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Structure of Small and Medium-Sized Enterprises in Turkey and Global Competitiveness Strategies

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Abstract

The effect of globalization on small and medium enterprises has received much more attention than the other enterprise types in international circles because the SMEs make significant contributions to the economy of both developing and developed countries. Financing obstacles in small firms are reported to have almost twice the effect as obstacles in large firms. In this regards one of the most viable strategies to achieve national development goals in both developing and developed nations is to promote SMEs. In this framework this study present the current state of SMEs in Turkey and investigate the global competitiveness strategies for them. The results of the study show that SMEs form 99,9% of the industry in Turkey however only 55% of the SMEs are operating in value added sectors. They need dedicated financial support programmes and policy initiatives for increasing their levels of global competitiveness.

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1. Introduction

Globalization triggered a range of social, political, and economic changes which created a new global business environment for the firms. The practices of doing business are varied by the rapid developments in communication and information technology, trade liberalisation, trade-related support services, cross-border capital flows and more demanding consumers and in this new environment competitive strategies become more relevant to the firms (Koh et al., 2009). As the economy globalize more, the more firms have to compete with foreign rivals beside the domestic ones (Kim et al., 2004).

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Although the multinational or larger firms overcome the challenges of the new business environment presented by the globalization process, many of the smaller firms don't have the same opportunity. The small firms are handicapped by a lack of finance and financing obstacles affect small firms more than large firms. Small firms not only report higher financing obstacles, but they are also more adversely affected by these obstacles (The World Bank, 2008).

SMEs constitute significant portions of the economy in both developed and developing countries and their contribution to employment may reach to 93% in some economies. In this regards this study present the current state of SMEs in Turkey and investigate the global competitiveness strategies for them. The results of the study show that SMEs form 99,9% of the industry in Turkey however only 55% of the SMEs are operating in value added sectors. They need dedicated financial support programs and policy initiatives for increasing their levels of global competitiveness.

2. SMEs and the Global Economy

The effect of globalization on small and medium enterprises (SMEs) has received much more attention than the other enterprise types in international circles because the SMEs make significant contributions to the economy of both developing and developed countries. Globally, SMEs are the biggest contributors to employment across countries and this contribution is greater in low-income countries than the higher-income ones. SMEs with 250 employees or fewer generate 86% of the jobs. Their contribution is higher (93%) in the countries that had a net positive job creation across all firms in the country (Ayyagari, 2011).

SMEs are the backbone of the European economy with 20.7 million firms accounting for more than 98% of all enterprises, 67% of total employment and 58% of gross value added (European Commission, 2012). More than 95% of enterprises in the OECD area are SMEs. They account for almost 60% of private sector employment, make a large contribution to innovation and support regional development and social cohesion. In low-income countries, the SME sector makes a critical contribution to GDP and employment (Dalberg, 2011).

Although they form a significant portion of the global economy, especially in developing countries SMEs face excessive financial barriers which keep them from developing. The costs and risks of serving SMEs are frequently perceived to be too high by commercial finance. Microfinance loans, on the other hand, are too small to meet SME capital needs. These result in SMEs to face a financing gap. Financing for SMEs is limited, particularly when compared to commercial debt for large firms and microfinance (World Bank, 2008). Financial constraints are greatest in low-income countries. The World Bank Enterprise Surveys reveal that, in low-income countries, on average 43% of businesses with 20 to 99 employees rate access to finance or cost of finance as a major constraint to current operations. In high-income countries, only 11% of businesses of the same size rate access to finance as a constraint (International Finance Corporation, 2013). Access to finance is rated as major constraint by around 30% of small and medium enterprises, a similar proportion as economic policy uncertainty and corruption. Further, financing is one of the few characteristics of the business environment that – together with crime and political instability - is robustly linked to firm growth, while other features have at most an indirect effect on firm growth (Ayyagari, et.al. 2006).

