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FINANCIAL STRATEGIC ANALYSIS IN SMEs: THE CASE OF AMASYA PROVINCE

KOBİ`LERDE FİNANSAL STRATEJİK ANALİZ: AMASYA İLİ ÖRNEĞİ

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Abstract

Strategic management refers to the development of a management approach that takes into account both the internal and external environments in which an enterprise operates. Strategic analysis is an important stage of strategic management process. A strategic objective of enterprises is to make a profit above the sector average. It is both a financial objective and is directly associated with the ability of enterprises to stay in the market and to achieve their other objectives. Therefore, strategic financial analysis should be performed on enterprises. The aim of this study is to make financial strategic analysis of Small and Medium Enterprises (SMEs). Study sample consisted of managers of 10 SMEs operating in Amasya, Turkey. Data were collected using a Financial Strategic Analysis Form. Data were analyzed using SWOT analysis to identify the SMEs' strengths, weaknesses, opportunities and threats. As a result of SWOT analysis, four common financial strategies were developed for enterprises. These strategies were 1) investing idle cash in appropriate financial instruments, 2) accelerating the collection of receivables, 3) minimizing exchange rate and interest rate risks by trading in futures market and 4) reducing the cost of production.

Keywords: Strategic Management, Financial Strategic Analysis, Financial SWOT Analysis, Financial Strategy, SMEs

JEL Classification: M10, M19, P33

Öz

Stratejik yönetim, bir işletmenin iç çevresiyle birlikte dış çevresini de dikkate alan bir yönetim anlayışı benimsemesidir. Stratejik yönetim sürecinin en önemli aşamalarından biri ise stratejik analizdir. İşletmelerin stratejik amaçlarından biri de sektör ortalamasının üzerinde kar sağlamaktadır. Bu amaç finansal bir amaç olmanın yanında işletmelerin yaşamlarını sürdürebilmeleri ve diğer amaçlarını gerçekleştirebilmeleri ile doğrudan ilişkilidir. Bu nedenle işletmelerin finansal bağlamda stratejik analizlerinin yapılması gerekmektedir. Bu çalışmada KOBİ`lerin finansal stratejik analizlerinin yapılması amaçlanmaktadır. Bu amaç doğrultusunda Türkiye`nin Amasya ilinde faaliyet gösteren 10 KOBİ yöneticisinden "Finansal Stratejik Analiz Formu" vasıtasıyla veri toplanmıştır. Toplanan veriler SWOT analizi tekniği ile analiz edilerek işletmelerin finansal üstünlük ve zayıflıkları ile finansal tehdit ve fırsatları belirlenmiştir. Ayrıca SWOT analizi sonucunda işletmeler için 4 finansal strateji geliştirilmiştir. Bunlar; Strateji 1: Atıl nakdi uygun finansal araçlarda değerlendirmek, Strateji 2: Alacakların tahsilatını hızlandırmak, Strateji 3: Vadeli işlemler piyasasında işlem yaparak kur ve faiz oranı riskini minimize etmek, Strateji 4: Üretim maliyetini düşürmektir.

Anahtar Kelimeler: Stratejik Yönetim, Finansal Stratejik Analiz, Finansal SWOT Analizi, Finansal Strateji, KOBİ`ler

Jel Sınıflandırması: M10, M19, P33

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1. Introduction

Strategic management makes it possible for enterprises to survive today's ever changing and challenging competitive conditions. Strategic management refers to the development of a management approach that takes into account both the internal and external environments in which an enterprise operates. In other words, strategic management is a management technique that enables a for-profit or non-profit enterprise operating in the private or public sector to develop strategies, policies and tactics to achieve the goals that it has set for itself (Aktan, 2008: 5). The strategic management of enterprises has 4 objectives: (1) Long-term final outcome (2) Surviving in the long term, (3) Sustainable competitive advantage and (4) generating above average income. Strategic management is the execution of planning, organizing, directing, coordination and supervisory functions to enable enterprises to achieve their strategic goals effectively and efficiently (Ulgen and Mirze, 2018: 7-8). Strategic management, therefore, refers to the strategic organization of resources related to functional areas such as finance, production, marketing, technology and human (Ritson, 2011: 17). Strategic management is also a systematic management approach in which strategic thinking composed of strategy development, implementation and learning is executed (Guclu, 2003: 77).

