

The Risks That Will Threaten Going Concern And Control Recommendations: Case Study On SMEs*

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ABSTRACT

The aim of the study is to identify the main risks threatening going concern and develop control recommendations for these risks. To this end, through individual interviews, a survey was conducted with the owners or managers of the SMEs operating in Kırşehir Organized Industrial Zone. The data obtained from the survey was analyzed via SPSS 20.0. The results revealed that 89.2 percent of the SMEs are family businesses, while 73 percent are small-sized businesses. The risks that SMEs frequently encounter are exchange risk, credit risk, economic crisis risk, interest rate risk and liquidity risk, respectively. It was found that to avoid these risks, the SMEs mainly manage stocks effectively, yet they do not make use of derivative products and they cannot maintain a strong liquidity position. Three control recommendations the SMEs do not follow much are the written family constitution, shareholders' agreement, and 7/24 fraud report line. In order for the businesses to operate effectively for many years, it is necessary that the related parties especially the business managers attach importance to corporate risk management and effective internal control. This study is expected to contribute to the SMEs in terms of improving risk management and internal control.

Keywords: Risk, Internal Control, Going Concern, SMEs.

Jel Classification: M40, M42.

İşletmelerin Sürekliliğini Tehlikeye Düşürecek Riskler ve Kontrol Önerileri: KOBİ'lerde Bir Uygulama

ÖZET

Çalışmanın amacı, işletmelerin sürekliliğini tehdit eden başlıca risklerin neler olduğunu tespit etmek ve bu risklere karşı kontrol önerileri geliştirmektir. Bu amaç doğrultusunda Kırşehir Organize Sanayi Bölgesi'nde faaliyet gösteren KOBİ'lerin sahipleri veya yöneticileri ile birebir görüşme sağlanarak anket yapılmıştır. Anketlerden elde edilen veriler SPSS 20.0 programı yardımıyla analiz edilmiştir. Elde edilen sonuçlara göre, ankete katılan KOBİ'lerin %89,2'si aile şirketi olup, %73'ü küçük ölçeklidir. KOBİ'lerin sıklıkla karşılaştıkları risk türleri arasında sırasıyla kur riski, alacak tahsilat riski, ekonomik kriz riski, faiz oranı riski ve likidite riski yer almıştır. Söz konusu risklerden korunmak için KOBİ'lerin daha çok etkin stok yönetimi gerçekleştirdikleri ancak türev ürünlerden yararlanma ve yüksek likidite tutma oranlarının oldukça düşük olduğu tespit edilmiştir. KOBİ'lerde uygulanma düzeyi en düşük olan üç kontrol önerisinin; yazılı aile anayasası, hissedarlar sözleşmesi ve hile riskinden korunmak için kurulan 7/24 ihbar hattı olduğu belirlenmiştir. Yapılan çalışmanın risk yönetimi ve iç kontrolün iyileştirilmesi açısından KOBİ'lere katkı sağlaması beklenmektedir.

Anahtar Kelimeler: Risk, İç Kontrol, İşletmenin Sürekliliği, KOBİ.

JEL Sınıflandırması: M40, M42.

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1. INTRODUCTION

Businesses are open systems that interact with the events occurring in the internal and external environment. The environment in which businesses operate changes constantly. Domestic and foreign economic, political and social developments, especially technological change, threaten the businesses while offering new opportunities to them. The risk arising from unexpected events leads to threat, while the risk arising from change brings uncertainty and the risk that can be used in favor of the business brings opportunities (Koç and Uzay, 2015: 206). Therefore, the businesses need to be managed more professionally so that they can maintain their presence and take advantage of the available opportunities.

The going concern concept in accounting is based on the assumption that the businesses will continue their operations without a certain period of time. The financial statements are normally prepared on the assumption that a business is a going concern and will continue in operation for the foreseeable future (Conceptual Framework, Art. 4/1). Some risks have the potential to threaten the going concern if necessary measures are not taken in due time. These risks are called as significant and effective risks. The meaning of the word risk is insecurity (<http://www.tdk.gov.tr/>, 2017). Risk is defined as “the effect of uncertainty on objectives” (ISO 31000, 2015: 13). The most important feature of risk is that it arises from the uncertainty of the future and changes quickly (Akçakanat, 2012: 33).

Going concern depends on businesses ability to manage risks (Karacan and Savcı, 2011: 52). Risk management is defined as “coordinated operations to direct and control an organization with regard to risk” (ISO 31000, 2015: 20). Businesses wishing to develop their competitive power, to strengthen their institutional structure and to achieve sustainable development must be willing and diligent in terms of building effective risk management systems (Özsoy, 2012: 166).

