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RESEARCH METHODS IN ADMINISTRATIVE SCIENCES (MAN 400)

GRADUATION PROJECT

# SOURCES OF FINANCE AND FINANCIAL PROBLEMS FOR CAR GALLERIES OF LEFKOSA, NORTH CYPRUS

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LEFKOSA

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## ABSTRACT

This study was conducted for the requirements of the Graduation Project (MAN-400) BA in Business Administration Degree, the Near East University.

Using a sample of 48 car showroom companies of Lefkosa at North Cyprus, this study investigates the financial problems and sources of finance for small and medium sized enterprises.

A questionnaire was prepared based on the concepts underlying sources of finance that tested the factors affecting gearing of the Lefkosa car showrooms, North Cyprus.

Considering that half of the respondents do not have financial problems, most of them find it safe to spend capital as long as they have it at hand. That is to say, most car gallery owners prefer to finance themselves as long as they have money at hand.

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# SECTION I

# SETTING THE SCENE

## 1.1 Introduction:

The section introduces the topic area, the problem situation, the problem statement and the objectives set for this study

## 1.2 The Topic Area:

Small- and medium sized enterprises (SME's) are the backbone of almost all economies in the world. However, the range of direct exports from the SME sector remains typically narrow and their value added relatively limited.

The definition of SME's varies according to the nation. SME's usually defined in terms of number of employees. In the US, SME's are companies with up to 500 employees. In the EU, SME's have between 11 and 200 employees and sales of under US $40 billion. In Japan, SME's in industry have up to 300 employees while those in wholesale and retail have up to 150 and 50 employees respectively. Developing countries use the World Bank benchmark of 11 to 150 employees and sales under $5 billion (Levine 1997).

This study may be used by managers to answer questions such as the following:

- What are the sources of finance for SME's in general?
- What are the sources of finance for Lefkosa car showrooms?
- What kind of financial problems do SME's faced with?

- What kind of financial problems do Lefkosa car showrooms faced with?

The concepts of Financing SME's may be applied to the business as a whole; to individual segments of the business such as a division, a branch, or a department; or to a particular product line.

### 1.3 Problem situation:

SME's in North Cyprus are faced with difficulties in financing their businesses. The purpose of this study is to understand what the sources of finance are for SME's in North Cyprus and what kind of problems they are facing with.

### 1.4 Statement of the problem:

Business administration students need to understand and carry out a financial problems and sources of finance for SME's in North Cyprus. The aim of this study is to identify sources of finance and difficulties for SME's both in general and particular with car galleries in North Cyprus.

### 1.5 Objectives of the study:

The fundamental objectives of this study are:

- To understand the theory of financing SME's.
- To get to know how SME's finance their businesses.
- To collect information about the sources of the finance for car showrooms in Lefkosa, North Cyprus.
- To collect information about financing problems for car showrooms in Lefkosa, North Cyprus.

## 1.6 Conclusion

This section has stated the topic area, the problem situation, the problem statement and the objectives set for this study. The next section carries out a brief review of the literature on the sources of finance for SME's and SME's in General.

## SECTION II

## A BRIEF LITERATURE REVIEW

## SOURCES OF FINANCE AND FINANCIAL PROBLEMS FOR SMALL AND MEDIUM SIZED ENTERPISES (SME's)

### 2.1 Introduction:

This section is the brief literature review on Small and Medium Sized Enterprises (SME's) in general, sources of finance for SME's, issues and constraints in SME financing, the capital structure of SME's, and gearing.

### 2.2 Small and Medium Sized Enterprises (SME's) in General

Small- and medium sized enterprises (SME's) are the backbone of virtually all economies in the world. However, the range of direct exports from the SME sector remains typically narrow and their value added relatively limited.

Currently, there is a great shortage of a core of dynamic and networked SME's as leading subcontractors or joint-venture firms in their own right within EU, Yoshihara (1988, pp. 153-263). It is discussed that the levels of SME manufacturing value added, for example, tend to be much lower than those from the large firms (with over 200 workers) as well as those from their counterparts in East Asia, the United States and Europe, Hill (2002, pp. 166-169 and 1995, pp. 13-16). Especially, many large firms' activities in EU at present had a humble start as SME's several decades ago. In addition, it is both essential and pressing to provide adequate employment and business opportunities for the several millions of workers and numerous SME entrepreneurs displaced by the 1997-1998 crises as well as for persons ready to enter the workforce or resume risk-taking activities.

Furthermore, there is now a new development context shift to be managed by all business firms regardless of size. Firstly, the liberalization of global trade and investment flows has created vast demand opportunities but has also engendered fiercer competition from global and regional suppliers of goods and services. Wattanapruttipaisan (2003) argued that, many SME's in South Asia and South-East Asia have already felt intense competitive pressures from China in a wide array of manufactured goods. Besides, China has gained a larger foothold in the most important export markets for both the Association of South East Asian Nations (ASEAN) and China. Secondly, consumer preferences and market demands are changing constantly as well as becoming more exacting. At the same time, such non-price parameters as product quality, health and safety in consumption, social equity in employment and production, and ecological implications of products and processes have become more important as a determinant of business advantage. All these have necessitated the adoption of new and innovative business and industrial organization models, and the upgrading of production and marketing processes by most SME's (Wattanaprutipaisan 2002b, pp. 63-64; Momoya 2000, pp. 160-161; and Altenburg 1999, pp. 32-34).

As such, the promotion of SME growth and competitiveness in EU countries can be expected not only to yield increasing social and economic returns domestically but also to empower the private sector in its on-going integration into the global economy. However, the process has long been constrained by the limited availability and accessibility of financial resources to meet a variety of operational and investment needs within the SME sector. Both demand- and supply-side factors have contributed their share to this financing problem.

It should be clarified at this depression that the following discussion does not address micro-enterprises and related financing arrangements and issues. Nor does it examine in any length a variety of supplementary financial arrangements suitable for SME financing except where these arrangements have a bearing on the issues considered in the text.

The definition of SME's varies according to the nation. SME's usually defined in terms of number of employees. In the US, SME's are companies with up to 500 employees. In the EU, SME's have between 11 and 200 employees and sales of under US $40 billion. In Japan, SME's in industry have up to 300 employees while those in wholesale and retail have up to 150 and 50 employees respectively. Developing countries use the World Bank benchmark of 11 to 150 employees and sales under $5 billion, Levine (1997, pp. 688-726).

## 2.3 Sources of Finance for Small and Medium-Sized Businesses ("SME's")

### 2.3.1 Introduction

SME's can be defined as having three main characteristics:

- Companies are not quoted on a stock exchange – they are "unquoted".
- Ownership of the business is typically restricted to a few individuals. Often this is a family connection between the shareholders.

Many SME's are the means by which individuals (or small groups) effectively achieve self-employment (McCawley 2003, p. 40).

### 2.3.2 Why do SME's find financing a problem?

The main problem faced by SME's when trying to obtain funding is that of uncertainty:

- SME's rarely have a long history or successful track record that potential investors can rely on in making an investment;
- Larger companies (particularly those quoted on a stock exchange) are required to prepare and publish much more detailed financial information – which can actually assist the finance-raising process;
- Banks are particularly nervous of smaller businesses due to a perception that they represent a greater credit risk.

Because the information is not available in other ways, SME's will have to provide it when they seek finance. They will need to give a business plan, list of company assets, details of the experience of directors and managers and demonstrate how they can give providers of finance some security for amounts provided.

Prospective lenders – usually banks – will then make decision based on the information provided. The terms of the loan (interest rate, term, security, and repayment details) will depend on the risk involved and the lender will also want to monitor their investment.

A common problem is often that the banks will be unwilling to increase loan funding without an increase in the security given (which the SME owners may be unable or unwilling to provide).

A particular problem of uncertainty relates to businesses with a low asset base. These are companies without substantial tangible assets which can be use to provide security for lenders (Aryeetey and others 1994, p. 32).

