

INGEV TAM

SME DIGITALIZATION MONITOR

Research on the Digitalization Level of
Small and Medium-Scale Enterprises

Established by
Syrians in Turkey

2021



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EXECUTIVE SUMMARY

The period of physical distancing enforced by the Covid-19 outbreak is known to have led to profound changes in certain aspects of business life, especially with respect to the transition from face-to-face transactions to remote interactions. However, the benefits that digitalization processes can offer for the companies are not necessarily limited to telecommunications or e-business methods.

INGEV investigated the digitalization status and requirements of small- and medium-sized companies founded by Syrians in Turkey (in short, "SMEs" from here onwards) through the Private Sector Digital Monitor Research. The study's goal is to determine the extent to which these businesses might reap the benefits of digitalization, particularly during the pandemic era. This report contains the results on potential gaps and opportunities for development in this area.

According to the study's findings, SMEs' digitization requirements stem largely from their desire to achieve better access to consumers. This urgency has taken precedence over all other goals to the point that client access is practically the sole advantage SMEs anticipate from digitization. This also suggests that demand generation has become a major issue for SMEs, and that this existential threat has made client access their primary goal.

While the study revealed that tools such as e-mail usage, corporate social media account ownership, and internet banking, which we might call the "basic-level" tools, were not widely available to SMEs in general, more advanced elements of digitalization such as automation or virtual assistants, which offered productivity, had almost no use at all. According to the research, the two biggest impediments to widespread distribution are:

- 1- **Competency Gap:** Total lack of awareness about various technologies or not knowing how to access them,
- 2- **Funding Gap:** Budgetary insufficiencies and low resource allocation

In eliminating these hurdles, the study recommends that the private sector, sectoral associations, civil society, and public institutions cooperate to act in the following areas:

- Technology support and assistance to SMEs (especially the use of production technologies)
- SME Training Programs and Competency Development Support
- Integrating the Data Management Perspective
- Promoting the interaction between SMEs and data resources
- Establishment of Sectoral Digitalization Work Groups
- Financial Solutions and Incentives

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METHODOLOGY

Samples:

159
Companies
Established by
Syrians

Location:

Region	Number of Firms Interviewed
TOTAL	159
Istanbul	86
South-eastern Anatolia	73
<i>Gaziantep</i>	25
<i>Hatay</i>	17
<i>Kilis</i>	12
<i>Myrtle</i>	10
<i>Sanliurfa</i>	9

Distribution of Companies Interviewed by the Number of Employees

1-9	10-49
128	31

The study was conducted via telephone survey method (CATI) between 1-31 July 2021 with the participation of the owners, partners, or senior managers of 159 businesses established by Syrians in Turkey (hereinafter referred to as "SMEs" in short). To specify the number of companies to be interviewed in different cities, the regional distribution of the companies in the INGEV Entrepreneurship Support Center Database for Syrian Entrepreneurs were considered.

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STUDY FINDINGS

The digital tools and services utilized by SMEs are questioned as part of the research. These digital tools and services are divided into three categories to allow for more efficient analysis of the results: (i) basic, (ii) intermediate, and (iii) advanced. Table 1 displays the digital tools for each item.

