PATTERNS OF SME FINANCING IN TURKEY[10]

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ABSTRACT: SMEs make up the majority of privately owned corporations in the developing and developed economies. The literature basically contends that access to bank financing is essential for SMEs because they do not generate sufficient cash flow for large investments and cannot access the capital markets for financing needs. However, there are also studies in the literature that contend that SMEs prefer internal financing as the main financing source as opposed to external financing. These studies say that by not targeting rapid growth, small business owners choose to retain control by not searching for external capital. The purpose of this study is to analyze the financing patterns of SMEs in Turkey.

Key words: SME, bank loans, financing constraints

TÜRKİYE'DE KOBİ FİNANSMANI UYGULAMALARI

ÖZET: KOBİler gelişmekte olan ve gelişmiş ülkelerde özel sektör firmalarının çoğunluğunu oluşturmaktadır. Literatür büyük yatırımlar için yeterli nakit akışı yaratamamaları ve finansman ihtiyaçları için sermaye piyasalarına ulaşamamaları nedeniyle banka finansmanına ulaşımın KOBİler için önemli olduğunu belirtmektedir. Bununla birlikte literatürde KOBİlerin ana finansman kaynağı olarak dış finansman yerine iç finansmanı tercih ettiklerini belirten çalışmalar da mevcuttur. Bu çalışmalar küçük işletme sahiplerinin hızlı büyüme hedeflemeyerek dış finansman talebi olmaksızın kontrolü kaybetmemeyi seçtiklerini vurgulamaktadır. Anahtar Kelimeler**:** KOBİ, banka kredileri, finansman kısıtları

INTRODUCTION

SMES need bank financing to develop and grow because they do not create adequate cash flow to finance large investments and cannot access the capital markets. However, inability to have access to bank financing is considered to be one of the most important obstacles that SMEs face in the world. (Hughes, 2009; Mason and Kwok, 2010; Shen, Shen, Xu and Bai, 2009). There are studies in the literature that show that SMEs face greater barriers in their access to bank loans than large firms (Beck, Demirguc-Kunt, Laeven and Maksimovic, 2006; Beck, Demirguc-Kunt and Maksimovic, 2008; Pissarides, 1999). On the other hand, there are also studies that contend that small businesses prefer internal equity rather than external financing. These studies contend that owners of small businesses do not aim for rapid growth and prefer to retain control by not applying for external funds (e.g. Curran, 1986; Hakim, 1989; Jarvis, 2000; Vos, Yeh, Carter and Tagg, 2007).

[10] Bu makale 26-27 Kasım 2016 tarihlerinde İstanbul'da düzenlenmiş olan International Congress of Management, Economy and Policy adlı kongrede bildiri olarak sunulmuştur.

To add to the growing literature on SME financing, this paper embarks to study the financing patterns of SMEs in Turkey. A survey which was carried out in 2015 with the managers that are responsible from the financial affairs of 529 Turkish SMEs is used to create the cross-sectional data set.

The remainder of the study is organized as follows: Section 1 describes the data. Section 2 presents the empirical results and section 3 concludes.

1. DATA

The cross-sectional data set is created from a survey we conducted in 2015. Our sample is composed of financial affairs executives of 529 SMEs that employ between 10 and 250 people. 426 of the firms are small enterprises that employ between 10 and 49 people. Remaining 103 firms are medium-sized enterprises that employ between 50 and 250 people.

Table 1 presents the sample demographics of the SMEs.

Table 1: Sample demographics

	Mean	Standard Deviation	Median	N=529	Percentage Frequency
Age	14.2	11.97	11		
Number of employees	23.43	31.51	12		
Industry					
Fabricated metal products manufacturing				70	13.23
Food products				81	15.31
Construction				69	13.04
Hotel and restaurant				111	20.98
Textile and apparel				88	16.64
Wholesale and retail trade				110	20.79

2. EMPIRICAL FINDINGS

Table 2 presents the summary responses of the answers given to the nominal scale questions. We see that the majority of the firms did not apply for bank financing in the last three years and in the last year. 46.9% of the firms broken even last year. 40.2% of them made a profit and 12.9% of them made a loss. 79.9% of the SMEs have growth plans for the future. 20.1% of the managers tell that their firm does not have growth plans.

Table 3 presents the summary statistics of the answers given to the ratio scale questions. The percentage change in the sales revenue of the SMEs was on average 6% last year. The expected percentage change in the sales revenue for the following year is 11%. Retained earnings have an 18% share in total funding of the firms on average. 46% of the funds is provided by the owners of the SMEs. Bank loans make up 9% of total funding. Other funds have a 27% share in total funds provided.