Strategic management starts with strategic awareness and ends with strategic control. One of the most important steps in this process is strategic analysis, during which enterprises analyze both the internal and external environments in which they operate. Another strategic management objective of enterprises is to make a profit above the sector average. It is both a financial objective and is directly associated with the ability of enterprises to stay in the market and to achieve their other objectives. Strategic financial analysis should, therefore, be conducted on enterprises to determine their financial strengths and weaknesses, and future opportunities and threats.

The aim of this study is to make financial strategic analysis of SMEs to contribute to the relevant literature. To this end, SMEs' financial strengths, weaknesses, opportunities and threats were determined, and common financial strategies were developed. This study is important in the sense that it will contribute to the literature of financial strategic analysis, which is understudied in general, and to the enterprise world.

2. Financial Strategic Analysis

Strategy is an important concept for all enterprises. When defining strategy, Porter (1996: 1) refers to its three important principles: (1) creating a unique and valuable position that includes a range of activities, (2) making trade-offs in competition to choose what not to do, and (3) creating 'fit' among a company's activities. An enterprise uses strategies to protect what is distinctive about itself and to achieve a sustainable competitive advantage. Strategy means performing different activities from rivals or performing similar activities in different ways. In this context, each enterprise should develop and implement appropriate strategies to achieve its objectives (Yuksel, 2017: 5). Strategic analysis is an important stage in the strategy development process. Strategic analysis consists of two stages: analysis of internal and external environments. Internal environment analysis identifies the strengths and weaknesses of an enterprise while external environmental analysis identifies future threats and opportunities. Since, the most important strategic objectives (e.g. making a profit above average) of enterprises are financial, strategic analysis should be conducted financially as well as cash budgeting (Ulusoy et al., 2019: 1893). Therefore, financial strategic analysis is a process in which the current financial strengths and weaknesses and future financial opportunities and threats of an enterprise are identified to establish financial strategies.

In this context, the financial strategy of an enterprise is to use financial instruments to maximize shareholder value. Financial strategy is interested in numbers that characterize enterprise performance and determine ways to increase investment profits. Financial strategic analysis specifies the details of overall strategic objectives and assesses the likelihood of achieving them and their outcomes. Since small enterprises lack financial resources to withstand major losses, they should concentrate their financial strategies on profitability (Markgraf, 2019: 1). Financial strategy helps enterprises improve their position. Enterprises should conduct strategic analysis (efficient assessment of financing, investment and enterprise assets) to establish financial strategies (Oncu et al., 2010a: 33-34; Met and Akkasoglu, 2013: 230). Financial strategy depends, as a functional strategy, on corporate strategy in general, and therefore, includes profit distribution, investment, financing and legal relations strategies (Pavlíček, 2009a: 2). Financial strategic analysis provides the necessary structure for establishing financial strategies, assessing opportunities for enterprise and contributing to organizational performance (The University of Melbourne, 2018: 1). For strategic analysis, different techniques are used, the most common of which is SWOT analysis. In contrast to a general SWOT analysis, a financial SWOT analysis that determines enterprises' financial status and allows them to develop strategies were used in this study.

