the EU membership will impose. Also, the membership will benefit more to the European firms due to increased imports from the EU.⁸³

3.2 Main Requirements of SMEs on the Way to European Union

3.2.1 SMEs in the Accession Partnership Document

SMEs as it is mentioned on first National Program which are attendant with its compulsory regulations in the *acquis communautaire* have a vital importance for Turkey on the way to European Union.

During the National Program Period the priority is to define the SMEs in accordance with the EU SME definition. In addition to this with a view to take measures to prevent the competitive powers and to set out the principles of the compatibility of Turkish SME Policy with the EU Policies; the SME Strategy and Action Plan was prepared.

Priority List

Priority 16.1.: The Harmonization of the SME Definition

Priority 16.2.: The Application of the SME Strategy and Action Plan

⁸² Altunışık R., Coşkun R., Top Management's Concerns about the New Millennium: Issues Faced by the Turkish SMEs, 2002, p.31

⁸³ Altunışık R., Coşkun R., Top Management's Concerns about the New Millennium: Issues Faced by the Turkish SMEs, p.31

II. The Definition of the Priorities and Adjustment to Acquis Communautaire, Corporate Structuring and Financial Tables

Priority 16.1.: The Harmonization of the SME Definition

Under the short term priorities the theme of the adaptation of the SME definition in the 2003 Accession Partnership Document is also emphasized as one of the priorities in the “SME Strategy and Action Plan”.

The applied definition regarding to the investments of the small and Medium Enterprises on State Aids with the decision of Ministerial Council Law no. 2000/1822 with the date of 21 December 2000 under the framework of the state aids is compatible with Commission’s Recommendation regarding to the definition of small and medium sized enterprises with the Law no. 96/280/EC with the date of 3 April 1996.

In addition to this the actions through implementations regarding to the SMEs with the aim of using the compatible definition with the EU and establishing legislative framework is continued by Ministry of Industry and Trade.

Priority 16.2.: The Application of the SME Strategy and Action Plan

In the framework of harmonization with EU the requirement of preparation of strategy regarding to the Turkish SME Action Plan was mentioned under the short term priorities both by 2002 Progress Report and 2003 Accession Partnership Document. Therefore under the coordination of Secretariat General for EU Affairs a Working Group of SME Strategy and Action Plan was established by Ministry of Industry and Trade, TR Prime Ministry State Planning Organization (SPO), Turkish Treasury, Undersecretariat of Foreign Trade, KOSGEB – Small and Medium Enterprises Development Organization, Turkish Union of Chambers and Commodity Exchanges, The Confederation of Turkish Tradesmen and Craftsmen.

As a result of working meetings Turkey prepared “Draft of SME Strategy and Action Plan” within the framework of European Charter of Small Enterprises that it accepted in conference in 23 April 2002 in Maribor, Slovenia with the other candidate countries that was also stated in 8th five-year development plan (2001-2005), Government Programs. Following the process that includes the contributions of related public bodies/institutions and

nongovernmental organizations; the “Draft of SME Strategy and Action Plan” was aligned with urgent action plan and the Agenda of 2003 on the part of TR Prime Ministry State Planning Organization. In this way Turkey’s aims and policies that stated in the documents of SME Strategy were accorded with the EU’s aims and policies that stated in the documents of SME Strategy. Foregoing Strategy and Action Plan was formed with the aim of settling the fundamental strategies regarding to the Turkish SMEs, evaluating the existing policies, concepts of the programs, setting the priorities in detail and putting these plans into action thus it was formed as middle term strategy document in National Program.

“SME Strategy and Action Plan” was foreseen to be named as a main document for the activities regarding to the financial collaborations for SMEs in the coming period. After coming into force SME Strategy and Action Plan will be transmitted to European Commission.

The above mentioned translated data was taken from the Acquis Communautaire under the framework of requirements of Turkey on the way to EU.

3.2.2 The SME Strategy and Action Plan

Especially after 1980s the driving force behind the growth performance was progresses in the industrial sector that made positive contributions to the development of the service sector and economy and increase of the gross national product (GNP). The economy in Turkey could be separated as term “before 1980 and after 1980”. Regarding to the analysis of the manufacturing industry the year of 1980 mentioned as a corner stone because this process brought a new understanding to a Turkish economy. Before 1980 importation and substitution used to be the key words for the activities in the manufacturing industry but; after 1980 with the help of the structural reform Turkey embraced the export business in relation with liberal and global system for the mentioned activities in the manufacturing sector.

