

## Terms of Reference HBS Field Studies 2009

**Project Title:** Financing Profitable Social Enterprises

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Professor of Business Administration, HBS

### Introduction to Enterprise Solutions to Poverty

Launched in 2006, Enterprise Solutions to Poverty mobilizes leading corporations and emerging entrepreneurs to build competitive and inclusive growth strategies that engage millions of low-income people as suppliers, distributors and consumers of asset-building products. ESP focuses on four sectors that have strong potential to incorporate large numbers of poor people in profitable, inclusive business models: agribusiness, decentralized distribution, financial products and profitable social services. Our goal is to double the income and assets of over 50 million low-income people by end 2012. Over the last two years, ESP has mobilized the leaders of over 150 large companies and entrepreneurs in India, China, Mexico and Colombia; with activities in Kenya and Brazil to be launched by year-end. Examples of how leading companies and entrepreneurs are building inclusive businesses with ESP's support and generating growth opportunities for the poor include:

- ITC, Tata Chemicals, Mahindra and Reliance are engaging millions of small vegetable and dairy farmers in India directly, cutting out middlemen and providing direct technical and financial inputs that greatly increase the productivity, market access and income of these farmers.
- Bimbo, the world's second largest baker, and Fincomun, Mexico's second largest microfinance institution, are working with ESP to roll out microloans, health and life insurance, and saving products to the 600,000 mom and pop retail stores in Bimbo's distribution system.
- In China, ESP is working with China Mobile, HSBC, and local financial institutions to apply innovations in technology and distribution to rural finance.

**Role of MBA students.** ESP supports the buildup of inclusive business models by mobilizing the talent of MBA students from top schools in the U.S. and the focus countries to undertake live cases, company and industry analysis, and internships with leading companies and ESP entrepreneurs. In 2007 and 2008, ESP mobilized over 200 MBA students in field studies and internships from Harvard, Wharton, MIT and the top business schools in the focus countries. In March 2008, student teams presented their analysis to the industry leaders of the 16 ESP Innovation Groups in India, China, Mexico and Colombia. In the January to April 2009 period, 16 HBS-based ESP Field Studies will be conducted, four each in focus country on agribusiness, decentralized distribution, financial products and profitable social services.

These ESP field studies and internships provide MBA students with:

- Direct experience with top management of leading companies in emerging markets, leaders who are building often disruptive business models with the potential to engage millions of poor people.
- Experience working with Enterprise Solutions to Poverty, which is at the cutting edge in building and backing private sector inclusive business models and a new breed of for-profit social entrepreneurs.
- The opportunity to have real impact on the strategies of leading companies and on the lives of poor people.
- Exposure to alternative career paths in private sector solutions to poverty and for-profit social enterprise—and to the leaders in new movement.

## Composition of ESP Field Study Teams

Four field studies on Financing Profitable Social Enterprises will be conducted, with one team for each ESP focus country – China, India, Mexico or Colombia. Each team will be comprised of three to four students from HBS, KSG and/or MIT. Faculty advisors will make the final determinations regarding cross-registered students to ensure effective team coordination and faculty evaluation. Each team will work on the project under the guidance of its faculty advisor from Harvard Business School, Nancy Barry and other members of the ESP team. Teams will meet with faculty advisors bi-weekly and with ESP monthly in person and/or by Skype.

Parallel MBA teams from the top business schools of the four focus countries will carry out related studies, but with separate deliverables. These teams will be from IIMA in India, CEIBS in China, IT Monterrey EGADE in Mexico, and Universidad de los Andes in Colombia.

Each HBS country team will work independently, with its own deliverables. Individual teams will be encouraged to exchange information with the other HBS financing profitable social enterprises teams working on other countries, and with the local MBA teams. ESP will provide a wiki-type site to facilitate information sharing across teams. The following chart provides the desired composition of the HBS teams and the faculty advisor for the four HBS financing profitable social enterprises field studies. In March, each team will work closely with the parallel in-country MBA team to prepare synthesis PowerPoint presentations which will be presented to industry leaders in the ESP Innovation Groups during Spring Break.