When an SME is not growing significantly, financing may not be a major problem. However, the financing problem becomes very important when a company is growing rapidly, for example when contemplating investment in capital equipment or an acquisition.

Few growing companies are able to finance their expansion plans from cash flow alone. They will therefore need to consider raising finance from other external sources. That is, they will need to raise finance to achieve their objectives.

### 2.3.3 Sources of finance for SME's

Otero and Lopez (2001) argue that there are a number of potential sources of finance to meet the needs of small and growing businesses:

• Existing shareholders and directors funds ("owner financing")

• Overdraft financing

• Trade credit

• Equity finance

• Business angel financing

• Venture capital

• Factoring and invoice discounting

• Hire purchase and leasing

• Merchant banks (medium to longer term loans)

A key consideration in choosing the source of new business finance is to affect a balance between equity and debt to ensure the funding structure suits the business.

Urata (2002 and 2000) argues that the main differences between borrowed money (debt) and equity are that bankers request interest payments and capital repayments, and the borrowed money is usually secured on business assets or the personal assets of shareholders and/or directors. A bank also has the power to place a business into administration or bankruptcy if it defaults on debt interest or repayments or its prospects decline.

In contrast, equity investors take the risk of failure like other owners, they will benefit through participation in increasing levels of profits and on the eventual sale of their interest. However, in most circumstances venture capitalists will also require more complex investments (such as preference shares or loan stock) in additional to their equity stake (Holtmann and others, 2000).

The overall objective in raising finance for a company is to avoid exposing the business to excessive high borrowings, but without unnecessarily observing the share capital. This will ensure that the financial risk of the company is kept at an optimal level.

#### 2.3.3.1 Equity Finance and Owner Financing

The greater the funds requirements, of course, the greater the total financing that will be necessary. The nature of needs for funds influences the type of financing should be used. If there is a seasonal component to the business, this component lends itself to short-term financing, bank loans in particular. The firm's level of business risk also strongly affects the type of financing that should be used. The greater the business risk, the less desirable debt financing usually becomes relative to common stock financing. In other words, equity financing seems a good idea in that there is no contractual obligation to pay interest and principal, as there is with debt. A firm with a high degree of business debt is generally ill advised to take on considerable financial risk as well. The financial condition and performance of the firm also influence the take off financing that should be used. The greater the firms liquidity, the stronger the overall financial condition; and the greater the profitability of the firm, the more risky the type of financing that can be incurred. That is, debt financing becomes more attractive with improvements in liquidity, financial condition, and profitability (Pagano, M. 1993). The interaction of the firm with these suppliers of capital determines the amount, terms, and price of financing. In any event, the fact that the firm must negotiate with outside suppliers of capital serves as a feedback mechanism to the other factors. Analysis cannot be undertaken in isolation from the fact that ultimately an appeal will have to be made to suppliers of capital. Similarly, suppliers of capital must keep an open mind to a company's approach to financing, even if it is different from their own (James C. Van Horne and John M. Wachowicz, JR. 2005 p-132)

**2.3.3.2 Overdraft Financing**

"Bank overdrafts are the most expensive types of loans. The only other rate that is close to overdrafts is the credit card rate. Besides this fact, the advantage of using overdrafts is that we have a homogeneous type of loan that reduces the influence of unobserved loan characteristics on the cost of credit. We are disregarding the information on inter-financial loans. Inter-financial loans seem to be the only type of assistance where there is still a large problem with reported interest rates (the mean value of inter-financial rates is misreported, since these rates did not even reach a 2% monthly rate in the year 2000). However, this assistance does not qualify for our sample that targets non-financial firms. The reported duration of overdrafts is pretty short. Since it is usually rolled over and does not have a specified termination date, one could consider its duration as a month" (Schiantarelli, F. 1996).

Berger, A., Klapper, L., and Udell, G., (2000) argue that reclassifying an overdraft balance to a liability to results in an increase in the reported cash balance from negative amount to zero. At times, the amount of these reclassifications can be significant. Analysts who are unaware of such reclassifications may be misled into thinking that more on-hand cash is available than is actually the case. Also, while GAAP calls for the reporting of changes in overdraft balances as financing sources and uses of cash, many companies report them as operating cash flow.

#### 2.3.3.3 Trade Credit

"Trade credit is one particular type of short-term loan: a loan that is tied in both timing and value to the exchange of goods. If the loan is itself transferable, trade credit may substitute for money. In closed trading circles, book entries or negotiable trade credit instruments or both can be cancelled directly, so avoiding the intermediation of money. When trade credit receives general acceptance in exchange, trade credit becomes money. But in most inter-firm transactions transferable trade credit remains the exception rather than the rule. In this case, trade credit's relationship to money and to the rest of the economic system is much more ambiguous" (Freixas, X. and Rochet, J-C. 1998). Trade credit, in another word, is an important source of financing for intermediate purchasers of goods and services. Although trade credit plays such a large role in the world economy, it has relatively little formal understanding of why and under what circumstances non financial firms extend credit to their customers or how they establish the terms of sale.

If trade credit existed to minimize transactions costs as in Greene, W (1992), then we should have observed a long term decline in trade credit use, due to the many improvements in transactions technologies that have taken place. Such a long term decline has not occurred. Hence there must be more to the use of trade credit. Another cost minimizing idea is that some firms may be better able to hold inventory. According to Greene, W (1992) trade credit may be used to induce them to hold it.

Price discrimination may be an important concern. According to Han, L., Storey, D.J. and Fraser, S. (2004) firms use credit to provide discriminatory price reductions to less wealthy customers. Their analysis is restricted to imperfectly competitive industries.

**2.3.3.4 Business Angel Financing**

These investors include 'high net worth' individuals (often termed "business angels") who have typically earned rather than inherited their wealth (Petersen, M.A. and Rajan, R.G. 1994). Their value to small and growing enterprises canters on their ability and willingness to invest relatively small sums of money at the earliest and most speculative stages of new firm formation and growth (Kon, Y. and Storey, D.J. 2003). This is a focus where established capital markets are likely to be less relevant for the entrepreneur seeking external funding.

"Very often informal investor's involvement is the first commitment of external money following the often more subjectively allocated capital of 'family and friends'. Such speculative investment is often a precursor to the high potential, young firm attracting more substantial sums of money from professional venture capitalists" (Storey, D. and Westhead, P. 1997).

### 2.3.3.5 Venture Capital

"Venture capital represents funds invested in a new enterprise. Wealthy investors and financial institutions are the major sources of venture capital. Debt funds are sometimes provided, but it mostly common stock that is involved. This stock is almost always initially placed privately. Rule 144 of the 1933 Act currently requires that newly issued, privately placed securities be held for at least two years or be registered before they can be resold without restriction. (Limited quantities of privately placed securities can be resold beginning one year after issuance.) The aim of this rule is to protect "unsophisticated" investors from being offered unproven securities. As a result, however, investors in these securities have no liquidity for a period of time. The hope of investors in privately placed stock (known as letter stock) is that the company will thrive and, after five years or so, be large and profitable enough to have the stock registered and sold in the public market" (James C. Van Horne and John M. Wachowicz, JR. 2005).

### 2.3.3.6 Factoring and Invoice Discounting

"Factoring, or selling accounts receivable, involves the purchase of accounts receivable by the lender (called a factor), generally without recourse to the borrower, which means that if the purchaser of the goods does not pay for them, the lender (factor) rather than the seller of the goods (borrower) takes the loss. Under factoring, the customer who purchased the goods typically is notified of the transfer and is asked to make payment directly to the lending institution. Because the factor assumes the risk of default on bad accounts, it generally carries out the credit investigation. Accordingly, factors provide not only money but also a credit department for the borrower. Incidentally, the same financial institutions that make loans against pledged receivables also served as factors. Thus, depending on the circumstances and the wishes of the borrower, a financial institution will provide receivables financing" (Fred Weston, Scott Besley, Eugene F. Brigham, 1995).