However the manufacturing sector accorded a noteworthy progress, when it is compared with some of the developing countries in the framework of the international competition, Turkey would fall behind in accordance with the performances of some of the developing countries.

After the Customs Union that caused the removal of applied funds and tariffs The Turkish SMEs in the manufacturing sector engaged in an intensified competition. This

intensified competition takes its root from the products in circulation both from the EU Member States and the third countries that are engaged in business with EU. But the SMEs' today's situations and capital structures were not enough to compete with the EU enterprises that use the latest technology that's why in the framework of global norms government support is inevitable for Turkish SMEs.

The SMEs that are engaged with the foreign competition with the Customs Union and their corporate capacity should have gain competency to reach and analyze the technical informations such as product development, product design, technology, production and investment plan, modernization-renovation standards and economies of scale, competitive intelligence such as situations of the rivals, demand, price of the product and market activities and finance such as self-financing, outside financing, leasing, factoring, risk capital and credits.

The Turkish authorities have recognized that a long-term strategy for SMEs calls for action across a wide range of policy domains, including education, R&D, government regulations, competitive policies, labor market and social policies, and a sound banking sector. These actions should address the need to create a healthier overall economic environment in which the business sector and SMEs in particular, operate. They should strive to put SME-specific policies and programmes in place that provide the sector with the support it needs to prosper.

3.2.3 Today's SME National Strategy in Line with EU

Unfortunately SME National Strategy does not only include the SME Policy. The activities regarding to create a better atmosphere for SMEs need to be evaluated on the broader perspective which means they need to be evaluated compatibly with the other policy areas such as the financial system, public sector reform, labor policies, education policies, innovation policies, competition policy and so on.

Today's SME National Strategy in Turkey is based on the SME Strategy and Action Plan that is prepared and compatible with the European Charter for Small Enterprises, the national development plan, the medium-term, and the annual programmes. The Small and Medium Industry Development Organization (KOSGEB) is in charge of supporting the SMEs in the areas of consultancy/training, technological development/innovation, international

cooperation, export promotion, entrepreneurship development, information technology, quality improvement and regional development.⁸⁴

Regarding to the requirements Turkey simplified the application procedures which mean that the establishment of a company takes one day after the simplification that reduces these procedures 19 to 3 steps.

The main players involved in formulating and implementing enterprise policy are: Ministry of Industry and Trade, State Planning Organization, Undersecretariat of Treasury, Undersecretariat for Foreign Trade, Privatization Administration, Small and Medium Industry Development Organization (KOSGEB), the Scientific and Technological Research Council of Turkey (TÜBİTAK) as well as several other public bodies and business representative organizations.

Turkey's SME definition is largely in line with the EU definition except for its annual turnover threshold, which is considerably below the EU's. KOSGEB's SME support programmes have been aligned with the new SME definition in June 2006.

⁸⁴ See http://www.tobb.org.tr/abm/taramaporlari/screening_report_20_tr_internet_en.pdf, Screening Report Turkey, Chapter 20: Enterprise and Industrial Policy, 2006, p.4

CHAPTER 4

EXPORTS AS AN INTERNATIONALIZATION TOOL FOR TURKEY: EXPORT VALUE OF THE TEXTILE SECTOR IN MARMARA REGION AS AN ANALYSIS METHOD FOR INTERNATIONALIZATION LEVEL OF TURKEY

4.1 Internationalization, Export and Export Promotion

Exporting is seen as an innovative strategy and as a first step in internationalizing. Thus exporting can be seen as launching a process of deepening international commitment and leading to direct investment.⁸⁵ If a firm takes a decision to go abroad, it would be a critical step in firm's internationalization process. Most of the firms and even the policy makers are on the same view that the best way of internationalizing is going abroad through exports. The growing interest in exporting has been explained by changes in the world economy and is characterized by the spread of new technology around the world, reducing trade barriers, the formulation of multiple country trade agreements (e.g., the EU, NAFTA, etc.), financial market deregulation, and the convergence of consumer tastes.⁸⁶

In the literature there is a common view like Aaby and Slater (1989) conclude that there is a common view on the impact of organization size either on propensity to export or export success.