### Financing Profitable Social Enterprises Teams

FOCUS COUNTRY	HBS-BASED TEAM		
	Students	Special Requirements	Faculty Advisor
China	3 to 4, HBS, KSG, MIT	Mandarin by half of team	William Sahlman, Lead Faculty Advisor, and two to three HBS faculty advisors
India	3 to 4, HBS, KSG, MIT		
Mexico	3 to 4, HBS, KSG, MIT	Fluent Spanish by all team members	
Colombia	3 to 4, HBS, KSG, MIT	Fluent Spanish by all team members	
<b>Total</b>	<b>12 to 16 students</b>		

### Background on Financing Profitable Social Enterprises

Great opportunities exist for emerging entrepreneurs – including MBA graduates – to build for-profit enterprise networks and franchises that tackle social or environmental issues, often engaging low-income people as both providers and customers in health, education, and energy supply. ESP has identified emerging entrepreneurs with breakthrough business models that often use new combinations of technology and touch, and innovative distribution systems to deliver social services to large numbers of low-income people. These for-profit ventures require seed and venture capital as they test their business models and move to scale. Several venture capital funds are emerging in the focus countries to provide this financial backing to a new class of for-profit social entrepreneurs.

Also, within the range of ESP sectors, large companies are exploring the creation of corporate venture capital with two objectives: 1) backing employees and other young entrepreneurs to build enterprises related to the company's business but which the company opts not to pursue in-house, e.g. supply of agricultural products; and 2) Pursuing alternatives to philanthropy by backing social enterprises and social franchises which can provide strong livelihoods for franchisees while generating demand for the company's products.

## Key Areas for Analysis

**Seed and Venture Capital for Profitable Social Enterprises.** Each team will interview and analyze existing and emerging local and international venture funds operating in-country which are focused on financing for-profit small and medium enterprises. ESP will provide the starter list of such venture funds, with the team expected to identify others. The team will assess:

- The capabilities of the venture team to assess and back profitable small enterprises in health, education, housing, energy, and rural infrastructure.
- The portfolio and pipeline of these venture funds, including sector composition, target vs. actual profitability levels, financing requirements of the entrepreneurs, and potential of the enterprises to achieve major scale and impact.
- How these companies are generating the pipeline, e.g. through collaborations with universities, promotional institutions, seed capital sources, and their own knowledge of the industry and emerging players.
- Key issues in raising funds for profitable social enterprise and ways in which venture capitalists are overcoming these hurdles.
- Based upon experience to date, what the venture capitalists and the team believe to be the best predictors of success or failure of venture capitalists and entrepreneurs in the for-profit social enterprise space.
- What the venture capitalists view as other support services needed by emerging entrepreneurs at various stages of development, e.g. seed capital, loans, consulting and mentoring, market connections.
- What venture capitalists consider to be the ideal mix of funds available, the capabilities that a venture fund needs to have to operate in this space and the ideal number of deals per company.

**Building the Pipeline, Analyzing Factors for Success.** Each team will interview and analyze five successful social enterprises and five that have not achieved success. Success is defined as profitability within two to four years, a business model which represents differentiated value, and the actual ability or real potential to engage or impact over 100,000 low income people with the service. Analyze:

- What successful vs. unsuccessful entrepreneurs view as keys in building a profitable social enterprise that engages or makes a major impact on over 100,000 low-income people in the distribution system or as customers.
- The history and trajectory of the successful and failed entrepreneurs – reverse engineering their plan vs. actual evolutions.
- What external inputs—advice, finance, commercial connections—have been most important to their success.
- What internal qualities of the entrepreneur and the venture idea were most pivotal to success or failure, based on the team's judgment.

