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Full Length Research Paper

A research on impact of the capital structure and financing cost of small and medium sized enterprises (SME) on growth

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Purpose of this study is to compile data on general features, capital structures, dividend policies, financial characteristics of small and medium sized enterprises (SMEs) in Turkey and views of managers of them on the impact of these features on their growth, and to transform these data into knowledge, besides provision of recommendations. Sample of study is formed by 34 SMEs in various sectors in Istanbul. Descriptive and relational research methods are employed in the study. In order to collect unbiased and appropriate data for statistical analysis in descriptive research method, questionnaire technique is used as the data collection method. Data is collected in face to face interviews carried in first half of 2009. Data is analysed with computer software; statistical package for social sciences (SPSS). Central tendency and dispersion techniques are used for data analyses. Cross tabulation test is employed to determine differences among selected variables. Tests are yielded that SMEs grow those are with strong capital structure depending on its own, not preferring heavy borrowing, strengthening its financial structure continuously, improving its capacity utilisation rate and its revenue, and retain profit to strengthen capital.

Keywords: SME, financing, economic growth.

INTRODUCTION

Turkey needs to utilize its production resources in order to achieve the structure providing sustainable export increase and to be an important player in global competition. Due to the nature of competition, sustainability in achievement is important as the achievement in a particular term is important. Ownership of small and medium sized enterprises (SMEs) in Turkey is of family enterprises generally. These family-owned enterprises are not yet institutionalized and could not enter into international markets because of their lack of knowledge and experience. They could not allocate adequate resources for R and D, so could not follow modern technology. In this context, it is required to support SMEs for decreasing import dependence in export, solving cost problems harming competitiveness in production processes related to export, and shifting to products with high value add for Turkey.

This study, carried on the consideration that capital structures, dividend policies, financial characteristics of SMEs in Turkey have impact on their growth, and is aimed at developing strategies applicable for financial solutions on problems of SMEs.

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Abbreviations: SME, small and medium sized enterprises; **SPSS,** statistical package for social sciences; **EU,** European Union; **SBA,** small business administration.

Conceptual expositions

SME concept though may differ among countries or even among institutions in a country, is developed for enabling

small and medium sized enterprises utilize services on credit facilities, education-training, information-knowledge and consultation at low cost or free of charge. Level of development of countries and features of sectors affect definitions for SME directly. Thus, its various definitions use number of employees, revenues, capital, work floor utilized, wages paid, raw materials input and production method as criteria. However, the most preferred criteria is number of employees because of it is easily measurable and comparable. Definitions diverse according to economic characteristics and criteria used of countries own.

European Union (EU) adopted a definition valid after 1988 in order to prevent confusion both in national level and in the union, and was revised according to changed conditions in 2003. This new definition became valid after 2005. The definition is based on criteria like number of employees, volume of balance sheet and independence. Independence criteria mean that 25% or more of its capital (or equity) is not undertaken by an enterprise or that its capital is not owned by enterprises that are not defined as SMEs. Independent enterprises are classified by EU (but countries may differ in their purpose) as per the following (Özgül, 2005):

Micro enterprises: Employ less than 10 personnel and annual revenue and/or balance sheet volume 2 million Euros.

1. Small enterprises: Employ less than 50 personnel and annual revenue and/or balance sheet volume 10 million Euros.
2. Middle sized enterprises: Employ less than 250 personnel and annual revenue and/or balance sheet volume 43 million Euros.

In the US, although there are various definitions for SMEs, mostly they are based on number of employees and annual turnover generally. Authority of SMEs in the US, entitled with bringing a definition, Small Business Administration (SBA) develops some criteria based on number of employees, sector, annual turnover of a SME, in order to determine whether that SME deserves particular supports. Based on these developed criteria SMEs are defined as independent enterprises and as non-dominating companies in their sectors, and they are required to comply with the following characteristics listed below (Steinhoff and Burgess, 1993; Özgül, 2005):

1. Construction enterprises should have maximum 17.5 million dollars turnover per annum.
2. Retail sellers and service enterprises should have maximum 3 million dollars annual turnover (for some sub-sectors maximum 13.5 million dollars).
3. Transportation and warehousing enterprises should have maximum 3.5 million dollars annual turnover (for some types of enterprises it may rise to maximum 12.5 million dollars).
4. Wholesaler enterprises should employ maximum 500 personnel.
5. Production enterprises should employ maximum 500 personnel (for some sub-sectors it may rise to maximum 1500 personnel).
6. Agriculture enterprises should have maximum 100 thousand dollars annual turnover (for some sub-sectors maximum 3.5 million dollars).

Definition for SME in Turkey is adapted to that of EU in order to prevent raising complications in issues like cooperation with EU and its supports. Codes for SME definition, classification, characteristics approved by the decision of the Council of Ministers numbered 2005/9617, is published in Resmi Gazete (Official Gazette) dated 18 November 2005. In these codes is enterprise defined as “regardless of its legal status, economic activity units owned by one or more person or entity” and is shortly called SME (Resmi Gazete, 2005, item 4). Aforementioned codes classify SMEs as follows (Resmi Gazete, 2005, item 5):

1. Micro enterprise: Employing less than 10 personnel and size of net turnover or fiscal balance sheet volume maximum 1 million TL.
2. Small enterprise: Employing less than 50 personnel and size of net turnover or fiscal balance sheet volume maximum 5 million TL.
3. Medium size enterprise: Employing less than 250 personnel and size of net turnover or fiscal balance sheet volume maximum 25 million TL.