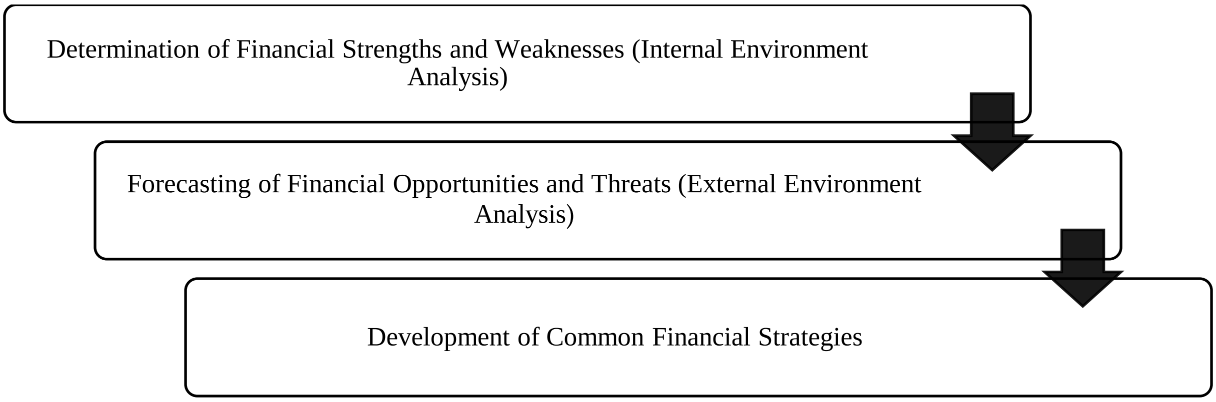
3. Methodology

This section addresses the purpose and model of the study and the methods used.

3.1. Purpose and Model

The aim of this study is to make financial strategic analysis of SMEs and develop common financial strategies for them. Figure 1 shows the research model.

Figure 1. Research Model



Source: Esmer and Pabuccu, 2019a:115; Acar and Ozdasli, 2017a: 307; Anafarta, 2001a: 6; Oncu et al., 2010b: 35; Pavlíček, 2009b: 1-2

The research model consists of 3 stages: (1) Determination of financial strengths and weaknesses, (2) prediction of financial threats and opportunities and (3) development of common financial strategies for SMEs as a result of strategic analysis (Financial SWOT) (Esmer and Pabuccu, 2019b:115; Acar and Ozdasli, 2017b: 307; Anafarta, 2001b: 6; Oncu et al., 2010c: 35; Pavlíček, 2009c: 1-2).

3.2. Method

A qualitative research method was used. Data on the SMEs' financial status were collected using a questionnaire (Financial Strategic Analysis Form) consisting of open-ended questions eliciting information on the number of employees, duration of activity, sectors in which they operate, and their strengths, weaknesses, threats and opportunities. The research was conducted in Amasya. The study population consisted of SMEs operating in Amasya. The study sample consisted of randomly selected 10 SMEs (5 small- and 5 medium-sized enterprises). The managers of the SMEs filled out the questionnaire. The data were analyzed using SWOT analysis, which is described below.

3.2.1. Financial SWOT Analysis

SWOT analysis is an important instrument widely used to establish institutional and competitive strategies in planning and management (Gurel and Tat, 2017: 995). SWOT stands for Strengths, Weaknesses, Opportunities and Threats (Kamilcelebi, 2012: 46). SWOT analysis is a situation matrix used to determine the strengths, weaknesses, opportunities and threats of people, businesses and sectors arising from their unique characteristics (Kusat, 2014: 311). SWOT analysis examines enterprises' strengths and weaknesses and future opportunities and threats (Isseveroglu and Hatunoglu, 2012: 156). SWOT analysis identifies what enterprises should do to achieve their future goals and allows them to plan their future positions in advance (Ildırımlı, 2017: 49). SWOT analysis consists of two parts: internal environment analysis and external environment analysis. Internal Environment Analysis (IEA) involves analysis of strengths and weaknesses of an enterprise while External Environment Analysis (EEA) involves analysis of opportunities and threats that an enterprise may encounter due to external factors. In other words, the IEA is about the enterprise itself while the EEA is about external factors (rivals, etc.) (Babazade, 2017: 54). SWOT analysis allows enterprises to focus on internal factors (strengths and weaknesses) over which they have control and on external factors (opportunities and threats) for which they can proactively prepare themselves. A smart SWOT analysis provides a clear view of these four key factors that provide a framework for ongoing action plans (Gordon Advisors, 2017: 1). In this context, financial SWOT analysis is defined as an analysis technique used to determine an enterprise's current financial strengths and weaknesses and future opportunities and threats. The aim of financial SWOT analysis is to determine the financial position of an enterprise to allow it to develop strategies in advance for negative situations that it may face in the future.

