

**STRENGTHENING OF SMALL AND MEDIUM-SIZED  
ENTERPRISES FACING GLOBALISATION AND  
LIBERALISATION**

Small and Medium Industry Development and Support Administration  
(KOSGEB)

In the face of the fast pace of globalisation and liberalisation, major economic, social and political changes have been occurring in the world for the last ten years. While such changes are being experienced, Small and Medium-sized Enterprises (SMEs), which form the backbone of every economy and which are the guarantee of social stability, try to keep pace with the unfolding events. Studies have shown that SMEs constitute the bulk of the industrial establishment in the developing countries. There is a need, hence, to direct efforts to strengthen the development of SMEs, in view of their significant contribution to employment, economic growth and development. Policies and programmes for enhancing the role of SMEs have to be tailored to local circumstances, resources and skills, particularly to the entrepreneurial skills in each country, taking into account these enterprises' priorities and the operational difficulties with which they are faced. This article explains the role of SMEs in Turkey, their institutional profile and the policies adopted in order to strengthen and enhance their role in the Turkish economy.

**1. HISTORICAL EVOLUTION OF SMEs IN TURKEY**

An overview of the historical evolution of the industry in Turkey reveals the existence of manufacturing activities in handicrafts since the Ottoman era. Small manufacturing enterprises, mainly in the sectors of cotton and silk weaving, rug and carpet weaving, leather processing and shoemaking, manufacturing of cutlery and hand tools, copper and iron mongery and processing of various food products, operated in the different regions of the country. Tradesmen and artisans belonging to the Ahi organisation established by the famous artisan leader Ahi Evren set up their organisation and developed the basic ethic principles for each business sector, which principles governed the activities of all tradesmen and craftsmen. This organisation was the most advanced non-

governmental organisation of the time in this field. The Ahi organisations later evolved into vocational guilds.

During the early years of the Turkish Republic, steps were taken to develop the private sector on the one hand, and State Economic Enterprises were established on the other hand to produce the most important basic commodities. The private sector, with a limited accumulation of capital, developed rather slowly, but the spirit of entrepreneurship gained increasing popularity among the people. Numerous small businesses were set up to produce spare parts for the public industrial enterprises and some finished and semi-finished products.

Although Turkey managed to remain neutral during the 2nd World War, she was heavily affected by the adverse economic impact of the war.

The 1950s were a period of economic and political changes. Increased emphasis on the private sector in those years was one of the most important factors to stimulate the economy. The number of Small and Medium Enterprises (SMEs) operating as auxiliary industries and that of small enterprises producing traditional handicrafts multiplied.

Today, there are approximately 3.5 million SMEs in Turkey, including trade and crafts. The number of industrial SMEs is around 202,000, corresponding to 93.2% of the sector of industry. 55.9% of the labour force in the industrial sector is employed and 24.2% of the value added in the sector is produced by the SMEs.

The Turkish industry has opened to foreign markets and the share of industrial products in exports has increased as a result of the liberal and export-oriented policies adopted since the early 1980s. As of those years, the Governments of Turkey attached importance to small and medium enterprises and adopted incentive policies. As a consequence, SMEs, which produced handicrafts in the past, now use machine tools of modern technology, producing goods of international standards, and quality awareness is increasingly enhanced with deeper penetration into foreign markets. Support of innovative SMEs and young entrepreneurs has yielded new products of advanced technology which find ready buyers in domestic and foreign markets.

The definition of SMEs varies from one country to another. SMEs are defined on the basis of the labour force, turnover, fixed capital

investments and similar criteria. The table below gives the SME definitions in some countries.

SMEs have been defined in Turkey by Law No. 3624 on the “Establishment of Small and Medium Industry Development and Support Administration”. According to this definition, manufacturing enterprises with a labour force of 1-50 employees are defined as small, and enterprises with a labour force of 51-150 employees as medium enterprises. In addition to this definition, the total machinery and equipment used by the enterprise is also taken into consideration for the special loans extended to the SMEs and for government support.

## **2. SUPPORT PROVIDED TO SMEs IN TURKEY**

### **2.1. Ministry of Trade and Industry**

The General Directorate of Small Crafts Industrial Estates and Zones, organised under the Ministry of Industry and Trade, extends loans to Small Industrial Compounds (KSS) and Organised Industrial Estates (OSB) to provide a modern and healthy environment for small and medium industrialists to function productively and to control environmental pollution.