Major reasons behind SMEs do not have unique and common definitions and differences among industries and among level of development of countries. For example; a textile production shop with 10 personnel may be taken as a small one while an exchange office with 10 personnel may be taken as a big one. In another example, a golden goods manufacturer with 5 million annual turnovers cannot be considered as big as a textile producer with the same turnover (Yörük and Ban, 2003). All enterprises that value adding and providing employment for national economy should be considered in SME definition, regardless of their size (Akgemici, 2001).

SMEs are settlements with well known characteristics of the sector they serve, well recognizing the customers they serve, developing good relations with their suppliers and well arranging their practices by following developments in their sector. Besides all, among the paramount characteristics of SMEs, their close relations with their customers stand out.

Growth in capital structure

Enterprises may provide capital by rising their equity or through borrowing. Borrowing; may be built up either by

enterprise through equity, retained earnings, reserves or capital rising may be achieved by bringing new partners out of the enterprise (Yener, 1993). Enterprises may manage their capital structures and they may take various actions to strengthen their structures. Since the objective of finance managers is to maximize value of enterprise and should form capital structures with best fit needs of enterprises. The capital structure is at its optimum where resource cost is minimum and value of enterprise is maximum. All enterprises aim to operate at optimal capital structure. Various approaches have been developed for testing whether optimum capital structure exists or not. These approaches analyze the impact of changes in level of borrowing on value of enterprise and cost of capital. Enterprises should well know that there are many factors affecting their capital structures. Among many, the factors affecting that decision in wider terms can be counted as economic conditions, structure of sector, characteristics of enterprise, behaviour of credit institution, legal provisions and decisions of monetary authorities (Büyüktortop, 2007).

Every enterprise should search for its optimal capital structure and finance its investment projects caring for that structure. However, it is difficult for finance manager to determine optimal capital structure in practice. Various methods are used to do that. Yet, any of them are satisfactory alone (Ceylan, 1995). Amounts of equity and loan capital to be used in forming up capital structure of enterprises differ according to country and sector. Interest in capital structure begins with the article of Modigliani and Miller in 1958. Modigliani and Miller argued that total value of an enterprise and its cost of capital are independent of capital structure of that enterprise. Works of Modigliani and Miller are discussed more than other similar works in the field of finance. Assumptions put forward by Modigliani and Miller (1958) brought possibilities to ease the cost of financial risk. Besides, they suggest that capital structure does not affect the cost of capital; therefore they claim that finance policies applied by enterprises do not affect value of enterprise.

Rajan and Zingales (1995) used four distinctive variables in their study, in order to determine factors affecting financial decisions of public enterprises in industrialized countries called G7; these are USA, Japan, Canada, the United Kingdom, France, Italy, and Germany and to analyze capital structures enterprises in USA. These variables are measures of tangible-fixed assets, market-to-account ratio, logarithm of sales and profitability (Booth et al., 2001). Lensink et al. (1998) studied on factors affecting capital structures of enterprises in Holland. Danbolt and Bevan (2001) analyzed factors affecting capital structures of 1054 each of British enterprises (Acaravcı and Doğukanlı, 2004). Other than mentioned researchers Ferri and Jones (1979), Bradley et al. (1984), Tagart (1984), Pozdena (1987), Titman and Weselss (1988), Mohamad (1995), Saa (1996) carried empirical studies on factors affecting capital structures of enterprises (Yücel, 2001).

Growth in SMEs

Growth, from the perspective of SMEs, is qualitative and quantitative changes and developments happen starting from a reference level, these take place in material and human factors of their structure. Global competition, economic integrations and information technologies in rapid developments, all urge establishments aiming to grow to be in continuous dynamism. Growth is a typical process for successful establishments in developing economy. Most of the establishments start up as small establishments and they grow up through various stages. Growth should be kept on up to the level of production where costs are minimized (Özgener, 2003). Main purpose of establishments for growth can be seen as profit and maximization of profit. However it is recently seen that profit is not the first aim in growth after an enterprise has reached to a certain growth rate. Recent factor in growth is the rise in productivity that plays important role in sustainability of enterprise. Profitability becomes important only for productive enterprise (Tosun, 1990).

