

## **Social Business Tradition of Turkish Enterprises: “Theoretical and Historical Journey of Cooperatives”**

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### ***1. Introduction***

The economical conditions and market pressures on Small and Medium Enterprises as well as individual entrepreneurs brought the alternative functioning forms together as a solution to the survival and sustainability problem. Clusters and community systems of entrepreneurial activities are no different in that sense with an old tradition of cooperatives.

Cooperation is not an isolated, limited to a few countries; it is an important global movement. They exist all over the world, on all continents. The top 300 global cooperatives show a figure equal to the economy of the 9th World Economic Affairs. The number of people directly affected by cooperatives is estimated at 3 billion. The International Cooperative Alliance (ICA) is an independent, non-governmental association which unites, represents and serves co-operatives worldwide. Founded in 1895, ICA has 258 members in 96 countries and in all sectors of the economy. 1.4 million Co-operatives around the world have approximately one billion members worldwide and employ over 100 million people (<http://www.co-operative.coop/join-the-revolution/our-plan/co-operative-support/promoting-co-operatives/>).

On the other hand, increased attention to entrepreneurship studies along with the social aspects of the business mind conveyed the concepts such as social entrepreneurship, corporate social responsibility, social innovation and social business. On the same ground, United Nations by recognizing the cooperative model as a factor of economic and social development, - particularly in terms of poverty reduction, job creation and social integration - and proclaiming 2012 as the International Year of Cooperatives, the concept became more integrated than ever to the social businesses.

The concept of social entrepreneurship having roots in application such as Guild Bill Strickland’s Guild Development Program in 1968, SEWA (Self Employed Women Association) of India and Muhammad Yunus’ Grameen Bank of Bangladesh in 1976 to eradicate poverty and empower women, Bill Drayton’s Ashoka to fund social innovators around the world in 1980s to name a few (Seelos, 2010).

In 2000s social entrepreneurship started to be accepted for both non-profit and for-profit businesses with a motivation to create a social change for good. Roberts et al (2005) express this view as; “*Social entrepreneurship encompasses the notions of ‘construction, evaluation and pursuit of opportunities’ as means for a ‘social transformation’ carried out by visionary, passionately dedicated individuals*” (Roberts and Woods 2005; 49).

On the other hand, in respect to the organizational formation, social enterprises are categorized as a for-profit or non-profit, and claimed to take the structure of a co-operative, mutual organization, a social business, or a charity organization (Ridley-Duffet & Bull, 2011, Saatci & Ozcam, 2013).

In this paper, social business concept is investigated with a theoretical and historical evolvement of cooperative social enterprises in Turkey through the lenses of organizational structure, strategy and operations. This paper, apart from providing a concise framework of Turkish cooperatives from different angles, provides the comparison of conceptual foundation of two concepts - social business and cooperatives – with their theoretical principles and real life applications. Throughout the paper the differentiating factor of social business that forged ahead of cooperatives are also depicted.

In the first part of the paper, literature review of cooperatives is provided. In the second part, definitions and classifications of cooperatives are discussed in relation to ownership structure and purpose of establishment. Then social business is discussed with definitions and basic principles. Next, Turkish cooperatives are evaluated according to social business principles. Finally, in the concluding part future of cooperatives are discussed in respect to social empowerment argumentation of social business.

## **2. Literature Review on Cooperatives**

### **2.1 Definition of Cooperatives**

Co-operatives are economic entities that are initiated on the principles of cooperation. A cooperative is a legally accepted entity that are formed by a group of people who want to behave according to their common interest, either by satisfying their common needs and/or serving better to the overall economic conditions of its participants.