The Ministry gives low-interest and long-term special loans to the cooperatives formed by small industrialists, within the limits determined by the level of regional development, up to the total of the infrastructure construction and a maximum of 70% of the superstructure construction. It also extends loans for infrastructure construction to the OSBs in which small and medium industrial enterprises are situated.

Between 1965 and 1999, employment was provided to 437,000 persons in 72,850 enterprises becoming operational within 306 KSSs built with loans given by the Ministry. The number of KSSs will reach 318, that of businesses 74,377 and that of employees 446,160 with the addition of 1,527 businesses in 12 KSSs planned to be completed in 2000. The KSSs provide an optimal environment for apprenticeship training and the support services of KOSGEB (Small and Medium Industry Development Support Administration). Vocational and technical training is provided to develop the skills of the youth in the Apprenticeship Schools and Training

**Table 1: Definition of Small and Medium Enterprises on the Basis of Countries and Criteria Used (\*)**

<b>Basic Criteria of Definition</b>			
<b>Countries</b>	<b>No. of Employees</b>	<b>Capital Invested</b>	<b>Sales Volume</b>
<b>USA</b> Small Medium	X<100 100<x<500	X<1 million USD	
<b>Japan</b> Small Medium	X<300	X<200 million YEN X<1 billion YEN	
<b>Germany</b> Small Medium	X<50 50<x<500		X<2 million DM X<25 million DM
<b>Italy</b> Small Medium	X<500	X<3 billion LIRET	
<b>India</b> Small Medium	x<50	X<3,5 million RUPİ	
<b>England</b> Small Medium	X<200		
<b>Colombia</b> Small Medium	x<50 x<100		
<b>South Korea (b)</b> Very Small Small Medium	1-4 5-19 20-300		

\* **Source:** (a) Sarıaslan Halil, Türkiye Ekonomisinde Küçük ve Orta Boy İşletmeler (Ankara, Association of Chambers and Stock Markets of Turkey, 1996), p.5.

(b) Linsu Kim, Jeffrey B. Mycant, The Republic of Korea's SME and Their Support Systems. World Bank Publication, 1994.

Centres on the KSSs and employed by the businesses situated at the compounds, and to satisfy the need for qualified personnel when transiting to medium-sized industry.

Presently 271,000 personnel are employed by 3,383 medium and large enterprises in 48 organised industrial estates. The OSBs are established by “Founding Boards” composed of the Chambers of Industry of the Provinces, Office of the Governor and Industrialists Associations. KSS and OSB implementations have proven to be very beneficial to the development of small and medium industries, healthy urbanisation, environmental protection, regional development and reduction of the interregional differences of development.

## **2.2. The Office of the Undersecretary of State for the Treasury**

Pursuant to Decree No. 99/12475 on Government Support to the Investments of Small and Medium Enterprises, those enterprises

- operating in the sector of manufacturing industry,
- employing a maximum of 150 employees,
- having machinery and equipment, installations, vehicles, instruments, furnishings, and fixtures, excluding buildings and land, the total net book value of which does not exceed 100 billion TL,

are accepted as SMEs.

These enterprises benefit from:

- The Fund Credit of the Investment Incentive Fund,
- Investment Allowance,
- VAT Exemption,
- Customs Duty and Collective Housing Fund Exemption, and
- Tax, Dues and Charges Exemption.

Currently work is going on to extend the incentive legislation to cover more sectors and enterprises.

### **2.3. The Office of the Undersecretary of State for Foreign Trade**

The communiqué issued by the Money-Credit and Coordination Board based on the Decree of Government Support Directed to Exports, coming into force by the Council of Ministers Decree dated 27.12.1994, No. 945/6401 to support the export-oriented enterprises provides support to the enterprises in question in the following ways:

- Provides Research and Development (R&D) support,
- Supports participation in the fairs and exhibitions abroad on a national level or individually,
- Supports international and local specialised fairs,
- Contributes toward environmental costs,
- Provides market survey support,
- Provides support for education,
- Provides support to “open the way” to employment,
- Supports the activities to open and operate offices and stores and to promote trademarks abroad,
- Contributes to the costs of registering patent right useful model and industrial design documents, and
- Recognises tax, dues and charges exemptions to enterprises for their sales and deliveries in the nature of exports and imports and for their foreign exchange earning services and activities.