Enterprises with succeeded growth properly have enhanced market recognition. Enterprise image (reputation) and power are closely related with its growth. Therefore SMEs give big importance to growth to acquire the advantages of big enterprises in size. Besides, enterprises create brand value by branding, and attract customers, provide cash flow and competitive advantage by creating brand value (Kavas, 2004). Big enterprises have greater possibilities for product diversification and market segmentation. Weaknesses of SMEs and advantages of bigness together are main reasons for SMEs aim to grow. Besides, desire of entrepreneurs and managers of SMEs in being an owner and manager of big and reputable enterprise is another motive for SMEs to grow (Erkoç, 2006). Even the start up scale is small, rapid adaption to market conditions and healthy growth strategies should be employed. Aim in decision for growth should be sound one, and it is the indicator for length of life of a SME. Growth of SMEs is important not only from the points of their existence, profit making, motivating their owners or managers, and providing prestige for them; but also for their contribution to economic system and national social wealth. Because, growth of SMEs contributes to increase in GNP, so that GNP grows. Consequently, growth of SMEs adds value to national economy and wealth by contributing to increase in production factors and GNP per capita. Besides, since it brings increase in employment it helps to disappear some problems that are result of unemployment (Düğer, 1994).

In order to acquire a healthy growth and to have competitive advantages in global competition, SMEs should

apply growth oriented restructuring strategies that are suitable for them (Özgener, 2000). SMEs with well aligned income-and-expense balance have higher level of profit maximization and providing loans through equity may grow, regardless of differences due to sectors. In the application section of the study, general features, capital structures, dividend policies, financial characteristics of SMEs and their impact on SMEs growth in Turkey are analyzed.

METHODOLOGY

This study is aimed at compiling data on general features, capital structures, dividend policies, financial characteristics of SMEs in Turkey and views of managers of them on the impact of these features on their growth, and to transform these data into knowledge, besides provision of recommendations. Sample of study is formed by 34 SMEs in various sectors in Istanbul. Since SMEs in Istanbul are plenty and scattered in various regions, it is quite difficult and costly to send the questionnaire to all SMEs in Istanbul. A sample that can represent the majority of SMEs in Istanbul is targeted to be accessed but could not be hit because some SMEs' authorities decline to contribute reasoning that the questionnaire contains questions for confidential replies.

Considering this, it would not be appropriate to say all of the replies is for SMEs in general and is complete reference or information source for them. Totally, 34 SMEs replied and evaluations are based on data from them. Descriptive and relational research methods are employed in the study. In order to collect unbiased and appropriate data for statistical analyses in descriptive research method, questionnaire technique is used as the data collection method. Expert views are applied and a pilot study is employed to test reliability of the questionnaire before its final form is decided. Data is collected in face to face interviews carried in first half of 2009. In questionnaire, features of the participants are asked in 40 questions like their education level, position in the enterprise, age, sector, capital structure, revenue, dividend policy and auto-financing technique of enterprise. Closed end statements are preferred in constructing the questions in order to collect clearer data. Data is analysed with computer software; statistical package for social Sciences (SPSS). Central tendency and dispersion techniques are used for data analyses. Cross tabulation test is employed to determine differences among selected variables. All tables given in this study are of data collected by the writers.

ANALYSES OF DATA

Descriptive analyses and analyses for differences among variables are held in this section.

Descriptive analyses

Data for the study carried, are collected from 34 SMEs. General characteristics of SMEs and their managers are given in Table 1. According to Table 1, first rank in position of repliers belongs to top level managers (f=16), followed by enterprise owners (f=14). The questionnaires are replied by top level managers or owners enhancing reliability of data in great extent. Therefore the level of perception becomes higher and the level of error becomes lower. Level of education of the managers of SMEs participating to the research is generally bachelor degree (f=16). In regard of level of education, vocational schools and master degrees follow bachelor degree. This finding provides a base for the consideration of having the level of education of the participants higher may make their replies more reliable. Taking the data on sectors that are in the fields of activities of the SMEs, it is observed that they are mostly active in manufacturing/ production sector (f=19) where trade and service sectors follow it. It is also observed that SMEs in Turkey are in manufacturing/production generally. Limited companies are at the first rank in legal status of SMEs (f=17). Service age of SMEs with "21 years or more" are in majority (f=19). This fact may lead to a conclusion that SMEs are experienced entities and may help them to solve problems face.

Table 2 shows that among all sources of finance problems of SMEs it comes up "Delayed collections of receivables" in first rank (f=19). Delayed collections of receivables harm finance structure of SMEs drastically and lead to consequences that compensation are quite difficult. As share of sale for the account (forward sale) in total sales is high for SMEs, they need finance support in order to minimize its influence therefore cause increase in indebtedness of SMEs. Difficulties in collections from market is the major short term finance problems for SMEs (f=21). High credit cost and problems at foreign markets follow it. Economic instability and distrust together are the major long term finance problem for SMEs (f=24). Technological adaptation is at the first rank among the aims of utilization of finance possibilities (f=11) where renewal, building a new plant, decrease in the need of foreign resource and tax advantage follow it, respectively.

According to Table 1, among the Factors in the selecting financial instruments is for SMEs Reasonable cost factor appears as most important one (f=15). Then, term (maturity date) for instrument factor follows it (f=13). In case of need, the Financial Instruments Mostly Used by SMEs appears as equity and bank loan, respectively. In analyzing the Share of Equity in financing Investment it is observed that SMEs are divided among three alternatives; 40 - 60%, 60 - 80% and 80 - 100% shares mostly (f=9 for each).