From the etymological perspective, the word comes from Latin word '*Cooperatio*'. The "Co" represents collectivity and "*opera*" represses the workout and effort. As clear as the word is -which emphasizes a collective effort spending activity- the definition on the other hand, can be detailed also from several perspectives. International Co-operative Alliance defines a cooperative as an "*autonomous association of persons united voluntarily to meet their common economic, social and cultural needs and aspirations through a jointly-owned and democratically-controlled enterprise*" (International Co-operative Alliance's Statement on the Co-operative Identity (ICASCI), 1995)

From the legal perspective as stated by Italian Civil Law (1942) a "*cooperative is a company whose member, having common needs, freely decide to create and manage an enterprise with the goal of satisfying their needs and making available all the necessary goods and services.*" Also Turkish cooperative law established in 1968 with the cooperative law no: 1163 says that "*Cooperatives are bodies with variable members, variable capital, and legal identity that are established by natural and public legal entities and private administrations, municipalities, villages, societies and associations in order to ensure and maintain certain economic interests and especially the needs of their members toward professional life and living standards by means of mutual assistance, solidarity and service as trustees to each other.*" (Republic Of Turkey Ministry Of Industry And Trade General Directorate Of Organization Laws On Cooperatives, No: 1163 January 1996, Ankara)

From the economics perspective as Charles Gide describes "*Co-operation means nothing less than an economic system destined to supersede capitalism by mutual aid, by one more like the earlier "domestic" system*" .... *Co-operation will succeed in establishing in business a reign of truth and justice; in short, it will establish the "fair price."* (Gide, 1922; 143) Also, in Turkey, Prof. Ziyaettin Fahri Fındıkoğlu defines cooperatives as "*the attempt of a group of people who comes together voluntarily for satisfaction of some economic needs like production, credit, consummation and housing*" (Özcan, 2007; 38) with a stressing factor of economic conditions.

From the social and cultural perspective; Cooperatives are businesses that have driven by values not profit. As stated "*Co-operatives are based on the values or self-help, self-responsibility, democracy, equality, equity and solidarity. In tradition of their founders, co-operative members believe in the ethical values of honesty, openness, social responsibility and caring for others.*" (International Co-operative Alliance's Statement on the Co-operative Identity (ICASCI), 1995) Among the mostly stated and agreed upon principles there are 7 principles of cooperatives as outlined in Figure 1:

Figure 1: Seven Principles of Cooperatives

1. Voluntary and Open Membership: Co-operatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.
2. Democratic Member Control: Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions with equal voting rights (one member, one vote)
3. Member Economic Participation: Members contribute equitably to and democratically control the capital of their co-operative. At least part of that capital is usually the common property of the co-operative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any of the following purposes:
  - a) Developing their co-operative, possibly by setting up reserves, part of which at least would be indivisible.
  - b) Benefiting members in proportion to their transactions with the co-operative.
  - c) Supporting other activities approved by the membership.
4. Autonomy and Independence: Co-operatives are autonomous, self help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain the co-operative identity.
5. Education, Training and Information: Co-operatives provide education and training for their members, elected representatives, managers and employees so that they can contribute effectively to the development of their co-operatives. They inform the general public- particularly young people and opinion leaders- about the nature and benefits of co-operation.
6. Co-operation Among Co-operatives: Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.
7. Concern for Community: Co-operatives work for the sustainable development

Source: International Cooperative Alliance's Statement on the Cooperative Identity (ICASCI), 1995 [http://ccednet-rcdec.ca/files/ccednet/W-269 Women In Co-ops.pdf](http://ccednet-rcdec.ca/files/ccednet/W-269_Women_In_Co-ops.pdf)

## 2.2 Evolvement of Cooperatives in the World

To the simplest definitions of cooperation, - people gathering together to help each other for a common goal- it can be said that its appearance has long roots in antique Greece, Rome, in the Middle Ages of Europe and in Ottoman Empire. The first examples of collective farming practices can be found in Babylonia (Dakun, 1989) or in ancient Rome. Also in Anatolia from Seleucid Empire to Ottoman Empire the artisan's organization "Ahi Unions" has the basic principles of cooperation, solidarity, fraternity, and generosity, labor to everyone, equal earning, and honesty in commerce, fair price policy, vocational education and technical training. Ahi unions are independent organizations with close link to the administrative tools of governmental structure and from 13th century to 19th century Ahi movement designed the economic structure of Ottoman Empire according to these cooperative principles (Hazar, 1990).