Provisions have been added to the communiqués to extend the above-mentioned support to the SMEs employing 1-200 employees, whereby the SMEs have been encouraged to export and to prepare for

the international competition environment to which they belong, during the process of globalisation.

#### **2.4. Small and Medium Industry Development and Support Administration (KOSGEB)**

The Small and Medium Industry Development and Support Administration (KOSGEB) was instituted on 20 April 1990 by law No. 3624 to foster the rapid adaptation of small and medium industrial enterprises to technological innovations, enhance their competitive power and increase their activities and contributions to the economy. This is a public institution with corporate entity within the structure of the Ministry of Industry and Trade and all its activities are governed by the provisions of its special Act.

Pursuant to the Act of KOSGEB, industrial enterprises in the manufacturing sector employing 1-50 employees are regarded as small enterprises and those employing 51-150 employees as medium industrial enterprises.

The aim of KOSGEB is to develop and support instruments to enable small and medium enterprises to compete in domestic and international markets in order to satisfy the economic and social needs of the country; to provide them with all the required information; to provide new business opportunities in market- and technology-oriented sectors of production with high value added; to prepare the entrepreneurship environment and to materialise these activities in line with the targets of the programme devised.

Its policy is to provide flawless, sustained, better and faster service to small enterprises in order to enable them to provide goods and services of high standards, at a low cost, using advanced technology. It also aims to eliminate all obstacles that impede small enterprises, so that they can have a competitive edge in the domestic and foreign markets.

KOSGEB serves and supports enterprises in the following areas:

- Finance,
- Technology and R&D,

- Information and electronic commerce,
- Development of entrepreneurship,
- Promoting exports,
- Regional development.

These services and support are extended to small and medium enterprises through the Administration, Institutes and Service Centres.

- Finance: Service is provided to small and medium enterprises so that they can have a wide and more effective access to financial support instruments which would enable them to benefit from financial resources, develop new models and translate these models into life in coordination with the concerned institutions and agencies, ensure the efficacy of the utilisation of the financial resources of KOSGEB by small enterprises and promote domestic and foreign resources which contribute to the enterprises.
- Technology and R&D: It is targeted to offer the services of the KOSGEB Technology Development Centres to entrepreneurs with creative skills desiring to make innovations in products, product management and technology and to the initiatives of the existing small and medium enterprises in this direction, thereby encouraging the establishment and development of the technology-oriented small and medium industrial enterprises which aim at innovative production with high value added, and contributing to the application of new technology in Turkey and commercialisation of R&D in the existing small and medium industrial enterprises.
- Information and electronic commerce: KOSGEB joined the EIC (Euro Info Centre) network in 1994 to increase the share of small and medium enterprises in having access to information. The Euro Info Centre satisfies the need of small and medium enterprises in Turkey for all types of information, especially in reference to the EU. KOSGEB also acts as the contact point for Turkey for such support programmes as the Business Cooperation Network-BC-NET and the Bureau de Rapprochement des Entreprises, (BRE), initiated



by the European Union to contribute to the internationalisation of small and medium enterprises.

- Promotion of entrepreneurship: The Institute for Promotion of Entrepreneurship offers various services to entrepreneurs who want to, or have just set up their own businesses. The programme titled “Entrepreneurship Development Project” has been devised with the purpose of developing an entrepreneurship training package and orientation for trainers.
- Exports promotion: In order to increase their share in international markets, SMEs are supported by the Market Research and Export Promotion Institute to participate in international fairs and to make export connections. Business trips to foreign countries are organised and supported, cooperation with international business organisations is fostered and information on the legislation governing foreign markets is provided.
- Regional development: The Regional Development Institute provides consultancy services to potential entrepreneurs in the priority regions for development to channel investments, prepare pre-project and feasibility studies, find solutions for unfinished and interrupted investments. Sectors in specific bottlenecks are handled in the context of Sectorial Development services and efforts are made to assist the persons in the sector to adapt to new technology developments through technical and technological innovations and in-house training seminars. The main tasks of the Regional Development Institute include: conceiving suggestions to solve the problem of unemployment, which has reached serious dimensions in Turkey, by contributing to opening new fields of employment; developing the population in the less developed regions by increasing their income; devising projects to stop migration and minimise the difference in the level of development with other regions, thereby mobilising the employment potential of the SMEs; and encouraging new investments by providing training, consultancy, etc. services.