Annual limit for credits used is mostly up to 1 million Turkish Lira (f=19). It could be comprehended that SMEs prefer equity rather than loans as financial instrument in paying up their debts. Thus they can comparably and relatively resume in times of economic crises, recession and shrinkage with least lost.

Average term (maturity time) for credits is rather short and generally shorter than one year (f=21). This finding supports those of annual limit for credits. SMEs prefer shorter term (shorter maturity time) credits in small amount. SMEs prefer to finance their investments with their equities in order to protect themselves from sudden crises in somehow. Experienced economic crises in Turkey lead enterprises to employ such strategies.

Table 1. Descriptive characteristics of SMEs and managers of SMEs.

Parameter		Frequency	Percent
Position of replier	Enterprise owner	14	41.2
	Top level manager	16	47.1
	Export department responsible	1	2.9
	Other	3	8.8
Level of education of replier	High school	4	11.8
	Vocational school	8	23.5
	Bachelor	16	47.1
	Master	6	17.6
Field of activity of SME	Manufacture/Production	19	55.9
	Trade	7	20.6
	Service	5	14.7
	Distributorship	1	2.9
	Other	2	5.9
Service age of SME	0 - 5 year	1	2.9
	6 - 10 year	8	23.5
	11 - 15 year	4	11.8
	16 - 20 year	2	5.9
	21 year and more	19	55.9
Legal status of SME	Limited partnership	7	20.6
	Limited company	17	50.0
	Scrip Company	3	8.8
	Company incorporated	7	20.6 %
Does it export/import?	Yes	21	61.8
	No	13	38.2
Is there R and D in SME?	Yes	16	47.1
	No	18	52.9
Capital	0 – 2.500.000 TL	11	32.4
	2.500.001 – 5.000.000 TL	12	35.3
	5.000.001 – 10.000.000 TL	2	5.9
	10.000.001 – 20.000.000 TL	3	8.8
	20.000.001 TL and more	6	17.6
Machinery, building, plant and equipment amount	0 – 5.000.000 TL	11	32.4
	5.000.001 – 10.000.000 TL	6	17.6
	10.000.001 – 15.000.000 TL	1	2.9
	15.000.001 – 20.000.000 TL	4	11.8
	20.000.001 TL and more	12	35.3
Annual revenue of SME	0 – 5.000.000 TL	10	29.4
	5.000.001 – 10.000.000 TL	4	11.8
	10.000.001 – 20.000.000 TL	6	17.6
	20.000.001 – 40.000.000 TL	3	8.8
	40.000.001 TL and more	11	32.4
	Total	34	100.0

Table 2. Major financial problems of participating SMEs.

Finance problem/possibility		Frequency	Percent
Sources of Finance Problems	High costs	4	11.8
	Delayed collections of receivables	19	55.9
	Equity inadequacy	1	2.9
	Low or fluctuating sales	6	17.6
	High interest rates for credits	1	2.9
	Limited possibility in credit provision	3	8.8
Short Term Finance Problems	Working capital inadequacy	2	5.9
	Difficulties in business loans provision	2	5.9
	High credit cost	5	14.7
	Problems at foreign markets	4	11.8
	Difficulties in collections from market	21	61.8
Long Term Finance Problems	Equity inadequacy	3	8.8
	Difficulties in investment credit provision	1	2.9
	High investment credit cost	2	5.9
	Short term accumulations in capital structure	4	11.8
	Economic instability and distrust	24	70.6
Aim of Utilization of Finance Possibilities	Tax advantage	4	11.8
	Renewal	9	26.5
	Technological adaptation	11	32.4
	Building a new plant	5	14.7
	Decrease the need of foreign resource	5	14.7
	Total	34	100.0

Reason behind this fact is that banks in crises periods, call back credits right away or revise interest rates to higher those were already high for SMEs so that put SMEs in difficult position. SMEs, struggling for existence, could hardly afford these higher interest rates and receive sentence to perish in fact.

Difficulties caused by long procedures is the most important problem (f=13) SMEs faced in using bank credits. Problem of having high non-interest costs is the second important problem (f=11) in this regard. In taking credits, forcing SMEs to be subjected to overcome numerous procedures puts them into their trump. This is the most serious problem an enterprise face and it puts enterprises hard up for material and moral trouble.

It is found that SMEs heavily postpone their investment projects because of high credit costs (f=16) and push them to increase their equities (f=9). In other words, it is observed that enterprises postpone their investment projects without undertaking big risk and avoiding run into dept.

It is seen that SMEs refrain from using credit firstly because of their equities are adequate (f=15), secondly because of difficulty in being obliged for issuing guarantee (f=10) and thirdly because of high borrowing cost (f=4). Strong equities may lead to decrease in indebtedness and thus to refrain from credit using.

According to Table 5, equity structures of SMEs are strengthened. Enterprises with equity structures are strengthened can maintain their activities stronger in terms of finance. It is found out that financial structures of SMEs are strengthened in great extend as result of investments they financed by foreign resources. Enterprises those financial structures are strengthened can carry on their activities more effectively in terms of finance.

