THE IMPACT OF THE COMMERCIAL BANK ON THE PERFORMANCE OF SME BUSINESSES TURKEY

BY

Biola Robertson, MUSTAFA
Cyprus International University, Haspolat, Trnc Via Mersin Turkey.
Email: mbiolarobertson@gmail.com

Abstracts

The study is to analyse the impact of commercial banks on the SMEs performance in Turkey. SMEs make up a large part of the economies of both developed and developing countries. They promote economic progress by opening new positions and supporting changing monetary and social eventualities. It is assumed that commercial banks provide financial support to SMEs through their brokering activities. Previous researchers recognized the lack of cash as a threat to small and medium-sized businesses. In order for SMEs to have an impact on the economy, they need adequate financial resources for their needs. Most of the commercial bank's praise for improving SMEs in business is widely recognized. Commercial banks help provide credit by receiving from a depositor who doesn't urgently need that money and passing it as a credit to investors who have wonderful ideas or strategies to add extra generosity to the economy but don't have the necessary capital to execute these ideas. To analyze the relationship between SME failure and financial resources provided by banks is used the "linear regression model". Secondary data collection model is used in this study. Secondary data is data that is currently stacked and quickly available from various sources. Such secondary data are cheaper than primary data. It is readily available and can also be retrieved when the primary data cannot be obtained in any way. Less number of SME closure can be an implication of good performance of SMEs in the country. The commercial banks negatively relate to the SME closures. That means positively related to the success or good performance of the SMEs in the country.

Keywords: Commercial Banks, SMEs, Turkey, Loan

Introduction

SmallMedium Enterprises contribute the large part of the economies of both developed and developing countries. They promote economic progress by opening new positions and supporting changing monetary and social eventualities. In response to these critical tasks, various countries formulate and implement new action plans to help create, develop, build, and maintain SMEs. SMEs also have a main role in the Turkish economy. In this scenario, they amount to 91.9 percent, account for 78 percent of total business, and contain 55 percent of GDP and half of the general hypothesis. It is therefore essential for Turkey to set up and complete new systems for SMEs. SMEs are an important part of the Turkish economy. SMEs offer the Turkish economy an overwhelming scope in terms of employment, economic growth, export, and job creation. The Turkish economy is being seriously overwhelmed by SMEs and large corporations,those are only a small division of firms. Companies without more than 250 employees and without an annual net sales or financial statement of more than 40 million TL is referred to as an SME in Turkish regulations.

It is assumed that commercial banks provide financial support to SMEs through their brokering activities. Previous researchers recognized the lack of cash as a threat to small and medium-sized businesses. In order for SMEs to have an impact on the economy, they need adequate financial resources for their needs. Most commercial bank’s praise for improving SMEs in business is widely recognized. Commercial banks help provide credit by receiving from a depositor who doesn’t urgently need that money and passing it as a credit to investors who have wonderful ideas or strategies to add extra generosity to the economy but don’t have the necessary capital to execute these ideas.

Typically, commercial banks offer cash to help the population and the economy in general and offer financial and social strength and potential economic improvement. “Credit creation” is thus the main frontier of commercial banks. By guaranteeing the customer a borrower, they are not offering money to the borrower; instead, they open a business account that the borrower can withdraw from. Or while approving a loan, they typically set up deposits called “credit creation from commercial banks.”

Lending to SMEs increased steadily over the period 2007-2018, with the exception of a slight decrease of 1.6% in 2009. Lending to SMEs increased by 19% in 2018. The share of successes of SMEs in total business loans remained practically unchanged at 32.3%

and was thus slightly below the scoreboard median of 38%. The number of bankruptcies decreased from 131 companies in 2017 to 105 in 2018. Association closures, including sole proprietorship, totaled 38,698 companies in 2018, up from 42,898 in 2017, suggesting bankruptcies (upon court verdict) amplify Turkey's largely remarkable miracle. There is no denying that financing these small and medium-sized enterprises will boost the performance if optimally used. The lack of financial resources in these firms will cripple their operations. The lack of funding for small and medium-sized businesses is the obstacle that doesn't allow them to improve their financial state and thereby improve the economy. This study analyzes the influence of commercial banks on the performance of SME associations(OECD, 2020).

Literature review

Till the recent past, there has not been a single theoretical model to explain how SMEs' financing is influencing investments, development, and growth. The theories with capital structure can be expressed by "static trade-off theory". The theory underlying this can usually be described in terms of Modigliani and Miller's "static trade-off theory," "pecking order theory"(Mayers & Majlyf, 1984), "managerial theory of investments"(Marris, 1963), "agency theory"(Jensen & Meckling, 1976) and extended by "Stigitz and Weiss"(Stigitz & Weiss, 1981).

As demonstrated by the "neoclassical theory of investments" (MM), which explains that capital structure is not relevant to the valuation of a company, external andinternal funding sources are excellent substitutes. An ideal market performance, the choice between capital financing or engagement is meaningless. As a result, the cost of capital and its market valuation is excluded from the company's valuation. MM speculations are based on the use of premises: no taxes, without bankruptcy costs, no transaction costs, equal liability value for investors and company; even when observing information, there is no obligation effect of the debt in the company's profitbefore the interest and tax(Modigliani & Miller, 1958).