Financing obstacles in small firms are reported to have almost twice the effect as obstacles in large firms. This might be due partly to a lack of other financing sources, and partly because it hinders SMEs from taking advantage of economies of scale. Production technologies follow a step function, and that credit might be needed for SMEs to make the jump to the next step (Thorsten, 2007). Before talking about the other ways of support, it would be helpful to investigate the structure of SMEs in Turkey.

3. The SMEs in Turkey

Although there may be small variations international organizations such as European Union, World Bank and United Nations the SME terms come out of classification of the enterprises by the number of their personnel. In Turkey the classification of the SMEs based on the same criteria is as follows;

Table 1. Definition of SMEs in Turkey

Scale	Number of Employees	Annual Turnover (TL)	Balance Sheet (TL)
Micro	< 10	≤ 1 Million	≤ 1 Million
Small	< 50	≤ 5 Million	≤ 5 Million
Medium	<250	≤ 25 Million	≤ 25 Million

Source: KOSGEB, Republic Of Turkey Small and Medium Enterprises Development Organization (2012). Enhancing the Competitiveness of SMEs In Turkey Country Report, KOSGEB, p.3

In Turkey are the enterprises whose number of employees are less than 250 and annual turnover or annual balance sheet does not exceed 25 million Turkish Liras are determined as SMEs (KOSGEB 2012). Turkish Statistical Institute (2013), presented the SMEs in Turkey as follows;

“Small and Medium-Sized Enterprises constitute 99.9% of total number of enterprises, 76% of employment, 53% of wages and salaries, 63% of turnover, 53.3% of value added at factor cost and 53.7% of gross investment in tangible goods. The proportion of the Small and Medium Sized Enterprises (SMEs) which had 1-249 employees was 62.6%, for exports in 2012. The rate of micro enterprises (1-9 employees) was 20.6%, small enterprises (10-49 employees) were 24.3%, medium-sized enterprises (50-249 employees) were 17.7% and large enterprises (250+) were 37.2% in exports.”

Table 2 shows that the SMEs constitute 99.9% of total number of enterprises in Turkey, while this ratio is 99.8% of total number of enterprises in EU-27. Furthermore they constitute 77.3% of employment in Turkey and 55.7 % of them are in value added sectors, while these ratios are 67.5% and 58.4% respectively in EU-27.

Table 2. Structure and Role of Enterprises in Turkey and EU-27

	Number Of Enterprises		
	Turkey		EU-27
	Number	Share	Share
Micro	2.259.062	98,5%	92,2%
Small	20.504	0,9%	6,5%
Medium-sized	12.338	0,5%	1,1%
SMEs	2.291.904	99,9%	99,8%
Large	2.650	0,1%	0,2%
Total	2.294.554	100,0%	100,0%

Number Of Employees			
	Turkey		EU-27
	Number	Share	Share
Micro	4.957.384	55,5%	29,7%
Small	675.882	7,6%	20,6%
Medium-sized	1.275.772	14,3%	17,2%
SMEs	6.909.038	77,3%	67,5%
Large	2.024.132	22,7%	32,5%
Total	8.933.170	100,0%	100,0%
Value Added			
	Turkey		EU-27
	Billion€	Share	Share
Micro	31	27,0%	21,5%
Small	10	8,7%	18,6%
Medium-sized	23	20,0%	18,3%
SMEs	64	55,7%	58,4%
Large	51	44,3%	41,6%
Total	115	100,0%	100,0%

Source: European commission, (2013). SBA Fact Sheer 2013, Turkey, European commission and Turkish Statistical Institute, The data for 2009 cover the NACE Rev. 2.2. sections B to J and L to N, including mining and quarrying, manufacturing, electricity, gas and water supply, construction, wholesale and retail trade, accommodation and food services, transport, information and communication, real estate, professional, scientific, and technical activities and administrative and support service sectors.

