

FACTORS CONTRIBUTING TO THE GROWTH OF TURKISH SMALL AND MEDIUM SIZED FIRMS IN THE CLOTHING INDUSTRY

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ABSTRACT

This study tries to identify the significant factors related to the growth of Turkish small-medium sized firms in the clothing industry. The data were collected from 404 owner/managers of small and medium sized firms in clothing industry located in Istanbul. Multiple regression models and factor analysis were utilized to find out the significant factors contributing to the growth of the firms.

In the first part of study we examine a set of variables: firm size, age of firms, skilled workers, market competition and export policy that may have an impact on the growth of firms. In the estimation of the results, the coefficient of the internationalization and firm size are the only significant variables to affect the performance of small business. In the second part of the study, we identify the business strategies, which may contribute to the successful performance of small business. Using factor analysis on the data, we are able to delineate planning, employee, and customer relations, as key success factors in small business management.

Key Words: Turkish Small and Medium Sized Firms, Turkish clothing industry.

HAZIR GIYİM SEKTÖRÜNDEKİ KÜÇÜK-ORTA ÖLÇEKLI FİRMALARIN BÜYÜMESİNE KATKIDA BULUNAN FAKTÖRLER

ÖZET

Bu çalışma, hazır giyim sektöründe faaliyette bulunan Küçük-Orta Ölçekli firmalarının büyümesinde etkili olabilecek faktörleri inceler. Veriler, İstanbul'daki Küçük-Orta ölçekli hazır giyim firmalarının 404 müdür veya sahipleriyle yapılan görüşmeler sonucunda toplanmıştır. Bu faktörlerin tespitinde Regresyon ve faktör analizleri kullanılmıştır.

Bu çalışmanın ilk bölümünde firmaların satışını etkileyebilecek değişkenler; firma yaşı, firma büyüklüğü, firmada çalışan kalifiye eleman, piyasadaki rekabet ve firmaların uluslararasılaşması olarak analiz edilmiş ve sonuçlara göre, firma

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büyüklüğü ve uluslararasılaşma küçük işletmelerin performansını etkileyen önemli değişkenler olduğu bulunmuştur. Çalışmanın ikinci bölümünde, bu firmaların performanslarının etkileyebilecek yönetim stratejileri faktör analizi uygulanarak incelenmiş ve Küçük-Orta ölçekli firmalarda planlama, firma çalışanları ve müşteri ilişkilerinin, firmalarının gelişiminde katkıda bulunan en önemli faktörler olduğu tesbit edilmiştir.

Anahtar Kelimeler: Türkiye'deki Küçük ve Orta Ölçekli Firmalar, ve Hazır Giyim Sektörü.

INTRODUCTION

Small businesses and the clothing sector are vital contributors to the overall performance of Turkish economy. Small and medium sized firms count for approximately 97 percent of all private sector businesses, and 51 percent of private sector employment¹. Turkish clothing sector constitutes up 10 percent of Turkey's GDP, 21 percent of total employment in production and 26 percent of total exports². These figures are sufficient to portray the importance of the clothing sector and small firms for Turkish economy. Nevertheless, the folklore is that most small businesses discontinue within a few years of their start up³. Of those businesses that continue, there is considerable variability in the rate of growth. Therefore it is important to identify the causes of failures as well as the success of small enterprises. This article seeks to find out significant factors related to growth of the small manufacturing firms in the clothing industry through examining samples in Istanbul, Turkey.

¹ KOSGEB, Small and Medium Industry Development Organization in Ankara, "The number of SME's in Turkey and its main characteristics and problems", (www.kosgeb.gov.tr/kos.htm).

² IGEME, Export Promotion Centre, Trade Point Ankara, "Economic Outlook on the Manufacturing Industry/Clothing&Textile", (www.igeme.org.tr).

³ B. Ahmed Ibrahim, and James R. Goodwin, (1986), "Perceived Causes of Success in Small Business", *American Journal of Small Business*, 11(2), 41-50.