Table 2: Summary responses for the nominal scale questions

	N	Percentage Frequency
Did you apply for bank financing in the last three years?		
Yes.	209	39.5
No.	320	60.5
Did you apply for bank financing in the last year?		
Yes.	157	29.8
No.	370	70.2
Our firm:		
made a profit last year.	209	40.2
made a loss last year.	67	12.9
broke even last year.	244	46.9
Does your firm has growth plans for the future?		
Yes.	417	79.9
No.	105	20.1

Table 3: Summary statistics for the ratio scale questions

	Mean	Standard Deviation	Median
Percentage change in sales revenue in the last year	0.06	0.17	0.10
Expected percentage change in sales revenue for the following year	0.11	0.23	0.10
Percentage of total funds provided by:			
Retained earnings	0.18	0.26	0.03
Investments by the owners	0.46	0.39	0.30
Bank loans	0.09	0.16	0.00
Other funds	0.27	0.29	0.20

Because growth rates of the firms may affect the preference for funding, we analyze the correlation coefficients of the realized and expected growth rates and percentage share of retained earnings, investments by the owners and bank loans in total funding. Table 4 shows the correlation values. Correlation values show that percentage of total funds provided by retained earnings has a statistically significant negative relationship with percentage change in sales revenue in the last year and expected percentage change in sales revenue for the following year. Positive statistically correlation coefficient between percentage of funds provided by investors and realized and expected sales growth rates shows that investors increase the amount of funds they provide to the firm with an increase in sales revenue.

Percentage of total funds provided by bank loans has a statistically significant positive relationship with sales growth rate of the last year. These findings signal that investors of

Table 4: Correlation values

	Percentage change in sales revenue in the last year	Expected percentage change in sales revenue for the following year
Percentage of total funds provided by retained earnings	-0.152**	-0.131**
Percentage of total funds provided by investments by the owners	0.169**	0.233**
Percentage of total funds provided by bank loans	0.098***	0.073
Percentage of total funds provided by other funds	-0.150**	-0.231**

*** statistically significant at 0.01 level.
** statistically significant at 0.05 level.

firms with high growth rates and high expected growth rates prefer to invest more money into their business. Moreover, firms with high sales growth rates use bank financing more intensively. We also see that there is a statistically significant negative relationship between percentage of total funds provided by other sources and the realized and expected growth rates.

We also analyze whether firms that have growth plans for the future and firms that have no such plans differ in terms of their financing preferences. Table 5 gives the group statistics for financing preferences for each group.

Table 5: Group statistics for financing preferences

	SMEs that have growth plans		SMEs that have no growth plans	
	Mean	Standard Deviation	Mean	Standard Deviation
Percentage of total funds provided by retained earnings	0.18	0.24	0.2	0.31
Percentage of total funds provided by investments by the owners	0.46	0.37	0.46	0.45
Percentage of total funds provided by bank loans	0.1	0.16	0.05	0.12
Percentage of total funds provided by other funds	0.26	0.27	0.29	0.35

The most important difference between SMEs that have growth plans and SMEs that have no growth plans is the percentage share of bank loans in total funding of the firms. Bank loans has a 10% share on average in total funding for firms with growth plans for the future. On the other hand, firms with no growth plans give 5% share to bank loans in total funds provided.

Table 6 gives the t-test results for equality of group means.

Table 6: T-tests for equality of group means for firms that have growth plans and that have no growth plans

	T-value	Sig. Level
Percentage of total funds provided by retained earnings	-0.81	0.418
Percentage of total funds provided by investments by the owners	0.05	0.958
Percentage of total funds provided by bank loans	3.20	0.001
Percentage of total funds provided by other funds	-1.07	0.287

T-test results show that there is a statistically significant difference between firms with growth plans and firms with no growth plans in terms of the share of bank loans in total financing. As we have found before, percentage of total funds provided by bank loans is higher for firms with growth plans than for firms with no such plans. The two group of firms do not differ in terms of the share of the other sources of funds in total financing.

CONCLUSIONS

This paper analyzes the financing practices of SMEs in Turkey. A survey done with the financial affairs executives of 529 Turkish SMEs is used to create the data set. The results show that majority of the SMEs in the sample did not apply for bank financing in the last three years and in the last year. The share of retained earnings in total funding of the firms is 18% on average. Investments by the owners of the SMEs make up 46% of the total funds provided. Bank loans has a 9% share in total funding. Our findings signal that investors of firms with high sales growth rates and high expected sales growth rates invest more money into their business. Moreover, firms with high sales growth rates make use of bank loans more intensively. The share of bank loans in total funding is higher for SMEs that have growth plans for the future than firms that do not have such plans.

Acknowledgement

This study is funded by Bogazici University Scientific Research Projects Fund (Project Code: 14N01SUP1, Project Number: 7945).

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