

TURKEY’S ENTREPRENEURIAL ECOSYSTEM: VALUES OVER VALUATIONS

Turkey has experienced a rapid increase in the number of young and female entrepreneurs over the last few years. Encouraged and inspired by the local Turkish ecosystem, new ventures are charged with highly motivated teams working together towards socially responsible, environmentally friendly, and pro-poor inclusive business models. While large companies are struggling with adapting to the needs of emerging markets, startups are employing inclusive business strategies and enjoying high growth rates. At the same time, they benefit the under-served population with increased access to goods, services, and livelihoods. In this article, the author argues that startups are now an integral part of the Turkish economy and with the right policies, they are ready to contribute remarkably to the country’s position in the global economy.

Hansın Dođan*



TURKISH POLICY
QUARTERLY

Summer 2017

* Hansın Dođan is the Private Sector Manager at the United Nations Development Program (UNDP), Turkey Office.

An entrepreneur prefers running his or her own business, rather than working as an employee. Usually, a business venture starts with an idea and kicks off when creativity is matched with a set of leadership skills, as well as a supportive market environment. Over the last few years, Turkey has seen an increase in young entrepreneurs. More and more young people prefer passing their time in coffee shops or co-working spaces and working on their business ideas, rather than exploring ways to enter the turnstiles of high-value multinational companies.

With their resources, long working hours, and carefully selected employees, private companies have become leaders in innovation in the past few decades. In this highly competitive, globalized economy, innovation has become a matter of survival, and efforts have become even more aggressive with the shortening technological life cycle of new products, putting pressure on companies to come up with new ideas every year. However, it has become an often-heard story that young entrepreneurs – with little to no resources – develop a new application, hardware, or system, which out-competes all monstrous organizations and reaches a multi-billion value within a very short time period.

Is it the money factor which gives encouragement to young people to pursue their own business startups? Furthermore, is the motivation to make money enough of an incentive to achieve remarkable results despite lacking the same tools and resources that big companies have?

Fostering a Positive Environment for Startups

It is undeniable that startups cannot operate independent of a supporting ecosystem to nurture them. In Turkey's ecosystem, for example, key stakeholders including public agencies, academies, and investors, provide the required support system. The United Nations Development Program (UNDP), in collaboration with Turkey Vodafone Foundation and Habitat Association, has also been making an effort since 2012 to maximize the entrepreneurial input into the ecosystem. It has been doing so by organizing coordination meetings and researching their needs with regards to localized academic curriculum, regulations, policies, and public-private partnerships. The International Entrepreneurship Initiative focuses on what an entrepreneur needs besides a good idea, encouragement, and capital to realize his/her dream.

Startups often fail when its dreams are dictated by aggressive competition and investors. Spanning the enterprise life cycle from a “café” to a “global” level requires higher values than what a typical company is driven by. New age entrepreneurs are

achieving higher valuations in a shorter time than old-age businesses, because what the former holds as values are deeply embedded in the DNAs of the businesses, while large companies merely use their values as corporate window-dressing.

Turkey's Startup Ecosystem

New ventures are charged with highly motivated teams working together as one unit to positively impact their environment. Socially responsible, environmentally friendly, and pro-poor inclusive business models are blooming in all corners of Turkey. That is the critical flame at the hearts of new age entrepreneurs, which are not subject to the strong winds of shareholder profit cravings, and the Turkish ecosystem has been doing well to enable the environment for that.

A startup launched by two young Turkish entrepreneurs, “Whole Surplus,” is one good example. It was recently selected by the UNDP and Impact Hub joint initiative Accelerate2030 (A2030) as one of the 10 best ventures from 17 different countries to receive tailored support for international scaling. Impact Hub Geneva and A2030 provide support to selected startups on topics including business models for scaling, intellectual property, global supply chain management, international standards and certifications,

“Whole Surplus maximizes donations of surplus foods to food banks and minimizes waste at the source through smart data analytics technologies, creating a shared value for all.”

international marketing, and impact measurement. This is done by mobilizing a big spectrum of entrepreneurial ecosystem actors, including Boston Consulting Group, Endeavor, Dalberg, the UNDP, the International Trade Center, Codethic, World Intellectual Property Organization, Sidley, and Endeva. With offices all around the world, A2030 also works with many UN organizations, consultants, investors, and corporations. During the Scaling Bootcamp in Switzerland (an activity of A2030), Whole Surplus and other selected startups will be introduced to this entrepreneurial network and have the opportunity for one-on-one meetings based on the business model's specific needs, such as access to finance.