Risks are various and are classified in different ways. Within the most general classification, risks are divided into two as systematic and non-systematic risks (Türel, 2008: 12). Systematic risks concern the entire economy and they cannot be intervened by business management. Non-systematic risks, on the other hand, are encountered by every business because of their inherent characteristics (Usta and Demireli, 2010: 26). Economic crisis risk, interest rate risk, and exchange risk are the systematic risks, while fraud risk, reputation risk, management risk arising from being a family business, strategic risk, operational risk, low profit margin risk and bankruptcy risk are the non-systematic risks.

The results of the survey conducted by Deloitte (2017) with the CFOs of European countries revealed that the most significant risks in Turkey are the geopolitical risks, devaluation of Turkish Lira, breakdown in cash flow and increase in input prices (Deloitte, 2017: 11). In Turkey, mainly, financial risks are managed (Topçu, 2013: 143), and these risks are the most common and influential risks in terms of corporate risk management (Topçu, 2013: 36). Financial risk involves exchange risk, interest rate risk, credit risk and liquidity risk (Yüzbaşıoğlu, 2003: 5). Fraud risk is defined as the possibility of the business management and employees to intentionally abuse their power and responsibilities. Reputation risk has the potential to tarnish the

image of a business for various reasons. Also, it cannot be transferred (Arslan, 2008: 37) and be assessed quantitatively (Küçüközmen, 2012).

Family businesses are among the most problematic businesses in terms of risk management. Feelings of trust which constitute the basis of the management style of family businesses, the unprofessional management style, insufficient internal controls on, for example, segregation of duties due to operating with a limited number of personnel, lack of capital, and other risks all cause these businesses to be vulnerable to risks. The pressure of family members to turn the income to fortune and uninstitutionalized management understanding in family businesses, and lack of balance between family and business are among the most important factors that hinder the going concern of a business.

Effective management of risks depends on being informed about the risks that are faced, evaluating the effects of these risks, and managing the meaningful ones. In this sense, businesses need to create mechanisms through which they can eliminate, minimize or transfer the risks they face, or they can take the risk (Keskin, 2010: 38). One prerequisite for the going concern of businesses is designing, managing and improving an internal control system (Türedi and Koban, 2016: 155). Internal control system is a structure focusing on the risks within businesses and protecting businesses against any errors, fraud, and problems that may occur as a result of authorization, reporting and information processing (Türedi et al., 2015: 6). An effective risk management and internal control system require knowledge, effort and experience. Businesses failing in this regard harm themselves and the economy of the country due to the waste of resources.

In order to increase the awareness of businesses regarding risk management, a regulation was made in Turkish Commercial Code (TCC) numbered 6102. Based on this new law, the administrative board of the publicly-traded businesses are liable to establish an expert Committee for the Early Detection of Risks, to run and improve the system in order to diagnose the risks that threaten the existence, improvement and survival of the business in time, to take the necessary measures against the risks that were identified, and to manage the risks. In other businesses, this committee needs to be established when the auditor renders it necessary and reports it to the administrative board through a written document (TCC, art. 378/1).

Moreover, according to the Turkish Commercial Code No 6102, it is mandatory for the businesses to clearly identify in their annual reports the possible risks that may be encountered, and the administrative board's risk assessment is included in the report (TCC, art. 516/1). Risk management aims not to eliminate all the risks faced by the businesses but to take the risks that are calculated and compatible with the risk appetite which will contribute to their sustainable growth (Özsoy, 2012: 175). Risk appetite is the level of risk that the business thinks is acceptable (Bozkurt, 2010: 19). The senior business management is responsible for managing the business in accordance with the risk appetite within the framework of corporate risk management.

Another regulation about the going concern assumption is included in ISA 570 "Going Concern" standard. The relevant standard requires the board of management to

prepare its general purpose financial statements using the going concern assumption (art. 2). The auditor's responsibility is to obtain sufficient and appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation of the financial statements and to conclude whether there is a significant uncertainty about going concern (art. 6.) The uncertainties regarding going concern and the fact that they are expressed sufficiently in the financial statements affect the opinion the auditor will express.

The explanations show that the attitudes of business owners or managers towards risks and internal control mechanisms they have developed for risks have critical importance for going concern. As the majority of large-scale businesses are thought to act more carefully on risk management with the effect of legal regulations, the significant risks occurring in the SMEs were examined within the scope of the study. Identifying the risks that have the potential to threaten the going concern of the SMEs and the control mechanisms they have developed against such risks constitute the main aim of the study. It is expected that the study will contribute to the SMEs in terms of improving risk management and internal control.

2. RISK MANAGEMENT IN SMEs AND INTERNAL CONTROL

SMEs comprise a huge part of businesses in total and the total employment in the developed and developing countries. They have an important place in production, export and value added (Erol, 2010: 165). According to Turkish Statistical Institute data, SMEs comprised 99.8 percent of the total ventures in 2014 and they operate mostly in commercial sector. In Turkey, 55.1 percent of export and 37.7 percent of import was carried out by the SMEs in 2015 (TIK, 2016).

