

Factors Causing Failure in SMEs and Prevention Methods

Elif İŞKURAK^a, Cem DİKMEN^b

ABSTRACT

These days, small and medium-sized enterprises defined as SMEs, are due to their support to innovation and entrepreneurship, employment, and gross national product; both in Turkey it is considered as the most important element of the socio-economic growth in all countries of the world. In this research, the structures, advantages-disadvantages and problems of SMEs, which are classified as micro, small and medium-sized economic businesses, employing less than 250 workers per year and whose annual financial balance does not exceed 40 million TL, have been analyzed.

Key Words: SME, problems of SMEs, cost, business types

INTRODUCTION

Small and Medium-Sized Businesses (SMEs), as well as all over the world, Turkey's economy is dynamic and engaging one of the elements, in terms of socio-economic development of our country has great importance. SMEs; In terms of having a flexible and dynamic structure, they are both considered as economic units that provide added value directly to the economic structure, and are considered as a social tool that contributes to the elimination of poverty, development differences between regions, and inequalities between social classes (Dinçer, 2006). Limited production capacity, low capital, insufficient technological infrastructure, flexible operation capability, and weak competitiveness are the characteristics of SMEs (Shan-Shan & Hui-Ying, 2007).

Small and medium-sized businesses have indicated remarkable development all over the world in recent years. Turkey's Anatolia economic development, especially in emerging and starting to show one after the other activities of SMEs has been an important contribution. Within the economic and social structure, SMEs have an important place in the country's economy in terms of both their numbers and their share in industrial production, and their contribution to national income. One of the key solutions offered especially in times of economic crisis is to increase the

competitiveness of SMEs and to protect their places as an element of balance and stability in the social system. (Arslan, 2007). As a matter of fact; small and medium-sized businesses assume important roles in the development and development movement and that they can easily escape from the crisis environment has also been a stimulus for large businesses.

The activities of declaring their competitive superiorities in the market and researching export markets are intensifying, and efforts to diversify products and research and development are intensifying. Today, people have difficulties in keeping up with the speed of technology in information flow. During this period, it has been revealed that SMEs and all kinds of organizations expressed their success in achieving their goals thanks to their managers and employees. While the norms of society and businesses gain strength due to the right managers and employees, success cannot be ignored (Tyler & Blader, 2005). The most unquestionable factor in SMEs is a success. Success is not just a matter of conscience; success is a very comprehensive issue that includes past and future. It grabs attention as a factor that has a serious role in the emergence of business personality as it affects people's characters.

Just because SMEs are being more than the sum of the number of businesses and employment to a large part of the total workforce in Turkey's economy it has great significance. Although these businesses do not have any importance on their own, when they are taken collectively, it is revealed how important they are for the economy and society. As in developed countries, the most

^a Near East University, Graduate School of Social Sciences, KKTC, eisgrk@gmail.com

^b Asst. Prof. Dr., Faculty of Health Science, Cyprus International University, KKTC

important feature of SMEs in our country is the power to provide employment by creating new business areas. SMEs in our country contribute to providing employment throughout the country and reducing unemployment, depending on their ability to work with labor-intensive technology and to be impressive in resource use (Akgemci, 2001).

SMEs are the gripping element and indispensable element of industrialization, regular urbanization and optimum income distribution and commercial practices within the economic structure of a country. The need for success in connections between SMEs, the occurrence of success, the fact that the state of success is determinative of the connections, and the types of effects they show in the decisions made and the stages they see are determinants at every stage of a person's life (Lewicki, McAllister & Bies, 1998). High-level sense of success increases in direct proportion to failure solutions (Atamer, 2006). The main purpose of SMEs to identify and prevent failure factors is to affect the activities of business employees. Financing levels and resources play an important role in the sectoral success of SMEs. Financial resources of SMEs; equity, auto financing, commercial loans, bank loans, accrued short-term expenses, venture capital, factoring, leasing, forfeiting, and other alternative financing methods (Koç, Yavuz & Yalın, 2004; Sönmez & Toksoy, 2011)

In the globalizing world, SMEs, vying with large enterprises and even multinational enterprises, also play an important role in the development and protection of the country's economies. Besides, they have an important place in social terms due to their characteristics of keeping the middle class alive and being local.

Advantages of SMEs

One of the most important reasons for SMEs to have a significant part of the national economy is that entrepreneurs tend to focus more on SMEs because of their many advantages compared to large enterprises (Akgemci, 2001).

Since this flexibility provides the opportunity to adapt to the changes that may occur in the external environment in place and on time, SMEs can overcome many negativities with less damage. So much so that SME entrepreneurs are people who know better the local market in which they operate, can better see the characteristics and requirements of the market, and have closer relationships with buyers and sellers in the market. In particular, their close relationships with customers give these businesses an advantage that large businesses cannot have.