KOSGEB provides the following services in all the fields of activity mentioned above:

- Training,
  - Consultancy,
  - ORKTA (Common facility workshop) model implementations,
  - Laboratory tests and analyses.
- Training: Classroom, laboratory and on-the-job training programmes in technical, managerial, financial and legislation issues addressing the training needs of the SMEs under variable conditions, and short-term conferences / panels are organised for promotion and information.
  - Consultancy: Consultancy services seeking solutions to the problems of the enterprises emerging in all areas from raw material selection to marketing of products include improving product quality, decreasing costs, establishing the ISO 9000 Quality Assurance System, CE Mark and Management Consultancy. KOSGEB, in addition to its experts, employs outside engineers, economists, business managers, finance experts, etc., specialists in the service of SMEs through the Consultancy Support System.
  - ORTKA (Common facility workshop) model implementations: The production machinery and measuring devices, unprofitable to be purchased individually by the industrialists, are purchased by KOSGEB and offered to the service of the industrialists. Under this model, machinery and equipment are provided by KOSGEB and operated by relevant industrialists. In this context, the common facility workshops encompassing the leather processing industry in Bolu-Gerede, Denizli and Hatay, knife manufacturers in Denizli-Yatağan and Trakya-Sürmene carry out their activities.
  - Laboratory tests and analyses: Service is extended to our industrialists through the Laboratories established in the Small Enterprises Development Centres situated in 23 provinces of Turkey and operating in conformity with national/international standards. Nine of these Laboratories have the TSE (Turkish Standards Institute) Laboratory Certificate of Qualification.

There are two types of service centres within the structure of KOSGEB established to provide service to SMEs and new entrepreneurs:

- KÜGEMs – Small Enterprises Development Centres
- TEKMERs – Technology Development Centres
- The KÜGEMs have been established to provide service in various fields to the SMEs situated in the provincial industrial estates, with the assistance of expert staff. The KÜGEMs provide the following services:
  - Investment guidance,
  - Project profiles (commercial, industrial),
  - Implementation of development and support programmes among the enterprises,
  - Collecting and disseminating information,
  - Disseminating technological innovations,
  - Management consultancy,
  - Determining and meeting training needs,
  - Providing consultancy in the establishment of the ISO 9000, Quality Assurance System,
  - Developing production process,
  - Laboratory services.

26 KÜGEM industrial zones operate in 23 provinces throughout Turkey (Adana, Ankara [OSTİM, Sincan, Siteler], Bartın, Bursa, Çorum, Denizli, Eskişehir, Erzurum, Gaziantep, Gebze, İstanbul [DSS and IMES], İzmir, Kahramanmaraş, Kayseri, Konya, Malatya, Nevşehir, Samsun, Sinop, Şanlıurfa, Trabzon, Zonguldak and Van).

- TEKMERs are centres established to provide support to existing small enterprises which plan to set up a new service such as a new product, a new production method, technology-based software or design, or innovations in the existing product/production method as well as to new enterprises planning to have technology-based operations. TEKMERs' targets are:
- Establishment, support and development of information and technology-based new companies,
- Supporting the R&D projects of the existing enterprises,
- Enhancement of the cooperation between the university, the public and private sectors, R&D facilities and the small enterprises,
- Tracking and evaluating the development activity of the small enterprises in their business environment and the intellectual and industrial property implementations such as patent/useful model/industrial design, and channelling the activities of commercialisation of such implementations,
- Carrying out the efforts towards developing a database of the R&D activities of small enterprises and disseminating the information to be included in it to the concerned parties on the Internet,
- Application of and tracking the TEKNO-NET information network to small enterprises.

For this purpose, the TEKMERs provide the following services:

- Business premises equipped with contemporary technology infrastructure including computers and the internet,
- Direct access to the scientific and technological infrastructure of the universities,
- Consultancy support to the projects under way,

- Materials and equipment support,
- Information on loans and other financial instruments,
- Business development and marketing services.