Table1 - Levels of Digital Tools

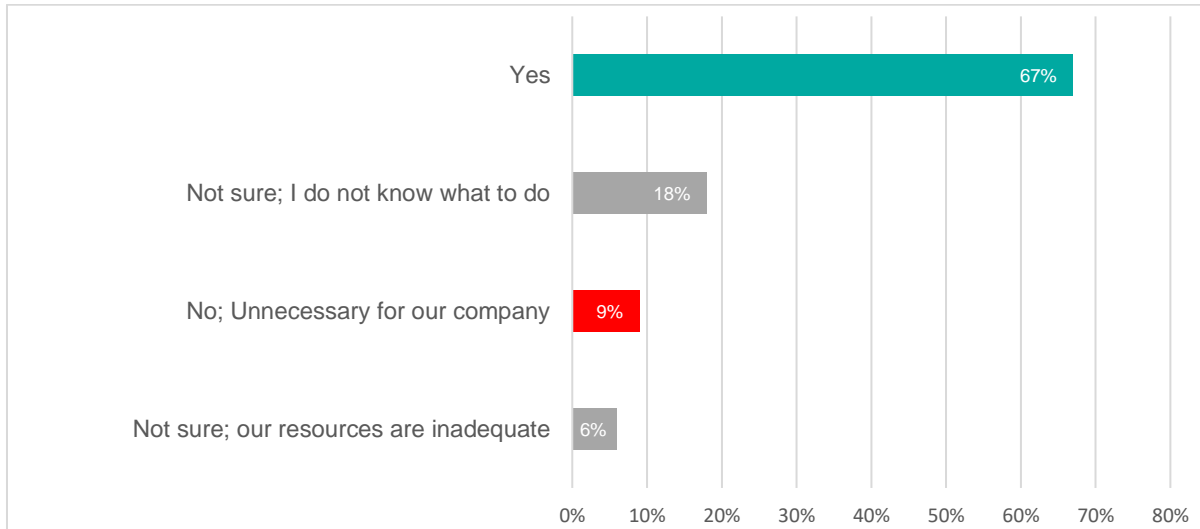
LEVEL	TOOL
BASIC	E-mail Usage
	Internet Banking
	Mobile Banking
	Corporate Website
	Corporate Social Media Account(s)
	Electronic Invoice Usage
	Electronic File Storage (E-Archive)
INTERMEDIATE	Instant Stock Control
	Electronic Bill of Lading
	Electronic Commerce and Internet Sales
	Electronic Accounting Software
	Remote File Access
	Protection of Stored Data
ADVANCED	Vehicle Monitoring and Tracking Systems
	Cyber Security
	Virtual Assistant for Customers
	Search Engine Optimization
	Digital Marketing Solutions
	Automation and Robotics Technology
	3D Printing
	Big Data Management
	Machine Learning Tools
	Web or Mobile Based Applications

Findings of this research study point to 8 key results:

1- Digitalization is a very common necessity for SMEs.

The vast majority (67 percent) of SMEs founded by Syrians in Turkey (hereinafter “SMEs” in short) expect to gain from better digitalization. However, one out of every four SMEs is unclear if digital transformation would be helpful since they do not know how to execute it or since they believe it will take a large amount of funds. Only 9% of SMEs believe that digitization is unneeded and that they do not require it.

Graphic 1 - "Do you think your company will benefit from further digitalization?"



While the findings point out that more than half of the companies need digitalization, one out of every four SMEs are unsure about it due to lack of knowledge or insufficient budget, however it still is likely that such business could benefit from digitalization if they were supported for these shortcomings.

2- One out of every three Syrian SMEs cannot use even basic digital tools.

One of the study's most significant findings is that one-third of SMEs do not (or are unable to) use services such as e-mail or mobile banking, which we refer to as "basic-level" technologies. One significant reason for this is that the apps like as mobile banking or internet banking that are frequently used by local businesses are being used less owing to the restrictions to financial services experienced by Syrians receiving temporary protection.

	SME General
Basic Level	63%
Intermediate Level	31%
Advanced Level	10%

When basic level apps are examined individually, it becomes clear that the rate of corporate website use (47 percent) is less than half of all SMEs. It is believed that this is primarily due to the fact that professional suppliers cannot be accessed for digital services (primarily due to a lack of market intelligence). Also, corporate pages on social media platforms which are managed by company employees are preferred over corporate websites due to the prevalence of unregistered enterprises (corporate website development generally requires an invoiced transaction between a seller and a designer while a social media page does not).

When we examine Intermediate-Level digital technologies such as instant stock control, accounting software, and remote file access, it looks as though the great majority of SMEs do not use them. The reasons for this low rate include insufficient knowledge of market suppliers and services, a desire to avoid long-term infrastructure investments without sufficient knowledge of the Turkish market, and a diminishing need for tools such as accounting software due to company's unregistered status, which is believed to involve a considerable portion of SMEs. Social media accounts, business websites, and e-

commerce platforms are beneficial for marketing reasons, such as acquiring new consumers or boosting the frequency of purchases by existing customers. Without access to these technologies, SMEs would be unable to benefit from the channels that will help them enhance their contact with local clients.

