Linda Rottenberg’s High-Impact Endeavor

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BY PAULA MARGULIES
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This social entrepreneur pioneered a new model for mentoring startups in emerging markets. Now she’s replicating it around the world.
Growing up in one of Rio de Janeiro’s impoverished favelas, Heloísa Helena Assis realized that there was enormous demand for an affordable product that would tame Brazilian women’s unruly curls. In 1993, Assis and her partners — a former nanny, a cabdriver, and a McDonald’s employee — started a business called Beleza Natural (“Natural Beauty”) in the basement of a modest house in the suburbs of Rio de Janeiro. The company was an immediate success. Beleza Natural was soon scrambling to keep up with demand, unsure of how to pursue strategic growth with limited funding.

In 2005, Assis turned to Endeavor Global Inc., a nonprofit organization headquartered in New York that promotes “high-impact entrepreneurship” in emerging markets. Endeavor accepted Assis into its entrepreneurs program, providing her with what Endeavor founder and CEO Linda Rottenberg describes as “venture capital without the capital” — training, mentoring, and support from a network of business leaders, finance and organizational experts, and successful entrepreneurs.

With Endeavor’s help, Beleza Natural’s revenues have grown by 914 percent and its employment has increased by 214 percent since it joined the entrepreneur program in 2005. (Today, the company boasts 26 salons across Brazil, a full line of hair-care products, and a cosmetics research lab.) With US$30 million in yearly revenue and 1,300 employees, the company is a rags-to-riches Brazilian success story.

And it is the sort of story that Endeavor has been helping to replicate in emerging markets across the globe over the past 15 years. In 2009 alone, the organization’s entrepreneurs — who have created 130,000 jobs in 11 countries — generated $3.5 billion in revenue and $92 million in equity capital. And whereas less than half of new firms in the U.S. survive their first four years of operations, 95 percent of Endeavor’s emerging-market companies still operate after eight years. Indeed, Pulitzer Prize–winning author Thomas Friedman has called Endeavor “the best antipoverty program of all.”

An olive-skinned brunette with a wide smile, a Pilates-toned physique, and an intense gaze, Rottenberg, 41, has a personality as vibrant as the colorful Indian pillows in her office at Endeavor’s global headquarters in downtown New York City. On a busy day in March 2011, she leans back in her chair and stretches her legs out on her desk, the scuffed heels of her black boots visible to anyone walking by. Rottenberg is one of the world’s leading figures in social entrepreneurship — a field that she helped create. Her unswerving belief in the power of this field to effect profound change is the driving force behind Endeavor, whose unique social entrepreneurship model falls somewhere between capitalism and philanthropy. The organization’s mission, she says, is to “meritocracize wealth” in emerging markets, where entrepreneurs face daunting obstacles that include a lack of capital, a dearth of role models, and cultures that discourage risk. By providing entrepreneurs in these countries with access to the networks and support necessary to scale their businesses, she argues, Endeavor enables them to produce a high-impact ripple effect that can generate sustainable wealth and innovation.

“Endeavor doesn’t create entrepreneurship,” she says. “It already exists, in every country. We just catalyze the conditions under which it can thrive.”

In the years since Endeavor’s founding, Rottenberg has seen the idea of social entrepreneurship enter the mainstream. She believes that by bridging the gaps be-
between the private, public, and nonprofit sectors, social entrepreneurship models like Endeavor’s are uniquely poised to tackle society’s most pressing challenges. The success of these models in aligning stakeholders’ values, she says, even in the face of difficult barriers, offers valuable lessons for both government and the private sector.

**Pioneering Social Entrepreneurship**

Rottenberg grew up in the leafy Boston suburb of Newton, Mass., the daughter of a lawyer and a homemaker. Her family was supportive and stable — she credits them with giving her “the confidence to be curious” — but Rottenberg realized early on that she itched for a less-conventional kind of life. She also developed a passion for social activism. “I was one of those crazy people who felt entrepreneurial, but with a social bent,” she says. “I never started the proverbial lemonade stand, but I started cause-related organizations.”

At 18, she headed a few miles down the Charles River to Harvard, where she surrounded herself with expatriates and declared a concentration in social studies, a field she says taught her “to care about the world and think holistically about problems.” It was there that she discovered the work of Joseph Schumpeter, the Austrian economist who argued that a nation’s “fiery spirits,” or entrepreneurs, are its most powerful economic change agents, responsible for the “creative destruction” that generates long-term, sustainable growth. Rottenberg was riveted. She began to believe that she could be part of a “generation of innovation,” finding creative solutions to problems on both a local and a global scale.