"Financing an overdraft is becoming more expensive, particularly when transaction charges and arrangement fees are brought into the cost equation. Moreover, the overdraft is repayable on demand. Factoring and invoice discounting, on the other hand, have an advantage over overdraft in that the facility grows with turnover, as opposed to being fixed until the next renewal date. For assignment of a business' gross receivables, a factor (i.e. a company that buys a manufacturer's invoices and takes responsibility for collecting the payments due on them) will advance up to 85 percent of the eligible debtors. Usually, all receivables are assigned to the factor that then collects directly from the customer. Invoice discounting, however, involves selected invoices only being factored on a confidential basis. This means that the customer will not know that the receivable has been factored" (Thakrar, S.V. Machinery, Apr. 2003).

**2.3.3.7 Hire Purchase and Leasing**

"Financial leases are an alternative to bank loan financing of equipment purchases. The lessor buys the equipment chosen by the lessee, which is then used by the lessee for a significant period of its useful life. Financial leases are often called full-payout leases because of the lease payments during the lease term usually amortize the lessor's total purchase cost—residual price of the original acquisition prize—plus covering interest cost and providing some profit. Theses lessee bears the risk of obsolescence and the cost of maintaining and insuring the asset" (Franks, Julian and Stewart Hodges, 1978).

"Contrary to the banks, leasing does not require collateral. It's the contractual agreement that allows the leasing company; the lessor retains ownership of the asset. Leasing provides a separation of ownership from use, with the lessee receiving the lease payment flow plus the residual value of the asset. There is no cost involved in verifying property rights of the lessee and if the latter is the negligent in lease payments, enforcement and repossession are automatic and usually should not require court action. The leasing company focuses on the lessee's ability to generate cash flow to service the lease payments, rather than rely on credit history, assets or capital base. This arrangement is especially convenient for small-scale firms without a long history of financial statement, and lacks collateral. Security of the transactions is provided by the asset itself. Typically the lessee has the right to buy the asset at the end of the lease contract. A common clause in leases is for the lessee to have the opinion to purchase the asset at the end of the term of the lease for a predetermined price" (Bencivenga, V.R. and B.D. Smith. 1991).

**2.3.3.8 Merchant Banking**

"Merchant banking has been a very lucrative—and risky—endeavour for the small number of bank holding companies and banks that have engaged in it under existing law. Recent legislation has expanded the merchant-banking activity that is permissible to commercial banks and is therefore likely to spur interest in this lucrative specialty on the part of a greater number of such institutions. Although for much of the past half-century commercial banks have been permitted (subject to certain restrictions) to engage in merchant-banking activities, the term *merchant banking* itself is undefined in U.S. banking and securities laws and its exact meaning is not always clearly understood" (Feldstein, M. and Horioka, C. 1980).

"Although not defined in U.S. federal banking and securities laws, the term merchant banking is generally understood to mean "negotiated private equity investment by financial institutions in the unregistered securities of either privately or publicly held companies". Both investment banks and commercial banks engage in merchant banking, and the type of security in which they most commonly invest is common stock. They also invest in securities with an equity participation feature; these may be convertible preferred stock or subordinated debt with conversion privileges or warrants. Other investment bank services—raising capital from outside sources, advising on mergers and acquisitions, and providing bridge loans while bond financing is being raised in a leveraged buyout (LBO)—are also typically offered by financial institutions engaged in merchant banking"(La Porta, R., F. Lopez De Silanes, A. Shleifer, and R. Vishny 1996).

## 2.4 Issues and Constraints in SME Financing

SME financing problems have to be seen against a more general context. Klapper and others (2002, pp. 8-11) argues that firstly, financial resources for development are in short supply. Secondly, government has become "leaner and meaner" and new and innovative policy measures have to be introduced to widen and deepen investor interest and the investment base. Thirdly, financial intermediation and the related infrastructure and facilities (both financial and non-financial) can be improved and make more sophisticated in EU as part and parcel of the development process itself. Fourthly, SME financing difficulties also reflect other systemic and institutional issues, such as the underdeveloped legal and regulatory infrastructure (both hard and soft) and the prevalence of non-transparent practices.

The credit constraints faced by SME's make credit markets their only available source of financing. Lending relationships are critical mechanisms of assessment and control, even though credit markets are certainly not efficient. It is discussed that the existence of information asymmetries and opposing interests between lenders and borrowers, lead to 'credit rationing' (Stiglitz and Weiss, 1988, pp. 383-410). Therefore, the SME's' smaller size, lack of credit ratings, along with concentration of ownership and control in the entrepreneur's hands, increase information asymmetries, preventing SME's from attaining better funding terms and conditions in the credit market (Berger and Udell, 1998).

## 2.5 The Capital Structure of SME's

Binks and Ennew (1994) argue that the preference for internal finance is usually explained by the existence of supply-side constraints in debt markets due to information asymmetries. Information asymmetries create two problems: adverse selection and moral hazard. Adverse selection arises when banks cannot discriminate between 'good' and 'bad' projects because they are unable to assess the capabilities of SME owner-managers (Stanworth and Gray, 1991). Unlike large firms, there is little public or independent information on SME's, and they do not enter into contracts that are publicly visible or widely reported in the press (Berger and Udell, 1998). Financing constraints result when SME's fine it difficult to obtain bank finance on to their business. Banks may not want to lend at any price because firms might take on risky projects to meet the high interest expense (Stiglitz and Weiss, 1981). The equity holder (that is, the SME owner-manager) stands to gain more than the debt holder if the firm is successful, and it consequently has a motive to pursue risky projects.

The dominance of internal finance in the capital structure of SME's can also be explained by demand-side factors. It is well established in the small business literature that owner-managers of SME's are reluctant to relinquish independence and control (Cosh and Hughes, 1994). Outside sources of finance give rise to contractual arrangements that impinge on the owner-manager's ability to act independently (Hommel and Schneider, 2003). Indeed, the

Bolton Committee (1971) viewed managerial independence as a defining characteristic of small business. More recently, Le Cornu et al (1996) tested the relative importance of a series of SME owner-managers' objectives against their willingness to sacrifice return on investment. Consistent with Bolton (1971), the need for independence was found to be the most important non-financial objective, followed by lifestyle considerations, societal contribution and the desire to be respected. It explains why SME owner-managers prefer to use internal rather than external finance, and to use debt rather than equity.

## 2.6 Gearing (Leverage)

The financing structure of firms was fundamentally different in each country. Gearing levels (defined as total debt divided by shareholders' funds) were generally lowest in Britain and France; British companies had the highest proportion of short-term debt, particularly overdraft. German firms had the highest proportion of long-term debt and preferred short-term loans to overdraft. The often cited short-termism of British companies seems also to be reflected in their balance sheet (Azofra and Fernández, 1999).

$$\text{Gearing} = \frac{\text{All borrowing}}{\text{Total capital employed less intangibles}}$$

(Richard Pikeike & Bill Neale, 2001)

## 2.7 Conclusion

This section reported the brief literature review on Small and Medium Sized Enterprises (SME's) in general, sources of finance for SME's, issues and constraints in SME financing, the capital structure of SME's, and gearing. The next section carries out contextual factors for this study.

# SECTION III

# CONTEXTUAL FACTORS

## 3.1 Introduction

This section explains what is Turkish Republic of Northern Cyprus (TRNC) in general, and Small and Medium sized Enterprises (SME's) in TRNC.