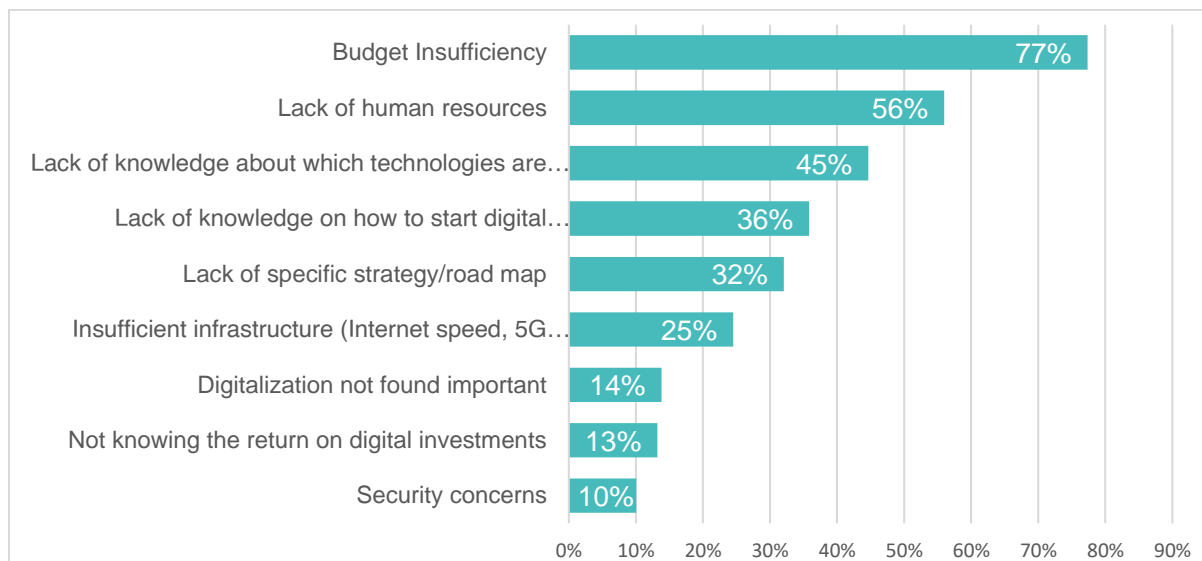
Advanced tools such automation or development of web-based applications are rarely employed by SMEs (10 percent). These advanced tools are services that aim to improve client relationships while also sustaining a steady improvement in productivity and efficiency. Thus, the absence of these tools may imply that SMEs will be unable to reap their benefits which are associated with enhancing their production quality and, consequently, financial well-being.

3- The biggest obstacles in Digital Transformation is lack of knowledge and funds.

“Budget insufficiency” comes up as the primary impediment to SMEs' digital transformation. Another significant aspect is the "lack of knowledge" in general. All of the above-mentioned factors, including "lack of human resources," "lack of information about which technologies are required," "lack of understanding about how to begin digital transformation," and "lack of a particular strategy/road map," can be classified as "Lack of Knowledge."

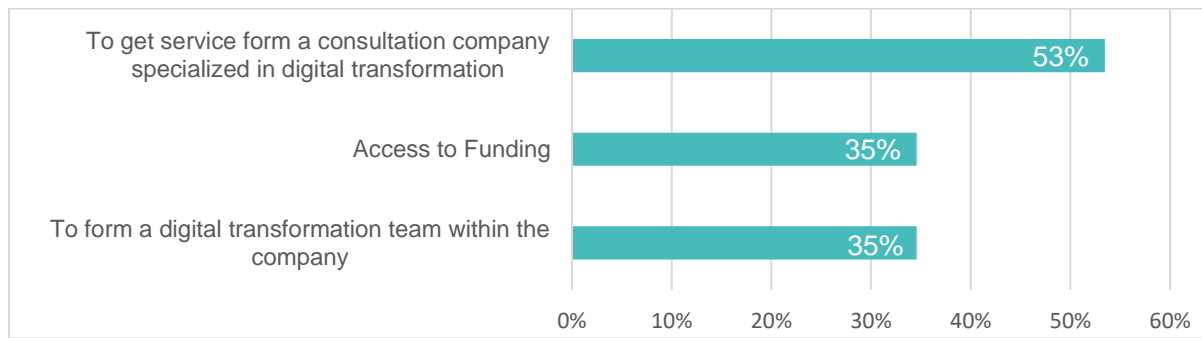
Another critical aspect is that when the data are analyzed by sector, it is clear that textile firms, in particular, are overrepresented in the factors relating to a lack of expertise. On the other side, the primary challenge confronting businesses in the Production/Industry sector is a shortage of funding.