After industrial revolution, cooperatives in its contemporary sense become more visible in European countries. For instance, modern cooperatives were said to be settled down in England in 18. Century and expand to the other countries of the world by Robert Owen (1771-1858) who is known the father of the cooperative movement.

Owen believed that putting workers in a good environment, changing their houses, provide them access to education for themselves and their children can improve the quality of production. According to these ideas of Owen the first cooperative settled was opened in the cotton mills of New Lanark, Scotland (Harrison, 1969). The first cooperative in its modern meaning was established by a group named “Rochdale Pioneers Society” in 21 December 1844. “Rochdale Pioneers Society” was a group of weavers and artisans in Rochdale. This group opened a store for their colleagues to buy the foods that they cannot afford (Robertson, 1971).

In the same period Dr. William King (1786-1865) develops an organization for the workers where they can produce only for their own needs. According to King “Cooperation is a voluntary act, and all the power in the world cannot make it compulsory; nor is it desirable that it should depend on any power but its own” (1829) (Mercer, 1922). In his first consumer cooperative example, William King enabled a system where workers could produce their basic need like food or clothing. Charles Fourier (1772-1837) and Philippe Bucher (1796-1865) in France were also in the same line about cooperative movements. Fourier defined “phalanstery” as a new form of cooperative and Bucher has put a set of principles for the producer cooperatives. Hermann Schulze- Delitzsch (1808-1883) and Friedrich Wilhelm Raiffeisen (1818-1888) have settled down the first examples of credit cooperatives and rural cooperatives in rural areas of Germany (Tchami, 2007).

Cooperative movement expands to the other regions of the world like India, Asia, Africa and America basically in at the end of 19th century and in the beginning of 20th century.

### 2.3 Evolvement of Cooperatives in Turkey

The beginning of the cooperative movement in Turkey can be dated back to 12th Century with the Ahi movement. Ahi movement is an organization between the craftsmen of Central Anatolia 1172-1261. Ahi means “brotherhood” and these craftsmen’s organization is kind of a social system based on moral, economic, social and political values. Their basic aspect is “*Peaceful relations between the rich and the poor, the producer and consumer, the labor and capital, the nation and the state*” (Okan & Okan 2013) “Fairness” as a rule of Islamic culture is also the guiding principle of Ahi Movement.

In 1863, Mithat Paşa who is the Governor of Ottoman Empire of Southeastern Serbia formed a fund in Serbia called “Country Chest” or “Country Boxes” for rural financing. (Okan & Okan 2013, Karahocalıgil et al. 2011) These funds are the antecedents of first modern bank named Ziraat Bankası who has been established for funding agricultural development at 1888.

After 1st world war, the political and economical systems have been changed by the construction of Republic of Turkey. Atatürk established several cooperatives in the hand of the social state between 1926 and 1935. Mustafa Kemal Atatürk believed that the cooperatives are the only way in economic development and in the modernization of the economy (Hazar, 1990). In Agricultural Credit Cooperatives Law; No. 1470 of 1929, and subsequent laws as Laws No. 2834 and 2836 of 1935 had putted into force, where the first version of the law was focusing solely on agriculture cooperatives and later ones were also covering agricultural sales and credit cooperatives (Okan & Okan, 2013).

After the second World war in Turkey there were nearly 1000 active cooperatives including 605 for agricultural credit and marketing; 65 for consumer; 125 for handicraft; 46 for housing and 2 for others (Bilgin, N. & Ş. Tanyıcı. 2008).

After 1962, Government was started to support cooperatives with 5-year development plans.

The first plan dated 1962 to 67 was committed to encourage and support cooperatives particularly those established by small- and medium-scale producers and manufacturers, usually in the areas of marketing and credit provision (Özcan, 2007).

The Law on Cooperatives No. 1163 was put in force at 1969 within the Second 5-year Development Plan. After establishing this law the subjects of cooperatives enlarged from villages and related problems to other economic areas like manufacturing, housing... etc. In 1990 to 2001 Turkey implemented 3 different Development Plans (Sixth, Seventh and Eight Development Plans) including cooperatives.

