

# **HUMAN RESOURCES PROBLEMS IN FAMILY OWNED SMALL-MEDIUM SIZE ENTERPRISES IN TURKEY AND PROPOSED SOLUTIONS**

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## **Abstract**

*Small-Medium Size Enterprises (SMEs) play a leading role in every industry ranging from electronic to automotive. However, there are numerous problems relating to all activities. What make real difference in obtaining competitive advantages are the proper management practices. Especially important is proper management of human resources. The root cause of the problems has to do with the approach of the individuals that lead businesses, formed by their personal characteristics, inner motivation and attitudes towards the business they do. Mostly, they are well trained in terms of technical skills, since they grow with the business and possess sufficient knowledge and experience in the industry. But on the other hand, general and personal competencies are often overlooked– the entrepreneurial approach, creativity, willingness to learn and grow, thus pushing other employees and business as a whole forward. Preparing a successor for key management positions should start when the business starts and be one of the main and continuous management functions. Plus, the business should have long term vision, and all other strategies should be aligned with it. Then, the important message should be delivered to candidates for a position, and their reaction and feedback on it should be analyzed. This kind of approach will force the prospectors to think whether they are the ones to take that responsibility and commit themselves to the business vision. To develop the approach described above and the decision program in the SMEs, entrepreneurship and management courses will have to be organized and SMEs owners will have to be trained at those.*

*Keywords: Human Resource, SMEs, Enterprising, Turkey*

## INTRODUCTION

The 21<sup>st</sup> century has been labelled as the 'decade of the SMEs' in Turkey. They play a leading role in textile and metallic goods industries but their existence becoming more evident in every industry ranging from electronic to automotive. It has been estimated that 99.2% of the firms operating in Turkey are SMEs. They create 79.7% of the employment and 38% of the total value-added. A survey carried out by the Small and Medium Enterprises Development and Support Office reveals that in the manufacturing sector alone, 99.5% of the firms are SMEs. They create 61.1% of the employment and 27.3% of the value-added.

In the view of the figures presented, the importance of SMEs in the Turkish economy is vital. However, there are numerous problems relating to all activities, from basic assets formation, investments and production to Customer Relationship Management (CRM), public relations and networks functioning. The need to address the problems they face become clear and evident. What make real difference in obtaining competitive advantages are the proper management practices. Especially important is proper management of human resources. The problem can be solved by applying an elaborated decision program to be the bases for selecting and developing a person for a position, which would give several listed benefits to the SMEs HR performance.

## PROBLEM DESCRIPTION

There are numerous problems relating to all spheres of SMEs' activities, from basic assets formation, investments and production to CRM, public relations and external networks functioning. Though limited in financial resources, SMEs are being nevertheless exposed to globalization trends and information – thus obtaining equal chances to compete for a customer. What make real difference in obtaining competitive advantages are the proper management practices – true for small and large firms to the same extent. And in this area SMEs have many problematic issues as well.

Especially important is proper management of human resources. Data from two sources present the Human Resources (HR) management problems, encountered by Turkish SMEs nowadays.

### ***Example 1***

A survey, carried out by Altunışık and Coşkun (2005) with a total of thirty one top managers of the Turkish SMEs located in Sakarya and Gebze region, gives insights into the personnel problems faced by the majority of SMEs in Turkey.

All of the respondents interviewed by the researchers, except one, were male, and approximately 70% of them had the title of owner/manager and the remaining 30% were professional managers responsible for the operations. Of the respondents, only 16% indicated that they were familiar with the Internet environment and making use of this new medium. Although nearly half of the respondents have pointed out that they were knowledgeable about computers and information technology, only 20% of them were able work in the MS Office environment. Most of the computer works were taken care by the employees. Almost all of the managers included in the sample indicated that they were reading some daily newspapers but only half of them were interested in the economics and management related magazines and journals. Respondents who were reading/following work-related magazines or journals were composing about 10% of the sample. Only two out of thirty one managers have shown interest in attending courses or seminars in the area of management. However, a third of the respondents have pointed out that they were attending fairs and exhibitions, and this was representing the main source of new product ideas. The survey provided a series of conclusions for considerations:

