The Adaptations of SMEs into Rating Process within the Scope of Basel Arrangements a Study in the City of Corum

Recep ÇAKAR
Hitit University
Çorum Vocational School
Çorum, Turkey
recepcakar@hitit.edu.tr

İlker SAKINÇ
Hitit University
Faculty of Economics and Administrative Sciences, Çorum, Turkey
ilkersakinc@hitit.edu.tr

Extensive Summary

Introduction

The banks in Turkey put Basel Criteria into practice in Turkey since 2011. According to Basel II arrangements, the minimum capital adequacy rate of the banks is not determined not only with their credit size, but also the risk of the credit. It could be said that Basel II arrangements resulted in two important results from this perspective. The first of these results is that the banks will increasingly pay attention to the risk rating and shape their credit decisions depending on rating. The second result is that the SMEs will face different price options and credit conditions in accordance with their risk level.

Different from the previous studies, this study aimed to measure the adaptations of the establishments to ongoing Basel process. Moreover, the current study examined whether the establishments obtained what they expected from Basel process, made a progress with regards to transparency and accountability, and overcame their difficulty in finding finance or not through Basel arrangements.

Methodology

The following hypotheses will be tested in the application section. As a result of the tests, H₀ : null hypothesis will be accepted as constant and in the case of the rejection of null hypothesis, alternative hypotheses which show the opposite case “H₁,H₂,H₃,H₄,H₅,H₆,H₇,H₈,H₉,H₁₀,H₁₁,H₁₂,H₁₃,H₁₄,H₁₅,H₁₆” will be accepted.

H₁ : Educational background of establishments’ main partner.
H₂ : Whether the workers in these establishments received any training about Basel II or not.
H₃ : The sector in which the establishments operate.
H₄ : Whether the establishments demanded rating note or not.
H₅ : Legal status of the establishments.
H₆ : Whether the establishments did the analysis of capital budgeting or not.
H₇ : Whether the establishments had difficulty in procuring resource or not.
H₈ : Whether these establishments have R&D department or not.
H₉ : The year in which the establishments
operate, \( H_{10} \): whether the establishments have accounting and finance department or not, \( H_{11} \): whether the establishments have internal audit department or not, \( H_{12} \): whether the establishments do liquidity-profitability analysis or not, \( H_{13} \): the number of employees in the establishments, \( H_{14} \): whether the establishments have human resources department or not, \( H_{15} \): whether the establishments do par analysis or not, \( H_{16} \): whether the establishments find their equity sufficient or not. By taking into these hypotheses into consideration, a significant relationship was found between the adaptation points of the establishments into Basel process and these hypotheses.

Findings

The findings obtained from the questionnaires are grouped into two: the data in line with the structural characteristics of the establishments in the first section and the findings related to financial status of the establishment and adaptation to the rating process in the second section.

The sectorial distribution of the establishments: The establishments which participated in the questionnaires operate in various sectors. The details about them as follows: two from furniture sector (%4.5), seven from (%15.9) automotive sector, seven from (%15.9) mechanical and chemical industry, eight from (%18.2) food industry, ten from (%22.7) textile industry and ten from (%22.7) building and construction, and soil and stone sectors.

Departments in the establishments: Almost all of the business establishments have management department (%97), but R&D department is very scarce in these establishments. Half of the establishments have marketing and accounting-finance department. It could be said that R&D, Personnel-HRM (Human resources management), internal audit service, and quality control units are required in these establishments.

Educational background of the establishments with regards to Basel II: Three of the establishments taking part in this study stated that they did training on Basel II (%6.8). On the other hand, 41 of them (%93.2) expressed that they had no knowledge about Basel II whatsoever. According to these results, it could be said that the majority of the establishments derived their knowledge about Basel II from hearsay.

The status of rating demands of the establishments: Six of the establishments which participated in the questionnaire demanded rating (%13.6) whereas 38 of them (%86.4) did not demand rating at all. Therefore, it could be deduced from the questionnaire results that the majority of the establishments did not demand rating.

Testing the Hypotheses

In this section, the relationships between the structural characteristics of an establishment and medium adaptation point (Adaptation point for rating process) were tested by establishing hypothesis at 95% level. As a result of the tests, 11 hypotheses were accepted and five of them were rejected. When the educational background of main partners was compared, the ones who hold BA degree adapted to the rating system more in comparison with the ones who have high school diploma. When the companies whose workers had training experience in Basel II were compared with the other companies where the employees did not have previous experience in Basel II, the first group was found to be more adapted to rating system than the latter. There was not a meaningful relationship found in the types of sectors in which the establishments
operate (Construction, Machine, Furniture, Food etc.). The establishments which demanded rating note adapted to the rating system better than the ones who did not demand rating note. Moreover, adaptation points of the companies to Basel process did not differ from incorporated company to limited or collective company. In addition, the establishments which did capital budgeting analysis adapted to the rating system compared to the ones which did not do this analysis. The companies which did not have any difficulty in acquiring resource for their establishments adapted to the rating system better when compared to the ones which had difficulties to a certain extent. The ones which R&D departments in their establishments adapted to the system more in comparison with the companies which do not have R&D departments. There is not a relationship found between the companies’ adaptation to Basel process and their operation in the sector. The establishments which have accounting and internal audit departments showed better adaptation to the process than the ones which do not have them. When it comes to liquidity-profitability analysis, the ones who carry out this analysis were found to be more adapted to the system. Furthermore, the number of employees recruited in the establishments did not affect their adaptation to Basel process. Also, there was not a significant relationship found between the establishments which incorporate HRD and the ones which do not incorporate it. The establishments carrying out par analysis were found to be more adapted to the system more compared to the one which do not apply it to in their companies. Finally, the establishments which found their equity capital sufficient adapted to the system more compared to the ones which had equity capital to a certain extent.

**Results and suggestions**

It could be said that individual efforts are insufficient in terms of the SMEs’ awareness and adaptation to Basel II. This situation causes a low-level competition among the SMEs operating in Corum. Rating process forces the establishments to transparency and institutionalization. As a result of this, the SMEs gain strength in terms of both financially and administratively, and their competitiveness with the world would increase. Since the adaptation to the rating system is very crucial for the SMEs, Corum Chamber of Trade and Commerce, Corum Organized Industrial Estate Management, and Ministry of Science, Industry and Technology should organize certain training and practice activities in order to raise awareness. This rating system could become more applicable through some incentives. For instance, the answer given to one of the questions in our questionnaire “Would you participate in the rating system if it is applied by the state free of charge?” was answered “positively” by 90% of the participants. According to this result, the establishments are externally guided and it would be difficult for them to adapt to this process on their own.

The importance of credit rating note and corporal management has increased thanks to Basel II. Therefore, suggestions for the SMEs would dwell upon these two issues. After analysing the innovations, opportunities and disadvantages occurring as a result of Basel II, recommendations made for the SMEs could be investigated under these titles: the establishments should work on major area of activities, keep the record of their off-record activities, and therefore their credit rating notes will prove the success of these establishments. Regular, confidential and transparent financial tables should be produced on an international scale. The establishments should carry out performances with regards to adaptation to institutionalization and all the employers should adopt institution management. Last but not least, the establishments should
invest in qualified human resource to increase competitiveness and they should transfer their financial management to the professionals.