4. Findings

This section presents the characteristics (the number of employees, duration of activity, sectors in which they operate) of the SMEs and financial SWOT analysis findings.

4.1. Numerical Findings Regarding SMEs

The study sample consisted of 5 small-sized and 5 medium-sized enterprises. The small-sized enterprises employ 3 people on average and have been operating in food and beverage, paper and plastic packaging, electrical energy and organic fertilizer, natural gas, heating and cooling sectors for about 4 years. The medium-sized enterprises employ 73 people on average and have been operating wire and by-products, sugar production and animal husbandry, heating and air conditioning and construction and building sectors for about 7 years. These findings are summarized in Table 1.

Table 1. Numerical Findings Regarding SMEs

Size	**Small-sized**	**Medium-sized**
Number of sample	5	5
Sector	Food and beverage, paper and plastic packaging, electrical energy and organic fertilizer, natural gas, heating and cooling sectors.	Wire and by-products, sugar production and animal husbandry, heating and air conditioning and construction and building sectors.
Duration of activity (year)	4	7
Number of employees	3	73

4.2. Financial SWOT Analysis Findings

The financial SWOT matrix in Table 2 shows the interview findings.

Table 2. Financial SWOT Matrix

Internal Factors (Internal Environment Analysis)	
Strengths (S)	**Weaknesses (W)**
High liquidity	Increase in production costs
Investing cash surplus	Insufficient inventory
Equity-oriented financial structure	Investments with low profitability
Developing new products and services	Inadequate conversion of receivables into liquidity
Low costs of raw material supply	Investments with low profitability
Purchasing raw materials at a reduced price	Costly import
Investing cash surplus in short-term markets	High borrowing costs
Fast cash return	Lack of incentives in some sectors
External Factors (External Environment Analysis)	
Opportunities (O)	**Threats (T)**
Increased demand for new products	Poor production in some sectors
Continuous increase in investments	Political uncertainties
Support by KOSGEB	Rapid rise in interest rates
SME support by Eximbank	Rise in foreign exchange rates
Export opportunity	Liquidation or bankruptcy of enterprises
Rise in global prices	High energy costs
Cheap domestic goods	Increase in raw material costs
Increase in demand greater than increase in supply	Increase in fuel prices

Four strategies representing each dimension of SWOT analysis have been developed. Strategy 1 (SS): Investing idle cash in appropriate financial instruments, Strategy 2 (SW): Accelerating the collection of receivables, Strategy 3 (SO): Minimizing exchange rate and interest rate risk by trading in futures market, Strategy 4 (ST): Reducing the cost of production.

The strengths show that 6 of the SMEs have high liquidity because fast cash return increases the amount of cash assets, enabling them to pay their debts due. In addition, liquidity allows the SMEs to purchase raw materials at a reduced price. However, liquidity investments provide additional income. Financing with shareholders' equity reduces the borrowing costs of the SMEs. Strong shareholders' equity enables the SMEs to have more robust financial structures in the face of financial crises.

The weaknesses show that the costs of the sectors are increasing. Especially the rise in raw material costs results in a decline in the sales volumes of some products and services. Moreover, high energy costs prevent competitive prices. Some SMEs have difficulty converting their receivables into cash. One reason why the SMEs have low borrowing tendency is the increase in interest rates. The increase in capital costs reduces the amount of credit that the enterprises use. The increase in the exchange rate increases the import costs of the SMEs.