According to the articles of the "Regulation on Definition, Characteristics and Classification of Small and Medium Sized Enterprises" numbered 28457 issued by the Council of Ministers in the Official Gazette on November 4, 2012, the SMEs are divided into three as micro, small and medium-sized businesses. Table 1 shows the classification of the SMEs (Art. 5):

Table 1. SME Criteria

Criteria	Micro	Small	Medium-sized
Number of employees	<10	<50	<250
Annual Net Sales Revenue	≤ 1 million TL	≤ 8 million TL	≤ 40 million TL
Annual Balance Sheet Total	≤ 1 million TL	≤ 8 million TL	≤ 40 million TL

As seen in the table, SMEs refer to economic units or enterprises which are classified as micro, small or medium-sized businesses which employ less than 250 employees a year, and whose annual net sales revenue or annual balance sheet total does not exceed 40 million Turkish Lira (Art. 3/b). The survival of the SMEs is of great significance as they have an important place in a country's economy.

No businesses are without risks, all businesses encounter some risks to a certain extent (Terungwa, 2012: 9). According to Coşkun (2011), the SMEs in Turkey generally have limited sources of income, and limited number of shareholders, or the shareholders have a say in the decisions regarding the activities of the business. The

SMEs in Turkey generally do not have internal control procedures; their accounting records are misleading due to accounting fraud aiming to decrease taxable profit; and they do not have any risk management culture. The SMEs are usually family businesses where the owner and the manager are the same person (Küçüközmen and Oğuz, 2008: 41); they have low profit margin, low equity capital, and insufficient fixed asset (Şahin and Doğukanlı, 2014: 42). It is believed that the SMEs have lower chance of survival although they have high levels of growth (Leopoulos, 2006: 225). Thus, the risks that emerge in the SMEs and the management of these risks are highly significant for the SMEs.

The key to success of the SMEs is awareness regarding the risks awaiting them (Brustbauer, 2016: 82). However, the studies conducted so far have confirmed that the owners or managers of the SMEs do not have enough knowledge about what they could do in the face of risks (Smit and Watkins, 2012: 6328). It can be stated that the SMEs which have less efficient internal controls and accounting systems compared to the big-sized businesses are more vulnerable to risk of fraud (Shih et al. 2011: 55; Shanmugam et al., 2012: 90; Shanmugam et al., 2012: 475). Moreover, lack of institutionalization and the presence of those who are against risk management leave the SMEs in a difficult situation when they face risks (Güneş and Teker, 2010: 72). The problems of the exporting SMEs mainly stem from exchange risk (Ay and Talaşlı, 2007: 173).

Internal control decreases risks and makes them manageable. Internal control should be evaluated as a concept that integrates budget, accounting, auditing and information systems rather than as a system per se. Insufficiency of control in a business is a significant managerial inadequacy. A complete lack of control may lead to different consequences varying from consumer dissatisfaction to bankruptcy (TÜSİAD, 2010: 33-34).

The advantages of the SMEs in terms of internal control are that the employees of the SMEs know each other; managers have shorter communication channels; and they can respond to critical processes on time. The disadvantages of the SMEs are the cost of creating an effective internal control environment and some characteristics stemming from being an SME (problems in employing an expert; having limited technical resources) (Selimoğlu et al., 2015: 308).

It is seen that the risk management techniques of the SMEs are initially limited to risk avoidance activities (Smit and Watkins, 2012: 6328). It is mandatory for the SME managers to evaluate the risks they encounter and to develop suitable control mechanisms against these risks in critical areas (Shanmugam et al., 2012: 480). As the SMEs do not have adequate resources that could respond to the internal and external threats leading to big losses and threatening their presence severely, it is necessary for them to adopt risk management strategies and methodologies (Verbano and Venturini, 2013: 187).

Within the framework of the study, various control recommendations are made against the risks that may endanger the going concern of the SMEs. As the majority of the SMEs are family businesses, they have management risk, and thus, it is believed that there are certain precautions that the SMEs must take against management risks and

strategic risks. These precautions can be listed as having written rules in business, or although not written, being informed about the rules and implementing them; determining authorities and responsibilities; shareholders' sharing information with each other or with the employees about business-related matters; creating a written family constitution; introducing a shareholders' agreement; separating work from family life; solving problems without conflicts; and consulting experts on some issues.

To avoid financial risks like exchange risk, interest rate risk, credit risk, liquidity risk and economic crisis risk, the SMEs may take precautions by maintaining a strong liquidity position, creating mixed term structure, making use of derivative products, and having an effective credit-stock-debt management.