This planned and organized state policy boosted the numbers of cooperatives as it can be seen in Table 1;

**Table 1: Increase of Cooperative Sectors by Years**

Period/year	Total
1941-1968	670
1969-1979	7 080
1980	793
1990	2 371
1996	50 150
2011	84 232

Source: Okan & Okan, 2013; 12

## 2.4 Classification of Cooperatives

Historical dimensions of cooperatives or similar mechanisms were dominated simply around the workers or consumers with an intense focus on housing. In modern era, the classifications go further down with multiple subdimensions such a consumer cooperatives, worker cooperatives, producer or marketing cooperatives, multi-stakeholder cooperatives, financial cooperatives, social cooperatives and shared services cooperatives. All types of cooperatives are owned and managed by the people who use its services, or by the people who work there or by the people who live there.

For instance, in Turkey, as of 2012 there are 84,232 cooperatives under the definition of 26 different types with the mandating power held by Ministry of Customs and Trade (MoCT); Ministry of Food Agriculture and Livestock (MFAL), Ministry of Environment and Urban Planning (MoEUP) (Turkish Cooperatives Strategy and Action Plan, 2012).

As the number of cooperatives increases with different legal status under different mandating institutions, classifications become one of the important concepts to see the big picture. In accordance to the paper concept, the classification can be organized based on ownership structure and purpose of establishment (functional).

### 2.4.1 Cooperatives in regard to Ownership Structure

The owner of a cooperative can be individuals, businesses or communities but the stakeholder groups' presence differentiates the type. According to the National Cooperative Business Association there are five types of cooperatives namely Consumer-Owned, Producer-Owned, Worker-Owned, Purchasing/Shared Services, and Hybrid. Specific to Turkey, the first three types can be further analyzed as followed with examples.

- a. Consumer-Owned Cooperatives: This kind of cooperative belongs to the consumer members. In this cooperative people the cooperative can produce or provide things for personal use, goods for the people who cannot buy or reach them (<http://www.ncba.coop/>). This cooperative provides service or product at affordable prices. The first cooperative Rochdale is an example of this type of cooperative dated back to 1884. Similarly in 1913, the first application of consumer owned Turkish cooperative was opened in İstanbul Çırçır and expanded to Unkapanı, Kadıköy, Sultan Ahmet -where the heart of the economy beats- in the subsequent years.
- b. Producer-Owned Cooperatives: This type of cooperatives is generally known to be owned by producers of farm commodities or crafts. A group of producer in the same product line comes together to process and/or market their products (Müftüoğlu, H. & Aydos, Volkan, 2001). This type of cooperatives can be seen usually in agriculture because the farmers needs to band together to survive in highly centralized and competitive industries (<http://www.ncba.coop/>).

In 1996 the number of Producer-Owned Cooperatives was 189. In 2000s, this number reached 416 in Turkey. The number of shareholders was 22.637 in 1996 and now this number is 26.325 (Türkiye’de Kooperatifçilik, 1997).

- c. Worker-Owned Cooperatives: This type of cooperatives are owned and democratically governed by the workers in a specific business line. These cooperatives exist in different industries and service sector like childcare, commercial and residential cleaning, food service, healthcare, technology, consumer retail and services, manufacturing, wholesaling and many others in the world.

In Turkey, there are a lot of worker-owned cooperatives but they act like syndicate unions because this type is not supported by the Law.

- d. Purchasing/Share Services Cooperatives: In this kind small and independent businesses come together for purchasing their power in the market. Pooling purchasing power for goods and services these small enterprises get the chance to gain their sustainability in the market. Purchasing and shared-services cooperatives are composed of businesses that join to improve their performance and competitiveness (Tchami, 2007).

#### 2.4.2 Cooperatives in Regard to Purpose of Establishment

According to their functional orientation and the purpose of the establishment, there are three types of cooperatives; housing, utility, and agriculture.