As shown in Table 6, bank loans are at first rank as a working capital finance source (f=11). In solution alternatives for finance problems of SMEs, long term and reasonable credit provision comes first (f=20), then built up new incentives for development of SMEs comes second.

Long term and reasonable credit provision is always important for enterprises from the points of strengthening their financial structures and enable them to move in the market easily.

It is observed that priority in investment decisions belongs firstly to increasing investment efficiency (f=20). Then, the decreasing cost of capital comes. Priority of SMEs in finance decisions belongs to utilizing seller's finance (f=17) first and then prioritising increase in capital

Table 3. Major financial instruments of participating SMEs.

Parameter		Frequency	Percent
Factors in the selecting financial instruments	Reasonable cost	15	44.1
	Term (maturity date) for instrument	13	38.2
	Time to cash collection of instrument	3	8.8
	Prestige	1	2.9
	Type of institution providing the instrument	2	5.9
Financial instruments mostly used	Equity	12	35.3
	Issue of stock or security	1	2.9
	Supplier's credit	4	11.8
	Bank loan	11	32.4
	Middle term credits	2	5.9
	Machinery and Equipment finance	1	2.9
	Leasing	2	5.9
	Forfeiting	1	2.9
Share of equity in financing investment	0 - 20%	3	8.8
	20 - 40%	4	11.8
	40 - 60%	9	26.5
	60 - 80%	9	26.5
	80 - 100%	9	26.5
Annual limit for credits	0 – 1.000.000 TL	19	55.9
	1.000.001 – 2.500.000 TL	8	23.5
	5.000.001 – 10.000.000 TL	2	5.9
	10.000.001 – 20.000.000 TL	1	2.9
	20.000.001 TL and more	4	11.8
Average term (maturity time) for credits	0 - 12 month	21	61.8
	12 - 24 months	4	11.8
	24 - 36 months	7	20.6
	36 - 48 months	1	2.9
	Longer than 48 months	1	2.9
	Total	34	100.0

share of partners and placing importance on bank credit relationships alternatives come.

According to replies given in answer alternatives to the question on structuring of auto finance policy, strengthen capital structure by retaining profits continuously alternative is found as the most frequently applied policy (f=24).

Analyses for differences among variables

Findings on average credit limits used annually versus share of equity used in their finance is given at below Table 7.

All of the SME managers in whose enterprises have 0 – 20% equity in their financial structures, expressed that they use credit less than 1 million TL credit in a year. Likewise, half of the SMEs in whose enterprises have 20 – 40% equity in their financial structures expressed that they use credit between 1.000.001 TL and 2.500.000 TL in a year. SMEs in whose enterprises have 40 – 60% equity in their financial structures, do not concentrate on certain amount of credit usage annually, and expressed that they use credit less than 1 million TL in a year and then use between credit 1.000.001 TL and 2.500.000 TL in a year. It is seen that great majority of SMEs those use 80 – 100% equity in their financial structures, use less than 1 million TL credit in a year. According to these findings SMEs those equity shares are in increase, adopt using minimum amounts of credit, and as less as possible.

In the Table 8, findings on distribution of credit maturity

Table 4. Common problems SMEs face in using credit.

Parameter		Frequency	Percent
Problems face in using bank credit	Credit demand goes unheard	1	2.9
	Credit allocation takes long time	3	8.8
	Guarantee difficulty in taking credit	6	17.6
	Long procedures	13	38.2
	High non-interest costs	11	32.4
Attitude against high credit cost	Postponing investment projects	16	47.1
	Decrease in inventory	4	11.8
	Increase in equity	9	26.5
	Decrease capacity	4	11.8
	Downsizing personnel	1	2.9
Reason in refraining credit use	Adequate equity	15	44.1
	High borrowing cost	4	11.8
	Obligation for issuing guarantee	10	29.4
	Short term maturity time	3	8.8
	Distrust for creditor institutions	2	5.9
Total		34	100,0

Table 5. Equity and its features in finance structure.

Change		Frequency	Percent
Change in equity structure	Equity structure same	14	41.2
	Equity structure strengthened	14	41.2
	Equity structure weakened	6	17.6
Change in finance structure	Finance Structure same	10	29.4
	Finance Structure strengthened	20	58.8
	Finance Structure weakened	4	11.8
	Total	34	100.0

terms (months) versus share of equity used in their finance, take place.

In Table 8, it is observed that most of the SMEs in whose equity shares are 0 - 20%, prefer to use credits with maturity term in less than one year where rest of the SMEs, in this share equity group, prefer to use credits with maturity term between 12 to 24 months. Likewise most of the SMEs, whose equity shares in their finance are 20 - 40%, prefer to use credits with maturity term in less than one year where rest of the SMEs, in this share equity group, prefer to use credits with maturity term between 24 to 36 months. It is also observed that the SMEs in whose equity shares are 60 - 80% do not concentrate on certain credit maturity terms (months) but are mostly gathered in two groups, one with credit maturity term between 0 to 12 months and others with credit maturity term between 24 to 36 months. Most of the SMEs in whose equity shares are 60 - 80%, prefer to use credits with maturity term in less than one year. Lastly, it is seen that most of the SMEs in whose equity shares are 80 - 100%, prefer to use credits with maturity term in less than one year. According to findings, it is observed that there is an inverse relation between equity shares and credit maturity terms in SMEs finance structure; as equity shares in finance structure increase, credit maturity terms decrease. Only exception is at the case of 40 - 60% equity shares in where frequency of SMEs for credit maturity terms increases from 12 to 24 months case to 24 to 36 months case.