As the head of the ill-fated Harvard Students for Dukakis/Bentsen organization, she carried campaign signs and hosted debate-watching parties. She also became Harvard’s first campus recruiter for the nonprofit Teach for America, which trains college students to teach in low-income communities across the United States. Teach for America founder and CEO Wendy Kopp remembers Rottenberg — whom she today hails as a “role model in international social entrepreneurship” — as “a leader who inspired top students to channel their energy in this direction before anyone had ever heard of Teach for America.”

As graduation approached, Rottenberg wondered how she could leverage her desire for creative destruction into a career. Viewing nonprofits as maddeningly inefficient and slow, she decided to go to law school, where she could study the legal framework for policy. “In retrospect, today I probably would have gone to business school,” she says. “At the time, though, there wasn’t much on entrepreneurship — it was the late 1980s, and it was Wall Street or bust.” Instead, she headed to Yale Law School, which had a reputation as an incubator of policy thinkers and leaders.

Yet once she was there, Rottenberg, who had always thought of herself as someone who was “excited by everything,” felt uninspired. She concluded that she didn’t belong in law, or in corporate America. Like many people in their 20s, she was searching for direction and meaning.

Eventually, she found that direction in one of her childhood passions. From an early age, Rottenberg had been captivated by Latin America. “My earliest pen pal was Uruguayan,” she recalls with a smile, “and everyone always thought I was Latina. Then I spent time in Chile, Argentina, and Brazil, and I just fell in love.”

So after graduating from Yale Law in 1994, Rottenberg accepted a job managing the Yale–USAID interdisciplinary law program at Argentina’s Universidad de Palermo. Although the work was interesting, she yearned for something more entrepreneurial.

Rottenberg found an outlet for her ideas in 1996 when she discovered Ashoka, a nonprofit organization that was pioneering a microfinance model in Brazil and Mexico. By leveraging the power of entrepreneurship to create a shift in the status quo, Ashoka pioneered the kind of approach that Rottenberg would eventually adopt with Endeavor. The organization made grants of $50 or $100 to poor people, who could use the money to buy a sewing machine or a calf and begin selling dresses or cheese. The proceeds from those sales may not have been huge, but they provided such basics as food, clothing, shelter, and medicine for the sellers — and slowly helped to lift communities out of poverty. Liking what she saw, Rottenberg began working to expand Ashoka’s reach in Latin America. Bill Drayton, Ashoka’s founder and CEO, remembers her as “one of the world’s truly original people — passionate and practical, focused on the globe and individuals, engaged in business and society.”

Rottenberg realized that she’d found her niche. “I loved the fact that this field was raw territory. At the time, no one knew what this was. So there was something about feeling part of a new movement that was very exciting for me,” she recalls. Indeed, although social entrepreneurship was first used in the academic literature on social change in the 1960s and 1970s, the term was not yet in widespread use. By the 1990s, that...
had begun to change.

As an increasingly interconnected world facilitated the spread of ideas, organizations like Ashoka were better able to gain a foothold, share best practices, and demonstrate the benefits of their models — and they did so at an opportune time. The gulf between the world’s rich and poor was rapidly expanding; there was a growing sense that neither government nor the private sector could solve all of the world’s problems. “Many services and sectors lay beyond companies’ visible self-interest. Harnessing markets to serve the world’s poor, or even to help grow a global middle class, simply did not factor into the bottom line,” Rottenberg told Harvard’s 2009 Social Enterprise Conference. “Social entrepreneurs rose up and attempted to bridge these gaps…. We calibrated and navigated a new balance between government and the private sector.”

And though often operated as nonprofits, social entrepreneurs saw themselves as distinct from traditional nonprofits. “Social entrepreneurs are problem solvers, not idealists. We’re driven by innovation, not by charity. And we don’t believe in handouts. We use entrepreneurial strategies to achieve social change,” Rottenberg has said.

**Game-Changing Wealth Creation**

Eager to gain insight into Latin America’s economic and social complexities, Rottenberg struck up conversations everywhere she went. One day, a taxi driver in Buenos Aires told her he had a Ph.D. in engineering. “What are you doing driving a cab?” she asked. He looked at her blankly in the rearview mirror. There were no jobs, he said. No opportunity. His Ph.D. was as useful as a flat tire. “So why don’t you become an entrepreneur?” Rottenberg asked. “What’s an entrepreneur?” he responded. Rottenberg was dismayed to learn that the words for entrepreneur and entrepreneurship were literally missing from the Spanish and Portuguese lexicon. “There was no sense of the possible,” she recalls. “There was all this talent, but there were no role models, no venture capital, no networks.” What’s more, the business culture stigmatized risk and failure.