REVIEW OF THE LITERATURE

As an early contributor, Penrose⁴ associated growth of a firm to external opportunities and internal inducements. Storey⁵ argued that there are three key influences upon the growth rate of small firms: the background and access to resources of the entrepreneur, the characteristics of the firm itself, and strategic decisions taken by the firm once it is trading. Each of these three components includes a number of elements that determine firm performance. The three components need to be combined appropriately for the firm to achieve rapid growth.

The entrepreneur/resources component cover the following elements: motivation, unemployment, education, management experience, number of founders, prior self-employment, family history, social marginality, functional skill, training, age, prior business failure, prior sector experience, prior firm experience, gender. These elements refer to the characteristics of the individual or individuals who provide the primary managerial resources of the small business.

The characteristics of the business itself reflect the decision made by the entrepreneur upon starting in business such as the choice of legal form, the location, the ownership pattern, and the specific sector. The size and the age of firm are not related to either the background of the entrepreneur or the strategy employed by the entrepreneur. They are frequently included by researchers as “control” variables. These factors are generally held constant in examining the growth performance of entrepreneurial characteristics.

⁴ Edith Penrose, (1959), **The Theory of the Growth of the Firm**, Oxford University Press, New York, s.15-20.

⁵ J. David Storey, (1994), **Understanding the Small Business Sector**, International Thomson Business Press, London.

Strategy is the third factor, which reflects what managerial actions are likely to be associated with the growth. The strategies could be related to workforce training, management training, external equity, technological sophistication, market positioning, market adjustments, planning, new products, management recruitment, state support, competition and exporting.

Cragg and King⁶ proposed a model which identifies the relationship between factors and small firm performance. The model shows that the main factors directly affecting performance are markets in which the firm operates and managerial practices of those firms. These are in turn affected by owner's characteristics and owner's objective. Accordingly, this study seeks to contribute the existing literature between a wide range of success factors and small firm performance within Cragg and King and Storey's proposed theoretical framework.

An understanding such factors would enable public policy makers and small business advisory to serve better in the small business sector. The brief review provided in this section is confined to some of the empirical studies reported in the literature.

Ibrahim and Goodwin⁷ reported that entrepreneurial behavior and managerial skills of owner-managers are key success factors in small business. Stenier and Solem⁸ stated that managerial and prior experience in a similar or same type of business as well as the adaptation of new manufacturing technologies and the development of a competitive advantage are factors of success for small businesses.

⁶ B. Paul Cragg, and Malcolm King (1988), "Organizational Characteristics and Small Firms' Performance Revisited", **Entrepreneurship Theory and Practice**, Winter, 49-64.

⁷ Ibrahim, and Goodwin, *Ibid.*, p. 41-50.

⁸ Micheal P. Stenier, and Olaf Solem, (1988), "Factors for Success in Small Manufacturing Firms", **Journal of Small Business Management**, 26(1), 51-56.

Cragg and King⁹ found small firm performance was related to the age of the owner/manager. Planning activities did not show up as significant. The number of marketing/sales staff showed, a significant but unexpected negative relation and the size factor was significant in only one regression model. Davidson¹⁰ asserted that industrial, managerial and entrepreneurial experience of owner-managers as well as favorable geographic location and membership in particular industry groups were positively contributes to the growth of small business. Huck and McEwen¹¹ reported that entrepreneurs' competences in management planning, budgeting and marketing are the most crucial factors for the successful operation of a small business. Ghos, Teo and Low¹² reported that ability to satisfy customers, finding a market niche, good service, a good management team and good networking were vital factors for success in business. Storey¹³ found that the following factors were significant among the small firms: firm age, size, industry, legal form, location, and ownership. Yusuf¹⁴ argued that good management, access to financing, personal qualities of the entrepreneur and satisfactory government support were the most significant factors in their business. Wijewardena and Cooray¹⁵ observed that more skilled labor as well as relatively bigger firms in the small-scale sector have higher sales. The result of that study also suggests that industry specific factor is an important factor for the

⁹ Cragg, and King, *ibid.*, s.49-64.

¹⁰ Per Davidson, (1991), "Continued Entrepreneurship: Ability, Need and Opportunity as Determinants of Small Firms Growth", **Journal of Business Venturing**, 6, (6) 405-29.