Seven TEKMERS in Turkey, in cooperation with the Middle East Technical University and Ankara University in Ankara, the Istanbul Technical University, the Bosphorus University and Yıldız Technical University in Istanbul, the Black Sea Technical University in Trabzon and the Gebze Advanced Technology Institute in Gebze provide services to entrepreneurs who want to undertake R&D work.

## **2.5. Halkbank**

Halkbank was founded in 1933 to meet the financial requirements of tradesmen, artisans and small and medium industrial enterprises. The main functions of Halkbank are:

- To extend loans to tradesmen, artisans and small and medium industrial enterprises in order to meet their working capital and investment capital needs.
- To encourage the development of small and medium industrial enterprises and to provide financing during their transformation into large enterprises.
- To support small enterprises by providing them with technical consultancy through its technical consultancy centres.
- To act as a development bank for small and medium industry.
- To engage in all kinds of banking activities in order to achieve its goals.

Halkbank has 801 branches nationwide and 9 representative offices abroad. Halkbank provides:

- cooperative credits,

- industrial credits,
- commercial credits,
- fund credits.

## **2.6. Eximbank**

Export Credit Bank of Turkey, also known as Turk Eximbank, was established in 1987. Turk Eximbank is a state-owned bank playing a vital role in the Republic's export-led growth strategies. The main objectives of the Bank are:

- Increasing exports,
- Diversifying export goods and services,
- Encouraging exporters to enter into new markets,
- Increasing the share of Turkish exporters in international trade,
- Providing support and a risk-free environment for Turkish exporters, investors and overseas contractors.

As a means of aiding export development, Turk Eximbank offers specialised financial services through a variety of credit insurance and guarantee programmes. Turk Eximbank has a short-term credit programme specific to SMEs, namely, the pre-shipment export credit programme. Loans under SMEs credit facility are extended only to manufacturing and exporting SMEs employing up to 200 personnel. SMEs can also benefit from medium and long-term export credit programmes.

## **2.7. Credit Guarantee Fund Inc. (KGF)**

Established in 1991, the Credit Guarantee Fund Inc (KGF) provides guarantees to SMEs in getting loans from banks. KGF was founded within the framework of the technical cooperation existing between the

Turkish and German Governments. The Guarantee Fund is co-financed by the German Technical Cooperation Institution-GTZ and KOSGEB. The shareholders of KGE are: KOSGEB, Halkbank, TOBB (Union of Chambers and Exchange), TESK (Confederation of Tradesmen and Artisans), MEKSA (Foundation for Vocational Training and Small Industry), TOSYÖV (Foundation of Medium-size-enterprises-Industrialists and Managers)

### **2.8. Foundation for Vocational Training and Small Industry Support (MEKSA)**

Established in 1985, MEKSA provides vocational training at 29 training centres in 16 districts to approximately 4,000 apprentices, 850 journeymen and 1100 skilled workers annually. METSA was established in cooperation with the Turkish-German Institute of Economic Cooperation of Berlin with the aim of improving the skills of SMEs staff. MEKSA organises training courses in lathing, moulding, welding, tool and die production, production and maintenance of agricultural equipment, automotive components as well as paintwork, furniture production, shoemaking, apparel, plus kitchen, front office, sales, etc.

### **2.9. Technology Development Foundation of Turkey (TTGV)**

TTGV was founded in 1991 by the joint efforts of the private and public sectors of Turkey. The major goals of the foundation are:

- to increase in real terms the investments of the Turkish industry in research and development,
- to carry out all activities in accordance with the requirements thereof,
- to provide funds and expertise to support industrial technology projects that have a high effect on the economy,
- to enhance technology and technological infrastructure,
- to identify effective technological research areas,

- to carry out research in such areas, alone or in cooperation with others, in order to bridge the gap between Turkey and other nations, and strengthen Turkey's position in global trade sectors, while strengthening the ties between the Turkish industry, certain universities and research institutions, and the Scientific and Technical Research Council of Turkey.

The funds flow to projects supported by TTGV from the World Bank and the Undersecretariat of Treasury and Foreign Trade.

### **3. IMPACTS OF GLOBALISATION AND LIBERALISATION ON SMEs**

No consensus has yet been reached on the definition of globalisation. While some authors concentrate on the economic meaning of globalisation, others emphasise the socio-political aspects.

Quattara (1997) takes globalisation in the economic sense and defines it as an integration of world economies through trade, flow of finances, change of technology and mobilisation of information and manpower.

