


Chapter 12

Evolution of the Firm Structure in the Post–COVID–19 Era: A Roadmap for Turkish SMEs

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ABSTRACT

In this chapter, small and medium enterprises in Turkey have been analyzed in a timely manner to provide insight into their post-COVID-19 performance. The analysis starts with a snapshot of the firm structure and firm size distribution in Turkey. A brief overview of the course of the COVID-19 pandemic in Turkey has been provided. The policy responses to the economic effects of the health crisis have been discussed. SMEs' medium-term dynamics have been tabulated using the data of opening and closing firms during the first months of the pandemic. Several surveys conducted with SMEs during the pandemic by public and private organizations have been combined to match the business owners' expectations to policy responses. To assess the public response to the shock and the solutions, the stock market performance of SMEs has been compared with large firms using stock market indices of XKOBI, XPGIP, and XU100.

INTRODUCTION

The novel coronavirus (also referred as COVID-19 or the Sars-Cov-2) has been declared as a pandemic in February, 2020. After the virus hit, the national economies all around the world have almost shut down for some time due to the social distance measures which aim to prevent further spreading. By the time this work has been done, the near future about the pandemic and the remaining delay for going back to the life as we know is not clear, if ever to be possible. This ambiguity poses great danger for small and medium enterprises (SMEs) of which usually lack robust capital structure and mostly depend on the continuum of a daily cashflow to stay in business. In a recent survey, it was shown that the median business in the US had only two weeks expenses equivalent of cash at the start of the pandemic (Bartik et al., 2020). During the COVID-19 period, most of the SMEs have become practically nonfunctional as

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none of them could honor their commitments to any parties including clients, employees and suppliers (Syriopoulos, 2020).

Although there had been multiple occasions of pandemics throughout the history, e.g. Spanish Flu and the Black Death, there seems to be no state of preparedness for none at any time. Considering the recent events related COVID-19, there might be no way of preventing such spreads without taking economically painful measures. There are claims that COVID-19 pandemic is different and economically more severe than the ones before (Reinhart, 2020). Accordingly, the general tendency around the world is focused on saving peoples' lives as it is supposed to be. Unfortunately, most of the proposed measures leave business owners in a crossfire of threats.

Preventing human beings to get together in social gatherings and providing most of them with financial aid to make them stay home with fiscal measures can be effective for a long time, especially in developed economies. The reason is that despite contemporary high level of income disparity, living creatures have lots in common and an adequate diet with personal hygiene is all one needs to stay alive. A tech billionaire can be kept alive and safe at a place with the same measures as an African tribesman. However, the answer to the question of which businesses would be surviving when the fog gets cleared is not easy to answer. A firm's criteria for survival strictly depends on its size and sectoral ties. A multinational corporation and a coffee shop around the corner do not rely on similar terms. Surprisingly enough, popular first responses of cutting taxes or temporarily injecting cash may not be the sufficient condition for keeping alive all types of businesses until the virus is gone. According to a recent study on Vietnamese firms, tax cuts and subsidized bank loans are found to be important starting point for supporting SMEs. However, a more detailed support policies including insurance packages, capital injections and professional partnerships also affect firms' evolution (Le et al., 2020).

When conducting analysis on firm behavior, the main grouping size criteria are the employee count and available capital. SMEs deserve special attention in the case of Turkey due to their high share in total economic activity. Breaking down of the supply-chains, presence of active salary contracts and wrapped up with all the other regular aspects of business life are the major reasons for SMEs' unrest in this period. This paper aims to shed light to this problem by analyzing the Turkish firm structure in a microeconomic perspective and suggest possible directions for the post COVID-19 period, if only we can hope.

BACKGROUND

Coinciding with a strong academic environment globally, many researchers have been rallying to contribute to scientific publishing efforts on economic consequences of the pandemic concerning business enterprises. Many of them utilize quickly conducted surveys during March and April, 2020. The core importance of such surveys resides in capturing the real-time mindset of business firms (Baker et al., 2020). Fairlie (2020) closely monitored the US small businesses' performance during the first few months of the pandemic. The findings warn against a prolonged effect of the COVID-19 related economic downturn. The loss of business in April, especially on different demographic breakdowns, is around 15 percent against pre-pandemic levels. Although there is a small rebound in May, the severity of the crisis has not improved.

Bartik et al. (2020) finds that job losses regarding small businesses in the US happened rapidly during the first few weeks.

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