The opportunities show that the demand in the market is increasing. The SMEs make new investments as the demand for their products increases. They benefit from KOSGEB supports. The increase in exports exchange rate has led to the production of goods at a cheaper price, which have become cheaper for export, resulting in an increase in demand for exports. Some of the SMEs accelerate the cash conversion cycle by exporting and reduce the costs of futures sales. Exports are increasing with increases in prices in global markets and decreases in domestic production costs.

The last part of SWOT analysis addresses the threats that the SMEs might encounter in the future. The rapid rise in exchange rate raises the import price. Expensive products cannot be sold in the domestic market, resulting in a decrease in market volume. The increase in interest rates reduces the demand for some products and services. The SMEs with no cash conversion cycle go bankrupt or enter into liquidation. Increases in energy costs have increased the costs of the SMEs. High costs cause them to work with lower profit margins. As a result, competition declines significantly. Therefore, lowering production costs or increasing sales prices increases the SMEs' profitability. In light of this information, it can be said that the most appropriate strategy for SMEs is "reducing the cost of production (ST)".

5. Conclusion and Suggestions

Economic fluctuations (sudden rise in prices, inflation, financial crisis etc.) affect enterprises' financial status positively or negatively. The increase in costs with sudden and sharp increase in prices has negatively affected the profits and profitability of enterprises. Those that pass on the increase in costs to prices have difficulty finding customers. In this economic uncertainty, consumers used their liquid assets cautiously and reduced their spending on non-essential needs. Thus, the rapid rise in exchange rates caused a serious decline in sales in many sectors. Many enterprises entered into liquidation, declared concordat or went bankrupt.

Adverse economic developments adversely affect the financial structure of enterprises. As seen in the previous year, especially the increase in the loan costs of enterprises trading in foreign currencies has disturbed the distribution of their financing sources. Therefore, the main purpose of this study was to develop strategies for financial resource planning of enterprises and to take precautionary measures for possible negative situations in the future. Thus, enterprises can strengthen the structure and distribution of their own financing resources and be less affected by crises. To this end, this study performed the financial strategic analysis of SMEs operating in Amasya. SWOT analysis was used. As a result of the analysis, four financial strategies were developed for all SMEs. These strategies were (1) investing idle cash in appropriate financial instruments, (2) accelerating the collection of receivables, (3) minimizing exchange rate and interest rate risk by trading in futures market, and (4) reducing the cost of production. While all of these strategies are important, the most appropriate for SMEs is "reducing the cost of production". Because with the financial crises experienced in recent years, prices have increased continuously and increased the production costs of SMEs. In this case, it is recommended that SMEs use domestic raw materials in production and e-commerce in marketing to reduce production costs.

Analysis results show that the SMEs have high liquidity. The managers of the SMEs stated that they used liquidity to purchase raw materials at a reduced price and to invest their cash surplus in short-term markets. The fact that the SMEs are family businesses reduces their borrowing tendencies. The results of the financial SWOT analysis show that the greatest weakness of the SMEs is the increasing costs. The increase in raw material costs and the lack of inventories in some sectors have caused a decrease in sales. Moreover, high energy costs prevent competitive prices. Increases in capital costs decrease the amount of credit that the SMEs use. The SMEs benefit from the KOSGEB supports offered by the government. It is stated that the increase in exchange rates makes exports more attractive. Some of the SMEs accelerate the cash conversion cycle by exporting and reduce the costs of futures sales. However, the rapid increase in the exchange rate increases the import price. Costly raw material leads the SMEs to alternative means of production. The SMEs with no cash conversion cycle either go bankrupt or enter into liquidation. Rising costs have led the SMEs to operate with lower profit margins. However, the increase in costs significantly reduces the level of competition. SMEs should, therefore, keep up with developments in their sectors and take precautions against financial risks. We also believe that the financial SWOT analysis of large-scale enterprises makes a significant contribution to the literature. In conclusion, this study on the financial strategic analysis of SMEs contributes to the strategic financial management literature and to the world of SMEs.

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