"Modigliani and Miller" modified the theory by introducing a tax on profit. Here, the valuation of the company is clearly linked to debt. After the introduction of exposure by prioritizing their valuation, they find that "the financial leverage increases the value of the company as interest lowers the tax base"(Modigliani & Miller, 1958), and therefore the company will have savings that have the interest value. From this conclusion, the valuation of the company increases as the financial leverage increase, which suggests that the most critical valuation of the company will be refined when the burden of debt reaches 100%. This brings the company in a beneficial position, provided it is defended from the taxes.

Scott points out that there really isn't a 100% tax shield because of the cost of the distress. Debt brings with it a legal obligation to pay interest and principal(Scott, 1972). If a company cannot meet its obligations, it has to bankrupt for reasons of associated cost (Fatoki&Asah, 2011). Believe it or not, this theory fails to take into account a multitude of different components, such as bankruptcy costs of the company, labour costs, impact of debt on performance and inadequacies, information, and thus this assumption is challenged and competed by various other hypotheses(Harris & Raviv, 1991).

"The static trade-off theory", which is based on MM speculation and is an essential part of it, joins in addition to the saving of assets from the tax on profit as well as the costs of bankruptcy, like judicial taxes, administrative costs, attorney costs.Labor Costs (firms managers violates the interests of banks by working in the interest of the shareholders) can lower the valuation of the company(Jensen & Meckling, 1976). Frankly, this theory is the predominant speculation about the affirmation of the company's money-related structure and is based on the explanation that the company chooses the amount it will fund from liabilities and how much from the capital, thereby changing the value of services. As this assumption shows, the ideal capital structure takes into account the costs and profit from debt.

As the "pecking order theory" shows, companies tend to have internal funding sources and external sources from the start, preferring debt capital over external sources (Donaldson, 1961). Hence, from the start, we use, amortization, debt, accumulated profit and equity capital. Based on the theory, associations use their hypotheses based on a hierarchical requirement. In addition, there can be information discrepancies between managers (insiders) and investors (outsiders). So that, managers will have information than investors(Mayers & Majlyf, 1984).

With a view to "agency theory", "Stiglitz and Weiss" describe the problems that arise from asymmetrical information for administrators and shareholders and problems in between shareholders, managers, and credit regulators on the other. They struggle with the fact that the individual SME knows its own real money structure, the proven strength of its hypotheses and settlement tendencies, and the company has similarly shared private information(Fatoki & Asah, 2011).

Variable selection and methodology

The study is to analyse the impact of commercial banks on the SMEs performance in Turkey. Secondary data is data that is currently stacked and quickly available from various sources. Such secondary data are cheaper than primary data. It is readily available and can also be retrieved when the primary data cannot be obtained in any way.

Secondary research is an investigation system that make use of only the existing data. The available data are analyzed and queried to determine the general efficiency of the investigation. The secondary research brings together research material dispersed in assessment reports and documents similar to it. These reports can be collected from websites, open libraries, and data from adequately completed surveys.

Some organizations which include both non-governmental and governmental store information that can be used for research uses. The secondary research is more reasonable than the primary research.That is also effective than primary research because it uses pre-existing data. In the primary research,the information is collected directly from companies or persons, so there is a higher chance of getting the wrong data.

Toanalyze the relationship between SME failure and financial resources provided by banks is used the “linear regression model” as depicted below.

Dependent Variable: Closure of SMEs [S]

Independent variables: Lending from commercial banks [L]

The “linear regression” attempts to demonstrate the relationship between two variables by fitting the “linear equation” to the “observed data”. One of the variables is treated as an “explanatory variable” and the other as a “dependent variable” (Investopedia, 2020).

The linear regression model is used in the situation like a modeler needs to relate the weights to their height. Linear Regression is an important algorithm to estimate, and that can be made to produce reasonable results. In addition, these models can be trained appropriately and profitably in systems with sufficiently low computing power compared to other complex algorithms. Linear regression has significantly less time complexity when viewed with some other AI metrics. In addition, the mathematical equations of linear regression are really direct and transformable. Linear regression is, therefore, extremely easy for the researchers (Investopedia, 2020).

Empirical results and discussions

Regression

The result tables of the linear regression using SPSS is given below.

Table 1

Variables Entered/Removed

Variables Entered/Removed[a]

Model	Variables Entered	Variables Removed	Method
1	IV[b]	.	Enter

a. Dependent Variable: DV

b. All requested variables entered.

Note. Variable entered and removed are given in the table

Table 2

Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.458[a]	.210	.079	17880.840

a. Predictors: (Constant), IV

Note. The table shows the R and R square value. The R value shows the degree of correlation. The adjusted R square value also presented in the table.