Small firms have also realized that export and internationalization are important for their survival. Turkish SMEs, despite their problems with exporting and internationalization, also perceive openness and EU membership as opportunity rather than threat for their future position in competition.⁸⁷

4.2 Turkish SMEs' Export Potential as an Added Value

4.2.1 The Current Situation

One of the important goals of the Turkish government is increasing the exports and the number of SME exporters. Exports do not only help to increase sales growth, it provides also other advantages: *Expansion of customer base, reduction of dependence on few major*

⁸⁵ Buckley J. Peter and Ghauri N. Pervez, *The Internationalization of the Firm*, 1999, p. 102

⁸⁷ Altunışık R., Coşkun R., *Top Management's Concerns about the New Millennium: Issues Faced by the Turkish SMEs*, 2002, p.31

*customer, opportunity to even out regional business cycle-related demand fluctuations, additional growth opportunities for niche products, for which the local market is limited, establishment of a network of contacts and partners, gain of experiences-these can be used to improve offers to traditional local customers.*⁸⁸

Increased exports are reliable indicator of the efforts of Turkey and the increasing integration of the Turkish economy into the world and the European community. But it doesn't mean that Turkey and the Turkish SMEs have no problem inside the sector and especially export issue as a toll for internationalization. The government has a strong interest in doing many things to support the export sector. Thus a system with the name of "Sectoral Foreign Trade Companies (SFTC) was created by the Undersecretariat for Foreign Trade. Main element of this model is to create a framework in which certain numbers of SMEs come together and form a new joint company.⁸⁹ Through these applications the model aims to support the SMEs activities and make them to engage in foreign trade activities. Today the number of SFTC is more than 30. Most of these companies are active in the textile sector. The rest is in the automotive, food, furniture, plastic, software, carpet, agriculture products, machine and floristry, maritime and machine industry.⁹⁰

Table 4.1 Export Methods of SMEs

	The Number of Enterprises	Percentage (%)
Direct sales	4791	% 28.84
Indirect export	2817	% 16.96
Commission agent (broker)	541	% 3.26
Indirect export and direct sales	1417	% 8.53
Commission agent and direct sales	495	% 2.98
Commission agent and indirect export	138	% 0.83
Commission, indirect export and direct sales	6412	% 38.60

Source: KOSGEB, The Results of Research: Pre-assessment Report, 2004

According to KOSGEB research⁹¹ as one of the most detailed researches on manufacturing industry in Turkey, SMEs apply generally three exports methods: commission agent, indirect export, and direct selling. As it shown on the Table 4.1 direct sales are top of

⁸⁸ RECKLIES, D. Impact of Globalization on Small and Medium-Sized Enterprises (SMEs), 2001 See <http://www.themanager.org/strategy/global.htm>

⁸⁹ TERZI Nuray, New Trends in World Markets and Business Strategies of Small and Medium Sized Enterprises (SMEs) in Turkey, 5th International Scientific Conference Business and Management, 2008, p. 137

⁹⁰ TERZI Nuray, New Trends in World Markets and Business Strategies of Small and Medium Sized Enterprises (SMEs) in Turkey, 5th International Scientific Conference Business and Management, 2008, p. 137

⁹¹ KOSGEB, The Results of Research: Pre-assessment Report, 2004

the table and one of the most preferred methods. After that indirect exports and representative firm are used by SMEs, but SMEs also can use these methods together.

To mention the importance of government support is inevitable. The state aids are one of the important and supportive instruments for the improvement of SMEs. There has been a problem regarding to the state aids under the term of competition policy. There have been always huge discussions around the government and related bodies and the main problem is there isn't a single body under the responsibility of government to regulate and organize the state aids. But under the integration process for the EU there has been some regulations and improvements. According to the Decision of Council of Ministers dated 27 December, 1994, the Undersecretariat of Foreign Trade provides state aid for exports for enterprises in line with the rules of the EU and GATT. In this context, information regarding the aids provided for SMEs in the period of 1996-2000 is given below.