According to OECD et al, “Turkey has developed a sound and well-structured SME policy, supported by a range of well-established institutions, covering all the key policy dimensions of the SBA. Turkey scored above average in all measures except for bankruptcy procedures and the operational environment. This reflects its strength in areas such as supporting SMEs, adoption of standards, export promotion and internationalisation. It has done less well on policies aimed at improving the broader business environment – regulatory reform, company registration and e-government services – as the pace of reform slowed. The regulatory burden on small enterprises remains relatively heavy. Improve the business environment and regain momentum for continuing the reform process it began after its structural crisis in 2001, in particular measures to reduce administrative barriers, streamline regulations and introduce an SME test for new legislation. Introduce a system of regular monitoring and evaluation to ensure that the considerable resources it is channelling into supporting SMEs are being well spent. Interventions can then be more precisely targeted and schemes modified or ended once their objectives have been met.”

When the structure of the SMEs in Turkish Economy displayed in the Figure 1 is analyzed the following key points came forward. Entrepreneurial learning and women’s entrepreneurship have low scores, and the scores of bankruptcy and second chance for SMEs are also weak. Regulatory framework for SME policy making has a satisfied score. Operational environment for SMEs has a low score. Support services for SMEs and start-ups have a strong score for SMEs. Public procurement, access to finance for SMEs, standards and technical regulations, enterprise skills, innovation policy for SMEs, SMEs in a green economy and internationalisation of SMEs have satisfied scores for the SMEs in Turkish economy.

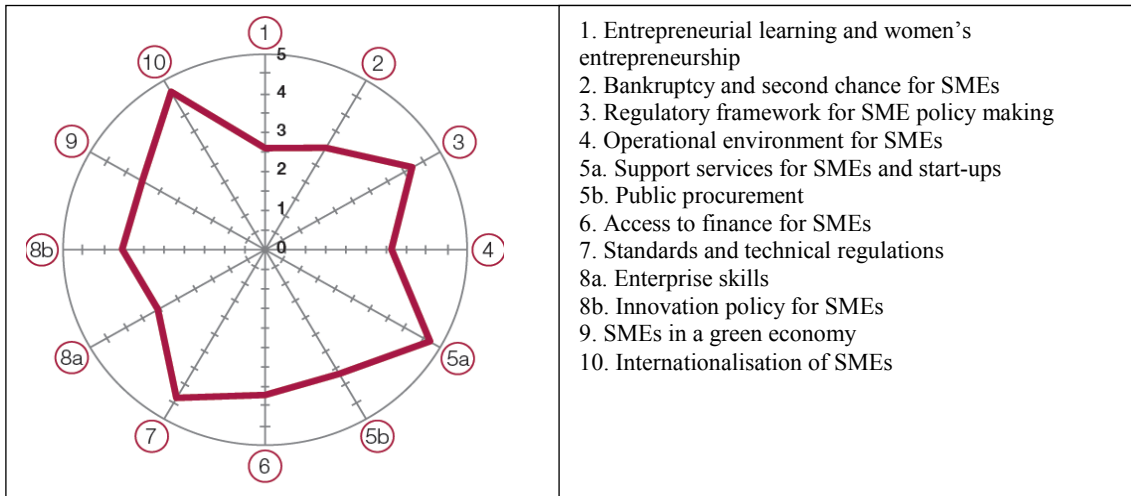


Figure 1. The structure of the SMEs in Turkish Economy, OECD, European Commission, ETF, European Bank, (2012). SME Policy Index, Western Balkans And Turkey 2012, OECD, European Commission, ETF, European Bank, p.28

Figure 2 shows the small business act (SBA) profile in Turkish economy considering EU average. European Commission (2013) stated that “statistics on SMEs reflect a ‘below average and somewhat stagnating SBA profile’ for Turkey. The country delivers a below par performance in five out of seven SBA principles for which an average could be calculated. Turkey scores above average only in ‘Entrepreneurship’, although by a large margin, and is on par on Environment”. Although Turkish SMEs have significant problems such as access to favourable financing conditions, internalization, global competitiveness skills and innovation skills, their entrepreneurship skills are stronger and they have dynamic organizational capabilities (Elçi, 2010, OECD 2010, Trott, 2005).