## 3.2 Turkish Republic of Northern Cyprus

"Cyprus is the third biggest island in the Mediterranean Sea. Independence from the UK was approved in 1960 with constitutional guarantees by the Greek Cypriot majority to the Turkish Cypriot minority. In 1974, a Greek-sponsored attempt to seize the government was met by military intervention from Turkey, which soon controlled almost 40% of the island. In 1983, the Turkish-held area declared itself the "Turkish Republic of Northern Cyprus" (TRNC), but it is recognized only by Turkey. UN-led talks on the status of Cyprus resumed in December 1999 to prepare the ground for meaningful negotiations leading to a comprehensive settlement. The North Cyprus is controlled by Turkish Cypriots and the South Cyprus by Greek Cypriots. The Turkish Cypriot economy has about one-fifth the population and one-third of the per capita of GDP of the south. 67.7% of Turkish Cypriot economy is dominated by service sector, 11.8% agriculture, and 20.5% industry sectors respectively" (Central Intelligence Agency 2005). Where the Gross national product (GNP) was $1,765.2 million with $8,095 GNP per capita and 12.4% inflation rate in the year 2005 (State Planning Organization 2004).

"The development policy in the TRNC aims at the realization of structural adjustment required for the achievement of the highest possible rate of growth compatible with the maintenance of economic stability, the mote equitable distribution of national income and the improvement of standard of living. For the recognition of these objectives long-term plans and annual programs have been prepared and put into action since 1977, which marked the beginning of the planning period" (Economic Developments in the TRNC 2005)

### 3.2.1 Economy

Being the main commercial and industrial town in Turkish Cyprus, Lefkosa manufactures textiles, leather, pottery, plastic, and other products.

### 3.2.2 Cyprus Economy

The Turkish Republic of Northern Cyprus economy operates on a free enterprise system. The backbone of this system is the private services sector comprised mainly of such spheres as:

- Trade
- Tourism
- Education
- Construction
- Light industry
- Agriculture
- Personal services

### 3.2.3 The economic performance in 2004

- Total GDP - $1,766 billion

- GDP per capita - $8,095 (nominal)
- The growth rates - 9.6%

### 3.2.4 Recent Political Situation

Due to the partial lifting of travel restrictions between Turkish and Greek Cyprus in April 2003 almost seven million people have crossed the border between the two parts of the island. In August 2004, new EU rules allowed goods produced in the north to be sold in the south provided they met the EU rule of origin and sanitary/phyto-sanitary requirements, a plus for the Turkish Cyprus economy. In 2005, the North Cyprus economy adopted a new regulation "mirroring" the EU rules and allowing certain goods produced in the south to be sold in the north.

### 3.2.5 Outcomes

- Relative stability of the New Turkish Lira
- Employment of over 5,000 Turkish Cypriots in the Greek Cypriot economy
- Boom in the education and construction sectors

### 3.2.6 Constraints

- Lack of private and governmental investment
- High freight costs
- Direct trade between Turkish Cyprus and Greek Cyprus has remained rather limited

### 3.2.7 Main trading partners

1. Turkey - the main trading partner, supplying 60% of imports and absorbing over 40% of exports. Turkey also provides loans and financial assistance to TRNC. Ankara provided $200 million in 2002 and pledged $450 million for the 2003-2005 periods. The Turkish aid goes towards developing light industry, banking, tourism, and higher-education institutions.

2. The European Union - the second-largest trading partner of Turkish Cyprus economy, with a 25% share of total imports and 28% share of total exports. Total imports increased to $853.1 million in 2004 (from $477.7 million in 2003), total exports increased to $61.5 million (from $50.6 million in 2003).

3. The United States - total imports were $7.1 million in 2004, while exports to the U.S. were less than $10,000.

### 3.2.8 Turkish Cypriot Political Structure

The TRNC is an independent secular republic with a democratic governmental system based on the principles of social justice and the rule of law. The 1985 Constitution provides for a semi-presidential system with a president as the head of state. The political structure is comprised from independent executive (a council of ministers composed of prime minister and 10 ministers), legislative (Legislative Assembly, composed of 50 deputies) and judicial (independent courts) bodies elected or appointed.

### 3.3 SME's in TRNC

Small and Medium sized Enterprises (SME's) are well placed in the North Cyprus's economy. 99% of all the enterprises are SME's where 60% of the employment is created by them. If we also examine the export structure of North Cyprus, it is seen that 92.7% of the export from the country is carried out by the SME's. Although many factors are known to explain why SME's start to export, relatively little is known about the perception and attitudes of the managers. This paper emphasizes on the results of a survey carried out among a sample of SME's in North Cyprus (Oct 2006). This study of 48 SME's in car showrooms sector, (87% of the SME's population of this sector in Lefkosa) in North Cyprus finds that owner financing, company reserves, bank loans, bank overdrafts, and trade credits are main sources of financing those businesses. The skills and the knowledge of the manager are very important in directing the resources of the business.

In many countries of the Mediterranean and European regions, it is generally recognized that SME's play an important role in economic growth, development and welfare, with a particular contribution in terms of employment generation the importance of SME's in industrial development and market penetration has been recognized at the highest level by the European Commission (European Commission Report 2004). However, there is a variety of problems and constraints on SME financing.

Although large multinational businesses initially captured the international competitive landscape, smaller firms have also entered the race owing to the evolving conditions in international communication and trade (The Economics cited in Karagozlu N. & Lindell M. 2003). It has been argued by Obiatt and McDougall (1997) that the gap in competitive advantage between large and small firms in international markets has narrowed and that internationally sustainable competitive advantage has increasingly depended upon a business's unique assets.

SME's also play an important role of the North Cyprus economy. North Cyprus as a small country of approximately 250,000 population, with 1.7% annual increase rate should use the available advantages of SME's as an opportunity to gain competitive advantage in the international markets. However, they are facing with various financial problems in continuing their activities with small domestic market. This study will focus on the North Cyprus SME's, operating in car showroom sector carry out financing activities. This study aims to explore and to predict the sources of finance and financial problems of them.

### 3.4 Conclusion

This section explained what is Turkish Republic of Northern Cyprus (TRNC) in general, and Small and Medium sized Enterprises (SME's) in TRNC. The design and the methodology is the next section of this graduation project.

# SECTION IV

# METHODOLOGY

## 4.1 Introduction:

This section describes sources of information and methodology adopted for this study.

## 4.2 Sources of information:

### 4.2.1 Theoretical sources:

Theoretical sources of information were scanned and classified from finance journals, internet and text books on finance. This study only considered previous research carried out within the past 30 years except the previous findings that are regarded as classics on the topic area.

### 4.2.2 Empirical Sources:

Empirical data was collected from chosen segment that is car galleries of Lefkosa, North Cyprus. In this study, a questionnaire was designed to find out both sources of finance and financial problems of the selected sector. The questionnaire was exploratory in nature, in parallel with the purpose of the study. The questionnaire designed comprised three sections. The first section was mainly screening questions so that small-business galleries and persons with financial responsibilities were approached. Section two asked the respondents to rank their sources of finance on a scale of 100. Section 3 asked the respondents to rank their financial problems, also on a scale of 100.

### 4.3 Design of the study:

The following highlights the methodological design and the steps that were adopted by this study.

#### 4.3.1 Purpose of the study :

The purpose of this study was explorative in order to identify both variables affecting usage of sources of finance and financial problems of Lefkosa car galleries, North Cyprus (Sekaran 2003).

#### 4.3.2 Type of investigation:

The type of this investigation is correlational study because the researcher is interested in delineating the important variables associated with the problem; the study is called correlational study (Sekaran 2003).

#### 4.3.3 The extend of researcher interference:

This study was related in the natural environment of the owners with minimum interference. The correlational study was conducted in the natural environment of the organization with minimum interference by the researcher with the normal flow of work (Sekaran, 2003).

#### 4.3.4 The study setting

The correlational study was conducted in a non-contrived setting; therefore a field study was carried out.

### 4.3.5 The unit of analysis:

Unit of analysis was the business organisation, because this study tried to identify sources of finance and financial problems of Lefkosa car galleries, North Cyprus.