Rottenberg also came to realize that there was a yawning gap between the private-sector equity that bankers were funneling to a small group of the country’s elite and the kind of financing she was promoting at Ashoka for the poorest of the poor. “Microfinance and microcredit were doing great work in terms of poverty mitigation, but they weren’t really producing the kind of game-changing wealth creation that was necessary to build a middle class,” she says. Someone, she believed, needed to meritocratize wealth and make it possible for people with profitable, scalable business ideas to develop those ideas — even if they hadn’t been born into their country’s elite.

The model for filling this gap in wealth creation took shape in early 1997, when Ashoka sent Rottenberg to Harvard on an MBA recruiting mission. While there, she ran into Yale classmate Peter Kellner, an investor in eastern Europe’s emerging markets. Over coffee in Harvard’s sleek Shad Hall, Rottenberg and Kellner discussed their shared belief that emerging markets were untapped sources of innovation, and that entrepreneurship was a powerful catalyst for wealth creation. As they talked, Rottenberg grabbed a napkin and began scribbling notes.

Essentially, Rottenberg and Kellner saw themselves as venture capitalists: They intended to scour Latin America for early-stage, high-potential entrepreneurs who could generate impressive returns and create jobs. They agreed that the key to unleashing Latin America’s entrepreneurial strength was to create Silicon Valleys of sorts on local soil. Yet they were well aware that the financial and cultural structures that had been in place in the original Silicon Valley were largely nonexistent in Latin America. Years of corruption in Latin America’s emerging markets had led to rampant bribery, falsified financial statements, and other dirty dealings, resulting in a general mistrust of business.

Surmounting these barriers would require both guaranteeing local ownership and fostering trust. Entrepreneurs needed to tap into local networks, experience, and wealth — which would be virtually impossible without the imprimatur of their country’s business leaders. Yet these leaders had little reason to trust a group of young upstarts with creative destruction in mind.

Endeavor could succeed, Rottenberg believed, only as a neutral third party — a nonprofit. “We believed that neutrality would give us a competitive edge, since there was so little trust on the ground,” she says. “If we were investors, we’d lose that neutrality and jeopardize that trust.”

Rottenberg coined the phrase high-impact entrepreneurship to signal the type of growth-oriented, scalable enterprises she hoped Endeavor would enable. “One of my pet peeves is that the nonprofit world does not do very good marketing,” she says. “Look at the word nonprofit itself — it’s very negative. High-impact entrepre-
neurship sounded big, bold, and aspirational.” Semantics aside, Rottenberg resolved that Endeavor would be a new kind of nonprofit. Using the energy and tools of the private sector, it would not just produce results, but also rigorously measure their impact.

By the time their coffee grew cold, Rottenberg and Kellner had sketched out the broad outlines of the Endeavor model. “It started with Latin America, but from the beginning we said this model could really apply to emerging markets around the world,” she recalls.

A New Type of Benefactor

In the next few months, Rottenberg left her job at Ashoka and focused her energy on launching Endeavor.
on six essential characteristics: entrepreneurial initiative; potential for changing or improving their industry; ability to generate substantial revenue, wages, and jobs; integrity; role model potential; and “fit” with Endeavor. Once selected, these entrepreneurs would gain access to a targeted set of support services: strategic consulting, a customized 18-month assessment plan, access to mentors, on-site fellows from top business schools, entrée to venture capital road shows, and personalized introductions to investors.

Entrepreneurs would ultimately be required to donate both time and money — in the form of either a percentage of equity or incremental profits — to those following in their footsteps. It was this virtuous circle, Rottenberg believed, that would create the ripple effects needed for ongoing innovation.

Models of Empreendedorismo
In January 1998, Endeavor opened its first country office in Chile; that August, an Argentine office followed. The Chilean office proved to be a false start — a lack of local buy-in forced it to close its doors until it could garner the necessary support to successfully relaunch, which it did in 2002 — but Endeavor Argentina flourished. Its first batch of entrepreneurs included Andy Freire and Santiago Bilinkis, the then 24-year-old founders of Officenet, a company aimed at revolutionizing Latin America’s fragmented and inefficient office supply industry.

Neither Freire nor Bilinkis had access to capital, and the sole investor willing to give them money had demanded 100 percent ownership of the company. Whereas entrepreneurs in a more developed market would have turned down the Faustian bargain, Freire and Bilinkis felt resigned to accept it: In a country without a culture of venture capital or local role models, they saw no other option. They forged ahead and built up the company, but they knew they lacked the resources that would be necessary to expand — in addition to lacking even the smallest stake in their own company.