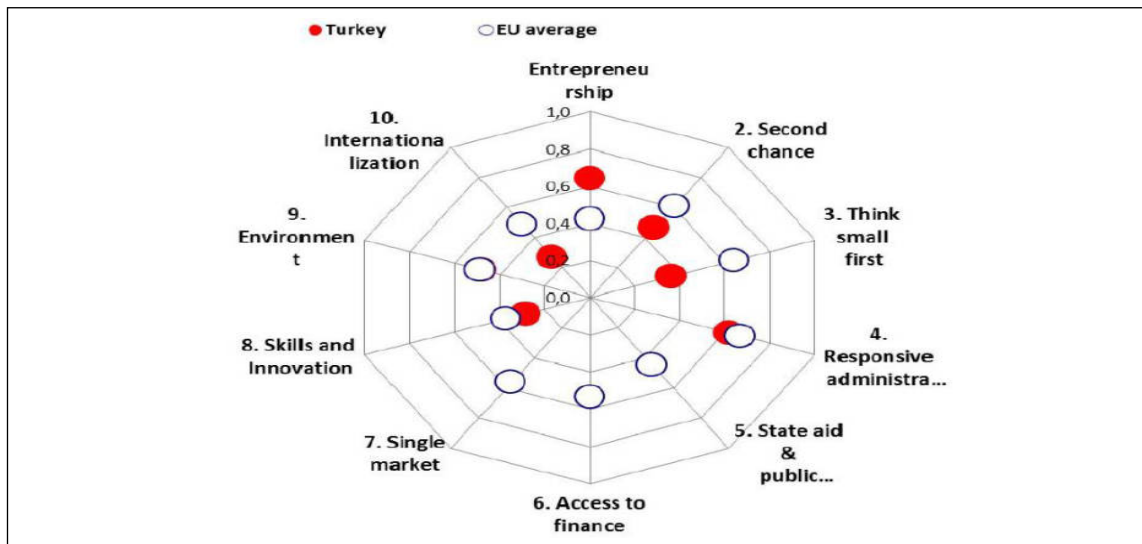


Figure 2. Small Business Act (SBA) Profile in Turkish Economy Considering EU Average. European commission, (2013). p.4

SMEs in Turkey have similar points with the ones in EU in topics such as environment, access to finance, state aid and public support. However strength of legal rights are weaker in Turkey than the EU.

The skills and innovation performance of the SMEs in Turkey are below the EU average. European commission (2013) stated that “overall performance of Turkey is below the average, and most of the individual indicators focusing on innovation show a negative outlook. On the positive side, half of the businesses are introducing organisational innovations as compared to 39% for the EU. Online trade, research-based activities and staff education and training are the other areas where Turkish SMEs need to introduce improvements in order to quickly catch up with their EU counterparts”. In this regards the Turkish SMEs have to focus on innovations leading to competitive advantage by cooperating with the universities and other institutions (Zehir et al, 2012, Türker and İnel 2013).

Table 3. Government Policy Responses to Improve SME Access To Finance (2007-2011)

Policy response	Countries
Increased amount of government loan guarantees and/or % guaranteed, number of firms eligible, counter cyclical loans	Canada, Chile, Denmark, Finland, France, Hungary, Italy, Korea, the Netherlands, Slovak Republic, Slovenia, Spain, Switzerland, Thailand, United Kingdom, United States, Spain
Special guarantees and loans for start-ups	Canada, Denmark, the Netherlands
Increased government export guarantees	Canada, Denmark, Finland, the Netherlands, New Zealand, Sweden, Switzerland, Spain, United Kingdom
Gov. co-financing / Pension fund co-financing	Sweden, Ireland, Denmark
Increased direct lending to SMEs Subsidized interest rates Venture capital and equity funding, guarantees	Canada, Chile, Hungary, Korea, Serbia, Slovenia, Spain, Hungary, Portugal, Russia, Spain, Turkey, United Kingdom, Canada, Chile, Denmark, Finland, France, Hungary, the Netherlands, Spain, United Kingdom
Business advice, consultancy	Denmark, Finland, New Zealand, Sweden
Tax exemptions, deferments	France, Ireland, Italy, New Zealand, Spain, United Kingdom
Credit mediation/review/code of conduct	France, Ireland, New Zealand, Spain
Bank targets for SME lending, negative interest rates for deposits at central bank	Ireland, Denmark
Central Bank funding to banks dependent on net lending rate	United Kingdom