- 1) There is a great dependency on large customers. The majority of the SMEs in the sample dealt with a small number of customers that produced 50% of turnover. Some of them have their own distribution channels since it was considered critical in the success of the business.
- 2) There is a lack of market orientation among the SME managers. A clear indication of this point can be observed in the statement of problems they face. Most of these problems were concerned with internal environment of the firm (i.e. the production or finance related problems).
- 3) Professionalism is absent. Majority of these firms are family-owned, hence managed by the family members who usually lack any professional managerial skills.
- 4) Lack of a long-term perspective in dealing with business affairs. Most of the managers do not have long-term vision and objectives, and most of them struggle with daily operations which is a sort of myopia. Such behavior jeopardizes the future of the firm.
- 5) Lack of understanding of the importance of emerging issues. An obvious indication of this finding is that the vast majority of the managers do not have a clear understanding of concepts such as globalization, foreign direct investment which might offer opportunities as well as pose threats to the SMEs.
- 6) They are fatalists. There is a lack of aspiration in the management of these firms in regard to facing challenges, taking risks and exploiting opportunities emerging in the new business environment for the sake of growth and long term survival.
- 7) Technological obsolescence. Most of these firms are slow to adapt their mode of operation in light of technological changes taking place around them.

8) Fear of losing control of management. Related to the question of non-existent professionalism lack of delegation and avoiding employing professionals is a common drawback associated with these firms.

### **Example 2**

Another source gives an overview of Gaziantep, one of the leading provinces in Turkish economy. The author Özcan (2004) describes practices of operating SMEs in Gaziantep, emphasizing the managerial problems evident in the entrepreneurial environment there.

Especially in manufacturing, the number of small establishments is remarkably high. This is caused more by the continuation of artisan traditions than by the presence of lean, innovative businesses. Different motives behind the entrepreneur's decision to start up a business in Gaziantep. The most common motives are family influence (24.1%), previous work experience (19%) and a search for independence and profit seeking (18%). These are followed by the desire for personal satisfaction and enjoyment, easy and comfortable daily routine and a less competitive atmosphere.

The entrepreneurs often rely on unpaid family employment and unskilled rural migrants when they look for work force. These firms employ child and teenage male labor who are obviously unskilled and often not registered with the social security institutions.

There are two important specific influences for entrepreneurs there. First, family and friends are crucial to maintain a business tradition. They provide financial support, cheap or free family labor, business experience and a good social environment for the entrepreneur. Secondly, the cultural experience of business involvement as an apprentice is very important. This serves as a force of socialization of young males into skills and economic activities.

As the firm grows and expands the business dynamics and support networks change. But one characteristic still remains important. That is the involvement and help of family and friends in the home town.

Perhaps the most important factor for the success of Gaziantep is the strong sense of local identity among small and large businessmen. Therefore, growing businesses remain in the city rather than moving elsewhere. This sets Gaziantep's business culture apart from the rest of Turkey and, consequently, wider economic community.

The entrepreneurs' expectations and initial inspirations for their business are based on concerns about their own and their families' wealth and living standards. The respectability of a profitable business is also an aspiration in the community where families know each other and reputations are important.

Many entrepreneurs learn the business in practice but lack of managerial skills and education. Small business owners and families want to keep control of the key decision making and financial aspects of the business. Therefore, they do not want to expand the business. There is also some evidence that businessmen do not always make investments to improve the current business and they hesitate to hire qualified engineers, accountants and marketing agents. There are speculative investments and conspicuous consumption by the entrepreneurs and their families. Small businessmen are stimulated by a wealth seeking impulse, and not by investment in innovative and growing business. They lack long term vision for their company.

Imitation rather than innovation shapes business practices. Most Gaziantep firms do not innovate but diffuse and alter technology through widespread imitation. This practice diminishes profit levels and leads to increasing competition as the number of small firms in a particular trade or production area increases and saturates the market. Yet, imitation in manufacturing is crucial for the artisan development of entrepreneurs. Entrepreneurs who were ex-employees and apprentices develop their skills and knowledge of machines through repairing and imitation. The problem for these small machinery manufacturers is the widening gap between the capabilities of what they produce and the best new designs.