This is also due to the fact that they are able to adapt faster to demand changes and have more opportunities to make changes such as style and quality packaging specific to customers. It is easier to compensate for these changes or errors if any (Haas, 2018). Because they both solve the problems that may arise at a lower cost compared to large industrial enterprises, and their investments in fixed assets are less than large enterprises.

Disadvantages of SMEs

Following change and development and evaluating external environmental conditions is an important factor for success today. When we think in terms of SMEs, the main failures are lack of capital and management failure. It is because; these two problems are the reasons for the failure of all other functions of the company such as production, marketing, and human resources management. In particular, management failure is also the cause of financial management failure. Since SMEs are generally family businesses, there are no professional managers or expert personnel in management departments (Taş, 2010; Wang, Chen, & Chen, 2012).

Instead of trained qualified personnel, relatives of the business owners are involved in the management. Generally, the owner of the business is also the manager of the business. Even departments such as management, marketing, R&D are not structured in many businesses (Reid, Morrow, Kelly & McCartan, 2002).

In addition, SMEs have a lack of knowledge in areas such as trade, marketing, finance, and R&D. These activities also require significant expenditures and specialized staff. Since SMEs do not have the necessary technical and sectorial knowledge in the face of constantly changing market conditions and technology, they have difficulty in making the right decision because of few or not having access to the information in question.

Business Problems of SMEs

SMEs have many problems deriving from some characteristic and structural features and waiting to be solved. Finding solutions to the problems of businesses of this scale in our country's economy and development and implementing support programs will move the country's economy forward in macro terms (Öztürk, 2012).

We can summarize the problems faced by SMEs that contribute to the country's economy in many respects as follows;

- Planning problems (Akgemci, 2001).

- Organization and management problems
- Supply issues
- Problems with production
- Marketing related issues
- Export problems
- Problems with Accounting Management
- Problems with Human Resources Management
- Public relations issues
- Problems with R&D
- Problems with decision making
- Financing problems (Çelik & Akgemci, 1998).

SMEs are an important actor for their contribution to employment and production, efficient use of resources, balanced income distribution between regions, and social peace, due to their large share in the total country business population in our country's economy as in the western economies.

In the planning stage, SMEs may face problems such as determining their goals and encountering obstacles in achieving these goals, not being able to produce practical solutions, not being able to offer alternative plans, not being able to choose the most appropriate option when alternative plans are set forth, and continuing with their personal skills and experience rather than scientific methods (Kahraman, 2008).

With the organization, the necessary structure for the realization of the planned work is created and the skeleton of the enterprise where the planned work will be carried out is transformed into a body. Therefore, tasks are determined, grouped, departments, departments and sub-units are created. In order to reach the planned targets; A hierarchical structure is established in which the tasks to be performed are determined by whom, with which authority and responsibility, at which authority level, and by whom they will be controlled (Müftüoğlu, 2007).

If SMEs are going to supply large amounts of production material, it may cause them to be in a financially difficult situation and to cause a separate cost of stocking the purchased production material (Başoğlu, 2007). Conceiving the long-term strategic situation, the economic and social consequences of the low wage policy implementation tactic developed are controversial. Financial analysis involves the measurement of financial resources to reveal the current state of the business. Predictions and targets are made for this. Planning and auditing before revealing the current situation of the business may be wrong. Since tables will not always give clear and accurate results, it would be wrong to evaluate only with tables (Ceylan, 2003).

Employing workers with a low wage policy will

adversely affect the development level of the country. Therefore, R&D activities of SMEs should be supported by the government with gratuitous aids and technology should be made the main variable in a rivalry (Müftüoğlu, 2007).

It can be mentioned that the problem of raw materials and semi-finished products in SMEs is due to insufficient financing. The financing problem prevents SMEs from purchasing and stocking quality raw materials (Erdem, 2009). Quality control and standardization are among the most important problems faced by companies with export-intensive activities within the scope of developing their exports. Chronic export problems may arise due to the fact that SMEs have not settled the export marketing management thinking and approach (Kahraman, 2008).

With the shrinkage of the world market, the issue of marketing has become important for businesses of all sizes. Businesses can only produce quality goods and services with the help of the latest technology. However, if they cannot properly commercialize these goods and services, their profit will be very low. Small and medium-sized business executives operating in our country with the Customs Unions also understood the importance of marketing better and felt the need to make a regulation in this field. Marketing and production functions can no longer be thought apart from each other (Filiker, 2007).