Graphic 2 - Barriers in Digital Transformation



What SMEs require most to accelerate their digital transformation is "consultancy from a professional business" on digital transformation. This expectation stems from worries about effectively managing digital transformation investments and accurately applying digital technology. This need is followed by the creation of a "digital transformation team" within the organization and "access to funding."

Graphic 3 - Activities to Speed up Digital Transformation



4- SMEs in different sectors show similarities in terms of digitalization.

The degree of digitization in the Manufacturing and Industry sector appears to be greater, if not much higher, than in the Services, Textile, and Trade and Retail sectors. It is believed that modern digitalization technologies help the Manufacturing and Industry sector more than other sectors. However, sophisticated tools are used infrequently by all firms interviewed, even those in this industry. If these were more extensively used, there would almost certainly be significant opportunity for improvement in terms of productivity.

Table2 - Levels of Digital Tools by Sectors

	SME General	Services	Production & Industry	Textile	Trade & Retail
Basic Level	63%	65%	71%	60%	59%
Intermediate Level	31%	32%	32%	27%	30%
Advanced Level	10%	12%	17%	5%	7%

While there are no major differences between other sectors, with the exception of Manufacturing and Industry, it can be claimed that the Textile industry lags behind other sectors in terms of digitization. If we take use of e-mail as an example, it is clear that the usage of e-mail has almost fully taken over different sectors, particularly in the manufacturing sector (96 percent). Textiles is the industry in which SMEs utilize e-mail the least (65 percent).

There has been no discernible difference between the industries in terms of use of e-commerce. All industries remain roughly comparable, with an average rate of 45 percent. The fact that the rate is less than half suggests that the sector of e-commerce has a lot of room for progress.

Similarly, the percentage of businesses reporting to employ digital marketing solutions is about 30%, which is the industry average for each sector. It is seen that a sizable proportion of SMEs cannot access services that help them to contact new consumers.

5- Reaching new customers is the most important benefit of digitalization.

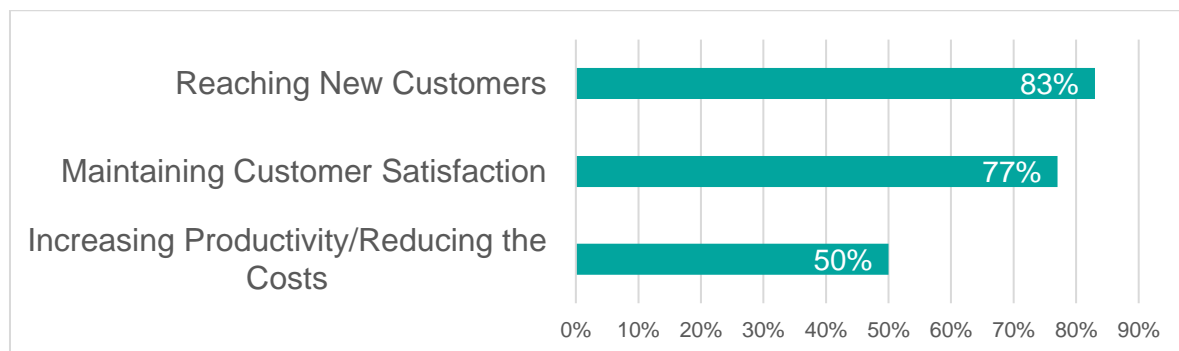
The three primary benefits of digitization, as identified by SMEs, are as follows: acquiring new consumers, retaining existing customers, and boosting productivity. The most often stated benefits of digitization across all industries are "acquiring new consumers" and "maintaining client happiness." 83

percent of SMEs in general cited factors such as expanding into new areas, acquiring new consumers via social media or digital marketing. It is believed that the emphasis on the new market by Syrian-founded SMEs derives from a desire to reach both local clients in Turkey and international clients in worldwide markets.

The term "maintaining customer satisfaction," which is considered an additional critical component, also encompasses components such as "responding swiftly to requests" and "keeping up with rivals in terms of the technology offered," among others.

The final priority is to enhance production. 50% of SMEs cite the term "productivity," which encompasses factors such as improving profitability, lowering expenses, and planning and monitoring operations efficiently. The fact that client access is stressed more than production could indicate that Syrian-founded SMEs are battling for survival. The key advantage mentioned by the majority of businesses is the element "customer access," which is a core necessity for the existence of a company activity. It is evident that only a small percentage of SMEs can prioritize longer term factors such as increased productivity.