In the Table 9 given below, findings on distribution of auto finance policy structures versus share of equity used in their finance, take place.

According to the findings given in Table 9 above, all of the SMEs in whose equity shares are 0 - 20%, prefer to structure their auto-finance policies to strengthen their capital structures by retaining profits continuously. Findings are reached for majority of SMEs indicating those whose equity shares are 20 - 40%, prefer to

Table 6. Finance policies of SMEs.

Parameter		Frequency	Percent
Working capital finance source	Bank loan	11	32.4
	Supplier's credit	8	23.5
	New partner	2	5.9
	Capital rise	10	29.4
	Factoring	1	2.9
	From other group companies	2	5.9
Solutions for finance problems	Long term and reasonable credit provision	20	58.8
	Make use of capital market arrangements	2	5.9
	Built up new incentives for development of SMEs	8	23.5
	Minimizing credit guarantees	3	8.8
	Active role taking of non-banking institutions	1	2.9
Priority in investment decisions	Increasing investment efficiency	20	58.8
	Decreasing cost of capital	8	23.5
	Changing investment scale	1	2.9
	Increasing Debt-to-equity (leverage) ratio	5	14.7
Priority in finance decisions	Prioritizing increase in capital share of partners	6	17.6
	Placing importance on bank credit relationships	6	17.6
	Utilizing foreign funds	4	11.8
	Exchange credits	1	2.9
	Utilizing seller's finance	17	50.0
Structuring of auto finance policy	Distribute dividends regularly	6	17.6
	Retain profits in case of efficient investment	1	2.9
	Decide on dividend distribution as per alternative profitability rates	3	8.8
	Strengthen capital structure by retaining profits continuously	24	70.6
	Total	34	100.0

Table 7. Distribution of credit limits used annually versus share of equity used in their finance.

		Credit limits used annually (TL)				
		0 – 1.000.000	**1.000.001 – 2.500.000**	**5.000.001 – 10.000.000**	**10.000.001 - 20.000.000**	**20.000.001 TL and more**
Share of equity (%)	0 - 20	100	0	0	0	0
	20 - 40	25	50	0	0	25
	40 - 60	44.4	33.3	0	0	22.2
	60 - 80	44.4	33.3	11.1	11.1	0
	80 - 100	77.8	0	11.1	0	11.1

structure their auto-finance policies by retaining profits continuously and some of those SMEs prefer to retain profits in case of efficient investment. It is also found that majority of SMEs whose equity shares are 40 - 60%, prefer to structure their auto-finance policies by retaining profits continuously. It is observed that SMEs, whose equity shares are 60 - 80%, generally prefer to structure their auto-finance policies by retaining profits continuously. Lastly, 44.4% of SMEs that use 80 - 100% equity in their finance structure retain their profits continuously in order to strengthen their capital structures. Besides, rest of the SMEs that use 80 - 100%

Table 8. Distribution of credit maturity terms (months) versus share of equity used in their finance.

		Credit maturity terms (Months)				
		0 - 12 month	**12 - 24 month**	**24 - 36 month**	**36 - 48 month**	**Longer than 48 month**
Share of equity (%)	0 - 20	66.7	33.3	0	0	0
	20 - 40	75	0	25	0	0
	40 - 60	33.3	11.1	33.3	11.1	11.1
	60 - 80	55.6	22.2	22.2	0	0
	80 - 100	88.9	0	11.1	0	0

Table 9. Distribution of auto finance policy structures versus share of equity used in their finance.

		Auto finance policy structures of SMEs			
		Distribute dividends regularly	**Retain profits in case of efficient investment**	**Decide on dividend distribution as per alternative profitability rates**	**Strengthen capital structure by retaining profits continuously**
Share of equity (%)	0 - 20	0	0	0	100
	20 - 40	0	25	0	75
	40 - 60	11.1	0	11.1	77.8
	60 - 80	22.2	0	0	77.8
	80 - 100	33.3	0	22.2	44.4

equity in their finance structure prefer to distribute dividends regularly and decide on dividend distribution as per alternative profitability rates. All these findings show that SMEs prefer to follow having lesser debt with stronger capital structure.

It is found that SMEs, whose equity shares in finance structure are 0 - 20, 20 - 40, 40 - 60 and 60 - 80% put increasing investment efficiency issue in first priority in investment decisions generally. On the other hand, SMEs whose equity share in finance structure is 80 - 100% has priorities in investment decisions like increasing investment efficiency, decreasing cost of capital and increasing debt-to-equity (leverage) ratio. These findings show that the Increasing investment efficiency has a priority in investment decisions, and SMEs have strong tendency for investment as shown in Table 10.