Table 4.2 Support Provided for SMEs by the Undersecretariat of Foreign Trade Within the Scope of Public Aid for Exports in 2002

TYPE OF AID	NUMBER OF SMEs	AMOUNT OF AID (EURO)
R&D aid	626	24.547.368
Support for environmental costs	217	211.121
Support for market research	240	235.454
Aid for offices/stores abroad (for opening/operating)	47	1.359.477
Support for participation in exhibitions abroad	8.380	40.995.531
Aid for training	5	519.127
Aid for employment	9	316.882
Aid for brands	18	1.490.592
TOTAL	10.142	69.600.394

Source: State Planning Organization, SME Strategy and Action Plan, 2004, p.16

Table 4.3 Shares of Main Sectors in Manufacturing Industry Export

EXPORT (%) (in current prices)	2000	2002
Textiles and clothing	39,5	36,9
Iron and steel industry	7,4	8,1
Automotive industry	6,4	10,7
Food industry	6,0	4,9

Source: State Planning Organization, Industrial Policy for Turkey (Towards EU Membership), p.36

As it can be seen at the above on the Table 4.3 Textiles and clothing industry has the most value added sector in case of export issue. This is one of the reasons that in this case study with the aim of minimizing the indicator the textile industry was chosen. The other reason to select the textile and clothing is that the SMEs operating in this sector is more innovative or has to be more innovative to meet their standards with the EU quality because the sector started be more active with the 1995 Customs Union Agreement that led the Turkey to be the second exporter to EU after China during the 1995-2000 period.

4.2.2 Does Turkish SMEs Face with Export Barriers?

As it seemed many SMEs participated international competition through exports. But while they are exporting, they have face with problems named as export barriers.

Firstly the lack of knowledge is a major barrier for entry into a foreign market. According to the Bilkey & Tesar (1977) most of the firms face difficulties in identifying opportunities in export markets⁹² during the export activity. Suarez-Ortega (2003) classified the knowledge barriers in itself. According to their findings the knowledge barriers are *lack of awareness of export assistance available to would be exporters, lack of awareness of economic and non-economic benefits of export markets, lack of knowledge of potential markets, lack of qualified staff for export markets, and overall lack of knowledge of how to enter the export market*⁹³

Export promotion is also an important aspect to support the SMEs' export activities and in this case the situation of national economy is important to support its SMEs. Lack of financial resources in order to obtain the necessary funds is another barrier for the exporter SMEs to take an action in export operations.⁹⁴ In Turkey's case as a result of the economic crises there has been a domino effect in the frame of supporting the exporter SMEs. The domino effect starts with the depreciation of Turkish and then production dropped due to the rise in prices of imported input and after that decline in domestic demand started thus supportive measures to support exports could not be taken on time.⁹⁵

⁹² Bilkey, W. J. and Tesar, G., The export behavior of smaller Wisconsin manufacturing firms, 1977, pp. 93-8

⁹³ Suarez-Ortega, S., Export Barriers: Insights from small and medium-sized firms, 2003, 21(4), pp. 403-419

⁹⁴ Suarez-Ortega, S., Export Barriers: Insights from small and medium-sized firms, 2003, 21(4), pp. 403-419

⁹⁵ State Planning Organization, SME Strategy and Action Plan p. 12 See also PDF version

<http://www.kobi.org.tr/dosyalar/SME%20STRATEGY%20AND%20ACTION%20PLAN.pdf>

4.3 Export Value of the Textile Sector in Marmara Region as an Analysis Method for Internationalization Level of Turkey

4.3.1 Textile Info in Turkey

The textile industry is one of the first established industries in Turkey. The value of textiles and clothing industry means a lot for the improvement of Turkish economy. The value of textiles and clothing industry production was around 27, 7 billion dollars in 2002 and exported % 44 of that amount. Its share in manufacturing production in 2002 was % 21, 5.⁹⁶

In the sector there has been a tremendous increase especially during the last two decades. In 1979 the industry recorded 595 million dollars and in 2002 the amount has reached 12, 5 billion dollars which means 20 times more than the records of the year 1979.⁹⁷ In alignment with the global trend, Turkish textile and clothing market continued to grow in recent years-outperforming the global market growth rate. Exports of textiles and clothing increased by %7 and %8 in 2005 and 2006 respectively. By the end of 2006, export of textiles and clothing (T/C) has reached to \$19, 7 billion. Yet their share in total exports dropped to %23 in 2006, which may be a simple indication of the country's industrial restructuring.⁹⁸