¹¹ F. John Huck, and Thaddeus McEwen, (1991), "Competencies Needed for Small Business Success: Perceptions of Jamaican Entrepreneurs", **Journal of Small Business Management**, 29(4), 90-93.

¹² Bikash Chandra Ghosh, Teo Sock Kim, and Low Aik Meng, (1993), "Factors Contributing to the Success of Local SMEs: An Insight from Singapore", **Journal of Small Business and Entrepreneurship**, 10, (April-June), 33-46

¹³ David Storey, *ibid.*, s.121-125.

¹⁴ Attahir Yusuf, (1995), "Critical Success Factors for Small Business: Perceptions of South Pacific Entrepreneurs", **Journal of Small Business Management**, 33(1), 68-73.

¹⁵ Hena Wijewardena, and Shiran Cooray, (1995), "Determinant of Growth in Small Japanese Manufacturing Firms: Survey Evidence from Kobe", **Journal of Small Business Management**, 33 (4), 87-92.

sales growth of small firms. Wijewardena and Tibbits¹⁶ expressed that younger firms had better performance than older firms and larger firms performed better, but the importance of the size factor in growth performance shrank with the increase of firm size. Orser, Hogarth-Scott and Riding¹⁷ found that the growing firms tended to be younger companies while firms in decline were comparatively older and the presence of a business plan was highly correlated with performance. Acar¹⁸ indicated that competencies in technology, and management, and sound accounting practices were the most relevant factors that associated with the performance of the firms.

METHOD OF STUDY

Data for the analysis in this study were collected from 404 owner/managers of small and medium sized firms located in Istanbul metropolitan area. These owner/managers and their businesses were randomly selected from the register of Small and Medium Industry Development Organisation (KOSGEB). Firms with one hundred and fifty or fewer employees, and owned and managed by one or two partners were identified. The owners were informed by a letter that the study was part of an ongoing university effort to study small businesses. Twenty owner/managers refused to be interviewed. Those who chose not to participate typically gave reasons such as they were too busy or they never participate in surveys.

¹⁶ Hena Wijewardena, and Garry E. Tibbits, (1999), "Factors Contributing to the Growth of Small Manufacturing Firms: Data from Australia", **Journal of Small Business Management**, April, 88-95.

¹⁷ J. Barbara Orser, Sandra Hogarth-Scott, Allen L. Riding, (2000), "Performance, firm size, and management problem solving", *Journal of Small Business Management*, 38(4),42-58.

¹⁸ C. Ahmet Acar, (2001), "The Impact of Key Internal Factors on Firm Performance: An Empirical Study of Small Turkish Firms", **Journal of Small Business Management**, April, 86-92.

Before the interview, a pre-tested, structured questionnaire developed by the authors was completed by owners/managers of a small sample of firms to increase reliability and validity of data obtained.

A total of 15 students from the Small Business Course were trained in the administration of the questionnaire. The student research assistants were required to include a business card from the respondent with every completed survey. Respondents were asked to verify accurate completion of the instruments. This data collection procedure has been used in similar studies of entrepreneurial firms (McEvoy¹⁹, Hornsby²⁰ et.al., Lyles²¹ et. al.,).

RESEARCH OBJECTIVE AND ANALYSIS TECHNIQUES

The objective of this research and analysis techniques are as follows:

1. To determine firm-specific factors that may have an impact on the performance of the small firms in the clothing industry. The ordinary least square regression analysis has been run to examine a set of firm specific variables that may have an impact on the growth of small firms.
2. To determine a set of business strategies that may contribute to the successful performance of small businesses. Factor analysis was used to identify grouping of business strategies.

¹⁹ M. Glenn McEvoy, (1984), "Small Business Personnel Practices", **Journal of Small Business Management**, 22 (3), 1-8.

²⁰ Jeffrey S. Hornsby, and Donald F. Kuratko, (1991), "Human Resource Management in Small Business: Critical Issues for the 1990's", **Journal of Small Business Management**, 28 (3), 9-18.

²¹ A Marjorie Lyles, Inga S. Baird, Donald. F. Kuratko, and J. Burfeane. Orris ,(1993), "Formalised Planning in Small Business: Increasing Strategic Choices", **Journal of Small Business Management**, 31(1), 38-50.