Note: Policy responses in bold identify new policy measures introduced in 2011, OECD (2013), Financing SMEs and Entrepreneurs 2013 An OECD Scoreboard, Recent Trends In SME And Entrepreneurship Finance, OECD, p.34

The Global Economic Crisis deeply affected all the economic agents including the SMEs. The governments practiced different policies to protect SMEs from the negative effects of the crisis as seen in Table 3. In the group of the countries including Turkey the policy response was "Increased direct lending to SMEs Subsidized interest rates Venture capital and equity funding, guarantees". The results of these policies can be investigated through the Table 4.

Table 4. Venture and Growth Capital Invested, 2007-2011
(Relative to 2007 (2007=1) and percentages)

	2007	2008	2009	2010	2011	2010/2011 Growth
Canada	1.00	0.72	0.50	0.56	0.72	30.0
Chile	1.00	0.99	0.86	n.a.	n.a.	n.a.
Czech Republic	1.00	2.19	1.84	1.40	n.a.	n.a.
Denmark	1.00	0.93	0.44	0.35	0.63	80.5

Finland	1.00	0.76	0.48	0.76	0.63	-16.9
France	1.00	1.21	1.20	1.47	1.78	21.3
Hungary	1.00	3.49	0.18	1.77	2.86	62.0
Ireland ¹	1.00	1.08	1.28	1.37	1.21	-11.5
Italy ¹	1.00	1.54	0.99	0.98	1.61	65.3
Korea	1.00	0.73	0.87	1.10	1.27	15.6
The Netherlands	1.00	1.18	0.77	0.73	1.15	56.5
New Zealand	1.00	0.81	0.42	1.15	0.45	-61.2
Norway	1.00	0.74	0.37	0.76	n.a.	n.a.
Portugal, ¹	1.00	0.88	0.39	0.58	0.12	-80.0
Russia ^{1,2}	n.a.	1.00	1.06	1.17	1.40	19.6
Serbia	1.00	21.67	n.a.	220.13	n.a.	n.a.
Slovak Republic ¹	1.00	1.14	2.06	1.63	1.64	0.9
Spain ^{1,2}	n.a.	1.00	1.08	1.08	n.a.	n.a.
Sweden	1.00	1.46	0.75	0.67	0.50	-25.3
Switzerland	1.00	1.03	0.91	1.12	0.70	-36.9
Turkey ¹	1.00	0.52	0.44	1.13	1.49	32.6
United Kingdom ²	n.a.	1.00	0.63	0.82	0.83	1.8
United States	1.00	0.94	0.63	0.73	0.92	26.3

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand. 1. SMEs only. 2. Base year is 2008.

Source: OECD (2013), Financing SMEs and Entrepreneurs 2013 An OECD Scoreboard, Recent Trends in SME and Entrepreneurship Finance, OECD, p.30

The venture and growth capital invested in the selected countries in the period 2007-2011 is shown in Table 4. The venture and growth capital invested in Turkish Economy is in a steady growth trend and the investment values are almost tripled between 2008 and 2011. Although it's not the best Turkey has one of the fastest growing rates in the world. It's known that the impact of the Global Financial Crisis of 2008 was catastrophic on the enterprises in all sizes. Table 5 showing the trends in bankruptcies in the selected countries between 2007 and 2011 clearly displays the results of the Crisis. Just as the investment figures Turkey has successful scores of bankruptcies in the period of crisis. While the bankruptcy score of Turkey is the lowest in the list in 2008, it is third in 2009 and the growth rate between 2010 and 2011 is only 5.9%.