Findings with regard to capital amount versus share of equity used in finance of SMEs are shown in Table 11. According to the findings given in Table 11, SMEs whose equity shares in finance structure are 0 - 20% have 0 – 2.500.000 TL capital, where rest of them have 0 – 2.500.000 TL capital. Half of the SMEs whose equity shares in finance structure are 20 - 40% have 0 – 2.500.000 TL capital where rest of them are equally divided into two groups, one is of 2.500.000 – 5.000.000 TL capital and the other is of 20.000.001 TL and more capital. Majority of SMEs whose equity shares in finance structure are 40 - 60% have 20.000.001 TL and more. SMEs whose equity shares in finance structure are 80 – 100% are not concentrated in one of the capital amounts. As a result, capitals of SMEs increase in parallel to increase in equity shares in finance structure. In the Table 12 given below, findings on distribution of capacity utilization rates of SMEs versus their revenues, take place. In Table 12, it is seen that SMEs with their revenues are less than 5 million TL use capacities between 21 - 40% and 61 - 80% rates. It is also observed that great majority of SMEs with revenues of 5.000.001 – 10.000.000 TL use 41 - 60% of their capacities and almost all of the SMEs with revenues of 10.000.001 – 20.000.000 TL use 61 - 80% of their capacities. Likewise, great majority of SMEs with revenues of 20.000.001 – 40.000.000 TL use 61 - 80% of their capacities and lastly, almost all of the SMEs with revenues of 40.000.001 TL and more use capacities between 61 - 80% and 81 - 100% rates. As a result, there are positive relationship revenues and capacity utilization rates of SMEs. In other words, their capacity utilization rates increase as their revenues increase.

SMEs with their amount of fixed assets are less than 5 million TL use capacities mostly in 41 - 60 and 21 – 40% rates, respectively. Half of the SMEs with their amount of fixed assets are 5.000.001 – 10.000.000 TL uses their capacities 41 - 60% where other half uses their capacities in 61 - 80% rate. All of the SMEs with their amount of fixed assets are 10.000.001 – 15.000.000 TL use capacities in 61 - 80% rate. All of the SMEs with their amount of fixed assets are 15.000.001 – 20.000.000 TL

Table 10. Distribution of priority in investment decisions versus share of equity used in their finance.

		Priority in investment decisions			
		Increasing investment efficiency	Decreasing cost of capital	Changing investment scale	Increasing debt-to-equity (leverage) ratio
Share of equity (%)	0 - 20	66.7	33.3	0	0
	20 - 40	75	25	0	0
	40 - 60	66.7	0	11.1	22.2
	60 - 80	66.7	33.3	0	0
	80 - 100	33.3	33.3	0	33.3

Table 11. Distribution of share of equity used in finance of SMEs versus their capitals.

		Capital (TL)				
		0 - 2.500.000	2.500.001 - 5.000.000	5.000.001 - 10.000.000	10.000.001 - 20.000.000	20.000.001 and more
Share of equity (%)	0 - 20	66.7	33.3	0	0	0
	20 - 40	50	25	0	0	25
	40 - 60	33.3	33.3	0	11.1	22.2
	60 - 80	22.2	55.6	0	0	22.2
	80 - 100	22.2	22.2	22.2	22.2	11.1

Table 12. Distribution of capacity utilization rates of SMEs versus their revenues.

		Capacity utilization rates of SMEs			
		21 – 40%	41 – 60%	61 - 80%	81 – 100%
Revenues of SMEs (TL)	0 – 5.000.000	30	40	20	10
	5.000.001 – 10.000.000	0	75	25	0
	10.000.001 – 20.000.000	0	16.7	83.3	0
	20.000.001 – 40.000.000	0	0	66.7	33.3
	40.000.001 TL and more	0	9.1	45.5	45.5

uses their capacities in 61 - 80% rates. Most of the SMEs with their amount of fixed assets are 20.000.001 TL and more use their capacities mostly in 61 - 80% and in 81-100% rates, respectively.

As it could be understood from these findings, apositive relation between amount of fixed assets and capacity utilization rates of SMEs was observed. In other words, capacity utilization rates of SMEs increase as the amounts of their fixed assets increase.

In Table 14 it is seen that SMEs with their amount of capitals are less than 2.5 million TL use their capacities mostly in 41 - 60% rate, and then some of other SMEs use their capacities 21 - 40% and 61 - 80% commonly. Majority of SMEs with their amount of capitals are 2.500.001 – 5.000.000 TL uses their capacities in 61 - 80% rate. Half of the SMEs with their amount of capitals are 5.000.001 – 10.000.000 TL uses their capacities in 61 - 80% rate and other half of them use their capacities in 81 - 100% rates. Likewise, it is observed that majority of SMEs with their amount of capitals are 10.000.001 – 20.000.000 TL use their capacities in 61 - 80% rate and with their amount of capitals are 20.000.000 TL or more use their capacities in 81 - 100% rates.