## 4.4 Sampling

Due to limitation of time and in order to collect data with questionnaire as quickly as possible, Subjects are conveniently chosen from targeted groups according to some predetermined number or quota Sekaran (2003), which is a non-probability sampling technique in which an initial group of respondents is selected, usually at some criteria. In this study, the car galleries in Lefkosa, Northern Cyprus only were selected. The sampling frame included 55 listed galleries provided by the Turkish Cypriot Chamber of Commerce. A total of 48 galleries were visited for the purpose of this study.

## 4.5 Conclusion:

This section is described sources of information and methodology of this study. The following section will more mention about findings of this study.

## SECTION V

## FINDINGS

### 5.1 Introduction:

This section includes the results and analysis of the responds from the questionnaires.

### 5.2 Number of Workers for the Respondent Companies

All of 48 responding companies in the car showroom sector, Lefkosa, employ between 1 and 5 workers.

### 5.3 Capital Structure of the Firms

#### 5.3.1 Owner Financing

As seen in the table 5.3.1.1 below, 50% of the respondent companies do not use owner financing, while 16.7% of the respondent companies use 20% from owner financing, 8.3% of the respondent companies use 45% from owner financing, 8.3% of the respondent companies use 60% from owner financing, 8.3% of the respondent companies use 80% from owner financing, and 8.3% of the respondent companies use 90% from owner financing.

**Table 5.3.1.1 Owner Financing**

| Percentage Used | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 24 | 50% |
| 20% | 8 | 16.7 |
| 45% | 4 | 8.3% |
| 60 | 4 | 8.3% |
| 80 | 4 | 8.3% |
| 90 | 4 | 8.3% |
| Total | 48 | 100% |

### 5.3.2 Company Reserves

As seen in the table 5.3.2.1 below, 8.3% of the respondent companies do not use company reserves, while 16.7% of the respondent companies use 5% from company reserves, 25% of the respondent companies use 10% from company reserves, 8.3% of the respondent companies use 15% from company reserves, 8.3% of the respondent companies use 25% from company reserves, 8.3% of the respondent companies use 75% from company reserves, and 25% of the respondent companies use 100% from company reserves.

**Table 5.3.2.1 Company Reserves**

| Percentage Used | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 4 | 8.3% |
| 5% | 8 | 16.7% |
| 10% | 12 | 25% |
| 15% | 4 | 8.3% |
| 25% | 4 | 8.3% |
| 75% | 4 | 8.3% |
| 100% | 12 | 25% |
| Total | 48 | 100% |

### 5.3.3 Bank Loans

As seen in the table 5.3.3.1 below, majority of the respondent companies (58%) do not use bank loans, while 8.3% of the respondent companies use 15% from bank loans, 8.3% of the respondent companies use 20% from bank loans, 8.3% of the respondent companies use 30% from bank loans, 8.3% of the respondent companies use 35% from bank loans, and 8.3% of the respondent companies use 45% from bank loans.

Table 5.3.3.1 **Bank Loans**

| Percentage Used | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 28 | 58.3% |
| 15% | 4 | 8.3% |
| 20% | 4 | 8.3% |
| 30% | 4 | 8.3% |
| 35% | 4 | 8.3% |
| 45% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.3.4 Bank Overdrafts

As seen in the table 5.3.4.1 below, 41.7% of the respondent companies do not use bank overdrafts, while 8.3% of the respondent companies use 10% from bank overdrafts, 8.3% of the respondent companies use 15% from bank overdrafts, 8.3% of the respondent companies use 20% from bank overdrafts, 16.7% of the respondent companies use 35% from bank overdrafts, 8.3% of the respondent companies use 50% from bank overdrafts, and 8.3% of the respondent companies use 95% from bank overdrafts.

**Table 5.3.4.1 Bank Overdrafts**

| Percentage Used | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 20 | 41.7% |
| 10% | 4 | 8.3% |
| 15% | 4 | 8.3% |
| 20% | 4 | 8.3% |
| 35% | 8 | 16.7 |
| 50% | 4 | 8.3% |
| 95% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.3.5 Trade Credits

As seen in the table 5.3.5.1 below, majority of the respondent companies (91.7%) do not use trade credits, while the rest of the respondent companies (8.3%) use 25% from trade credits.

**Table 5.3.5.1 Trade Credits**

| Percentage Used | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 44 | 91.7% |
| 25% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.3.6 Gearing (Leverage)

As seen in the table 5.3.6.1 below, 33.3% of the respondent companies have zero gearing, while 8.3% of the respondent companies have 0.25 gearing, 8.3% of the respondent companies have 0.33 gearing, 16.7% of the respondent companies have 0.43 gearing, 8.3% of the respondent companies have 2.14 gearing, 8.3% of the respondent companies have 2.33 gearing, and 16.7% of the respondent companies have 19 gearing.

**Table 5.3.6.1 Gearing**

| Total debt / owner financing | Number of Respondents | Percentage of Population |
|---|---|---|
| 0 | 16 | 33.3% |
| 0.25 | 4 | 8.3% |
| 0.33 | 4 | 8.3% |
| 0.43 | 8 | 16.7% |
| 2.14 | 4 | 8.3% |
| 2.33 | 4 | 8.3% |
| 19.00 | 8 | 16.7% |
| Total | 48 | 100% |

## 5.4 Financial Problems at the Establishment of the Firm

### 5.4.1 Finding Securities

As seen in the table 5.4.1.1 below, majority of the respondent companies (66.7%) do not have difficulties in finding securities, while 8.3% of the respondent companies find it 40% of their financial problem, 8.3% of the respondent companies find it 50% of their financial problem, and 16.7% of the respondent companies find it 60% of their financial problem.

**Table 5.4.1.1 Finding Securities**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0 | 32 | 66.7% |
| 40% | 4 | 8.3% |
| 50% | 4 | 8.3% |
| 60% | 8 | 16.7% |
| Total | 48 | 100% |

### 5.4.2 Finding Guarantors

As seen in the table 5.4.2.1 below, majority of the respondent companies (75%) do not have difficulties in finding guarantors, while 16.7% of the respondent companies find it 10% of their financial problem, and 8.3% of the respondent companies find it 20% of their financial problem.

**Table 5.4.2.1 Finding Guarantors**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 36 | 75% |
| 10% | 8 | 16.7% |
| 20% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.4.3 Interest Rates

As seen in the table 5.4.3.1 below, 41.7% of the respondent companies do not find interest rates as a financial problem, while 8.3% of the respondent companies find interest rates 30% of their financial problems, 8.3% of the respondent companies find interest rates 40% of their financial problems, 16.7% of the respondent companies find interest rates 50% of their financial problems, 16.7% of the respondent companies find interest rates 80% of their financial problems, and 8.3% of the respondent companies find interest rates 100% of their financial problems.

**Table 5.4.3.1 Interest Rates**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 20 | 41.7% |
| 30% | 4 | 8.3% |
| 40% | 4 | 8.3% |
| 50% | 8 | 16.7% |
| 80% | 8 | 16.7% |
| 100% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.4.4 No Financial Problem

As seen in the table 5.4.4.1 below, 50% of the respondent companies have financial problems, while 8.3% of the respondent companies have 80% financial problems, and 41.7% of the respondent companies do not have financial problems at the establishment.

**Table 5.4.4.1 No Financial Problem**

| Scale | Frequency | Percentage |
|---|---|---|
| 0% | 24 | 50% |
| 20% | 4 | 8.3% |
| 100% | 20 | 41.7% |
| Total | 48 | 100% |

## 5.5 Financial Problems Now

### 5.5.1 Income Flow

As seen in the table 5.5.1.1 below, majority of the respondent companies (75%) do not find income flow requested by banks as a financial problem, while 16.7% of the respondent companies find it 10% of their financial problems, and 8.3% of the respondent companies find it 70% of their financial problem.