**The team will make recommendations** in the following areas:

- **Generating a solid pipeline** – Recommend screening criteria for selecting social entrepreneurs, at the idea, startup and rollout stages. Recommend means to improve the quality and quantity of the pipeline in profitable social enterprise ventures, for individual venture capital companies and for the industry as a whole.
- **Raising the needed mix of funds** – Given the risk and return profile, gestation period, and kind of capital required by for-profit social entrepreneurs, recommend the needed set of seed and venture finance instruments, reasonable return expectations and likely classes of funders for profitable social enterprises. What mix of grants, seed capital, venture capital and commercial loans are likely to be needed? How can the company provide the mix or collaborate with others to ensure the needed mix?
- **Strategies and support structures.** Recommend the strategies and structures needed to promote and support the buildup of hundreds of for-profit entrepreneurs in the social service space. If possible, be specific on the policies and institutions which would need to be engaged and dimension the costs and potential benefits of such a strategy.

### **Expectations of MBA Teams**

Most team members are expected to visit the country for 8 to 10 days, from December 30, 2008 to January 9, 2009. During this period, team members will:

- Spend two to three days meeting with CEOs of companies engaged in ESP from a range of sectors, with other Boston-based and local MBA students participating in ESP Field Studies and with a member of the ESP management team.
- Spend three to four days with the venture capital companies engaged in financing profitable social enterprises. The objectives are to update or originate the live cases, to meet with senior managers who will serve as the key contacts for the field studies, to gather data and to begin the analysis on the key areas.
- Spend two to three days interviewing at least ten social entrepreneurs and other key actors to understand their realities, their histories and their financing requirements.

In addition to the December-January field trips, at least one team member is expected to travel to the focus country to participate in the March ESP Innovation Group meeting to present the team's cross-cutting analysis of the three themes and to complete the field research.

## Funding Support

Second-year HBS students can apply for field study grants to cover eligible travel-related expenses. Teams with two or more HBS students determined to be eligible for funding will receive up to \$2,000 for a field study. Teams with one HBS student will be considered under the terms of an ISR and may be eligible for funding of up to \$1,000. Teams may request additional funding, which will be determined when their final budget is reviewed and approved in February. Students traveling before the field study registration deadline of January 14 will submit approved expenses once their final budget is determined in February.

Process for students to apply for funding:

- Students apply through field study grant application, and must meet all criteria and follow all grant processes: <http://www.hbs.edu/socialenterprise/fieldstudies/funding.html>
- Line items not covered on the website will be decided on a case-by-case basis by SEI.
- Teams with just one HBS team member will be considered an ISR project in terms of grant funding.
- In addition to other team related expenses, student teams are responsible for meeting related costs. Costs for these arrangements (if applicable) can be covered through field study grants and should be included in the student budget proposal.

ESP is working with KSG to secure funding for travel of ESP Field Study participants. MIT students are responsible for securing their own funding for these field trips.

**Deliverables.** Each team is expected to produce the following deliverables:

- **Live cases on 3 to 4 promising three venture capital entities in the social enterprise space, including updates of available ESP cases.** These cases outline the history, business model, track record and future plans of the entity, the nature and performance of the ventures financed, the capabilities of the firm overall, and its abilities to select and support social enterprises. ESP will provide examples and templates. Cases need to be reviewed and approved by the companies by end of April.
- **Organizational profiles** on five successful for-profit social enterprises, and synthesis report on the failed social enterprises.
- **A PowerPoint presentation** on cross-cutting analysis, generated from analysis of the companies, industry analysis and business models, and analysis from other country teams, to be presented during Spring Break by team representatives to industry leaders who are members of the ESP Innovation Group on Profitable Social Services. Ideally, this PowerPoint presentation will reflect the work of both the Boston-based and the local MBA teams. Alternatively, two presentations will be made.
- **Memos to 3 leading venture capital companies** with the team's analysis and recommendations. These 8 to 10 page memos will be first vetted by ESP prior to sending to the companies end April.

## Organization of the Field Studies

The “clients” of the financing profitable social enterprises field study teams will be Enterprise Solutions to Poverty and the ESP Innovation Groups, comprised of CEOs and top managers of the leading companies who have built or are building competitive and inclusive business strategies in the focus countries. The following chart provides the companies likely to be engaged as partners in the ESP Financing Profitable Social Enterprises Field Studies. ESP is vetting the participation of these companies, selecting those which are committed to provide the needed data and participate actively.