Among the mechanisms that could be created against the fraud risk and operational risk are following the principle of segregation of duties, limiting access to assets, effective internal document use, making independent agreements, making fraud-preventing controls, having internal auditing, and creating a fraud report line.

3. LITERATURE REVIEW

When the studies in the literature are examined, it is seen that they generally focused on the financial problems of the SMEs. The reason is that financing is an important factor for SMEs in terms of going concern and growth. It is asserted that the most serious financial problems of the SMEs are cash shortage, market stagnation and high loan interest, and undercapitalization is on the basis of this problem (Uçkun, 2009: 121). It is stated that in Turkey, the SMEs use bank loans as their main financing source for their operations. (Erol, 2010: 175-176; Özkılınç, 2014: 5838). Due to high interest rates, limited credit limits and short maturities, SMEs use low amount of loans they received mostly to pay off periodic debts, and thus, they can only solve periodic financial problems (Hacıevliyagil, 2016: 47; Coşkun, 2012: 446). According to Kutlu and Demirci, the financial problems such as inability to follow developments in finance world closely, limited auto-financing possibilities, collateral problems in getting loan, low credit volumes and high credit costs and inability to get in the capital market prevent SMEs from having a strong financial structure and reduce their competitive power (Kutlu and Demirci, 2007: 187). Kaya (2014) found that 66.7 percent of the SMEs operating in Elazığ had problems in financing and those problems were caused by difficulty of using credit, low sales profitability, inadequate equity and increase in costs. Providing long-term and low-interest loans to the SMEs, minimizing collateral and other formalities in using credit were among the solutions developed for the financial problems (Kaya, 2014: 193-222).

As the problems experienced by the SMEs have financial roots, it is seen that researchers mainly focused on the financial risks that emerged or may emerge in the SMEs. The studies that focused on the risks in the SMEs and risk management can be summarized as follows:

Brustbauer (2016) found that the SMEs do not have a reliable mechanism and sufficient resources that support the risk management activities and that the SMEs adopt a passive risk management approach. The study further revealed that particularly the

family businesses have less developed risk management mechanisms and that business ownership structure affects the risk management practices.

Uzay and Erdoğan (2015) investigated the reasons why the businesses, which operate in Kayseri province of Turkey and which made suspension of bankruptcy application between 2007 and 2014, encountered the risk of bankruptcy. They found that management risk and liquidity risk are the most important risks that lead to bankruptcy. Moreover, industry risk, credit risk, exchange risk, operation risk, legal risk and political risks are influential in causing businesses to enter into bankruptcy.

Falkner and Hiebl (2015) made the systematic analysis of the 27 studies on the SMEs risk management, and they found that the main risks that emerge in the SMEs are interest rate risk, raw material price risk, e-business and technological risk, supply chain risk, growth risk and management and employee risk. Furthermore, they revealed that the characteristics of the SME owners have an important impact on work strategies.

Shanmugam, Ali and Haat (2012) conducted a survey with the owners of the SMEs in Malaysia, and they reached the conclusion that if the SMEs have an effective internal control, risk management practices and appropriate fraud preventing measures, then their performance is influenced positively.

Bayrakdaroğlu, Sarı and Heybeli (2012) conducted a study to determine the risk perceptions and risk management policies of the SMEs operating in Denizli Organized Industrial Zone. Their study showed that the SMEs are mostly exposed to exchange rate risk (47%) and liquidity risk (22%). To avoid the exchange rate risk, the SMEs mostly use the method of constant follow-up and analysis of exchange rate position, while to avoid the liquidity risk, they use the method of converting short-term financial means into cash and maintaining liquid assets.

In order to determine the financial risk perceptions of the SMEs operating in provinces of Isparta and Burdur, Demir and Önem (2012) conducted a study and found that 46.2 percent of the SMEs are exposed to exchange rate risk as they do foreign trade, and 96.2 percent of the SMEs face credit risk as they make credit sale and 10.8 percent of the SMEs are exposed to liquidity risk as they finance their activities with foreign resources. The SMEs mostly use credit cards as financial means and they eliminate the credit risk with 63.8 percent through credit card use.

Emir (2011) conducted a study to determine the general condition of the SMEs operating in the province of Samsun. This study revealed that the increase in raw material prices and the risk of not being able to sell the product are the major risks the SMEs encounter. The study further highlighted that the SMEs frequently experience the cash flow problem and accounting and financial table deficiencies as they do not have a regular and effective financial planning and budgeting, and they have difficulty getting credit from banks due to the financial problems they experience. Another finding of the study is that the SMEs are not aware of the risk management tools.