Table 5. Trends in bankruptcies 2007-2011, (Relative to 2007 (2007=1) and percentages)

		2007	2008	2009	2010	2011	2010/2011 Growth
Canada	per 1 000 firms	1.00	1.00	0.94	0.71	0.65	-9.1
Chile	all firms	1.00	1.05	1.21	0.94	0.93	-0.7
Czech Republic ¹	all firms	n.a.	1.00	2.57	3.02	3.45	14.3
Denmark	all firms	1.00	1.54	2.38	2.69	2.28	-15.4
Finland	% of firms ³	1.00	1.11	1.33	1.11	1.22	10.0
France	only SMEs	1.00	1.08	1.23	1.18	1.16	-1.0

Hungary	per 10 000 firms	1.00	1.10	1.39	1.52	1.83	20.4
Ireland	all firms	1.00	1.25	1.89	1.90	2.13	12.1
Italy	all firms	1.00	1.22	1.53	1.83	1.97	7.8
Korea	all firms	1.00	1.19	0.87	0.68	0.59	-13.4
The Netherlands ²	only SMEs	n.a.	n.a.	1.00	0.89	0.88	-0.8
New Zealand	all firms	1.00	1.02	1.24	1.10	0.99	-10.4
Norway	only SMEs	1.00	1.41	2.07	1.71	1.72	0.4
Portugal	all firms	1.00	1.35	1.46	1.57	1.82	16.0
Russia ¹	all firms	n.a.	1.00	1.11	1.15	0.92	-20.1
Serbia	all firms	1.00	1.05	1.21	1.39	1.54	11.3
Slovak Republic	all firms	1.00	1.49	1.63	2.04	2.45	20.3
Spain	Only SMEs	1.00	2.83	4.92	4.64	5.16	11.3
Sweden	all firms	1.00	1.09	1.32	1.26	1.25	-0.6
Switzerland	all firms	1.00	0.98	1.21	1.45	1.54	6.5
Turkey	all firms	1.00	0.90	0.96	1.31	1.38	5.9
United Kingdom	all firms	1.00	1.23	1.51	1.32	1.40	5.7
United States	all firms	1.00	1.54	2.15	1.99	1.69	-15.1

Notes: Definitions differ across countries. Refer to table of definitions in each respective country profile in Chapter 4. The indicator is not available for Slovenia and Thailand. 1. Base year is 2008. 2. Base year is 2009. 3. Percentage of firms in bankruptcy proceedings.

Source: OECD (2013), Financing SME sand Entrepreneurs 2013 An OECD Scoreboard, Recent Trends In SME And Entrepreneurship Finance, OECD, p.31

4. Competitiveness Strategies for SMEs in Turkish Economy

The SMEs have many advantages and roles in the economy (OECD, 2004, Hidayet and Şentürk 2010, KOSGEB, 2011). This advantages are dynamism and flexibility in business capabilities, their productive, innovative, competitive characteristics and their significant contributions on GDP and employment. However, the new business environment set by the globalization compel firms to step up the level of competitiveness against their competitors in the same industry. Only the firms that have the capability in all facets of competitive priorities (Singh et al ., 2007) will survive in such a turbulent marketplace and in order to survive and prosper firms have to adapt to the market environment (Gereffi, 2001).

Traditionally, some SMEs confined their activities to the region of their presence, but most of them remain in their national boundaries (Ruzzier et al., 2006). However beside global competition problem they also have disadvantages such as financial problems, issues with exploiting new technologies, marketing, institutionalization, internationalization, global competitiveness capabilities, managerial and know-how. Small firms consistently report higher financing obstacles than medium and large enterprises. Smaller, younger and domestic- enterprises report higher financing obstacles even after controlling for other firm characteristics. The relationship is not only statistically but also economically significant (Beck, et.al. 2006). For this reason, the governments design various economic policies to strengthen the SMEs.