What sets Whole Surplus apart from the other 324 applicants is the shared value it offers to stakeholders through their Business to Business (B2B) food surplus management system. By working with retailers, food banks, producers, distributors, and recyclers, Whole Surplus maximizes donations of surplus foods to food banks and

minimizes waste at the source through smart data analytics technologies, creating a shared value for all. Their focus is on people and they aim to eliminate hunger. At the same time, the model maximizes the tax break for retailers and optimizes the efficiency of food banks. Given that one-third of food produced for human consumption is wasted globally and the retail sector contributes five percent of this waste with a value of 50 billion euros, Whole Surplus' effort is meaningful.¹ It is saddening when one in nine people globally (795 million, to be exact) do not have enough to eat and suffer from malnourishment.²

According to Michael E. Porter of Harvard Business School and Mark R. Kramer, managing director of the social impact advisory firm FSG, companies can connect their success with social progress in three distinct ways: By reconceiving products and markets; redefining productivity in the value chain; and building supportive industry clusters at the company's locations.³ According to Porter and Kramer's Creating Social Value model, companies can generate economic value by simultaneously producing value for society. Many large companies are revisiting their business strategies to achieve just this.

The UNDP and Inclusive Business Strategies

The UNDP describes inclusive business as “creating value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organizations.” Such business models integrate low-income consumers, suppliers, retailers, or distributors in the core business operations of a company, on a commercially viable basis. Essentially, inclusive business strategies connect their shared value with the base of the income pyramid – which represents 702 million people who live on 1.90 dollars per day – by offering goods, services, and livelihood opportunities for low-income people in commercially viable and scalable ways.⁴ These businesses provide opportunities for people living at the base of the pyramid to step into new roles – as suppliers, distributors, retailers, or customers.

While inclusive business models can be found in the DNA of a wide variety of companies, it is more often implemented throughout all layers of large companies' business models, such as in the case of Nestlé. Nestlé, for example, redesigned its

¹ “Food Loss and Food Waste,” UN Food and Agriculture Organization, <http://www.fao.org/food-loss-and-food-waste/en/>

² “Zero Hunger,” The World Food Programme, <http://www1.wfp.org/zero-hunger>

³ “Creating Shared Value,” *Harvard Business Review*, January/February 2011, pp. 63-70, <https://hbr.org/2011/01/the-big-idea-creating-shared-value>

⁴ United Nations, Department of Economic and Social Affairs, Population Division; Development Research Group, World Bank, 2009; “Poverty headcount ratio,” World Bank Data, <http://data.worldbank.org/indicator/SI.POV.DDAY?locations=1W&start=1981&end=2013&view=chart>

coffee procurement processes, improving its value chain by working directly with small farmers in impoverished areas to lift them out of the low productivity trap, poor quality, and environmental degradation. As a result, higher yields and quality increased the growers' incomes, the environmental impact of farms shrank, and Nestlé's reliable supply of good coffee grew significantly. Nestlé gained a competitive advantage in the market.

There are a number of constraints facing large companies which are attempting to create shared value by changing their business model. Companies often claim the difficulty of doing so lies in the financial nature of their traditional business. The International Finance Corporation (IFC) identifies financial access as a key obstacle in converting to an inclusive business model.⁵ Other major obstacles are defined as poor infrastructure and lack of qualified labor, with the UNDP also identifying further obstacles including a hard-to-reach customer base, suppliers with limited capabilities, limited market information, and inadequate regulation.

“The UNDP describes inclusive business as ‘creating value by providing products and services to or sourcing from the poor, including the earned income strategies of non-governmental organizations.’”

This is why new startups come into the picture to address the untapped portion of the market. New entrepreneurs see the vacuum in the market as an opportunity in a highly competitive world, where big companies are pressured to demonstrate the same level of flexibility and maneuverability of small startups. It is easier to model a new, completely inclusive business start-up rather than rethinking, revisiting, and revising the giant business architecture of a multi-national corporation.

Traditionally, large companies out-compete small ones. However, with their inclusive business models, startups do not face this challenge. Startups also develop product, service, and business model innovations that have the potential to tip the scales of competitive advantage in more established markets. In other words, startups with inclusive business models can provide clean water, power, modern communications, health care, transportation, education, financial services, and income-generating opportunities to under-served people at levels of quality and affordability they have never experienced, even if they existed in their market before.