Lack of trust among business people and limited strategic vision create short-sighted relations. Small firms in Gaziantep and in Turkey as a whole have quasi-networks with weak cooperation and temporary business relations. Neither partnerships nor business relations last long, due to mutual mistrust and corruption in the local economy. Even among family members and relatives, managerial difficulties and profit distribution cause serious disputes and even lead to a break up in relations.

## **PROBLEM ANALYSIS AND PROPOSED SOLUTIONS**

From the data presented it can be seen that SMEs in different parts of Turkey have similar deficiencies in their HRM practices, what creates obstacles for their successful development. Overall findings reveal that in the Turkish SMEs, entrepreneurship, management and ownership are all combined within the hands of the owner, and thus the result is little delegation and professionalism. The monographic (i.e. the owner/manager is the only policy and decision-maker) nature of SMEs' management pose certain threats and eventually endanger the future of the firm.

This problem often derives from the family nature of the large portion of businesses in hand – very often entrepreneurs involve their family members in their business, thus hoping to benefit from savings on salaries, greater commitment and loyalty, reduced risks as compared to

employing from outside, and security. These rationales are definitely reasonable and would be effective if this approach did not have its negative side effects.

Business owners do not think rationally when they decide who their successor will be or who will be employed for this or that position when they consider their relatives or family members. Non-paid workers, children for instance, are involved. Later, they get used to the job they do, and continue with it through their life, without considering other options – their choice is preliminary limited by their family influence.

Thus, key positions are filled with people who may not have general, technical, personal skills, or motivation and aspiration at all to perform this or that work.

Thus, problems start from the very entering point – recruitment and succession in the business unit. Data shows how few managers in SMEs have proper education, skills and interest themselves in the opportunities for self-development.

First and foremost, a business is a team of individuals. In a family business groupthink is a real and most widespread threat, so as people are from the same family, may be brought up together, have similar values and inclined to act as their family members expect them to, that is to conform to the commonly used business practices, for instance. This refers also to wider community, as in Gaziantep case – strong identity feeling among local businessmen, importance of social customs and traditions is the factor to promote groupthink as well. Groupthink results in the loss of innovativeness and flexibility in the business, thus stalling opportunities for expansion and advancement of the firm.

Another consequence is complacency, fatalism of an owner, lack of vision and market orientation, inability to be proactive and assertive in competing on the market. As a result, technological obsolescence, imitation rather than innovation and poorer management practices take place.

And a very important issue is the reluctance of business owners to employ professionals from outside in fear to lose control of the company. By doing so, they limit the inflow of fresh ideas, new insights and business approaches. This is the direct reason of why so many SMEs do not grow in size and remain stalled in the market niche they are in, while it is vital to change, as the environment changes and progresses.

The root cause of the problems above has to do with the approach of the individuals that lead businesses, formed by their personal characteristics, inner motivation and attitudes towards the business they do. Mostly, they are well trained in terms of technical skills, since they grow with the business and possess sufficient knowledge and experience in the industry. But on the other hand, general and personal competencies are often overlooked. In fact, they

may lack the most important thing – the entrepreneurial approach, creativity, willingness to learn and grow, thus pushing other employees and business as a whole forward.

The problem can be solved by applying a thoroughly elaborated decision program as to who will work for a business and what are the bases for selecting a person for a position.

First of all it concerns key management positions – whether an owner is a company manager or not (in SMEs the former is the case most of time), so as in SMEs personality of general manager is especially influential. Preparing a successor for such a key position should start when the business starts and be one of the main and continuous management functions.

The business should have values of its own, and long term vision, and all other strategies and plans should be aligned with it. Applying these to the succession planning and filling the positions in a company, the entrepreneur should assess and evaluate its family members (candidates) – if they are not to be employed from outside - in terms of what their attitudes and views, their inborn preferences and tendencies are. This is the basis upon which educational, technical and other competencies of candidates are then assessed.

Then, the important message should be directly or indirectly delivered to candidates for a position, and their reaction and feedback on it should be analyzed. The message is about the business and its value to the family. The successors should be explained the long-term nature of the business and see their role in it not as owners and main beneficiaries from the business results, but as safe keepers of family legacy, whose mission is to grow the business and hand it over to future generations.