In the analyses made by the OECD, globalisation is defined as expansion and depth in production and marketing activities of enterprises.

Globalisation or global integration involves the development and expansion of economic, political and social relations, as well as elimination of polarisation due to ideological differences. Globalisation, on the other hand, means development of common values, which may be economic, political, social or cultural. Functioning of markets, links between markets, political systems, democracy, human rights, and environmental consciousness are concepts gaining significance within the framework of globalisation.

While it is possible to adopt these values and move closer to them, it is also possible that cultural differences may be more accentuated, in which case, reaction against them can develop and augment.

The tremendous developments in information and communication technologies have led to a big increase in the variety of information-intensive services. Developments in technology have reduced the cost of



telecommunication, and the flow of information across borders is enhanced as global information society is formed.

The important characteristic of this development is that it is optional, expansive and led by individual efforts.

### **3.1. SMEs and Globalisation**

All governments are well aware of the significance of SMEs for any economy, in view of social cohesion, employment and local development.

Globalisation and technological development bring new opportunities to SMEs to enter new markets and reduce operating costs. However, challenges like new risks and tough competition are also faced by SMEs. In some countries, SMEs are organised in new structures, like clusters and industrial zones, as we see in Italy.

Industrial zones and clusters help SMEs maintain their strength at the local level and their competitiveness in the global market.

The issues and policies related to maintaining and improving competitiveness of SMEs in the global economy must be well understood.

In order to improve competitiveness and encourage SMEs to “globalise”, challenges and opportunities must be analysed, best practices must be identified and policy recommendations must be developed.

The main issues to be considered for the entry of SMEs into global markets are:

- Partnerships, regional/local clustering and industrial zones,
- Electronic commerce,
- Reengineering and strategic services. Financing of SMEs within this framework is also an important issue.

In this context, the financing of SMEs is perceived as an important subject.

A consensus is needed among the related parties on the political initiatives aiming to ease the globalisation of SMEs.

All countries have the potential to benefit from dynamic small enterprises. There is a need for change in the political framework as well as in the technological process for the adaptation of SMEs since most of the policies have so far been developed to accommodate the needs of large enterprises.

### **3.2. Areas to be studied for the globalisation of SMEs**

#### *3.2.1. Partnerships, clusters and globalisation of SMEs*

By means of a variety of partnerships, SMEs are improving their competitiveness in local and international levels.

Clusters and industrial zones are efficient means for cooperation among SMEs, and there is a trend towards concentrating in various geographical regions with other enterprises operating in the same sector.

A cluster is the coexistence of sectors and enterprises in the process starting from production all the way down to the marketing of goods.

For example, the success of a shirt producer is dependent on the successful contributions of the cotton producer, the input supplier, the textile dye producer, the designer, the transporter, the retailer and even of certain universities.

In other words, competitive advantage can be gained by forming successful clusters. If relations and cooperation between the enterprises of a cluster are strong, the chance of gaining competitive advantage is higher.

Silicon Valley in California (USA), Silicon Fen in Cambridge (UK), and Industrial zones in Italy are successful examples which make the concept of clustering more attractive.

Clusters are formed to include ancillary industries, related industries and supporting industries. The information base and infrastructure of such a combination provides competitive advantage to a group of products.

By means of clustering and partnership:

- Common problems of the main industry and ancillary industry are identified and solutions are sought together.
- Enterprises collaborate in developing technologies, exchanging input materials and goods and using each other's production facilities in their trials for new products.
- Enterprises are informed faster of developments in technology, and share laboratory facilities.
- By combining their facilities, enterprises of same or related sectors in a cluster can develop new products, services and processes.
- Enterprises producing similar or related products can form distribution channels and reduce distribution costs.

A critical issue is how government agencies should act to enhance clusters and partnerships. What kind of measures should be taken by policymakers in order to establish the institutional infrastructure to support such initiatives (like the establishment and improvement of communications infrastructure, and providing effective extension services)?

A common observation is that, in spite of globalisation, there is a strong tendency among competitive enterprises of one particular sector to be located physically close to each other. This is also valid for enterprises active in data and information processing, and the same is true of enterprises in well-known clusters and regions of the USA, the UK and Italy, where big investments are made. This leads to low unemployment and high average wages. Many OECD countries evaluate and discuss the success of clustering.