Gül et al. (2010) conducted a study in order to determine the risk and uncertainty perceptions of the SMEs operating in the province of Karaman. The results revealed that

of the 28 SMEs in the study, three SMEs enjoy the risk environment, while 10 SMEs are afraid to be in an environment with risks and uncertainties. The study found that the 46.4 percent of the SMEs consider uncertainty during the planning process, while 25 percent of them consider exchange rate, and 14.3 percent of them consider political instability. The SMEs encountering a risk factor in the market decrease their investments, implement risk management, receive financial support, and decrease the number of employees with 46.4 percent, 21.4 percent, 7.1 percent and 7.1 percent, respectively.

4. METHODOLOGY

Going concern of SMEs depends on recognizing the risks they face, and the control mechanisms and managerial skills they will develop for these risks. The main aims of the study are:

- to identify the main risks threatening going concern,
- to discuss what control procedures could be applied to reduce the effects of such risks,
- to learn the perspective of a certain number of business owners about the risks that threaten going concern and about controls.

To reach the aims of the study, the owners or managers of the SMEs operating in Kırşehir Organized Industrial Zone were interviewed individually and a survey was conducted. According to the information gathered from Kırşehir Organized Industrial Zone Directorate, there have been 52 businesses in the zone as of May 2017. The study included 44 SMEs as one business was not an SME; three businesses ceased their production activities, and four businesses are used only as warehouses. Of the 44 SMEs, 37 conceded to fill out the survey. The survey is composed of three parts. Section 1 includes ten questions to have a general idea about the SMEs. Section 2 includes 12 questions about the risks the SMEs encounter, and Section 3 includes 25 questions aiming to reveal the perspectives of the SMEs about the proposed control recommendations. SPSS 20.0 software program was used to evaluate the survey forms and to analyze the findings. Descriptive statistics was used as a method of analysis.

5. FINDINGS

The findings of the survey that was designed to determine the risks threatening the going concern of the SMEs in Kırşehir Organized Industrial Zone and to reveal the viewpoints of the SMEs regarding the mechanisms developed against these risks were given below in frequencies and percentages (Table 2).

Table 2. The Status of the Participants

	Frequency (f)	Percent (%)
SME Owner/ Shareholder	16	43.3
Factory Manager	9	24.3
General Manager	7	18.9
Accounting Manager	5	13.5
TOTAL	37	100

As Table 2 shows, the majority of the survey participants were SME owners or shareholders (43.3%). The other participants were those who knew the SME well and who worked as the factory manager, general manager, or accounting manager. The responses to the questions that were asked to have a general idea about the SMEs are given in Table 3.

Table 3. Detailed information about the SMEs

Sector	f	%	Operating Period	f	%
Food Products Industry	8	21.6	0-3 year	3	8.1
Chemical Products and Plastic Industry	6	16.3	4-7 year	10	27.0
Stone and Soil Based Industry	5	13.5	8-11 year	2	5.4
Forest products and Furniture Industry	5	13.5	12-15 year	12	32.5
Machinery Industry	5	13.5	16 year and more	10	27.0
Construction Industry	5	13.5	TOTAL	37	100
Casting Industry	1	2.7	Family Business	f	%
Electrical-Electronics Industry	1	2.7	Yes	33	89.2
Textile Industry	1	2.7	No	4	10.8
TOTAL	37	100	TOTAL	37	100
Number of Employees	f	%	Annual Net Sales Revenue (TL)	f	%
0-9	7	18.9	0-1.000.000	7	18.9
10-49	27	73.0	1.000.001-8.000.000	27	73.0
50-249	3	8.1	8.000.001-40.000.000	3	8.1
TOTAL	37	100	TOTAL	37	100
Type	f	%	Technology	f	%
Micro	5	13.5	Advanced technology	14	37.8
Small	27	73.0	Medium level technology	21	56.8
Medium-sized	5	13.5	Low level technology	2	5.4
TOTAL	37	100	TOTAL	37	100
Benefit from Tax Amnesty	f	%	Export	f	%
Yes (always)	5	13.5	Yes	9	24.3
Yes (sometimes)	15	40.5	No	28	75.7
No	17	46.0	TOTAL	37	100
TOTAL	37	100			

The SMEs in Kırşehir Organized Industrial Zone mainly operate in the sectors of food products, chemical products and plastic, stone and soil-based industry, forest products and furniture industry and machinery and construction industry. When the operating period of the SMEs in the study is examined, it is seen that apart from one SME (8.1%), the other businesses have been operating for four or more years. Another important finding of the study is that 89.2 percent of the SMEs are family businesses. As to the number of employees and annual net sales revenue, which are among the SME criteria, it can be said that five of the SMEs are micro-sized, while 27 SMEs are small and the remaining SMEs are medium-sized. The majority of the SMEs (73%) have 10 to 49 employees, and their annual net sales revenue is between 1.000.001TL and 8.000.000 TL. The findings of the survey further revealed that the SMEs mainly use medium-level technology in their production activities (56.8%); they benefit from tax amnesty (54%); and 24.3 percent of them export their products.