- a. Housing cooperatives: Housing cooperatives are based on construction of a legal mechanism to make people owner of a house at affordable prices. “A housing cooperative is formed when people join with each other on a democratic basis to own or control the housing and/or related community facilities in which they live.” (<http://www.coophousing.org/DisplayPage.aspx?id=48&bMenu=174&bItem=48>) A housing cooperative can be a share-capital cooperative but generally housing cooperatives are not-for-profit cooperative corporation. People pay an amount that covers their share of the operating expenses of their cooperative corporation. The first examples of housing cooperatives can be traced back to Ottoman Empire, in the last decade of 19th century the first housing cooperative was planned for the English minority of Istanbul (Çorbacı, 1986; 87). The first housing cooperative of Turkish Republic was “Bahçelievler Yapı Kooperatifi” in Ankara which was settled at 1934. The number of housing cooperatives reaches 19.300 in 1980, 27.777 in 1985, 32.014, 1990 and 33.231 in 1996.
- b. Utility Cooperatives: People come together for the lack of utility like electricity, energy, telephone service, water, etc and these kinds of cooperatives are named as utility cooperatives that are based on delivery of a public utility. The members of this kind of cooperatives are also the customers. Utility cooperatives are usually placed in rural areas of the world. The basic idea is to bring or produce the service in affordable prices for rural areas. There are not a lot of specific examples of utility cooperatives in Turkey because utility cooperatives are working closely with agricultural cooperatives. They are working on bringing agricultural water or electricity to farmers and it’s planned to settle a cooperative named “Production and Consumption Cooperative of Electric Energy” (Elektrik Enerjisi Üretim ve Tüketim Kooperatifi) in 2014. (Okan & Okan, 2013).
- c. Agricultural Cooperatives: Agricultural cooperatives are also called farmer cooperatives. In this type of cooperative the farmers or the workers of agricultural production comes together for mutual economic benefit. There are three basic types of cooperatives; first Agricultural Development Cooperatives (ADCs), Agricultural Sales Cooperatives (ASCs) and Agricultural Credit Cooperatives (ACCs). Agricultural Credit Cooperatives (ACCs) are the most important and frequent agricultural cooperative type in Turkey. There are also Agricultural Sales Cooperatives (ASCs) and Agricultural Development Cooperatives (ADCs) in different regions of Turkey.

**Table 2: The Number of Agricultural Cooperative Central Unions**

Names	C Sayisentral unions number	Member cooperative number	Member numbers
Koy-Koop. (Old multipurpose)	1	1.933	239.5560000
Hay-Koop central union	1	1.623	175.9960000
Forestry central union	1	930.000	117.9600000
Tea Coop.central union	1	50.000	71.6170000
Irrigation Coop.union	1	686.000	105.0050000
Su urunleri Koop birligi	1	174.000	10.7200000
T.kredi Koop.Merk.Birligi	1	1.800	1.113.827
Toplam	7	7.196	1.834.681

GDOS (2010)

Source: Karahocalgil, P. et al., 2011; 372.

### 3. Literature Review on Social Business

#### 3.1 Definition of Social Business

Social business is a new proposition for business model and organizational structure which serves humanity's most pressing needs through the market mechanisms. The term "Social Business" became popular when Nobel Peace Prize Winner Prof Muhammad Yunus made his speech at the ceremony in 2006, mentioning about the potential of the concept to alleviate poverty and other social problems as it was the case for Grameen Bank founded back in 1976. As an economy professor, he outlined his journey of microcredit and social business with following terms. *"I found it extremely difficult to teach elegant theories of economics in the classroom while a terrible famine was raging outside. Suddenly I felt the emptiness of economic theories in the face of crushing hunger and poverty. I realized that I had to leave the campus and somehow make myself useful to the distressed people of Jobra, the neighboring village"* (Yunus, 2007a; 239).

After creating Grameen bank that lends money to the poor and owned by the poor with a sustainable and viable functioning through human resource, marketing, production and finance functions of management, he set examples for other sectors such health, education, renewable energy, agriculture, animals husbandry, information technology and employment services. Grameen Group has more than 30 for profit and non-profit companies and organization since 1980s such as Graameen Danone, Basf Mosquito Nets, Veiola Waters, Grameen Shakti, Grameen Software Ltd., Grameen Knitwear Ltd., Grameen Telecom to name a few.