⁵ “Accelerating Inclusive Business Opportunities: Business Models that Make a Difference,” IFC, http://www.ifc.org/wps/wcm/connect/fa3cc0804cc75aae948fb59ec86113d5/Pub_001_IFC_2011_FLAGSHIP.pdf?MOD=AJPERES

Maximizing Turkey's Entrepreneurial Environment

Entrepreneurship is important for economic development, social integration, and inequality reduction. To sustain their competitiveness, developing economies – facing external conditions such as the competitive effects of globalization and frequent financial crises – are compelled to identify key opportunities and threats in order to be more entrepreneurial, adaptive, and innovative. Turkey, as an emerging economy, needs entrepreneurial firms. The country needs to take advantage of young entrepreneurs in order to achieve substantial economic growth.

Expanding youth entrepreneurship would encourage the development of a dynamic and innovative low-cost, high-impact private sector. New entrepreneurs could offer a significant resource with regards to being able to identify alternatives to current organization, technology, and market approaches. Maximizing the entrepreneurial environment in Turkey could also potentially reduce welfare costs and increase revenue for the government. In addition, youth enterprises could provide a sense of “meaning and belonging” to the young men and women in the developing economy of Turkey. Engaging its youth in their entrepreneurial endeavors would increase the Turkish economy's competitive advantage.

In recent years, female entrepreneurs in Turkey have also been quite active in establishing startups. A number of government policies and NGO initiatives are providing incentives for female entrepreneurs to enter the market. For example, the Small and Medium Enterprises Development Organization (*T.C Küçük ve Orta Ölçekli İşletmeleri Geliştirme ve Destekleme İdaresi Başkanlığı* – KOSGEB), a state-owned organization founded with the objective of increasing the share and effectiveness of small and medium-sized enterprises in meeting the economic and social needs of the country, and improving the level and strength of their competitiveness, also supports women in this respect. Civil society organizations such as Women Entrepreneurs Association of Turkey (*Türkiye Kadın Girişimciler Derneği* – KAGIDER) or TurkishWin train women in starting and developing businesses, and help them to succeed as entrepreneurs. Companies founded by female entrepreneurs like Big Chef's, Cambo, Ickale, Armut, Butigo, Trendyol, Evmanya, Bebeshop, Bonvagon, and Bonnyfood inspire other women by setting positive examples.

According to TURKSTAT 2015 Household Labour Force Statistics, women constitute only 8.1 percent of total entrepreneurs in Turkey, one of whom is Bedriye Hulya, who started a highly successful B-Fit Sports Center franchise, a chain of 280 female-only gyms across Turkey.⁶ It has been hailed as a gender-inclusive

⁶“Girişimcilik Haber Bülteni 2015” [“Entrepreneurship Newsletter 2015”] *Türkiye İstatistik Kurumu*, 15 August 2017, <http://www.tuik.gov.tr/PreHaberBultenleri.do?id=24870>

business model, which ensured its success. The success of B-Fit proves how such a model can work, offering opportunities to women and emphasizing the inclusion of disadvantaged women as franchisees, employees, and customers. The model is targeting Turkey's female "C-class" – the 82 percent of under-served women of rural or lower socio-economic background. Bedriya

Hulya believes it makes more commercial sense to target the masses, rather than the 18 percent of A- and B-class female gym users.⁷ Her business succeeded because it impacts real social change, Hulya claims.

“Engaging its youth in their entrepreneurial endeavors would increase the Turkish economy’s competitive advantage.”

Concluding Remarks

With its young and educated workforce, Turkey is an attractive market for entrepreneurship. It is strategically located between key markets in Europe, the Middle East, Russia, and Central Asia. Turkey's economic future depends on its successful entrepreneurs and a supportive ecosystem (grants, subsidies, and incubator spaces).

The Turkish government and other public institutions have done a good job in laying the framework for Turkey's entrepreneurial ecosystem. The Turkish Ministry of Science, Industry and Technology and the Scientific and Technological Research Council of Turkey (TUBITAK) extend grants, subsidies, and other incentives for entrepreneurs. The number of venture capitalists is increasing every year.

Startups are now an integral part of the Turkish economy and with more coherent policies on creating shared value and inclusiveness, the country can quickly return to the fast-track growth pattern it used to exercise for many decades before, and re-join the “global economic fast lane.”

⁷ See classification system based on occupation: <http://www.nrs.co.uk/nrs-print/lifestyle-and-classification-data/social-grade/>