Endeavor’s involvement quickly changed that. The organization’s network of venture capitalists helped Freire and Bilinkis renegotiate their ownership terms to 35 percent equity participation. In addition, Endeavor’s roster of mentors helped the two strengthen their finances, growth, and leadership models and connected them with a Brazilian private equity firm. Officenet expanded into Brazil, and soon became the largest and fastest-growing office supply business in Latin America — also becoming an example of what is possible for other entrepreneurs in developing nations.

It is exactly this “role model effect” that Rottenberg argues has been critically absent in emerging markets. “Access to capital is important, but it’s not the ultimate barrier,” she says. “Entrepreneurs in these countries lack that sense of, ‘Hey, if he did it, I can do it, too.’” Endeavor’s network of entrepreneurs provides that sense of possibility, she believes.

In fact, Rottenberg says, around 15 percent of Endeavor’s entrepreneurs are chosen precisely because they are considered “surefire successes…. We want to signify that we are results-oriented,” she says. “We expect our entrepreneurs to generate hundreds, if not thousands, of jobs and millions of dollars in revenue, and our top 10 percent to be the next $100 million companies. We make no bones about that. You’ve got to have real success stories if you want to inspire others.” Another 20 percent of the organization’s sponsored entrepreneurs are “fast learners” — intelligent businesspeople who have interesting ideas, but lack management experience and require intensive mentoring.

Some 50 percent of Endeavor’s entrepreneurs are “local stars” who have developed a regional brand but find themselves at an inflection point where they need support to expand their brand nationally or regionally. “It’s actually not the startup that’s the trouble — people find crazy ways to launch new ideas,” says Rottenberg. “It’s at the point where they hit $1 million or $5 million in sales. That’s where they need to professionalize their management, fire their mother-in-law, or think beyond their borders and recalibrate their public franchising strategies.”

The rest of the organization’s entrepreneurs, she says, are “diamonds in the rough” — young, talented individuals whose ideas might never get off the ground without external support. Wenceslao Casares, a 24-year-old Argentine entrepreneur selected in 1999, is an example. The son of a Patagonian sheep rancher, Casares founded Patagon.com, Argentina’s first online trading portal. Like many other young entrepreneurs in Latin America, he had made attempts to procure capital but was unsuccessful. Endeavor’s mentors provided him with strategic guidance and helped him negotiate a $4 million funding agreement with U.S. venture capital firm Flatiron Partners. Less than two years later, in a move that earned him almost mythic status among his peers, Casares sold a majority stake of Patagon to Banco Santander for $750 million.
Endeavor’s entrepreneurs have shown that they can overcome other obstacles. In 1999, the Argentine economy crashed. Investor confidence plummeted; unemployment soared to 25 percent; Argentines began withdrawing large sums of money from banks, exchanging pesos for dollars. Protesters took to the streets of Buenos Aires, and a state of emergency was declared. Yet in the midst of this chaos, Endeavor Argentina’s entrepreneurs achieved substantial growth in revenues and employment.

“It’s always at a time of crisis that the best entrepreneurial ideas crop up,” Rottenberg says, citing Argentina’s experience as a perfect example of how a culture of entrepreneurship can take root in challenging conditions. “Entrepreneurs can capture a larger market share, hire better talent, and tackle problems more swiftly than large firms.” A decade after the crash, the New York Times opined that Endeavor had been “a catalyst” for Argentina’s “evolving start-up culture...which is now entirely locally run.”

Similarly, Alan Farcas, Endeavor Chile’s managing director, believes that since its successful relaunch in 2002, the organization has changed his country’s business culture. “Ten years ago, nobody in Chile spoke about entrepreneurship. It may sound strange, but in emerging markets, people don’t connect entrepreneurship with job creation and with making their country a better place to live, the way they do in the United States. Ten years ago, businesspeople were viewed as little more than thieves. We’ve helped change that perception — people now view entrepreneurship as a force of good, for both the economy and the country at large.” What’s more, Farcas says, high-impact entrepreneurship is now part of the lexicon.

According to Endeavor’s metrics, 75 percent of new ventures in developing and emerging economies have two employees; Endeavor’s entrepreneurs, on the other hand, employ an average of 263. In addition, 95 percent of Endeavor’s companies provide more benefits than those required by law, and 69 percent of Endeavor’s entrepreneurs have created companies that are the first in their industry in the entrepreneur’s country.