According to these findings, a positive relation between amount of capitals and capacity utilization rates of SMEs was observed. Another consultable result could be that stronger SMEs in capital-wise have higher capacity utilization rates since they can offer favourable payment conditions to their customers.

Conclusion

This study first emphasizes SME concept and its definitions in the world and in Turkey. Then findings on questionnaire work on SMEs take place.

Table 13. Distribution of capacity utilization rates of SMEs versus their fixed assets.

		Capacity utilization rates of SMEs			
		21 – 40%	**41 - 60%**	**61 - 80%**	**81 - 100%**
Fixed assets of SMEs (TL)	0 – 5.000.000	27.3	45.5	18.2	9.1
	5.000.001 – 10.000.000	0	50	50	0
	10.000.001 – 15.000.000	0	0	100	0
	15.000.001 – 20.000.000	0	0	75	25
	20.000.001 TL and more	0	8.3	50	41.7

Table 14. Distribution of capacity utilization rates of SMEs versus their capital.

		Capacity utilization rates of SMEs			
		21 - 40%	**41 - 60%**	**61 - 80%**	**81 - 100%**
Capital of SME (TL)	0 – 2.500.000	27.3	36.4	27.3	9.1
	2.500.001 – 5.000.000	0	25	66.7	8.3
	5.000.001 – 10.000.000	0	0	50	50
	10.000.001 – 20.000.000	0	33.3	66.7	0
	20.000.001 TL and above	0	16.7	16.7	66.7

These findings in brief are; finance structures of SMEs strengthen as their share of equity increase, SMEs with higher equity shares in their finance structure need less credit (0 - 20% equity shares are exception) and adopt using minimum amount of credits. Thus it is found that credit usage decrease as equity shares increase. They prefer using their equities and refrain from borrowing. There is inverse relation between equity shares in their finance structure and maturity terms of their debts (40 - 60% equity shares are exception). As their share of equity in their finance structure increase their amount of borrowings decrease and maturity terms of these borrowings shortens. SMEs retain their profits within their finance structure and prefer to strengthen their capital structures. These findings point out that SMEs follow the policy of lessened indebtedness with stronger capital structure. It is also seen that the criteria in increasing investment efficiency has the highest priority in their investment decisions. As their equity shares get larger, capitals of SMEs drop. Equity shares and amounts of capital affect each other inversely. It is not possible to say much about the existed relation between annual revenues of SMEs and their amounts of capital. There could be a positive relation between annual revenues of SMEs and their capacity utilization rates. In other words, their capacity utilization rates increase as their annual revenues increase. A positive relationship between amounts of fixed assets of SMEs and their capacity utilization rates could be mentioned. Their capacity utilization rates increase as their annual revenues increase although non-linearly. There is also a positive relationship between amounts of capitals of SMEs and their capacity utilization rates, in general sense. Besides, findings reached indicating that the enterprises with stronger capital do not prefer much borrowing and could run at higher capacity utilization since they can offer favourable payment conditions.

Consequently, influence of capital structures and dividend policies of SMEs on their growth is held and recommendations for problems faced and methods to be applied for their solutions are put forward in this study. These recommendations are as follows:

1. SMEs should keep their equity at most high level.
2. SMEs should have well analyze market conditions during borrowing, and their decision for time for borrowing, maturity terms and the borrower (creditor) should be based on a sound research.
3. Credits can be taken by SMEs only when needed, in minimum amounts and shorter maturity terms.
4. SMEs should retain their profits and be kept in the finance structure of the enterprise so that they strengthen their capital structures.
5. SMEs should decide on the basic principle on small amount of borrowing policy to strengthen their finance structure.
6. SMEs should always trace new technologies, never fall back of their competitors in technology sense and should follow appropriate investment course in accordance to market conditions.
7. SMEs should keep in mind the truth that the priority in investment decisions should belong to increasing investment efficiency.
8. SMEs should raise their capacity utilization rates up to their maximum level.
9. SMEs should always consider that there is a

relationship between their revenue levels and their capacity utilization rates.
10. SMEs should maintain higher amounts for their revenues and their fixed assets since there is a positive relationship between these two. In order to maintain higher capacity utilization rates, importance of marketing should be emphasized.
11. SMEs should place importance on their R and D activities.
12. Main source of financial problems of SMEs is delays in collection of receivables. Therefore, it is important for SMEs to organize a successful collection department.
14. Consultancy system should be developed and experts should be utilized in order to perceive economic instabilities and distrust, besides to follow up economic proceedings.
15. SMEs should refrain from sales for the account and maintain short sales.
16. SMEs should know finance instruments and care when to use which instrument.
17. Foreign resources should be preferred only when there is strengthened equity and finance structure. SMEs should abstain from sources that could harm them. They should always keep in mind that the most important factor in determining activities is suppliers' credit and maximum utilisation should be achieved in utilizing finance capabilities of suppliers in case of purchasing.
18. SMEs should employ expert professional managers in order to minimize financial problems to be faced within enterprises.

According to these results, SMEs should keep their capital structures strong even under all difficult conditions and they can find possibility to increase their profit by decreasing their cost in smaller borrowings through that strength.

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