Even though SMEs understand the importance of marketing and the positive results of successful marketing strategies, they focus more on business functions such as financing and production, compared to marketing strategies. SMEs are unfortunately more prone to short-term planning. Creating a marketing strategy brings positive results to businesses in the long term. Most of the SMEs do not have marketing departments. Thus, rather than a modern marketing system in these small and medium-sized enterprises; As a result of experience, there may be improved sales-oriented activities.

RESULT

Considering the importance of determining success factors and methods of preventing failure in order for SMEs to be successful, SME managers should apply the factors that cause success more effectively. For this purpose, the awareness of SME managers should be developed by taking management training. Thinking out the effectiveness of problem management practices increases according to more success phenomena, the functional use of in-house or out-of-business

consultancy practices in coping with problems by inexperienced business managers who are new to the profession and younger age will positively affect the development of SMEs.

Internal and external auditing pressure and workload on SME managers and employees should be alleviated at all times. Not neglecting the psychological aspect of SME managers will provide economic advantages to enterprises. The physical and infrastructural deficiencies of SME enterprises should be eliminated as soon as possible, more alternatives should be created for SME business employees regarding the units they want to work with, meetings and various activities that will strengthen the communication within the enterprise will increase the profitability of SMEs.

In an effort to further increase the SME business management and the reputation of its employees, it is necessary to support SME managers and employees, especially with the statements and actions of the higher levels of the state. In the implementation of SME success approaches, it is essential to produce policies that will increase efficiency and solve issues and needs analysis.

REFERENCE

- [1] Akgemci, T. (2001). Basic Problems of SMEs and Supports Provided. SMEDO Publications, Ankara.
- [2] Arslan, K. (2007), Alpinism Philosophy, and Entrepreneurship. Baran Printing, Ankara.
- [3] Atamer, M. (2006). Evaluation of Public Joint Stock Companies in Terms of Corporate Governance and Foreign Direct Investments. (Master thesis). Ankara: T.R. Undersecretariat for the Treasury
- [4] Çelik, A., & Akgemci, T. (2010). Entrepreneurship Culture and SMEs. Ankara: Gazi Publishing House.
- [5] Dinçer, Ö. (2006). Strategic Management and Business Policy. Timaş Publishing House, Istanbul.
- [6] Filiker, A. N. (2007). Five new members of the EU and Turkey in Romania, Bulgaria, Hungary, the Czech Republic, and Poland 'Competitiveness and SME policy. Master Thesis, Süleyman Demirel University Institute of Social Sciences, Isparta.
- [7] Haas, E. B. (2018). *When knowledge is power: Three models of change in international organizations*, 22. University of California Press.
- [8] Kahraman, C. (2008). The Effects of Corporate Management Approach on the Structure and Operation of Private Banks. PhD Thesis, Istanbul University Institute of Social Sciences, Istanbul.
- [9] Koç, İ. Ö., Yavuz, N., & Yalın, P. (2004). Application on Corporate Governance and Two Leading Sectors in the EU Integration Process. Traditional Finance Symposium, Istanbul.
- [10] Lewicki, R. J., McAllister, D. J., & Bies, R. J. (1998). Trust and distrust: New relationships and realities. *Academy of management Review*, 23(3), 438-458.
- [11] Müftüoğlu, T. (2007). Small and Medium Enterprises, SMEs in Turkey. Ankara: Turhan Publishing House.
- [12] Öztürk, Ö. (2012). Youth Employment in Turkey, 3i in employment. *Turkish Employment Agency General Periodical Publications*, 7, 47-57.
- [13] Reid, R., Morrow, T., Kelly, B., & McCartan, P. (2002). People management in SMEs: an analysis of human resource strategies in family and non-family businesses. *Journal of small business and enterprise development*.
- [14] Shan-Shan, M., & Hui-Ying, W. (2007). Solutions to small and medium-sized enterprise services of China. *China-USA Business Review*, 3(6).
- [15] Sönmez, A., & Toksoy, A. (2011). Family Business Applicability of the principles of Corporate Governance in Turkey. *Journal of Finance Writings*, 25 (929), 51-90.
- [16] Taş, H. Y. (2010). SMEs in Turkey Socio-Economic Effects. *Budget World Journal*, 1 (33), 165-189.
- [17] Tyler, T. R., & Blader, S. L. (2005). Can businesses effectively regulate employee conduct? The antecedents of rule following in work settings. *Academy of Management Journal*, 48(6), 1143-1158.
- [18] Wang, C. H., Chen, K. Y., & Chen, S. C. (2012). Total quality management, market orientation and hotel performance: The moderating effects of external environmental factors. *International journal of hospitality management*, 31(1), 119-129.