Table 4. Level of Encountering Risk Types (n=37)

Types of Risk	Level of Encountering					
	Always		Sometimes		Never	
	f	%	f	%	f	%
1. Exchange risk	26	70.3	7	18.9	4	10.8
2. Interest rate risk	20	54.1	9	24.3	8	21.6
3. Credit risk	24	64.9	9	24.3	4	10.8
4. Liquidity risk	18	48.7	11	29.7	8	21.6
5. Economic crisis risk	24	64.9	7	18.9	6	16.2
6. Fraud risk	8	21.6	14	37.9	15	40.5
7. Management risk arising from being family business	4	10.8	12	32.4	21	56.8
8. Operational risk	7	18.9	11	29.7	19	51.4
9. Strategic risk	3	8.1	16	43.2	18	48.7
10. Low profit margin (constant loss) risk	5	13.6	16	43.2	16	43.2
11. Reputation risk	3	8.1	5	13.6	29	78.3
12. Bankruptcy risk	2	5.4	0	0	35	94.6

Table 4 presents the risk types threatening the going concern of the SMEs. According to the findings in the table, the risk types the SMEs frequently encounter are exchange risk, credit risk, economic crisis risk, interest rate risk and liquidity risk, respectively. It was found that 94.6 percent of the SMEs participating in the study have not encountered any bankruptcy risk throughout their operation period. Similarly, the SMEs have not encountered reputation risk much. Although the majority of the SMEs operating in Kırşehir Organized Industrial Zone (89.2%) are family businesses, 56.8 percent of the SMEs stated that they do not have the management risk arising from being a family business. It was revealed that 59.5 percent, 56.8 percent and 51.3 percent of the SMEs encountered the risks of employee fraud risk, low profit margin risk and strategic risk, respectively. To take the necessary measures against the risks that the SMEs frequently, rarely or never encounter is significant in terms of the continuation of

the activities of the SMEs. Table 5 presents data on whether the SMEs implement the control recommendations to avoid the existing or potential risks.

Table 5. Level of Implementation of the Control Recommendations

Control Recommendations	Level of Implementation					
	Yes		No		Partially	
	f	%	f	%	f	%
1. Having written rules and implementing them	19	51.4	7	18.9	11	29.7
2. Being aware of the rules and implementing them although they are not written	28	75.7	4	10.8	5	13.5
3. Determining authorization principles	34	91.9	0	0	3	8.1
4. Determining responsibilities	32	86.5	1	2.7	4	10.8
5. Following performance criteria	17	46.0	10	27.0	10	27.0
6. Shareholders' sharing information with each other on the issues related to business	25	67.6	10	27.0	2	5.4
7. Shareholders' sharing information with the employees on the issues related to business	20	54.1	11	29.7	6	16.2
8. Family constitution (written)	2	5.4	35	94.6	0	0
9. Shareholders' agreement	9	24.3	27	73.0	1	2.7
10. Evaluating the financial reports regularly	27	73.0	3	8.1	7	18.9
11. Separating work from family life	21	56.8	9	24.3	7	18.9
12. Solving problems without conflicts	30	81.1	5	13.5	2	5.4
13. Planning a budget	28	75.7	5	13.5	4	10.8
14. Receiving consultancy service	15	40.5	10	27.0	12	32.4
15. To avoid financial risks:						
a) Maintaining high liquidity	9	24.3	18	48.7	10	27.0
b) Having mixed term structure	19	51.4	12	32.4	6	16.2
c) Benefiting from derivative products	10	27.0	22	59.5	5	13.5
d) Effective credit management	20	54.1	9	24.3	8	21.6
e) Effective stock management	23	62.2	8	21.6	6	16.2
f) Effective debt management	17	46.0	9	24.3	11	29.7
16. Having a 7/24 fraud report line to avoid fraud risk	9	24.3	26	70.3	2	5.4
17. Fraud preventing controller during the processes	23	62.2	6	16.2	8	21.6
18. Having internal auditing	25	67.6	7	18.9	5	13.5
19. Segregation of duties	32	86.5	0	0	5	13.5
20. Using effective internal documents (voucher, receipt, payroll etc.)	33	89.2	2	5.4	2	5.4
21. Limiting access to assets	27	73.0	8	21.6	2	5.4
22. Independent agreements	21	56.8	8	21.6	8	21.6
23. Making evaluations for operational risks	25	67.6	6	16.2	6	16.2
24. Consulting experienced people for operational risks	26	70.3	5	13.5	6	16.2

As the SMEs, most frequently encounter financial risks, the procedures they developed to avoid these risks and the managerial decisions they will make against these risks are of great significance. It is seen that to avoid financial risks, the SMEs have a more effective stock management. It can also be said that they pay great attention to credit and debt management. However, the ratio of benefiting from derivative products and maintaining high liquidity in the face of financial risks is fairly low in the SMEs.