On the formation of clusters, there is a series of issues on which local and regional authorities should be active. Care must be taken, however, when designing and implementing policies.

The following points are important for the role of government policies toward the success of clustering:

- Detection of failures in markets due to policies,
- Monitoring of the economic symptoms arising out of many clusters following similar strategies,
- Analysing failures of clusters and developing measures to avoid them,
- Identifying the role of government agencies in encouraging SMEs access to global markets.

Policymakers should consider developing an institutional infrastructure to support the establishment and any development of clusters.

Agencies are needed and mechanisms are required in order to encourage regional partnerships and clusters of SMEs with a view to improving competitiveness. The tendency of internationalisation of industrial zones must be analysed and symptoms must be identified with respect to government policies.

Another matter to be looked into is the simplification of formalities and the effect of this on the best physical arrangement of companies.

### *3.2.2. Recognising the potential of electronic commerce for SMEs in the global economy*

Electronic commerce can be one of the most important vectors in the globalisation process of the SMEs. Electronic commerce marks a new epoch in competition. SMEs have to analyse this new tool of operation in order to make use of it.

To promote SMEs, the use of electronic commerce has to be clarified both in business-to-business and in business-to-customer terms, as well as with respect to access to electronic markets, consideration of technologies and acquisition of certain skills and knowledge, financing certain steps, asymmetric problems pertaining to the control ability of firms' access into and exit from the electronic markets. Considering the opportunities obtained from e-commerce, does it make a difference whether it takes place in business-to-business or in business-to-consumer area? These are the themes that have to be explored.

### *3.2.3. Rendering SMEs more competitive in the global economy through innovation and strategic operational services*

Innovation is a basic factor of competitiveness in fast-developing, high-tech as well as in more conventional industries. In fact, it is viewed as one of the most important factors. Enterprises are constantly moving their priorities away from stagnant implementation toward innovation. The evolution we see in "application from information to information" points to the need of companies to reinvent themselves. This reinvention may, at times, be more important than product technology and market innovations.

The innovative, technology-based SMEs, which form a small but important group, find themselves at the forefront of industrial and technological development and they internationalise at a quick pace. Taking into account the complicated character of the SME world, in addition to the differences between the markets they act in, the innovations they attempt appear in different forms. Some expand their markets, eventually reaching out to global markets.

In the long term, however, for most of the SMEs, the capacity to project future products and to modify them is dependent on their skills at assimilating technological changes in their competition strategies and developing innovations.

One has to answer questions like how globalisation of R&D affects SMEs. This points to the need of gathering more data on SME participation in globalisation.

It is necessary to ensure that paid-up capital and loans will be available when needed.

Industrial property rights and property technology are subject to be monitored carefully.

What can innovation bring to SMEs in the globalisation process? (Access to strategic “intelligence”, access to technology, ability to develop strategies. For example, reorganising their activities and functions and thereby developing or combining their different human skills, etc.) But what does globalisation bring to the innovation strategies? We need to look into how globalisation affects the innovation strategies of SMEs.

Are clusters or operation networks any closer to the concept of innovation? Do they create pools of excellence? The strategic operation services are as follows:

- Computer software and data processing services,
- R&D,
- Marketing,
- Organisation of operations,
- Development of human resources, etc.

SMEs are both the suppliers and the consumers of these services. These services help companies to form their assets and develop their competitive power.

It is necessary to define certain services needed by SMEs and to evaluate their roles and effects in the globalisation of SMEs. (For instance, services needed to achieve international trade, joint investments, etc.)

If innovation is strategically important for the competitiveness of SMEs in the globalisation process, it should be clarified exactly which policies are most effective on the SMEs. It is necessary to establish an economic,

organisational and legal framework in order to transfer the resources to innovative SMEs.

Measures to enhance innovation and R&D activities of the SMEs leading them to internationalisation (for example, subsidised compensation for R&D staff, guarantees for venture capital, increasing cooperation between research centres and companies, subsidised loans for investments abroad, training in matters related to export, etc.) must be developed. Equally important is the fact that SMEs know how they can best get the operations services they need from the supplier industry. What are the most effective ways to guarantee that SMEs become aware of the existence of these services and benefit from them?

A small but important group of technology-based SMEs is at the forefront of the fast-developing new technologies. That these SMEs can be innovative within internationalised networks is necessary for their success, but at the same time, it is the reason for their existence.

