

The Effect of Public Offering on Financial Performance in SMEs: An Application in BIST Emerging Companies Market

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Extensive Summary

The concept of Small and Medium Sized Enterprises (SME) is a concept used in almost all countries. The SMEs lie behind today's all big firms, many risky enterprises, innovations and patents. When these functions and their important roles in the economy are considered together with the relatively weak structure and low opportunities they have, supporting SMEs is still important for a country's economy and so, various programs are being implemented in many countries in this respect.

SMEs are structurally simple institutions and do not require high and heavy costs during the establishment phase. They have significant contributions to the country's economy in terms of customer orientation, rapid adaptation to innovations, employment creation in the country and provision of intermediate goods to large enterprises. Therefore, with expansion of the scope of the SME definition, it's share in the economy has been increased. Accordingly, various policies have been developed to enable them to continue their activities. Support and incentive policies similar to those of other countries have been implemented in order to ensure sustainable and strong structure of the Small and Medium Sized Enterprises with a share of 99.8% among all the companies in our country, but they have not been as effective as the EU countries.

Some of SMEs' problems such as inability to follow developments in the financial world, limited auto-financing opportunities, collateral problems they encounter in credit purchases, low credit volumes they have and inability to enter capital markets prevent

them from having a strong financial structure. The inability of SMEs of providing particularly long term financing is an obstacle to enterprises' technological development, innovation and growth. Stock exchanges market for SMEs have been established in order to overcome these obstacles and ensure the sustainability of SMEs effectively and efficiently. Moreover, it is aimed to eliminate the problem of reaching long-term financial resources thereby encouraging SMEs to take advantage of these capital markets. This platform, which is called SME Stock Exchange, deals with shares of Small and Medium Sized Enterprises (SMEs) and provides funds to SMEs.

Alternative Investment Market (AIM), the first example of a SMEs stock Exchange market in the world economy, was created in 1995 for small and medium-sized businesses in the London Stock Exchange. Other countries set up their own systems by taking this as an example.

In this context, the Emerging Companies Market (ECM) was established in Turkey in 2011 as a distinct market within Borsa İstanbul (BİST) to create a transparent and organized platform where securities, issued in order to raise funds from the capital markets by companies with growth and development potential, can be traded. Thanks to the ECM, such companies will have the opportunity to raise funds while presenting themselves better, and adding to their visibility among investors as well as their operational markets.

When the current financing methods are inadequate, the public offering as an alternative source of financing has the potential to overcome the chronic problems of SMEs in both financial and organizational aspects. Furthermore, SMEs can improve their organizational structures in terms of corporate governance by strengthening their institutional structures through public offering. Thus, as SMEs adapt to corporate governance principles, they will exceed the challenge of access to finance, the biggest obstacle in front of their growth.

In the light of all of these information, we explained SMEs' strengths and weaknesses and their financing problems by referring to all the above mentioned items, and then talked about the benefits of public offering in our work. And BİST-ECM is introduced and their examples in the world are mentioned. In the application phase, the financial performances, before and after the going public, of the companies traded in the BİST-GİP were compared based on the year when the they going public. In the study, return on asset (ROA) and return on equity (ROE) were used as financial performance indicators. Both of these ratios were obtained from the financial statements of the SMEs one year before and one year after the going public. The aim of the study is to measure whether there is a relationship between the public offering of SMEs and their financial performance. In this context, hypothesis established to analyze the relationship between the public offering of SMEs and their financial performance was measured by means of paired t-test. As a result of the study, it was determined that there was no statistically significant relationship between the financial performance of SMEs and public offering.