The important part of the textiles and clothing export has a close relationship with EU because almost the two third of the exports from this industry has been directed to EU because of the geographical position and duty free access. All these reasons are based on 1995 Customs Union Agreement. The agreement led the Turkey to be the second exporter to EU after China during the 1995-2000 periods. Although the importance of the sector as an added value of Turkish economy is proven with the actual values there has not been a set of policies regarding to the textile and clothing industry and the Turkish SMEs operating in this sector in order to promote the competitiveness of the industry in an ever globalizing economy.⁹⁹ With effect of lack of policies and the Turkey open economic nature to the crisis by the crisis of February 2001 prevent the Turkey to convert the Customs Union to an advantage. With the crisis Turkish SMEs were unable to produce the products in a good quality and variety that the EU consumers demanded and it created an atmosphere for many closed enterprises. At present, the problem of insufficiency of know-how in SMEs prevents price-based market

⁹⁶ State Planning Organization, Sector Profiles of Turkish Industry: A General Outlook, 2004, p. 22

⁹⁷ State Planning Organization, Sector Profiles of Turkish Industry: A General Outlook, 2004, p. 22

⁹⁸ Ankara University SME Research Center, Turkish Textile and Clothing Industry: A Competitive Analysis, 2007, p.2

⁹⁹ State Planning Organization, Sector Profiles of Turkish Industry: A General Outlook, 2004, p. 23

forces from functioning and also constitutes the most significant bottleneck in front of Turkey in gaining adequate benefits from the Customs Union¹⁰⁰

According to the SWOT Analysis that made by Ankara University on the issue of Turkish Textile and Clothing Industry here are the following findings. The strengths of the Turkish Textile industry includes mainly the product quality such as speed, know-how, elasticity, quality cotton, productivity of labor, raw materials, experience, cotton production, the understanding of marketing/branding.¹⁰¹

The weaknesses of the Turkish textile industry are mainly the labor cost, input costs, energy costs, branding, no 'made in Turkey' image, fluctuations as regards the macro economy and polity and raw material prices, marketing and distribution channels, lack of inter-firm co-operations, over capacity, informal sector, lack of statistical data.¹⁰²

The opportunities of the sector are mainly geographical proximity to EU Middle East and ex-Soviet countries, recent moves towards high value added segments of the market.¹⁰³

The threats of the sector are possibility of higher taxation on wages, China, other Asian competitors.¹⁰⁴

4.3.2 The Relationship Between the Internationalization Level of Turkish Textile SMEs in Marmara Region and Exporting

It is necessary to note it once again that the Turkish SME Sector has imbalances in terms of geographical position. SMEs are very unevenly spread across the country. Most of them are based in the Marmara region (including Istanbul) and Izmir. To illustrate 38 % of the SMEs are operating in the Marmara Region. The % 38 of this SMEs represent the 40.000 SMEs that operating in the textile and clothing industry. The one of most significant centers

¹⁰⁰ State Planning Organization, SME Strategy and Action Plan, 2004 p. 36

¹⁰¹ Ankara University SME Research Center, Turkish Textile and Clothing Industry: A Competitive Analysis, 2007, p.3

¹⁰² Ankara University SME Research Center, Turkish Textile and Clothing Industry: A Competitive Analysis, 2007, p.3

¹⁰³ Ankara University SME Research Center, Turkish Textile and Clothing Industry: A Competitive Analysis, 2007, p.3

¹⁰⁴ Ankara University SME Research Center, Turkish Textile and Clothing Industry: A Competitive Analysis, 2007, p.3

for the textile industry and exporting is Marmara Region with Istanbul, Bursa and Tekirdağ. Between these cities Istanbul is the leading city in terms of the total employment and the number of established SMEs as a contributor.

SME's contribution to exports and investments remains low.¹⁰⁵ But the leading city in terms of exporting on textiles and raw materials is Istanbul which exists also in the Table with the share of % 56,3 in total textile exports and the third city is Bursa with the share of % 12,6 and these records make the Marmara Region the biggest regional performer in terms of textile exports.