For most of the SMEs that work in established markets, innovation, product quality, marketing, management, technological updating (corrections and modifications) and related organisational changes are means to secure constant improvements in logistics.

Actually, an important part of the small enterprises, especially those which still work in markets that are divided and protected, have not yet developed an innovation culture and are, therefore, deprived of more creative skills toward competitiveness. As markets and operation strategies globalise and diversify, the effect of technical development on transformation of competition also increases.

In the long run, SMEs need to set innovation at the basis of their operation strategies in order to sustain and create business. This leads them generally to a struggle with government policies to secure support for technological development and innovation.

Different SMEs come up against certain barriers because of system or market imperfections, which also need to be defined. Government policies must cover the correction of these, starting with an observation of their effects.

In this context, the following questions must be answered: What are the most important framework conditions that affect SME subsidies and SME innovation capacities? What are the barriers on the path of development for various kinds of SMEs? What are the best practices concerning government policies toward supporting venture capital, financing corporate investment (for example, business angels) and developing core capital?

Is financial support for R&D and innovations (through tax incentives and grants) effective for all kinds of SMEs, including even micro enterprises? If not, what kind of measures can be implemented to correct the failures in the market, to cover even innovation training and organisational change, since these, too, affect the financing of investments?

How and to what extent must the government get involved in helping SMEs to increase their innovation and management skills?

Is it necessary that the technology-disseminating programmes be reviewed in terms of their targets and tools? Would such a review contribute further to the learning and assimilation capacities of SMEs?

What measures can be taken to instil further the newest innovation and management applications and benchmarking techniques among SMEs?

Are any special activities needed to help SMEs better use knowledge-based management tools, which have such special importance in coping with globalisation?

How can the links between SMEs and the public research sector be improved? What are the influences that hinder cooperation (beyond technical subjects) between the SMEs?

How can the government internationalise national and regional innovation networks?

The concept of globalisation appeared in the literature of nations in 1990 and stands to gain further importance in the coming century. There is yet no consensus as to the extent to which countries may gain or lose



through globalisation and economic liberalisation. Along with the advantages of globalisation, all kinds of possible problems are also mentioned by all concerned.

#### **4. OPPORTUNITIES FOR TURKEY TO COOPERATE WITH OTHER COUNTRIES**

The previous paragraphs of this report include brief pieces of information about the support and services given to the SMEs as well as about the agencies that work in this field. Since the beginning of the 1970s, the various services and support extended to the SMEs have been a considerable source of learning and experience for various agencies in our country. This accumulation extends itself to the determination of SMEs' needs and problems as well as to the development of policies toward the solution of the same. In other words, this rich experience includes the establishment of industrial areas and zones, provision of consultancy services, training support, vocational training, accessing information, finances, loan guarantees, research and development support, plus any support toward SMEs accessing markets abroad. Turkey is prepared to share her rich accumulation with the member states of the OIC.

It is believed that the seminars, conferences, workshops, training programmes and business trips to be attended by senior executives and experts of the relevant agencies in OIC member states will present a valuable opportunity for Turkey to impart her SME experience.

In view of the impact that support to SMEs has on the economic development of the member countries, it would be appropriate that the Islamic Development Bank finance the activities mentioned above.

#### **5. CONCLUSION AND EVALUATION**

The rapid development and extensive use of information and communication technologies help lift the trade barriers among countries. It is expected that globalisation and liberalisation will grow further in the year 2000, leading to major economic, social and political changes in the world.

While such changes are being experienced, SMEs, which form the backbone of every economy and which are the guarantee of social

stability, try to keep pace with the unfolding events. The intensive competition brought about by liberalisation has an effect on the SMEs as well, requiring them to put up a considerable fight in order to sustain themselves. In the light of the above, governments need to give further support to the SMEs and devise new and powerful mechanisms to render them more competitive. All necessary measures must be taken in order to enable SMEs to enter the world markets and form partnerships with foreign companies, by meeting their financial and technological needs, as well as their needs for skilled staff, by lightening their tax burden, and by solving the problems that arise out of limiting regulations.

It is to the benefit of all countries that SMEs be least affected by the winds of globalisation and liberalisation, Turkey is ready to share with the OIC member states all her experience in this field.