

Chapter 21

Financial Problems of the Small- and Medium- Sized Enterprises and Solution Suggestions

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ABSTRACT

The global economic crisis affected the giant companies and Small- and Mid-Sized Enterprises (SME). Financial problems of SMEs illustrate the necessity of effective management and a sufficient capital structure. In this chapter, the significant role of SMEs in the Turkish economy is evaluated. The major financial problems of SMEs and their effects on management and capital structure are analyzed. The financial problems of these fast-growing enterprises are highlighted and solution suggestions are provided.

INTRODUCTION

Small and medium sized enterprises (SMEs) have been undergoing a major development, as well as a change, as of the early 2000s. Despite the fact that it has been named a financial crisis, the results and reflections of the global crisis of 2008 had an impairing effect on companies, driving many major companies into bankruptcy, and halting

their production. This has led SMEs, by means of their flexible structure analyzed below, into a more prominent position in the world economy.

Having become an indispensable element for national economies in terms of production, employment, and exportation, SMEs today face both managerial and financial problems. A thorough analysis of SMEs current problems and creating short term solutions should become primary

DOI: 10.4018/978-1-4666-6635-1.ch021

aims within national macroeconomic policies. Considering their contributions to production and employment, their flexible structure that is capable of adjusting rapidly to fluctuant market conditions and customer demand, and particularly, their success in easing the effects of the economic crisis by reducing their capacity during the crisis period, SMEs currently hold a position of indisputable importance in the economy. SMEs appear as the most important economic power in enriching the production values of, especially the underdeveloped regions, and in the solution of unemployment that is the central problem of said areas. They develop alternative production and marketing methods within regional labor and market conditions. With this mission they undertook, they have also been contributing greatly to the assurance of political stability.

The first section of this paper contains various definitions of the term SME, as described by countries such as European Union members, The United States of America, and Japan, international organizations such as the World Bank, and OECD, and the term's definitions in Turkey. The country cases are individually treated, and SME formations in each country are examined. Legal and technical definitions in related countries are explained, and the similarities and differences were pointed out when defining the SME formations of different countries.

The second section of the paper approaches three fundamental problems under the title of Financial Problems of SMEs. The first field is managerial problems, among which problems arising from specialization of managers and lack of human capital come to the forefront. Major enterprises employ specialized experts and competent managers to carry out financial transactions, and cash administration, and stock and supply administration processes. In the case of SMEs, these types of responsibilities are assumed by the proprietor or a small number of managers, causing various problems in managerial fields.

Access to financial resources and efficient management of this resources not being procured constitutes the second fundamental problem. As they experience difficulty in accumulating capital and collateralize, SMEs have been exposed to intense regulations from banks. This caused a decrease in the amount of resources obtained from banks. Because they are labor-intensive enterprises, SME's inefficient utilization of resources as provisions used for the mere continuity of daily production activities render these resources unproductive. And because the SMEs management is unable to provide a permanent and wide perspective on financial administration, many SMEs lack many aspects of financial administration.

The third section discusses the natural consequences of SME's lack of business and financial management. The results regarding management, labor efficiency, continuity of daily business operations, production efficiency, and competition with other SMEs and major corporations are examined.

The fourth section discusses solutions for the specified problems SMEs experience and points out the capability of SMEs to achieve greater success in institutionalization, efficiency, and human capital. The financial opportunities and regulations private sector and especially, the private finance institutions can provide for SMEs are specified. Lastly, the benefits, helpful regulations, and grant and loan facilities the public sector and public policies can provide for SMEs are indicated.

THE DEFINITION OF SMALL AND MEDIUM SIZED ENTERPRISES (SMEs) AND THEIR CONTRIBUTIONS TO THE ECONOMIC SYSTEM

The SME Definition in the United States of America

Businesses such as these constitute 60% - 90% of the total economic power in world economy.

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