Table 4.4 Textiles and Raw Materials Exports in Turkey

Textiles and Raw Materials Exports (1000\$)	2002	2003	Change (2002/2003) (%)	Share In Total Textiles Exports (%)
iSTANBUL Textiles and Raw materials Exports Association	1,672,113	2,062,288	23.3	56.3
Aegean Textiles and Raw materials Exports Association	459,123	528,035	15.0	14.4
ULUDAĞ Textiles and Raw materials Exports Association (Bursa)	363,860	461,708	26.9	12.6
DENİZLİ Textiles and Raw materials Exports Association	251,520	312,005	24.0	8.5
Mediterranean Textiles and Raw materials Exports Association	125,175	179,870	43.7	4.9
South East Anatolia Textiles and Raw materials Exports Association (Textiles only)	43,615	44,548	2.1	1.2
East Anatolia Textiles and Raw materials Exports Association (Textiles only)	44,346	51,039	15.1	1.4
ANTALYA Textiles and Raw materials Exports Association (Textiles only)	8,382	11,688	39.4	0.3
Black Sea Textiles and Raw materials Exports Association (Textiles only)	6	2	-67	0.0
Total of Exports Associations	2,968,140	3,651,183	23.0	
Other*	9,542	12,534	31.4	
Total	2,977,682	3,663,717	23.0	100

*'Other' category covers the possibility of the difference between the data from Exporters' Associations and the data from Undersecretariat of Foreign Trade that appears due to different categorization of the products and combined exports in some customs declarations.

Source: Istanbul Textile and Apparel Exporters' Association (ITKIB)

¹⁰⁵ The data was taken from the 2009 Turkey Small and Medium Enterprises Development Conference will be hosted by the leading Turkish economic newspaper, DUNYA Gazette, along with the French Development Agency (AFD) in Istanbul on April 9-10, 2009.

Regarding to the reports on textile industry especially in Marmara Region named as the biggest region in terms of its export orientation in the textile sector the SMEs mainly focus on the design, collection, type production, promotion and marketing activities, in order to gain a greater share from the world markets by sustaining competitiveness.¹⁰⁶

Most of the SMEs in Marmara Region that are operating in the textile industry are family owned enterprises that are managed by the owner.¹⁰⁷ The situation of these SMEs and their negative effect are discussed at the next theme on problems and solutions.

4.3.3 Problems and Solutions

As the most important contributor of the export orientation as an added value to Turkish economy the Marmara Region especially the SMEs operating in Istanbul, Bursa and Tekirdag face with many problems before they start to internationalize or during their internationalization processes. Under the first chapter there has a SWOT Analysis for SMEs seeking to internationalize and the weaknesses under the SWOT Analysis are exactly the same problems that SMEs dealing both inside of the enterprise and outside of the enterprise.

The weaknesses of the SMEs are the difficulties in recruiting qualified employees, inappropriate nature of centralized decision-making in an internationalized enterprise, limited market influence and lack of knowledge of target markets and shortage of financing opportunities and increased risk potential.¹⁰⁸

The first issue is the most common problem of SMEs and it is worldwide. SMEs have difficulty in recruiting qualified employees. And then the grey economy comes which another problem of textile sector. The unregistered worker especially comes from the Turkic countries in Central Asia create a huge problem and the many T/C enterprises in the grey economy are engaged in exports, which are incorporated in the Turkish export figures.¹⁰⁹

¹⁰⁶ State Planning Organization, Sector Profiles of Turkish Industry: A General Outlook, 2004, p. 53

¹⁰⁷ CEPS, Final Report on the Textiles and Clothing Industry in an enlarged Community and the Outlook in the Candidate States: Turkey, 2005, p. 69

¹⁰⁸ OECD, Globalization and Small and Medium Enterprises, Vol.1, Synthesis Report, 1997

¹⁰⁹ CEPS, Final Report on the Textiles and Clothing Industry in an enlarged Community and the Outlook in the Candidate States: Turkey, 2005, p. 9

Lack of government support and bureaucratic obstacles¹¹⁰ could be mentioned as a second issue. Although Turkish government make attempts to solve the problem it is not enough to solve the problems or meet the needs of the Turkish SMEs.

The other problem that faces the Turkish SMEs in the textile industry is the quality issues that are demanded by the EU customers. As it is stated in the action plans the quality of products and production process shall be improved in order to make SMEs more competitive in international markets, while also informing them about international standards.