As seen in Table 5, in the majority of the SMEs, the authorities and responsibilities have been determined. Although the rules that need to be followed in business are not completely written, it can be said that the rules are generally known and implemented. The principle of segregation of duties is also followed and thus, in the SMEs, the rate of solving problems without conflicts is fairly high (81.1%).

The findings also revealed that the SMEs have a tendency to plan their budget and to evaluate the financial reports regularly. The majority of the SMEs limit access to assets, make independent agreements with the third parties and have internal auditing. They also have high levels of effective internal document use.

The majority of the SMEs make evaluations within business against operational risks, and they even consult some experienced people to deal with these risks. It can also be said that the shareholders' level of sharing information on the issues related to business with other shareholders and the employees is fairly high.

The study revealed that more than 50 percent of the SMEs which responded to the survey questions mostly implement the control recommendations to avoid the risks. Three control recommendations that have low levels of implementation are written family constitution, shareholders' agreement, and having a 7/24 fraud report line to avoid fraud risk. It was found that the SMEs do not have a written family constitution, shareholders' agreement, and a 7/24 fraud report line with 94.6 percent, 73 percent and 70.3 percent, respectively.

Family constitution, the examples of which can be seen in big-sized businesses like Koç, Sabancı, Eczacıbaşı, İnci, Altınbaş Holding, AGT and Suntekstil Corporation, is signed by the family members (Deloitte, 2016: 12) and is considered to be necessary for the continuity of business. Family constitution, which is evaluated as one of the most significant steps of institutionalization, means that the business activities are not run randomly, but within certain rules that help the shareholders meet on the common ground (PwC: 21). This constitution involves the features that need to be possessed by the family members in business, their authorities and responsibilities, the frame of the relationships they will have with each other and with the employees, the partnership structure of the business and the changes that could occur in this structure.

Shareholders' agreement can be considered as a part of family constitution. It is an agreement that is signed by the shareholders to determine the relationships between the shareholders and with the business and particularly the issues that need to be implemented for the running of business (Ilgın and Tırak, 2015: 123). This agreement involves the articles that are not written in the principal agreement. Fraud report line, which is intended to be formed against employee fraud, is a mechanism that can protect

the financial interests and the reputation of the business and that can help businesses to take prior measures against possible fraud risk. Access to the fraud report line is possible 7/24 via phone, email and fax.

Table 6. Level of Agreement of the SMEs with the Control Recommendations

Control Recommendations	Level of Agreement					
	Agree		Disagree		Slightly Agree	
	f	%	f	%	f	%
1. Having written rules and implementing them	36	97.3	1	2.7	0	0
2. Being aware of the rules and implementing them although they are not written	30	81.1	7	18.9	0	0
3. Determining authorization principles	37	100	0	0	0	0
4. Determining responsibilities	37	100	0	0	0	0
5. Following performance criteria	36	97.3	0	0	1	2.7
6. Shareholders' sharing information with each other on the issues related to business	35	95.6	2	5.4	0	0
7. Shareholders' sharing information with the employees on the issues related to business	33	89.2	3	8.1	1	2.7
8. Family constitution (written)	24	64.8	10	27.2	3	8.1
9. Shareholders' agreement	22	59.5	10	27.0	5	13.5
10. Evaluating the financial reports regularly	37	100	0	0	0	0
11. Separating work from family life	31	83.8	2	5.4	4	10.8
12. Solving problems without conflicts	35	95.6	2	5.4	0	0
13. Planning a budget	37	100	0	0	0	0
14. Receiving consultancy service	35	95.6	1	2.7	1	2.7
15. To avoid financial risks:						
a) Maintaining high liquidity	34	91.9	1	2.7	2	5.4
b) Having mixed term structure	33	89.2	2	5.4	2	5.4
c) Benefiting from derivative products	29	78.3	4	10.8	4	10.8
d) Effective credit management	34	91.9	2	5.4	1	2.7
e) Effective stock management	34	91.9	3	8.1	0	0
f) Effective debt management	33	89.2	2	5.4	2	5.4
16. Having a 7/24 fraud report line to avoid fraud risk	30	81.1	6	16.2	1	2.7
17. Fraud preventing controller during the processes	33	89.2	2	5.4	2	5.4
18. Having internal auditing	34	91.9	2	5.4	1	2.7
19. Segregation of duties	37	100	0	0	0	0
20. Using effective internal documents (voucher, receipt, payroll etc.)	37	100	0	0	0	0
21. Limiting access to assets	34	91.9	3	8.1	0	0

22. Independent agreements	33	89.2	2	5.4	2	5.4
23. Making evaluations for operational risks	35	95.6	2	5.4	0	0
24. Consulting experienced people for operational risks	36	97.3	1	2.7	0	0

Based on the data in Table 6, which presents the level of agreement of the SMEs with the control recommendations to avoid the risks, it can be said that the SME owners and managers are generally informed about the risks in that the SMEs participating in the survey have determined the authorities and responsibilities within the business; they follow the principle of segregation of duties and evaluate the financial reports regularly; they have planned their budget and use effective internal documents. The high level of agreement of the recommendations by the SMEs can be evaluated as a striking and positive finding.