Graphic 4 - Expected Benefits of Digitalization

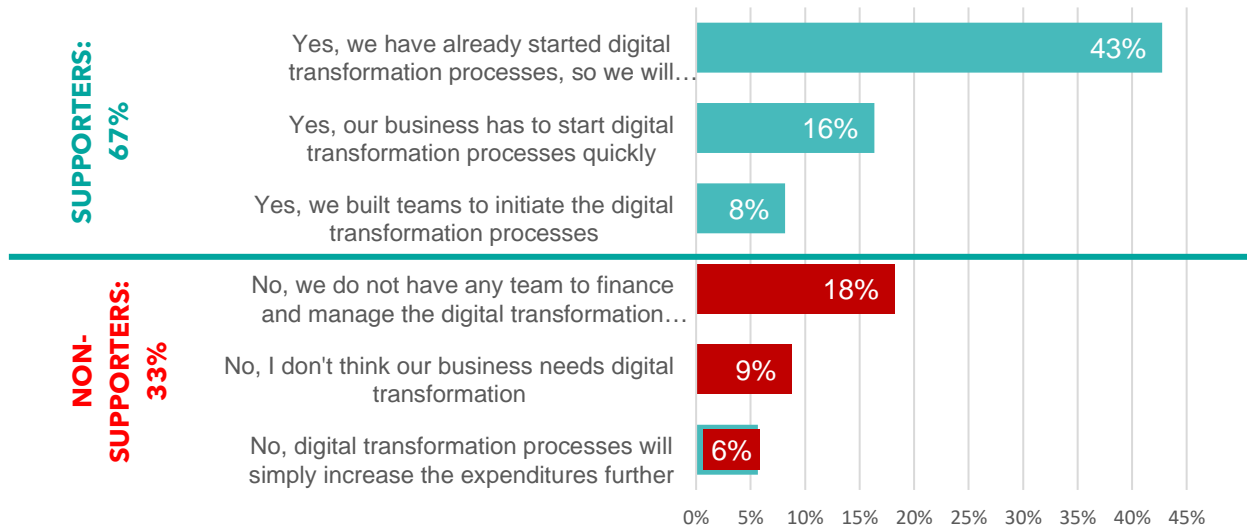


6- Covid-19 has strengthened the focus on digitalization.

67 percent of the SMEs surveyed responded "Yes" when asked "Has Covid-19 altered your outlook on digital transformation?" Those that said "No" remained at 33%. According to the in-group distribution of those who responded "No," over half of this group indicated that they lacked the "funds and a team capable of leading the digital transformation process," citing a lack of knowledge and money as the reason for not undergoing a change in perspective. The other half of those who responded "No" were those who stated, "our business does not require digital transformation" and "digital transformation would just increase our business's expenditures," and so saw no advantage from or need for digital transformation.

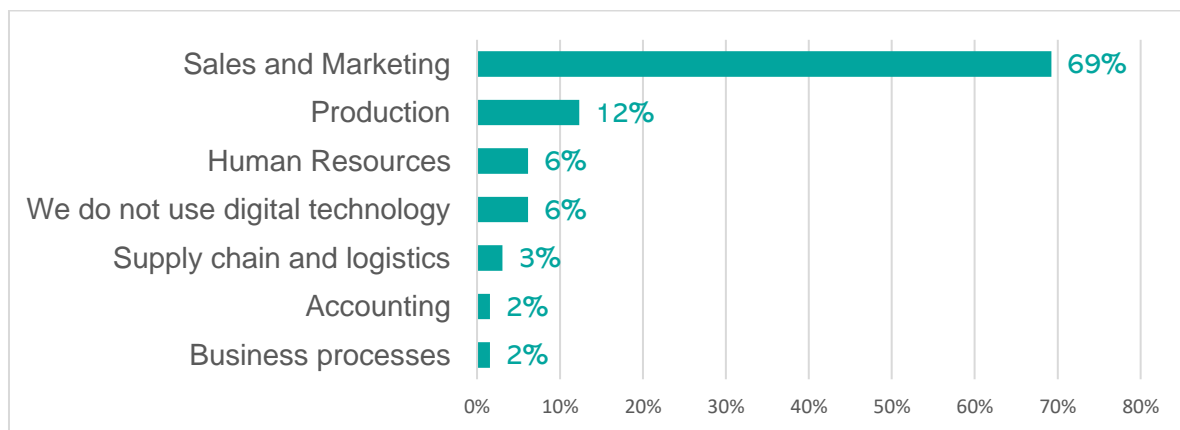
Following the epidemic, the majority of SMEs report that their attitude to digitization has shifted favorably toward "accelerating." SMEs who had not yet begun the digitization process stated that they took action following the epidemic in an attempt to kickstart the process after the pandemic, while those that had already begun the process stated that they have taken steps to accelerate it.