**Table 5.5.1.1 Income Flow**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 36 | 75% |
| 10% | 8 | 16.7% |
| 70% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.5.2 SME Considered as Risky

As seen in the table 5.5.2.1 below, majority of the respondent companies (75%) do not find "SME considered as risky by banks" situation a financial problem, while 8.3% of the respondent companies find it 10% of their financial problems, and 16.7% of the respondent companies find it 30% of their financial problems.

**Table 5.5.2.1 SME Considered as Risky**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 36 | 75% |
| 10% | 4 | 8.3% |
| 30% | 8 | 16.7% |
| Total | 48 | 100% |

### 5.5.3 Interest Rates

As seen in the table 5.5.3.1 below, 41.7% of the respondent companies do not find interest rates as a financial problem, while 8.3% of the respondent companies find it 30% of their financial problems, 8.3% of the respondent companies find it 40% of their financial problems, 8.3% of the respondent companies find interest rates 60% of their financial problems, 8.3% of the respondent companies find it 70% of their financial problems, and 25% of the respondent companies find it 100% of their financial problems.

**Table 5.5.3.1 Interest Rates**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 20 | 41.7% |
| 30% | 4 | 8.3% |
| 40% | 4 | 8.3% |
| 60% | 4 | 8.3% |
| 70% | 4 | 8.3% |
| 100% | 12 | 25% |
| Total | 48 | 100% |

### 5.5.4 Finding Guarantors

As seen in the table 5.5.4.1 below, majority of the respondent companies (91.7%) do not have difficulties in finding guarantors, while 8.3% of the respondent companies find it 40% of their financial problems.

**Table 5.5.4.1 Finding Guarantors**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 44 | 91.7% |
| 40% | 4 | 8.3% |
| Total | 48 | 100% |

### 5.5.5 No Financial Problem

As seen in the table 5.5.5.1 below, majority of the respondent companies (58.3%) have financial problems, while 41.7% of the respondent companies do not have financial problems now.

**Table 5.5.5.1 No Financial Problem**

| Percentage Seen as a Part of Their Problem | Number of Respondents | Percentage of Population |
|---|---|---|
| 0% | 28 | 58.3% |
| 100% | 20 | 41.7% |
| Total | 48 | 100% |

## 5.6 Conclusion

This section explained the results and analysis of the responds from the questionnaires. The following section will more mention about conclusions and recommendation.

# SECTION VI

# CONCLUSIONS and RECOMMENDATION

## 6.1 Introduction

This section summarized result of the empirical findings.

## 6.2 Summary of Theoretical Findings

1. Definition and Significance of SME's:

Small- and medium sized enterprises (SME's) are the backbone of virtually all economies in the world. "The definition of SME's varies according to the nation. SME's usually defined in terms of number of employees. In the US, SME's are companies with up to 500 employees. In the EU, SME's have between 11 and 200 employees and sales of under US $40 billion. In Japan, SME's in industry have up to 300 employees while those in wholesale and retail have up to 150 and 50 employees respectively. Developing countries use the World Bank benchmark of 11 to 150 employees and sales under $5 billion" (Levine, 1997).

2. Sources of Finance for SME's

McCawley (2003) argued that SME's can be defined as having three main characteristics:

- Companies are not quoted on a stock exchange – they are "unquoted"
- Ownership of the business is typically restricted to a few individuals. Often this is a family connection between the shareholders
- Many SME's are the means by which individuals (or small groups) effectively achieve self-employment

Otero and Lopez (2001) argue that there are a number of potential sources of finance to meet the needs of small and growing businesses:

• Existing shareholders and directors funds ("owner financing")

• Overdraft financing

• Trade credit

• Equity finance

• Business angel financing

• Venture capital

• Factoring and invoice discounting

• Hire purchase and leasing

• Merchant banks (medium to longer term loans)

3. Financing Problems

The main problem faced by SME's when trying to obtain funding is that of uncertainty:

- SME's rarely have a long history or successful track record that potential investors can rely on in making an investment;
- Larger companies (particularly those quoted on a stock exchange) are required to prepare and publish much more detailed financial information – which can actually assist the finance-raising process;
- Banks are particularly nervous of smaller businesses due to a perception that they represent a greater credit risk.

4. Capital Structure:

Capital structure is the means by which a firm is financed (www.investopedia.com).

“A firm can finance operations through common and preferred stock, with retained earnings, or with debt. Usually a firm will use a combination of these financing instruments” (www.investopedia.com).

”The proportion of short and long-term debt is considered when analyzing capital structure. And, when people refer to capital structure they are most likely referring to a firm's debt-to-equity ratio, which provides insight into how risky a company is. Usually a company more heavily financed by debt poses greater risk” (www.investopedia.com)

### 6.3 Summary of Empirical Findings

The following results explain both the sources of finance and financial problems for car showrooms in Lefkosa, North Cyprus.

- 50% of the respondent companies do not prefer using “owner financing”.
- 25% of the respondent companies use 10% of their “company reserves” for financing themselves.
- 25% of the respondent companies use 100% of their “company reserves” for financing themselves.
- 58.3% of the respondent companies do not prefer using “bank loans” for financing themselves.
- 41.7% of the respondent companies do not prefer using “bank overdrafts” for financing themselves.
- 91.7% of the respondent companies do not prefer using “trade credit” for financing themselves.

- 33.3% of the respondent companies have zero "gearing", that is to say, not preferring debt financing.
- 66.7% of the respondent companies did not have "finding securities requested by bank" problem at the establishment.
- 75% of the respondent companies did not have "finding guarantors requested by bank" problem at the establishment.
- 41.7% of the respondent companies did not have "interest rate" problem.
- 50% of the respondent companies did not have "financial problem" at the establishment.
- 75% of the respondent companies do not have "successful income flow requested by banks" as a financial problem now.
- 75% of the respondent companies do not have "SME Considered as Risky by banks" as a financing problem now.
- 41.7% of the respondent companies do not have "interest rate" problem now.
- 91.7% of the respondent companies do not have "finding guarantor requested by banks" problem now.
- 58.3% of the respondent companies do not have financial problem now.

## 6.4 Conclusions on Project Questions

### 6.4.1 What are the sources of finance for SME's in general?

Existing shareholders and directors funds ("owner financing"), overdraft financing, trade credits, equity finance, business angel financing, venture capital, factoring and invoice discounting, hire purchase and leasing, and merchant banks (medium to longer term loans) are the sources of finance for SME's in general.

### 6.4.2 What are the sources of finance for Lefkosa car showrooms?

Owner financing, company reserves, bank loans, bank overdrafts, and trade credits are the sources of finance for Lefkosa car showrooms.

### 6.4.3 What kind of financial problems do SME's faced with?

Finding securities requested by banks, finding guarantors requested by banks, high interest rates, successful income flow requested by banks, and SME considered as risky by banks.

### 6.4.4 What kind of financial problems does Lefkosa car showrooms faced with?

Finding securities requested by banks, finding guarantors requested by banks, high interest rates, successful income flow requested by banks, and SME considered as risky by banks.

## 6.5 Limitation of This Research

This study was limited with 48 Lefkosa car showrooms at North Cyprus. In this sense, the findings are not to be generalized in understanding the sources of finance and financial problems of other car showrooms elsewhere.

## 6.6 Conclusion

This section explained summarized of the theoretical and empirical finding on which the project questions were answered. Limitations of the study were also referred.