The recommendations with the lowest level of agreement, which at the same time have the lowest level of implementation, are shareholders' agreement (59.5%) and written family constitution (64.8%). These two recommendations are implemented at the lowest level by the SMEs and the majority of the SMEs do not want to implement these recommendations compared to other recommendations. Although 24.3 percent of the SMEs have a 7/24 fraud report line, 81.1 percent of the SMEs believe that such a line should be established within business against employee fraud.

All in all, it can be said that the level of agreement of the SMEs with the recommendations against the risks is much higher than the rate of implementation of these recommendations by the SMEs. This situation reveals that the SMEs are aware of the necessity of establishing an internal control structure, but they cannot establish such a structure completely.

6. CONCLUSION

The most significant characteristic that makes a risk an important factor is that it changes very quickly. Risk, which feeds on uncertainties, which has different types and which changes so fast, is a big threat for different types of businesses operating in the sector. Big-sized businesses set up an expert Committee for the Early Detection of Risks to reveal the risks that threaten the going concern, to take the necessary measures against the risks and to protect themselves. Compared to the big-sized businesses, the SMEs do not have a strong internal control system; they maintain their activities with a lower capital and profit margin; their owners or shareholders are from the same family and they are managed by the decisions of a limited number of shareholders. Consequently, they are defenceless in the face of risks. Due to these features, SMEs have higher chance of running financial risks, fraud risks, management risks stemming from being a family business, strategic risks, operational risks, low profit margin risk, reputation risk and bankruptcy risk. If these risks are not managed well, the SMEs will have lower going concern rates.

This study, which was conducted to reveal the risks the SMEs face in terms of going concern and to determine the level of implementation of the control recommendations offered to deal with these risks, yielded some significant results. According to the findings, the SMEs in Kırşehir Organized Industrial Zone which

participated in the study mainly operate in food products and chemical products and plastic sector. The majority of the businesses are small-sized family enterprises with an annual net sales revenue of one million TL to eight million TL and they have been operating for more than four years. 46 percent of the SMEs in the study pay taxes regularly and thus, they do not need to benefit from tax amnesty. Exchange risk (70.3%), credit risk (64.9%) and economic crisis risk (64.9%) are the risks the SMEs encounter the most. As the SMEs buy the raw materials in foreign currency, they face exchange rate risk and thus the production costs increase. Moreover, 94.6 percent and 78 percent of the SMEs reported that they have never faced bankruptcy and reputation risk, respectively.

Any change that does not seem to be a risk for now can have a profound effect on businesses in a short-time and may lead to the termination of business activities. For this reason, it is necessary for the SMEs to take some precautions and to create a strong internal control mechanism within the business irrespective of the frequency of encountering risks.

When the findings on the implementation level of the recommendations offered to avoid different risk types and the level of agreement with these recommendations are examined, it is seen that the majority of the SMEs do not have a written family constitution, a shareholders' agreement and a fraud report line. Moreover, the SMEs benefit little from derivative products to avoid financial risks. Except for these three recommendations, the level of implementation of the remaining control recommendations and the level of agreement with all the recommendations offered to avoid risks are fairly high, which indicates that the SMEs in the study have developed a risk management culture.

In line with the data obtained from the owners or managers of the SMEs operating in Kırşehir Organized Industrial Zone, it can be said that the SMEs mostly face financial risks, and the internal control mechanisms that need to be established within businesses against all the risks mentioned in the study are highly significant in terms of going concern. The SMEs have high levels of implementation of the control recommendations and high levels of agreement with the recommendations, which is a positive finding. The owners or managers of the SMEs, which are mostly family businesses, are aware of the management risk arising from being a family business. Accordingly, they have formed or seem to be prepared to form the mechanisms which may help their business in this regard. It is important for the SMEs to be informed about family constitution, shareholders' agreement, fraud report line and the possibility of benefiting from derivative products, which have low levels of implementation and which are, in fact, necessary to avoid financial risks. It is believed that receiving consultancy service on this issue may help the SMEs maintain their activities for longer periods of time. The major limitation of the study is that it includes the SMEs operating in Kırşehir Organized Industrial Zone and reflects the opinions of the SME owners or managers who conceded to fill out the survey.

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