### Some Members of the Emerging Innovation Groups on Profitable Social Services – Likely Partner Companies

INDIA	CHINA	MEXICO	COLOMBIA
FabIndia	New Oriental	Ignia SA	Distrihogar
IFMR-NEF	Alibaba	Endeavor	Servientrega
SELCO	IFC	CINEPOP	Ecopetrol
Infosys	Ford Foundation	Fundación FEMSA	Fundación Éxito
WIPRO	Accenture	Fundación Televisa	Promotora de Proyetos
Aavishkaar	Shanghai Practical	Farmacias Similares/del Ahorro	Exito
IFC	Sequoia (not yet member)	New Ventures	Proctor and Gamble

All participating students will agree to treat all company information on a confidential basis, with live cases and other documentation published only once vetted by ESP and approved by participating companies.

Professor William Sahlman will be the lead faculty advisor supervising the Financing Profitable Social Enterprises Field Study. All participating students, from HBS, MIT and KSG must take the field study for credit. Each student is responsible for making the needed arrangements with the registrar and with the faculty advisors.

### Commitments by Enterprise Solutions to Poverty

NBA Enterprise Solutions to Poverty will provide the following to ensure the success of the Field Studies:

- Live cases on most of the participating companies, prepared by MBA students, vetted by ESP and approved by the companies.
- PowerPoint documents of last year’s 16 presentations to the 16 ESP Innovation Groups in the four countries, synthesis PPTs, and results of all past field studies posted on the ESP wiki site.
- Introductions to key senior management contacts in the participating company.
- Monthly meetings with ESP President and other managers, and timely response and trouble shooting via email.
- Templates for Work Plans and Live Cases, and guidelines for PowerPoint Presentations and ESP memos to companies.
- An ESP Wiki type site to facilitate meeting arrangements, document posting, information sharing and communications within and across teams.
- Background documents on the industry and all past ESP live cases and industry analysis.

## Key Dates for Field Studies

ACTIVITY	DATE
First deadline for application for ESP field studies. (Students traveling in early-January must meet this deadline and ESP will give preference to HBS students able to travel in January)	November 14, 2008
Notification by ESP of students selected in the first round	December 1, 2008
Second deadline for application for ESP field studies, if space is available.	December 28, 2008
Notification by ESP of students applying in second round	January 7, 2009
Final deadline for field studies registration at HBS	January 14, 2009
Notification of final composition of each team	January 16, 2009
MBA Teams and ESP meet with private sector leaders and carry out intensive work with companies in country	Dec 31, 2008 to January 9, 2009
Team presents work plan with responsibilities allocated (template provided by ESP)	January 15, 2009
Deadline to apply for the HBS Social Enterprise Field Study/ISR Project Reimbursement Grant Program <i>**The deadline to register for an HBS Field Study or ISR is 8:30am on the second class day of term.</i>	February 4, 2009
PowerPoint drafts for ESP Innovation Groups presented to ESP	March 10, 2009
Review meetings with student teams, faculty advisors and ESP	January 29, 2009 (reports on company visits, finalization of work plans) February 26, 2009 (draft company reports, with gaps highlighted) March 12, 2009 (PPT for IG meetings) April 2, 2009 (cross country comparisons, remaining deliverables)
PowerPoint presentation presented to private sector leaders in ESP Innovation Groups in country by MBA teams; company analysis completed. Completion of field work.	March 21 to 28, 2009
Final company memos, live cases, and cross country PowerPoint, already vetted by ESP, presented to Faculty Advisors.	April 22, 2009
ESP Party in New York	May 30, 2009

## Application Process

Students are strongly encouraged to apply before November 14 to NBA Enterprise Solutions to Poverty [esp@nancybarry.net](mailto:esp@nancybarry.net) for these ESP Field Studies, to enable selection by December 1. Applicants must meet the language requirements for the Field Studies. Applicants should submit to ESP a short motivational statement, a bio, the student's top three preferences among the 16 field studies (four countries, four sectors), and the student's commitment to travel in either January or March for the field studies.