Therefore, based on the Grameen experience, in his book "Creating a world without poverty - Social Business and The Future of Capitalism", Muhammad Yunus (Yunus, 2007b), gives the definition as follow:

*"As set by the examples, social business model does not strive to maximize profits but rather to serve humanity's most pressing needs. Therefore, the first motive of a social business is not profit maximization, and second, it does not pay its investors dividends.*

*Instead, it aims at solving social problems with products and services at affordable prices, or giving the poor and marginalized people ownership in a business and therefore allows them to share in its profits. A social business pays back only its original investment and reinvests its profits in innovations or further growth that advance its social goals. Although the social business is pioneering in its aims, it is traditional in its management. Its workforce is professional and paid according to market wages. This type of business may or may not earn profit, but like any other business it must not incur losses in order to be able to sustain itself.*

*In every sense the social business is sustainable: in its direct environmental impact, its impact down the value chain, and critically, in its financial independence. This is a key difference between social business and charity. Once its initial investment is repaid, the social business aims to be financially self-sustaining, giving it the independence and security to focus its efforts on the long-term improvement of the lives of the disadvantaged”* (Yunus, 2007b; 52)

Therefore, the basic difference of social business from the common business lies in their orientation where the former one’s goal is to maximize social value and the later one’s goal is to maximize profit. On the other hand, social business movement and social entrepreneurship are related to each other in a sense of values and vision for the transformation of societies for better with socially sustainable and effective models. The difference between these two concepts lies in the utilization of the profit where as implied in the definition “no dividend”

The role of investors in social business is different from the philanthropists of not-for profit organization. The funding process is typically same with the commercial enterprises funding with investor relations yet in social businesses the investor gets only the initial amount invested after certain period of time with no further profit or dividend expectations. Therefore the money that investor spare can be reused for other social businesses as well. After the initial investment repayment, profits made are used for the sake of financial sustainability independent from investors. Muhammad Yunus explains a social business as “*it is self-sustaining, self-propelling, self-perpetuating and self-expanding*” (Yunus, 2007a; 25).

The aim of social business is different from traditional businesses as pioneering social impact but the management system is the same as the traditional managements. The workforce of social businesses is professional and all human workforces are paid according to market wages. A social business doesn’t have to earn profit but for being a sustainable company it must not incur losses. “*In every sense the social business is sustainable: in its direct environmental impact, its impact down the value chain, and critically, in its financial independence.*” (Yunus, 2007b; 52)

The outline of the Spectrum can be seen in Figure 2:



**Figure 2: Specturum of Business, Social Business and not for Profit Enterprises**

Type of Business	Profit / Dividend Status	Definition
<b>Profit-maximizing Business</b>	Pure Profit / dividend	Profitable business that aims to maximize shareholder value without a direct social mission.
<b>Responsible Business</b>	Good Profit / dividend	Profitable business that pays dividends to its investors, acts responsibly according to a high code of conduct and leverages profits to engage in CSR activities.
<b>Inclusive Business</b>	Make profit / dividend and do good	Target low-income communities at the Bottom of the Pyramid with a profitable business model and thus benefit sustainable livelihoods.
<b>Social Business</b>	Make profit but no dividend	Profitable business with zero-dividend policy that has the sole mission of serving society's needs.
<b>Hybrid non-profit</b>	Charity, (no) profit, no dividend	Charity organizations that follow a social objective and are financed through donations and some revenue generating activities
<b>Non-Profit</b>	Charity, no profit, no dividend	Charity organizations that follow a social objective and are mainly financed through donations.

Source: Okan University GCL Social Business Lab. Document 2012

### 3.2 Principles of Social Business

After creating successful new economic models like The Grameen Bank and Grameen Danone Food Ltd, with the objective of overcoming a social problem like poverty, pollution, and health problems, hunger...etc, Muhammad Yunus introduced the seven principles for the sustainability of this social business model in World Economic Forum in Davos, at January 2009. Accordingly, the principles of social business are:

1. Business objective will be to overcome poverty, or one or more problems (such as education, health, technology access, and environment) which threaten people and society; not profit maximization
2. Financial and economic sustainability.
3. Investors get back their investment amount only. No dividend is given beyond investment money.
4. When investment amount is paid back, company profit stays with the company for expansion and improvement.
5. Environmentally conscious.
6. Workforce gets market wage with better working conditions.
7. ...do it with joy.