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## APPENDIX A

**List of all Car Galleries in Lefkosa, Northern Cyprus.**

| İsim ve ünvan | Bölüm | Sektör | Adres | Tel |
|---|---|---|---|---|
| A. ÜÇÖZ MOTORS LTD. | Nakil... | Oto alım ve satım | Rağıb Kenan Sok. Taşkınköy - Lefkoşa | 8517800 |
| AKREP MOTORS LTD. | Nakil... | Oto alım ve satım | Pınar Sok. No:9, Yenikent - Gönyeli - Lefkoşa | 05428527810 |
| AKTUN TİCARET LTD. | Nakil... | Oto alım ve satım | Ali Rıza Efendi Cad. No.46, Ortaköy - Lefkoşa | 2289180 |
| ALİ KARAYEL | Nakil... | Oto alım ve satım | 16, Şht. Yılmaz Yolcu Sok. K.Kaymaklı - Lefkoşa | 8601628 |
| ALTAY RODOSLU | Nakil... | Oto alım ve satım | Mustafa Kemal Bulvarı, Mağusa - Lefkoşa Anayolu Üzeri - Gazimağusa | 8611074 - 3653305 - 306 |
| ASOK LTD. | Nakil... | Oto alım ve satım | Dr. Küçük Bulvarı Mutlu Sok. Hamitköy - Lefkoşa | 2252090 - 2252089 |
| AWAN AUTO TRADING | Nakil... | Oto alım ve satım | Organize Sanayi Bölgesi 22. Sokak No:24, Lefkoşa | 2253401 - 2276200 |
| AYSAN TÖMAY | Nakil... | Oto alım ve satım | Şht. Erol Ahmet Sok. No:36, Güzelyurt | 7142381 |
| BALLIKAYA OTOMOTİV LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. Okman Yanı - Lefkoşa | 2254882 - 8527597 |
| BENDER OTO LTD. | Nakil... | Oto alım ve satım | Martı Sok. No:10, Gönyeli - Lefkoşa | 2232170 - 05338600922 |
| BİRKAYALAR OTO GALERİ VE YEDEK PARÇA ŞTİ.LTD. | Nakil... | Oto alım ve satım | Günaydın Sokak No.2, Gönyeli, Lefkoşa | 2284552 - 05338626600 |
| CAR & CARS LTD. | Nakil... | Oto alım ve satım | Şht.Alpay Karaoğlanoğlu Cad. No:1, Lefkoşa (Macila Benzin İstasyonu) | 05428518080 |
| ÇANGAR MOTORS CO. LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. Lefkoşa | 2232996 - 2232983 - 2282687 - 8550362 |
| DOĞANLAR CYPRUS MARKETİNG LTD. | Nakil... | Oto alım ve satım | Esat Çınar Sok. No:26-A, K.Kaymaklı - Lefkoşa | 05338470553 |
| DÜNYA OTO LTD. | Nakil... | Oto alım ve satım | Aşıklara Tepesi P.K. 721, Gönyeli - Lefkoşa | 2231589 - 2231510 |
| ERKAN KAYA OTO GALERİ LTD. | Nakil... | Oto alım ve satım | D-7, Akçay - Güzelyurt | 8512206 - 7146541 |
| ERKMAN AUTO LTD. | Nakil... | Oto alım ve satım | 15, Osmanpaşa Cad. Dr. Şemsi Kazım Apt. Altı - . Lefkoşa | 2284102 - 2283425 |
| EROTO TİCARET LTD. | Nakil... | Oto alım ve satım | Dr. Fazıl Küçük Bulvarı Din Sitesi Karşısı - Lefkoşa | 2253333 |
| ERSALICI OTOMOTİV LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. No: 56, Dükkan C, Küçükkaymaklı - Lefkoşa | 2288997 - 8516225 |
| GAZİ SÜERDEM LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. No:150, K.Kaymaklı - Lefkoşa | 2257044 - 2253249 - 05428512938 |

| | | | | |
|---|---|---|---|---|
| GERMANY CAR PARTS LTD. | Nakil... | Oto alım ve satım | Güzelyurt - Akçay Anayolu - Güzelyurt | 05428511234 - 7258052 |
| GÖÇERİ OTO GALERİ LTD. | Nakil... | Oto alım ve satım | Dr. Fazıl Küçük Bulvarı Hamitköy - Lefkoşa | 05338753060 - 05428511418 |
| GÖKSEL MACİLA TRADING LTD. | Nakil... | Oto alım ve satım | Bedreddin Demirel Cad. 100/A, K.Çiftlik - Lefkoşa | 2276280 - 2278076 |
| GÖLPAŞ LTD. | Nakil... | Oto alım ve satım | Kemal Aşık Caddesi No:68/20, Terminal Karşısı - Lefkoşa | 2270039 - 8524245 |
| GÜNSEL ŞİRKETİ LTD. | Nakil... | Oto alım ve satım | 40, Atatürk Cad. - Güzelyurt | 05428749433 - 7147085 |
| İZVEREN OTOMOTİV ŞTİ. LTD. | Nakil... | Oto alım ve satım | 13, Üsküdar Sok. K.Kaymaklı - Lefkoşa | 2254599 |
| JİN LTD. | Nakil... | Oto alım ve satım | Şht. Ertoğrul Ahmet Sok. No:38, Lefkoşa | |
| KAMİL MEŞELİ | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. K.Kaymaklı, Lefkoşa | 8641247 |
| KAVESA TRADING LTD. | Nakil... | Oto alım ve satım | İbrahim Haşim Sok. No:1, Ortaköy - Lefkoşa | 8672287 |
| KERMİYA MOTORS LTD. | Nakil... | Oto alım ve satım | 110-112, Mehmet Akif Cad. Suıtex Binası - Lefkoşa | 2281876 |
| LEVENT MOTOR LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa A. Ruso Caddesi No:21, Lefkoşa | 2253745 - 2252947 |
| LEVENT OTO TİCARET LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa A. Ruso Caddesi No:21, Lefkoşa | 2235777 - 2252666 |
| M. TOROS TİCARET LTD. | Nakil... | Oto alım ve satım | Mehmet Akif Caddesi No. 86, P.K. 568, Lefkoşa | 2272222 - 2289512 - 2257147 |
| MEHMET EMİN EMİNSEL | Nakil... | Oto alım ve satım | Mustafa Ruso Caddesi Soyak Önü Pöpüler Oto Galeri - Lefkoşa | 8511218 |
| MEHMET KARAOĞLAN | Nakil... | Oto alım ve satım | Hamitköy - Lefkoşa | 2252545 |
| MUSTAFA KEMALÜSTÜNER | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. Reis Market Yanı, Lefkoşa | 2282214 - 2286130 |
| MUTLU OTO GALERİ LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa A. Ruso Cad. K.Kaymaklı - Lefkoşa | 2254095 - 2256465 |
| NICOSIA MOTORS LTD. | Nakil... | Oto alım ve satım | Yeni Organize Sanayi Bölgesi - Lefkoşa | 2254310 - 2252789 |
| NİHON WHOLE SALES CO. LTD. | Nakil... | Oto alım ve satım | Cevat bey Sokak No.1 K.Kaymaklı, Lefkoşa | 2254946 |
| OK-GİL OTO TİCARET LTD. | Nakil... | Oto alım ve satım | Yasemin Sok. No:4, Hamitköy - Lefkoşa | 05428510838 |
| OKTAY ÖZBEYCAN | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad., Küçükkaymaklı - Lefkoşa | 2252054 - 2252053 |
| OKYANUSYA OTO LTD. | Nakil... | Oto alım ve satım | Mustafa Cad. No:5, Lefkoşa | 2283832 |
| OMURTAK İŞLETMELERİ LTD. | Nakil... | Oto alım ve satım | Çamlıköy - Güzelyurt | 8512165 |
| ÖZSUSUZLU TİCARET LTD. | Nakil... | Oto alım ve satım | Egemen Sok. No:1, Gönyeli - Lefkoşa | 2279389 |
| ÖZYÜKSEL OTO TİCARET LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ruso Cad. No: 104, Özyüksel Binaları, Lefkoşa | 2286026 - 2283376 |