Table 3

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	510521416.683	1	510521416.683	1.597	.253[b]
	Residual	1918346586.817	6	319724431.136		
	Total	2428868003.500	7			

a. Dependent Variable: DV

b. Predictors: (Constant), IV

Note. The ANOVA table predicts the dependant variable.

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	77011.033	17204.564		4.476	.004
	IV	-55.760	44.127	-.458	-1.264	.253

a. Dependent Variable: DV

Note. The coefficient table can predict the dependent variable from the independent variable.

Discussions

The second table in the linear regression test in SPSS is a summary of the model. This provides knowledge of the characteristics of the model. R-value refers to the correlation between dependent and independent factors or variables. The R-value is 0.458. A value that is more than 0.4 is used for an evaluation. In our circumstances, the value is 0.458, which is completely sufficient. The R square is worth 0.210. The R-square shows the variation for the dependent factor or variable that can be explained by an independent factor or variable. The adjusted R-square shows the hypothesis of the results. The value is bigger than one for the F ratio. A confident table shows the relationship between the elements or variables(Investopedia, 2020).

The coefficient is negative here. Coefficients are markers of the strength of the relationship between two distinctive variables. A value of less than zero represents a negative relationship between the two elements. A negative coefficient is a relationship between two elements, where a variable increases at the same time the other decreases and vice versa. A coefficient which is negative indicates that when the independent variable increases, the independent variable shows the tendency to decreases.

The regression equation will be DV= 77011 + (-55.7*IV)

Number of Company closures = 77011 + (-55.7*SME loans provided by the commercial banks)

From the analysis, it is clear that when commercial banks give more financial resources to the SMEs, the failure of SMEs is decreasing. The study tried to prove that the overall failure of the SMEs in Turkey can be understood from the number of SME closures. Less number of SME closure can be an implication of good performance of SMEs in the country. The commercial banks negatively relate to the SME closures. That means it positively related to the success or good performance of the SMEs in the country.

Financial problems for SMEs can be described as a lack of significant stand capital, lack of business capital, inconvenience in obtaining credit, and inconvenience in obtaining resources from business areas in large cities. Another reason for Turkey's financial hardship is that colossal companies run banks. Inadequacies in the organization and final structure of SMEs, the lack of a financial institution, non-participation in part of the expenditure in accordance with accounting rules, and the lack of significant capital have led banks to turn to major attempts that are less risky in lending. In addition, banks suspend lending during the crisis and can review current loans. SMEs cannot provide sufficient references from money-related associations due to high financial costs, stringent approval requirements, short-term development improvements, and insufficient lending. Since banks do not want to face difficulties, they demand a large number of guarantees that are significantly higher than loans. While big companies can give their company guarantees, small firms typically invest their own wealth as evidence openly. In the current circumstances, financial weakness can lead an entrepreneur to lose his own property. One of the largest challenges for SMEs is to motivate support through change and material conditions. Turkey has set up a Credit Guarantee Fund as an example of policy implementation in this particular case.

Limitations of the study include the lack of data on the internet. Most of the data are not updated. The selected values are from 2011 to 2018.

Conclusion and recommendations

This study's regression model showed an opposite relationship between lending by commercial banks and closure by SMEs. This shows that commercial banks' monetary resources have a major impact on Turkey's SMEs' performance. In order to provide higher profits, a bank must provide SMEs with higher advance payments with lower advance costs. Business leadership training should be conducted regularly to adapt to the changing business environment. In any case, they should generally be consistent with the associations the company is working on. SMEs should have a huge number of trained and skilled staff or include the cost of improving human resources (training) in their total expenses for more creativity, similar to customer service. This will generate more profit when new items are introduced and create a charming atmosphere for customers. With prepayments being the only way to make a profit, a commercial bank needs to relax its restrictive rules, weakening collateral and providing SMEs with more credit facilities.

It is very important for corporate visionaries to seek and maintain incredible relationships with lenders such as banks and other financial associations. On top of that, small businesses are also considering loans to increase their credibility. However, they also need to be created in order to choose the commercial value or partial liabilities for the company. This solves the problem of permitting access to records and capital restrictions. Small and medium-sized business owners must find acceptable business data before interacting with them in order to run the kind of business they have. Business visionaries can do this by enrolling in planning and business association courses coordinated by various educational institutions. A government agency must invest in creative work to figure out what to improve the conditions for small businesses, either by examining what other developing nations have done or by putting together new ideas. This will generally help solve the problems that small businesses are facing in the country.

This study focused on assessing the contribution of commercial banks to SMEs. In addition, important issues have been identified that require further investigation. Further research should assess the connection between monetary organization operations and the performance of SMEs. Another assessment is to assess the contribution of social networking of SMEs' correspondence to venturing new business areas.

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Appendix

Table 4

IV and DV

Year	SME loans (IV) TRY billion	Number of Company closures (DV)
2011	162.8	56129
2012	199.7	48000
2013	271.4	82708
2014	333.3	87405
2015	388.7	56599
2016	420.5	41897
2017	513.2	42898
2018	611.3	38698

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