Source: (<http://www.muhammadyunus.org/index.php/social-business/seven-principles>)

### 3.3 Types of Social Business

Social Business concept is outlined and framed with the seven principles and clear vision for the social change has been integrated within. On the other hand, strictness on “no loss, no dividend” policy is bended for the sake of flexibility with the differentiation of two business models of Grameen Social Business.

Type I Grameen Social Business model focuses exclusively on the activities of a social objective. The products are developed for the poor, disadvantaged people. Type I corresponds to companies seeking to “*companies that focus on providing a social benefit rather than on maximizing profit for owners, and that are owned by investors who seek social benefit such as poverty reduction, health care for the poor, social justice, global sustainability, and so on, seeking psychological, emotional, and spiritual satisfactions rather than financial reward.*” (Yunus, 2007a; 28). In this kind of social business the company produces food for people or creates housing, healthcare, education ...etc opportunities. In this kind the profit comes from the policy of low price better service or accessibility of the product or service.

Type II Grameen Social Business model can undertake any project, even for profit, provided they are owned by the poor. They can earn dividends or indirect benefits. According to Yunus this kind of social business “*operates in a rather different fashion: profit-maximizing businesses that are owned by the poor or disadvantaged..... the social benefit is derived from the fact that the dividends and equity growth produced by the PMB will go to benefit the poor, thereby helping them to reduce their poverty or even escape it altogether.*” (Yunus, 2007a; 28). In this kind of social business the social benefit comes not from the cheap accessible products or services but from the ownership structure of the company. In this kind the company can be like traditional commercial enterprises and the goods or services that they create doesn't have to be related with the social impact. The comparison of these two types is depicted in Figure 3.

**Figure 3: Social Business Types**

	<b>Type 1: Non-loss, non-dividend company with a primary social purpose</b>	<b>Type 2: Profit-maximizing company owned by its poor (or otherwise disadvantaged) target beneficiaries</b>
<b>Purpose</b>	<ul style="list-style-type: none"> <li>Overcoming poverty (or addressing any other problem that threatens people and society) in a self-sustaining way</li> </ul>	
<b>Ownership</b>	<ul style="list-style-type: none"> <li>Investors (who seek social return on investment rather than financial reward)</li> </ul>	<ul style="list-style-type: none"> <li>Target beneficiaries (directly or through a trust that is dedicated to a social cause)</li> </ul>
<b>Social Business Model</b>	<ul style="list-style-type: none"> <li>Non-loss making</li> <li>Creation of social benefit through the nature of the products, services and / or operating systems</li> </ul>	<ul style="list-style-type: none"> <li>Profit maximizing</li> <li>Creation of social benefit through the ownership structure</li> <li>Product or service might or might not create additional benefits</li> </ul>
<b>Profit Regulation</b>	<ul style="list-style-type: none"> <li>No dividend is given to investors beyond the return of the original investment</li> <li>When the investment amount is paid back, profits stay within the company for expansion and improvement</li> </ul>	<ul style="list-style-type: none"> <li>All profits are to be distributed to the poor (or otherwise disadvantaged) owners or go to a trust that dedicates the profits to a predefined social cause (e.g., community development)</li> </ul>

Source: Humberg, 2011; 22

#### **4. Cooperatives and Social Business**

Given by the literature references and discussions, social business type II can be seen as a form of cooperatives. Yet, there are some distinctiveness to be considered and to be taken into account when comparing these two concepts through their (1) Ownership Status, (2) Interaction with Others, (3) Partnerships, (4) Professionalism-Wage Politics, (5) Accessibility, (6) Legal Formation and (7) Sustainability Purpose and Means.