| | | | | |
|---|---|---|---|---|
| SANAR TİCARET LTD. | Nakil... | Oto alım ve satım | 1, Lala Mustafa Paşa Sokak K.Çiftlik - Lefkoşa | 2285922 |
| SEASONS LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa Ertan Sok. No:9, Yenişehir - Lefkoşa | 2285534 - 2285494 - 05428523773 |
| SELENGE OTO LTD. | Nakil... | Oto alım ve satım | Şht. Kemal Ünsal Sokak 127/J, Taşkınköy - Lefkoşa | 2256775 |
| SERKAN BENZİNCİ | Nakil... | Oto alım ve satım | Ortaköy Benzin İstasyonu, Ortaköy, Lefkoşa | 2271678 |
| SOFU-SÖNMEZLER ŞTİ. LTD. | Nakil... | Oto alım ve satım | Şht. Mustafa A. Ruso Cad. Sofu Sönmezler Apt., Lefkoşa | 2275024 - 2255248 |
| SPECTRUM TRADING LTD. | Nakil... | Oto alım ve satım | Mehmet Akif Cad. 101/4, K.Çiftlik - Lefkoşa | 2274576 - 8519230 |
| TASAŞ TRADING COMPANY LTD. | Nakil... | Oto alım ve satım | Dr. Fazıl Küçük Bul. Doktoroğlu Yanı, Lefkoşa | 2253726 - 2252766 |
| TDA TRADING CO. LTD. | Nakil... | Oto alım ve satım | Erden Mehmet Sok. K.Kaymaklı - Lefkoşa | 05428514010 |
| TOP WHEELS LTD. | Nakil... | Oto alım ve satım | Gönyeli Çemberi, Lefkoşa | |
| TOROS OTOMOTİV LTD. | Nakil... | Oto alım ve satım | 86, Mehmet Akif Cad. - Lefkoşa | 2272222 |

(Turkish Cypriot Chamber of Commerce, 2006)

## APPENDIX B

**Questionnaire**

| |
|---|
| **FINANCING IN THE SMEs**<br>**The case of the car galaries, Lefkoşa, Northern Cyprus** |

**Autumn 2006**

This is a survey carried out as part of my graduation project for a degree in Business Administration at the Near East University. The aim is to explore the sources of finance, the financial structure and the financial problems of the car galaries in Lefkoşa, Northern Cyprus. The questions are aimed at those responsible in the financial decision making of the car galary businesses. Please respond to all questions set in three sections below. Your responses will be kept in strict confidence.

Thank you for your kind co-operation.

**Turgut Fikrioğlu**
Final Year Business Administration Student
Near East University

**SECTION 1 Demographic/Screening questions**

1. Are you responsible with decisions relating to finance in your organisation?

| | | | |
|---|---|---|---|
| Yes | | No | |

(If no, ask to be directed to the right person)

2. How many people, on average, are employed in your organisation?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 0-5 | | 6-10 | | 11-50 | | 51-150 | | 150+ | |

Screening:

A. Interview cancelled due to:
i. Wrong industry ii. Not a SME iii. Financial decision maker not available

B. Interview took place:

| | |
|---|---|
| Date of interview | |
| Time of interview | |
| Person interviewed | |
| Position/responsibility in organisation | |
| Name and address of the organisation | |
| | |

**SECTION 2 Sources of finance**

Please rank the following sources of finance out of 100% as appropriate for your organisation:

| | | |
|---|---|---|
| 1. | Owner financing | |
| 2. | Company reserves | |
| 3. | Bank loans | |
| 4. | Bank overdrafts | |
| 5. | State development bank | |
| 6. | Trade credits | |
| 7. | Factoring | |
| 8. | Leasing | |
| 9. | Other (please specify) | |
| | | |
| | **TOTAL** | **100%** |

**SECTION 3 Problems experienced in raising finance**

Difficulties experienced at start up of business:

| | | |
|---|---|---|
| 1. | Finding securities required by banks | |
| 2. | Finding guarantors required by banks | |
| 3. | Interest rates | |
| 4. | Other (please specify) | |
| | | |
| | **TOTAL** | **100%** |

Difficulties experienced after start up of business:

| | | |
|---|---|---|
| 1. | Successful income flow | |
| 2. | Small size considered as risk by banks | |
| 3. | Interest rates | |
| 4. | Other (please specify) | |
| | | |
| | **TOTAL** | **100%** |

Thank you for your kind co-operation.

Turgut Fikrioğlu

**Section 4 Gearing calculation (interviewer use only)**

Total debt/shareholders funds x 100 =

| | |
|---|---|
| | % |

Questionnare (Turkish)

| |
|---|
| **KOBİ'LERİN FİNANSMANI**<br>**Araba Galerileri Durumu, Lefkoşa, Kuzey Kıbrıs** |

**Sonbahar 2006**

Bu araştırma Yakın Doğu Üniversitesi İşletme Bölümü Lisans Mezuniyet Projemin bir parçasıdır. Bu araştırmanın amacı Lefkoşa, Kuzey Kıbrıstaki araba galerilerinin finansman kaynakları, finansal yapıları, ve finansal problemlerini araştırmaktır. Sorular, araba galerisi işletmelerinin sorumlu finansal karar alıcılarını ilgilendirmektedir. Lütfen aşağıda üç bölümden oluşan tüm soruları cevaplayınız. Bütün cevaplerınız sıkı bir şekilde gizli tutulacaktır.

İşbirliğiniz için teşekkürler.

**Turgut Fikrioğlu**
İşletme Bölümü son sınıf öğrencisi
Yakın Doğu üniversitesi

## BÖLÜM I Demografic/Paravan Sorular

1. Firmanızda finansal kararların alınmasındaki sorumlu kişi misiniz?

| | | | |
|---|---|---|---|
| Evet | | Hayır | |

(Cevap hayırsa, doğru kişiye yönlendirilmeyi rica edin)

2. Firmanızda ortalama kaç kişi çalışıyor?

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| 0-5 | | 6-10 | | 11-50 | | 51-150 | | 150+ | |

Paravan:

A. Mülakat kesilme sebebi:
i. Yanlış Endüstri ii. KOBİ Değil iii. Finansal kararlar sorumlusu müsait değil

B. Mülakatın aldığı yer:

| | |
|---|---|
| Mülakat Tarihi | |
| Mülakat Saati | |
| Görüşülen Kişi | |
| Firmadaki Görevi | |
| Firmanın ünvanı ve adresi | |
| | |
| | |
| | |

**Bölüm II Finans kaynakları**

Lütfen aşağıdakileri kendi firmanıza uygun bir şekilde %100 üzerinden derecelendirin:

| | | |
|---|---|---|
| 10. | Mal Sahibi Finansmanı | |
| 11. | Şirketin kendi öz sermayesi | |
| 12. | Banka kredisi | |
| 13. | Banka overdraftları (açık kredi) | |
| 14. | Devlet Kalkınma Bankası | |
| 15. | Ticari Kradiler | |
| 16. | Factoring | |
| 17. | Leasing | |
| 18. | Diğer (lütfen tanımlayınız) | |
| | | |
| | **TOPLAM** | **%100** |

**BÖLÜM III Finans inşa ederken karşılaşılan problemler**

İşletmeyi kurarken karşılaşılan finansman problemleri:

| | | |
|---|---|---|
| 5. | Bankaların mal varlığı ipotek şartı koyması | |
| 6. | Kefil Bulmadaki zorluklar | |
| 7. | Banka kradisi faiz oranları | |
| 8. | Diğer (lütfen tanımlayınız) | |
| | | |
| | **TOPLAM** | **%100** |

İşletme başladıktan sonraki finansal sorunları:

| | | |
|---|---|---|
| 5. | Bankaların başarılı bir para akışı talebi | |
| 6. | Küçük şirketlerin bankalarca riskli bulunması | |
| 7. | Banka kradisi faiz oranları | |
| 8. | Diğer (lütfen tanımlayınız) | |
| | | |
| | **TOPLAM** | **%100** |

İşbirliğiniz için teşekkürler.

Turgut Fikrioğlu

**BÖLÜM IV Gearing hesaplamaları (mülakatcı tarafından doldurulacak)**

Toplam borç/öz kaynak fonlaması x 100 =

| | |
|---|---|
| | % |