This kind of approach will force the prospectors to think whether they are the ones to take that responsibility and commit themselves to the business vision, or they would better realize themselves in a different occupation or position. Here, individual aspirations and goals of an individual are crucial. If the prospector is the right one and accepts the values and role presented to him, he will treat the business not as a tool for self-enrichment, but as a creature to be grown and developed. Then, his overall managerial approach will be based on willingness and aspiration to improve the business, and help avoid numerous problems faced by businesses due to the short term nature of management's attitudes and practices.

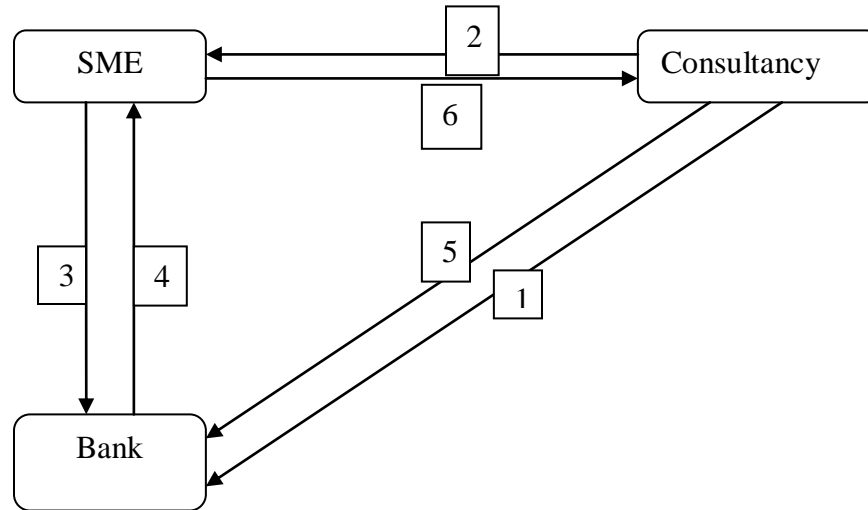
To develop the approach described above and the decision program in the SMEs, entrepreneurship and management courses will have to be organized and SMEs owners will have to be trained at those. The course program will include;

- motivation and delegation,
- strategic management,
- teamwork,
- and management psychology.



The courses will be prepared and conducted by a private consultancy. There will be a third party in this scheme, a bank. The scheme is visualized down:

Figure 1 Decision program scheme for selecting and developing a person for position



Source: Self Composed

1. A consultancy will work with a bank of its choice, generating a proposal of cooperation, according to which a bank will serve as an intermediate between the consultancy and SMEs. SMEs as well as the consultancy will become clients of a bank.
2. Courses will be organized for SMEs' owners by the consultancy.
3. For courses, they will pay by transferring money from their accounts to the consultancy account in the same bank.
4. For this, they will be offered cheap credit resources or other beneficial bank services depending on their special needs.
5. Consultancy will provide a bank with the information on the courses attendance and knowledge application by the SMEs owners.
6. Information will be traced by special questionnaires and tests elaborated by a consultancy. Thus, privileges offered by a bank will require certain terms to be fulfilled by a SME. Benefits of this scheme:

1) For SME owners;

- up-to-date education and self-development,
- managerial practices application,
- and cheap credit resources or other bank services.



2) For a bank;

- customer base,
- increased money deposits,
- and increased services turnover.

3) For a consultancy;

- customer base,
- sound financial standing,
- and profits.

## CONCLUSION

The importance of SMEs in the Turkish economy is vital. However, there are numerous problems relating to all activities, from basic assets formation, investments and production to Customer Relationship Management (CRM), public relations and networks functioning. The need to address the problems they face become clear and evident. What make real difference in obtaining competitive advantages are the proper management practices– true for small and large firms to the same extent. Especially important is proper management of human resources. The root cause of the problems above has to do with the approach of the individuals that lead businesses, formed by their personal characteristics, inner motivation and attitudes towards the business they do. Mostly, they are well trained in terms of technical skills, since they grow with the business and possess sufficient knowledge and experience in the industry. But on the other hand, general and personal competencies are often overlooked. In fact, they may lack the most important thing – the entrepreneurial approach, creativity, willingness to learn and grow, thus pushing other employees and business as a whole forward.

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