In regard to ownership status; cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions with equal voting rights. On the other hand social businesses type II are structural and hierarchical organizations controlled by their managerial teams who are selected among its members, and who can be actively participate in setting policies and decisions as in the case of governance board of commercial enterprises.

From the perspective of interaction with the general environment, cooperatives work for the sustainable development of the groups' in-need (no specific requirement for the disadvantaged groups) whereas social businesses work for sustainable development of the disadvantaged groups.

When it comes to relations and partnerships; cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures. Social businesses serve their members most effectively and strengthen their work through efficiency and effectiveness with networking/stakeholder relations given the industry it operates.

In cooperatives there is a prevailing status of voluntary work along with workers with no specific wage policy. On the other hand, in social businesses, the professionalism and wage politics are in accordance with market conditions or even up to seven times higher market-rate wages with professional human resource applications are welcomed in this type II.

Cooperatives are accessible to all persons who are willing / able to use their services under the privileges and responsibilities of membership. Social business type II, by its definition is open solely to all poor or otherwise defined as disadvantaged people.

In regard to their legal formation, although it has variations in different countries, in Turkey for instance, cooperatives are recognized by Turkish Cooperative Law whereas social businesses have no specific legal definition that put them under the Commercial Law and Regulations.

Last but not least, from the perspective of sustainability purposes and means, cooperatives rely on collaboration and equal contribution. In addition to the principle of collaboration, social businesses type II functions best through market mechanisms.

Summary of the comparisons is shown in Table 3 as follows:

**Table 3: Comparison of Cooperatives with Social Business II in Turkish Context**

	<b>Cooperatives</b>	<b>Social Businesses Type II</b>
<b><u>Ownership Status</u></b>	Co-operatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions with equal voting rights (one member, one vote)	Social Businesses are structural and hierarchical organizations controlled by their managerial teams selected among its members, who can be actively participate in setting policies and decisions as in the case of Board Members
<b><u>Interaction with Others</u></b>	Co-operatives work for the sustainable development of the groups in-need	Social businesses work for sustainable development of the disadvantageous groups
<b><u>Partnerships</u></b>	Co-operatives serve their members most effectively and strengthen the co-operative movement by working together through local, national, regional and international structures.	Social businesses serve their members most effectively and strengthen their work through efficiency and effectiveness with networking/stakeholder relations
<b><u>Professionalism-Wage Politics</u></b>	Voluntary in nature, no specific wage policy purposely designed	Equal or up to seven times higher market-rate wages with professional human resource applications
<b><u>Accessibility</u></b>	Open to all persons able to use their services and willing to accepts the responsibilities of membership,	Open to all poor or otherwise defined disadvantageous groups' members
<b><u>Legal Formation</u></b>	Recognized by Turkish Cooperative Law	Recognized by Commercial Law
<b><u>Sustainability Purpose and Means</u></b>	Collaboration and equal contribution	Through market mechanisms

Source: Own Draft

### 5. Conclusion and Discussion

Cooperatives that were surfaced as a solution to social concerns of their times nearly after the industrial revolution at 1800s, have evolved and materialized in modern managerial terms such as social entrepreneurship and social business.

Under the generic understanding of social entrepreneurship -where the motive is social transformation- cooperatives seem to best exemplify the benchmark application for centuries. Specifically, social business type II which defines itself quite similar to cooperative movement raises the question of similarities and differences. In this paper, according to the historical and theoretical journey of cooperatives, social business is scrutinized and detailed in the Turkish context. Respectively, it can be said that, cooperatives are the legal formation alternative for social businesses with minuses and pluses.

First of all, cooperatives are still one of the best functioning forms of collaborative movement. Their organizational structure sets a good example for collaboration and functioning. But, the market mechanisms and enabling tools are disregarded in cooperatives which are further defined and integrated in social business type II with comprehensible functions of management and units of marketing, human resources, production and finance. Accordingly, life-cycle and sustainability issues need to be incorporated.

Secondly, the ownership status and risk bearing qualities of social entrepreneurs are not emphasized in cooperatives. Efficiency and effectiveness related understanding can be boosted with innovative and lean social entrepreneurship appliances both for social business type II and cooperatives.

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