CHARACTERISTICS OF THE SAMPLE

According to the data presented in Table 1, nearly 81 percent of the firms in the sample employed fewer than 50 persons and only about 17.7 percent had between 50-150. The majority of firms (62 percent) operated as limited liability companies while 25 percent of firms were corporations. About 70 percent of firms were 20 years of age or below. Only about 30 percent of firms were over 30 years. Almost all firms faced some degree of competition while 83 percent had a considerable and severe degree of competition in the sector. Almost 65 percent of firms sold their products in the domestic market. However, the firms participating in export trade have a high percentage of export in relation to their total sales.

In fact, the profile of the sample firms has shown the characteristics of clothing sector in Turkey. Since 1980 the clothing industry is one of the most important hard currency earning of successful industry of the Turkish economy²². Since 1986 the export of clothing increased steadily and Turkish clothing sector makes up 26 percent of Turkish total export. 96.4 percent of firms in clothing and textile sector in Turkey employed fewer than 50 employees²³ and the firms faced severe competition because of small firm size in this sector.

²² ITKIB, General Secretariat of Istanbul Textile and Apparel Exporter's Associations (2001), "Textile and Apparel from Turkey; a summary of Turkey's potentials", (www.itkib.org.tr) Accessed on Jan. 21, 2006.

²³ Siemon Smid, and Fatma Taskesen, (2002), "Textile, apparel and leather sector in Turkey", PWC Consulting.

Table 1
Characteristics of the Sample

Firm Size by Employment	Percent of Firms	Form of Organization	Percent of Firms	Age of Firms	Percent of Firms
1-20	52.8	Limited liability company	61.6	1-10	34.9
21-50	29.5	Corporation company	25.2	11-20	35.6
51-100	8.7	Sole proprietorship	7.4	21-30	15.5
101-150	4.7	Unlimited company	0.7	31-40	7.6
		Others	5.1	41-50	3.2
			Over 50	0.7	

Nature of Market Competition	Percent of Firms	Export to Sales Ratio	Percent of Firms
No competition	1.2	0	65.1
Slight competition	2.7	1-10	6.9
Moderate competition	2.3	11-20	5.1
Strong competition	38.1	21-40	5.6
Severe Competition	5.7	41-80	7.9
		81-100	9.4

RESULTS OF REGRESSION ANALYSIS

In the first part of the study, we used the annual sales growth representing performance of firms as a dependent variable because of the difficulty of obtaining realistic information on profits earned. This conforms with the studies^{24 25 26} by Wijewardena and Cooray, Wijewardena and Tibbits, Acar, which have used sales growth as a key indicator of small business success and overall performance. We hypothesize that the growth is significantly influenced by the following set of variables: firm size, age of firms, employment of skilled workers, market competition, and internationalization. To test the possible relationship of these variables to growth, the following multiple regression model has been applied:

$$GR = f(SZ, AGE, SW, MC, INT)$$

The variables (with expected sign in parenthesis) are listed below:

GR = Growth (represented by annual growth of sales)

SZ = Size of firm, defined as the total number of employees (+)

SW = Skilled workers calculated as the ratio of skilled workers to total employees (+)

AGE = Age of firm (- or +)

MC = Market competition ranked from 1 (no competition) to 5 (severe competition) (- or +)

INT = Internationalization of firms, measured as the ratio of exports to total sales (+)

The size of firms is included in the model because it can be expected that the larger firms grow faster than smaller ones due to their ability to employ more skilled, skillful managers and workers and to achieve more efficient product

²⁴ Wijewardena, and Cooray, *Ibid.*, 87-92.

²⁵ Wijewardena, and Tibbits, *Ibid.*, 88-95.