Graphic 5 – Post-Covid-19 Approach to Digital Transformation (DT) Processes



7- The greatest benefits of Digital Transformation will be achieved when SMEs are supported to strengthen their trade links with the local host community and overseas.

Graphic 6 - The Operations Highly in Need of Digital Transformation



By far the most common area in which SMEs seek to integrate digitization into their companies is "sales and marketing." In general, this demonstrates the significant difficulties experienced by Syrian-founded SMEs in gaining access to consumers and generating demand. All other variables are mostly disregarded. SME's major objective is to reach consumers through sales and marketing by effective use of digital technologies. Digital marketing assistance (monetary and in-kind) is thus thought to be important for Syrian-owned SMEs. Such assistance may take the form of grants and consulting services provided in connection with service acquisition.

8- Higher level of awareness will be required for the development of digitalization to enhance the productivity.

Among the primary benefits of digital tools are their capacity to minimize the amount of physical effort involved in daily tasks, to automate them partially or totally, to make them easier to follow, to enable activities to be conducted remotely, and to enhance operational efficiency in general. All of these factors can contribute to beneficial outcomes, such as increased quality and cost savings. They can help businesses increase their salience in both domestic and international markets and dedicate additional resources to their growth initiatives. However, the findings of this study indicate that such long-term elements of digital transformation targeting productivity rises continue to lag behind in SMEs' expectations and perceptions. When the conclusions concerning a lack of knowledge are considered, it is determined that awareness of digitalization and accessible technology should be raised in order to reap these benefits.

SME DIGITAL MONITOR

RECOMMENDATIONS FOR ACTION

Based upon the findings of the study, it is suggested that the private sector, sectoral associations, civil society, and public institutions cooperate and act in the following areas to eliminate the hurdles against digitalization of micro, small and medium-sized enterprises:

- **Technology support and assistance to SMEs (especially the use of production technologies):**
 - Suggesting appropriate digital services by means of consultancy programs, especially in the subjects such as digital marketing, e-commerce, corporate website creation, and social media management, which will drive up the access to customers. Supporting the installation and implementation of such services
 - Promoting the public recognition of effective practices and help disseminate them among other SMEs.

- **SME Training Programs and Competency Development Support:**
 - Developing and implementing on-the-job training mechanisms, especially for the employees,
 - Supporting the SMEs by means of mentoring or consultancy to allow them to manage or develop their own digital solutions, especially in the field of sales and marketing.

- **Integrating the Data Management Perspective:**
 - Increasing the level of knowledge and usage of the digital solutions intended to amplify efficiency by enabling the SMEs to assess data more accurately on the aspects of their business such as sales, customer relations, production, and supplier management.

- **Promoting the interaction between SMEs and information resources:**
 - Encouraging the communication between the SMEs and technology companies, university technology transfer offices, and companies delivering digital consultancy services.
 - Providing the SMEs with support so that they can access the information resources where they can learn about the services they can procure.
 - What do different service providers do, how long will it take to receive services from them and the budget they will require, etc.

- **Establishment of Sectoral Digitalization Work Groups:**
 - Establishing advisory groups at the national or local level; determining, expanding, and promoting ethical and effective digitalization policies with the participation of specialists, sectoral associations, employers' organizations, entrepreneurs, academics, and local governments.
 - Pooling up expenses for online training programs or other digital services across the companies or other stakeholders, and purchasing such services in

bulk, by way of such working groups. Ensuring efficiency and incentivizing digital transformation purchases that are suitable for joint use among the companies.

- **Financial Solution and Incentives:**

- Granting tax incentives to companies that take steps in digitalization and offer on-the-job training to their employees; or covering certain expenses of such companies or enabling them to access various digital products and services at affordable prices.
- Supporting human resource policies for recruitment of experts in the field of digitalization by offering employee grants for certain periods. This can also involve grants provided for procurement of consultancy services.

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