Branding is another problem for the Turkish SMEs and the government mentioned that local and national brands shall be supported in order to make them competitive in all foreign markets.¹¹¹

The issues regarding to create a supportive policies and planning will be tried to solve that strategic planning towards exporting will be realized with the participation of the private sector in order to protect SMEs from the negative impact of globalization, to release from sectoral and regional dependencies and to identify areas for potential competitiveness. The legislation of export incentives shall be renewed according to the long-term strategy providing coordination of all relevant bodies. SMEs shall be informed for channeling them to exporting.¹¹²

Another problem is lack of supportive bodies. SMEs need to apply the organization in order to take information regarding to their activities and according to the action plan sectoral export organizations shall be expanded.¹¹³

¹¹⁰ CEPS, Final Report on the Textiles and Clothing Industry in an enlarged Community and the Outlook in the Candidate States: Turkey, 2005, p. 71 Interviews conducted by the author; report of Institut Francais de la Mode, February 2004; report of PWC Consulting, 2002.

¹¹¹ State Planning Organization, SME Strategy and Action Plan, 2004 p. 43

¹¹² State Planning Organization, SME Strategy and Action Plan, 2004 p. 56

¹¹³ State Planning Organization, SME Strategy and Action Plan, 2004 p. 56

CONCLUSION

Everywhere in the world the importance of the SMEs and their value to the national economy through job creation and industrialization is not open to discussion. For a better of operating SMEs in the everlasting competitive environment of a globalized economy the importance of international trade is inevitable.

Especially in the late eighties there have been many differences in the way of internationalization of SMEs. The differences between internationalization of firms cause many views in the terms of literature.

But the surveys or searches on the issue of internationalization of SMEs mainly focused on the industrialized countries and the SMEs operating in these countries. Unfortunately in Turkey there has no detailed research on the issue of internationalization of Turkish SMEs. Actually before discussing the lack of detailed surveys or analysis it is important to note that there has no reliable data regarding to the Turkish SMEs. The data problems arise from the registration issues and the grey economy. These problems are weakening the working potential of State of Statistics thus the surveys are not reliable and concluded with the effective and supportive results.

In Turkey SMEs have to deal with numerous problems and faces with numerous barriers. Although the Turkish Government aims to support SMEs, first of all Turkey needs time to create its policy understanding. The adjustment of some of the directives with the aim of being compatible with EU to help the SMEs is not enough. As it is mentioned a successful policy for internationalization should consider the barriers such as shortage of working capital to finance exports; identifying foreign business opportunities; limited information to analyze markets; inability to contact potential overseas customers; obtaining reliable foreign representation. And it comes from the understanding like EU tried to apply for its Member States.

As it is common in many countries the Turkish SMEs also choose exporting as an internationalization tool. Thus in this thesis the exporting method was used and one of most important contributor and create an added value to Turkish economy is the SMEs that export in the Textile industry. But as it is seemed the main problems are more or less the same with

problems that all the SMEs have to deal with during the internationalization process. But another important part of textile sector of Turkey is that it has legally binding relationship with EU with 1995 Customs Union Agreement. But unfortunately because of the crisis that Turkey has been through after 2001 Turkish textile sector that includes the biggest part of the internationalized SMEs which opens to innovation and competition in the globalized economy suffered and became a backbone of Turkish economy.

Exports may be important to the welfare of the Turkish economy, but there is an important question as to whether SMEs are an appropriate focus for the expansion of exports. Some SMEs in some sectors may be successful exporters, but most SMEs produce for the internal market and turn to external markets only when the internal market is saturated. In case of Turkish SMEs – mainly in Turkish Textile sector – although the Turkish SMEs have an added value in terms of exporting, their internationalization level is low and it has an impact on their contribution.

In order to solve problems the government can make available large amounts of market information about foreign requirements and standards. This information can be targeted to smaller enterprises to help them focus on increasing sales through exports. The government is attempting to provide this information on a sectoral basis, but it is difficult for the government, or for anyone else for that matter, to identify which sectors have the capability, over time, to try to expand. It is also extremely difficult for the government to produce the enormous variety of information needed to support SMEs in many industrial or services sectors.

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I declare that this thesis and the work presented in it are my own and have been generated by me as the result of my original research.

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