²⁶ Acar, *Ibid.*, 86-92.

facilities. Accordingly, the expected coefficient of the firm size variable is positive. Similarly, skilled workers can be expected to contribute significantly to growth of a firm and therefore, the coefficient of skilled workers is likely to be positive. Another factor could be the age of firms because, younger firms, would grow rapidly due to innovative ideas and dynamic management. On the other hand, older firms may achieve stronger growth because of their experience. Thus, the expected coefficient of the age variable can be either positive or negative. In addition to the above variables, market competition could also affect the firms' sales. Firms facing less competition in the market may have higher sales volumes, contributing faster growth. On the other hand, greater competition makes the firms more efficient and dynamic that leads to faster growth. Therefore, the expected coefficient of the market competition can be either positive or negative. The internationalization of firms is included in the model because it can be expected that firms, active in export trade, may be relatively more capable of increasing their sales. Export strategy is the main foreign-market entry mode used by small business in their internationalization efforts

The model specified in the previous section was estimated using ordinary least squares. The results have been shown in Table II. The F-test shows that the regression equation is statistically significant at 1 percent level. In the estimation of the results, the coefficient of the internationalization is positive and significant at the 1 percent level, supporting the hypothesis that the internationalization of the small firms leads to better growth performance. And, we also found that the size of firm is positive and significant at the 5 percent level, supporting the hypothesis that relatively bigger in the small-scale sector demonstrate higher sales growth. However, we could not find that the market competition, the skilled workers and the age of firms lead to better growth performance of small firms.

Table II. Regression Results

Variable	Estimated Coefficient	t-Statistic
Constant	- 13.44	- 1.58
Internationalization	0.41	7.61 (P< 0.01)
Market Competition	0.11	0.61
Size	0.02	1.85 (P< 0.05)
Skilled Workers	0.001	0.06
Firm's Age	0.01	0.09
R = 0.22		

RESULTS OF FACTOR ANALYSIS

In the second part of analysis, we identify the business strategies that may contribute to the successful performance of small businesses. Factor analysis was used to identify grouping of the business strategies.

The business owners were asked to identify to which extent their business strategies were used in their businesses that could contribute to the firm's growth. Each strategy in the questionnaire was accompanied by a Likert-type scale ranged from 1 (to a very little extent) to 5 (to a very great extent).

The principal component factor analysis with varimax rotation method was applied with all 35 variables. The factor analysis extracted three factors (14 items) with item loadings ranging from 0.50 to 0.82 and these three factors accounted for 54.6 percent of the variance explained. Table III shows content of the factors along with proportion/cumulative variance and eigenvalues.

Table III. Rotated Component Matrix

	A	B	C
Prepare written plans/budgets/forecasts	0.82		
Produce formal statements of business goals/ objectives	0.80		
Prepare strategic plan for one year or longer time period	0.76		
Determine consistency with plans/budgets	0.71		
Emphasize staff training			0.69
Involve employees in decision-making		0.67	
Assess employees' job satisfaction		0.66	
Emphasize reward and discipline system for all employee		0.63	
Consult/employ professions in management		0.56	
Follow up on customer complaints			0.76
Attempt to predict customer requirements/tastes			0.71
Check quality of products/services			0.62
Emphasize high sales turnover			0.59
Improve existing products/services			0.50
Eigenvalues	4.65	1.68	1.31
Proportion of Variance Explained	33.3	12.0	9.3
Cumulative Variance Explained	33.3	45.3	54.6
A= Planning Component			
B= Human Resources Component			
C= Customers Satisfaction Component			

Four items were identified under Factor I with loading ranging from 0.82 to 0.71. An analysis of these statements was interpreted as items related to planning function. Specific items loading on Factor I, include preparing written plans, budgets or forecasts, produce formal statements of business goals or objectives, prepare strategic plan for one-year or longer time period, and determine consistency with plans/budgets.

The importance of planning is an issue, which has commonly been discussed and comprises almost every aspect of a business and is often believed to be the most important factor contributing to small business success. The planning process is used

in many small firms, and enhances the decision process and improves firm performance (Lyles²⁷ et al., and Naffziger²⁸ et al.,).

Factor 2 identified factor loadings ranging from 0.69 to 0.56. These items, related to employee relations, included emphasizing staff training, involving employee's participation in decision-making, assessing employees' job satisfaction, emphasizing reward and discipline system for all employees and consulting/employing professionals in management.

The effective recruitment and use of human resources are especially important to owners of small businesses, who have a closer and more personal association with their employees. Employees in a small firm can be a good source of information and ideas, and their productivity may increase, if owners/managers allow them to share ideas, especially in case those contributions are acknowledged and rewarded. In general, during the economic downturn, small firms' owners/managers and their employees worked together to rebuild their organization, not just to survive but also to flourish as the upturn begins²⁹ .