Rottenberg believes that the secret to Endeavor’s success is its built-in ripple effect. “We have told the entrepreneurs all along that they have to pay it forward,” she says. “We make it clear that now that they’re successful, they have to make sure that the environment is conducive to the next generation starting and scaling businesses. Our entrepreneurs understand that the top people in their country and on our global board did not put in money to make another few guys rich.” In addition, Endeavor has focused on creating partnerships with governments, universities, the media, and multilateral institutions. Since 1998, more than 13,000 people have attended Endeavor Argentina’s annual entrepreneurship conference. Endeavor Brazil — launched in 2000 — hosts weekly online seminars; they drew more than 1.5 million viewers in 2010 alone.

Rottenberg says that her proudest moment was when the editor of a leading Brazilian dictionary told Endeavor Brazil that thanks to its efforts, the dictionary was incorporating the word empreendedorismo, or “entrepreneurship,” in its next edition.

From “Charming” to “Important”
By 2003, Endeavor had reached an inflection point of its own. Its four country affiliate offices had helped create 8,562 jobs at 97 companies across Latin Amer-
In a few years, Endeavor’s South African entrepreneurs created 6,000 jobs in a broad range of industries. Their companies grew at an average annual rate of 25 percent.
Peace Prize for his work in the field of microcredit gave the movement a recognizable leader. In 2008, Bill Gates launched his vision for creative capitalism, “where business and nonprofits work together to create a market system that eases the world’s inequities.”

“Gates really showed that whether entrepreneur or social entrepreneur, it’s the same type of person, the same mind-set, the same drive to solve problems,” says Rottenberg. “After all, the best entrepreneurs aren’t worried about money or exit strategies. They’re solving problems. And I think that some of the world’s greatest problems to be solved aren’t the next microprocessing chip, but rather what we do about economic development, healthcare, education, and the environment.”

Rottenberg says that social entrepreneurs need to ask themselves three basic questions: What’s currently being overlooked by both the government and the private sector? Where’s the need, the gap, the pain point? Where’s the opportunity to bridge a gap? She believes that a major shift is occurring: Lines are becoming increasingly blurred between the sectors, and she envisions a growing number of sector-ambiguous, boundary-pushing entities that aim to combine the best of each sector and pursue the social good while discarding unwanted characteristics such as inefficiency, corruption, and a lack of accountability. “There’s a merger now between the real for-profit companies that are trying to integrate social purpose into their core, especially in areas like the environment and clean tech, and nonprofits that realize that they need to have revenue streams and sustainability built in from the get-go,” she says.

Citing what she calls psychic equity — the benefits of being invested in and fulfilled by an undertaking — Rottenberg says that organizations in the private sector should consider whether they are motivating their employees beyond bonuses, aligning stakeholders’ values and interests, and measuring impact beyond the next fiscal quarter. In addition, she argues, “the private sector has to bring in multiple stakeholders and listen to constituents. It doesn’t work to just have a command-and-control relationship. You have to be much more partnership-oriented when you’re dealing with other countries.” Rottenberg also believes that social entrepreneurs “can help government deploy its resources more efficiently and effectively and track the impact of its social investments.”

Rottenberg says that Endeavor is on track to meet — and possibly even surpass — its goal of “25 by 2015.” A Lebanese office opened in early 2011; scoping missions are on the ground in the United Arab Emirates, Saudi Arabia, Kenya, Indonesia, the Philippines, and Vietnam.

But will all this activity have enough impact, in the end, to propel a social entrepreneur like Rottenberg from “charming” to “important”? Rottenberg quotes recent remarks made by former World Bank President James Wolfensohn: “Endeavor has played an instrumental role in promoting entrepreneurship as a tool for development. It is a model that should be replicated around the world.”

That is exactly what she hopes to achieve. If social entrepreneurship succeeds on a global scale, it will be due in no small part to the efforts of Rottenberg, her colleagues, and other like-minded people. But in a larger sense, it will represent an affirmation of the conviction underlying those efforts: the conviction that the spirit of entrepreneurialism has always existed in all parts of the world — and that underdeveloped countries have only lacked the institutions and mechanisms needed to unlock its power.

Resources

Thomas Friedman, The World Is Flat: A Brief History of the Twenty-First Century (Farrar, Straus and Giroux, 2005): Bestseller that describes the context of globalization in which Endeavor emerged, including an account of Rottenberg’s work.


Endeavor’s website, www.endeavor.org: Features case studies, statistics, a blog, and more.

For more thought leadership on this topic, see the s+b website at: strategy-business.com/global_perspective.