Dedicated support programmes and policy initiatives aimed at the creation and development of a national SME sector are some of these policies designed by the governments. Such initiatives seek to assist SMEs in realizing their potential and to link them to a nation's larger developmental vision

encompassing export strategy and poverty reduction. To name a few initiatives, SME support policies are in place in countries such as Argentina, Brazil, Chile, Mexico and Uruguay, while the European Union is covered by the Small Business Act, India by the Micro, Small and Medium Enterprises Development Act, Malaysia by a SME Masterplan, Tanzania by the SME Development Policy, Kenya by the Micro and Small Enterprises Bill, and the United States by another Small Business Act. SMEs are the *raison d'être* of work at ITC. The organization ensures inclusive and sustainable exports and aims to be the development partner for small business export success in developing countries (Charbonneau, 2013).

Just as the rest of the world the SMEs are the vital for the economy and social structure of Turkey. In order to increase their global competitiveness capabilities, first of all, the problems such as financing, exploiting new technologies, marketing, managing, institutionalization, internationalization, global competitiveness capabilities and know-how faced by the SMEs have to be analysed and solved. Besides improving financing conditions of the SMEs supporting policies such as improving research and development, training human capital, cooperating with different corporations such as universities in both national and global level will help to enhance the global competitiveness capabilities of the SMEs. These policies stir up the advantages of the SMEs such as dynamism, flexibility in business capabilities, productive, innovative and competitive characteristics. The SMEs should also focus on competitiveness strategies (Porter, 2008) such as segmentation, differentiation and cost leadership by considering their competitive advantages position in the sector they operated. Finally by focusing innovation based high value added products and services will greatly contribute to global competitiveness of the SMEs in Turkey.

5. Conclusion

Globalization created a new global business environment for the enterprises and although the enterprises in all sizes have been heavily affected by the globalization SMEs as received much more attention than the other ones in international circles. The main reason for this is that the SMEs make significant contributions to the economy of both developing and developed countries and their contribution to employment may reach to 93% in some economies.

The SMEs are generally accepted as the engine of innovation and growth, and it is known that they help reduce poverty as they are more labour-intensive, but they are constrained by institutional and market failures. In this regards one of the most viable strategies to achieve national development goals in both developing and developed nations is to promote SMEs. SMEs increase competition, generate employment and develop entrepreneurship while boosting economic vitality at the community level and creating sustainable economy.

SMEs in Turkey have important roles and contributions to gross domestic product, employment and dynamism of the economic and social structures. In this context, in the study, we mainly investigated the structure and global competitiveness strategies for SMEs in Turkey. Although they aren't in a poor condition, the business environment is getting tougher due to the globalization and they should increase their global competitiveness capabilities to be able to survive in a global platform. SMEs form 99,9% of the industry in Turkey however only 55% of the SMEs are operating in value added sectors. Most of the SMEs not being in value added sectors and financial problems are the main issues that the SMEs in Turkey face. The problems related with increasing global competition, technological innovations, financing, marketing, corporate governance, the economies of scale and international cooperation are the other issues that need to be analyzed and solved. The SMEs should focus on the competitiveness strategies such as segmentation, differentiation and cost leadership by considering their competitive advantages position in the sector.

The SMEs can enhance their global competitiveness by focusing innovation based high value added products and services. They also can use their resources more efficiently and increase their savings with an adoption of the Internet and similar communication and information technologies. Using these technologies physical boundaries and distance become less important and SMEs can reach to international markets easier.

Finally besides the own efforts of the SMEs support of governments, public and private is also needed to achieve the social utility. As it is practiced in various countries of the world under the forms of master plans, acts or development programs, some kind of dedicated support programmes and policy initiatives aimed at the creation and development of a national SME sectors directly carried out by the government will ensure inclusive and sustainable investment and commercial platform.

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