Factor 3 addressed customer relations and factor loadings ranged from 0.75 to 0.50. These factors were following up on customer complaints, attempting to predict customer requirements/tastes, checking quality of products/services, emphasizing high sales turnover and improving existing products/services.

²⁷ Lyles, Baird, Kuratko, and Orris ,*ibid.*, s.38-50.

²⁸ W. Douglas Naffziger, and . F. Kuratko Donald, (1991), "An Investigation into the Prevalence of Planning in Small Business", **Journal of Business and Entrepreneurship**, 3(2), 99-110.

²⁹ Priscilla Chu, and Wai-Sum Siu (2001), "Coping with the Asian Economics Crisis: the Rightsizing Strategies of Small and Medium Sized Enterprises", **International Journal of Human Resource Management**, 12(5), 845-858.

Any company that does not focus on customer satisfaction imperils its business. And this will become even more critical in the future as trade barriers fall and competition increases in international markets. Customers will expect better and better products and services, and employees must be continuously trained to strive to improve the quality of the service they provide. Understanding the customer and the market place involves analyzing customer satisfaction.

This study exposes that the business strategies at small and medium sized firms in clothing industry clustered in three areas: the planning, the employees and the customer relations. Hence small firms used planning to develop the progress and performance including employees' performance in order to respond to customer needs and expectations. The managers developed business strategies that tied success of the firm on the management behavior through employee attitudes for customer satisfaction.

We also regressed the firm specific variables against a resulting factor. We found that the number of skilled workers is positively related to both planning and customer relations factor. This can indicate that reliance on professionals leads to improved firm performance on planning and customer relation. Additionally, we found the sales of firms positively related to human resources factor implying that improving firm sales depended on employees' satisfaction.

CONCLUSION

There appears to be little doubt that small businesses are vital and significant contributors to economic development, job creation, and the general health of economies. The small business sector represents a statistically significant proportion of the Turkish economy. Therefore, this study tried to find what factors

contribute to small business growth and was intended to determine whether findings in prior studies could be replicated in Turkey. The regression model showed that the main factors affect the performance of small firms are internationalization and firm size. The coefficient of internationalization is positive and significant at the 1 percent level. Therefore, the result of this study suggests that exporting rather than selling in the domestic market is more profitable for the firms in the clothing industry. And, we also found that the size of firm is positive and significant at the 5 percent level, supporting the hypothesis that relatively bigger in the small-scale sector demonstrate higher sales growth. However, we could not find that the market competition, the skilled workers and the age of firms lead to better growth performance of small firms.

This study considered the effects of various business strategies on the performance of small firms in the clothing industry. The results show that different business strategies are associated with successful performance of small firms. In clothing industry, the antecedent business strategies are planning, employee, and customer relationships. The planning process is the most important factor contributing to small business performance. The second factor is employee relations which included emphasizing staff training, involving employee participation in decision-making, assessing employees' job satisfaction, emphasizing reward and discipline system for all employees and consulting/employing professionals in management. The third factor is customer relations, which were following up on customer complaints, attempting to predict customer requirements/tastes, checking quality of products/services, emphasizing high sales turnover and improving existing products/services. The high quality of products and services are important in achieving success.

The factor of employee relations demonstrates that the practice of providing incentives and training for employees and involving them in decision-making

process may lead to better customer relations. By good planning, the firm's performance enhances in many areas. The ability of firms to satisfy customers successfully and compete against competitors, and also to offer demanded goods is part of business planning process.

FUTURE RESEARCH

It is important to mention that a major limitation of this study is that the firms studied (although representative of small firms in the region of Merter in Istanbul) may not be representative of small firms throughout Turkey in the clothing industry. In future research, in order to generalize of the finding in the clothing sectors, the sample should be the representative of small firms in Turkey. Very little research has been undertaken on the clothing sector in Turkey although the clothing industry has been a very important driving force for the economy. In the future, research should focus on the underlying causes or reasons for the success of small business firms across different industries in comparison with clothing industry.

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