



# The Human Capital Crisis: How Social Enterprises Can Find the Talent to Scale





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## EXECUTIVE SUMMARY

**Accessing the talent entrepreneurs need is the one challenge that gets more difficult over time. Not only does it get more challenging, it gets more critical to growth.**

The world's toughest challenges are measured in billions – 2.4 billion people don't have access to basic sanitation; 1.2 billion don't have electricity; 4.4 billion don't have Internet access.

Social entrepreneurs around the world are confronting these problems. Social entrepreneurship has evolved from an obscure field into a mainstream sector that spurs economic development, while helping people secure healthier, more dignified lives.

In recent years, growing resources have further propelled the social enterprise sector. More, and more advanced, entrepreneurs are now taking risks to find solutions to the toughest challenges. Incubators, accelerators, and training programs are improving the odds of their success. Impact investors are making more and bigger bets to fund their growth.

Yet one critical challenge has stalled behind the curve: attracting team members with the right experience and expertise to bring these enterprises to scale – in business books called “human capital.”

As entrepreneurs build and scale their companies, they get better at overcoming many of their challenges, such as fundraising, logistics, and compliance with regulations. But accessing the talent they need is the one challenge that gets more difficult over time. Not only does it get more challenging, it gets more critical to growth as companies mature and scale.

At each stage of growth, this talent gap – between the talent that companies need and the talent that they can access – is one of the most critical and overlooked challenges across sectors, geographies, and organizational types.

To better understand what it takes to scale teams in the face of these challenges, RippleWorks, with funding from Omidyar Network and analytical support from McKinsey & Company, surveyed more than 600 social entrepreneurs around the world and interviewed more than 40 investors and entrepreneurs. Capturing the perspectives of CEOs, funders, and intermediaries, the resulting report offers a glimpse into the talent challenge – the next great barrier to scaling social impact – and ways to overcome it.

## ACT NOW BECAUSE TALENT – AND TALENT ALONE – GETS INCREASINGLY DIFFICULT

Fundraising and access to talent are by far the two biggest challenges faced by entrepreneurs; but while fundraising as a challenge decreases over time, finding and keeping the right talent becomes more difficult.

Eventually, access to talent eclipses fundraising as the top challenge faced by later-stage companies. The percentage of entrepreneurs ranking talent as very or extremely challenging rises from 25% to 45% as their companies mature.

Better understanding this challenge will enable entrepreneurs to invest early and often in overcoming it, and our research highlights the areas entrepreneurs can focus on in order to scale their teams.

## WIN TALENT BY THINKING BEYOND COMPENSATION

Entrepreneurs cite budget constraints as a fundamental limitation on hiring the talent they need. And as they compete against bigger and better capitalized corporations, this challenge lingers, no matter the amount of funding an entrepreneur raises. Our research lays out the steps entrepreneurs can take to rethink their approach to hiring: planning well in advance, devoting more strategic effort to recruiting, and selling their jobs to candidates through a strong employee value proposition.

## DON'T JUST TRAIN EMPLOYEES – GROW LEADERS

The data is clear: Entrepreneurs want to train up their teammates. Developing internal capabilities is by far the most preferred method when entrepreneurs are in need of adding skills to their companies, with 38% of entrepreneurs saying that is their favored option.

Our research found that, with senior and middle managers so difficult and time-intensive to hire, entrepreneurs can best equip themselves to meet their future leadership needs by making training and development a core competency.

## BETTER LEVERAGE MENTORS AND ADVISORS FOR YOUR CHANGING NEEDS AS YOU SCALE

Many entrepreneurs have help on call – mentors or advisors invested in their success – but the effectiveness of these relationships is highly varied. Satisfaction rates drop significantly as companies mature – below 25% for later-stage companies.

A one-size-fits-all approach to mentorship doesn't account for scaling companies having different needs than younger, early-stage companies. Most importantly, it misses the true opportunity of leveraging mentors and advisors: taking advantage of their specific expertise to work more closely to solve critical challenges.

Our research points to several areas where entrepreneurs and mentors can improve to better meet company needs. We found that entrepreneurs who best leverage mentors and advisors do so by engaging them in the specific challenges that their businesses face, through frequent engagement and a trust-based working relationship.

**63% of entrepreneurs said that their inability to access the talent they need will have high or critical impact on their businesses. That number jumps to 75% for funded, early-stage companies – the companies expecting the highest revenue growth.**



# 3 trends are converging and driving unprecedented growth in social entrepreneurship...

**Technology** is accelerating the pace of innovation

**Entrepreneurship** is gaining popularity and attracting a new generation

**Funding** is more available than ever

## We wanted to understand social entrepreneurs' greatest challenges

In our research we...

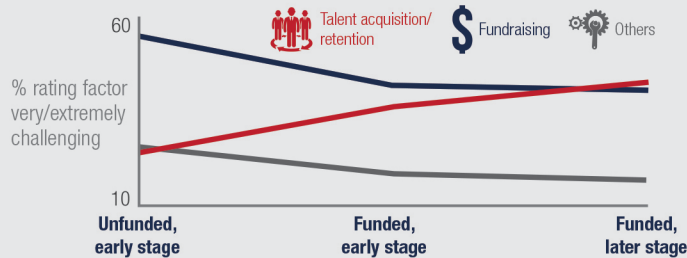
Surveyed **628** social entrepreneurs from **59** countries and **5** continents

Held in-depth interviews with

**47** investors and entrepreneurs

## What we found: It's all about talent

### ➔ Talent alone gets more difficult over time



**63%** of social entrepreneurs said access to talent is critical for business growth

This number rises to **75%** for funded, early-stage companies

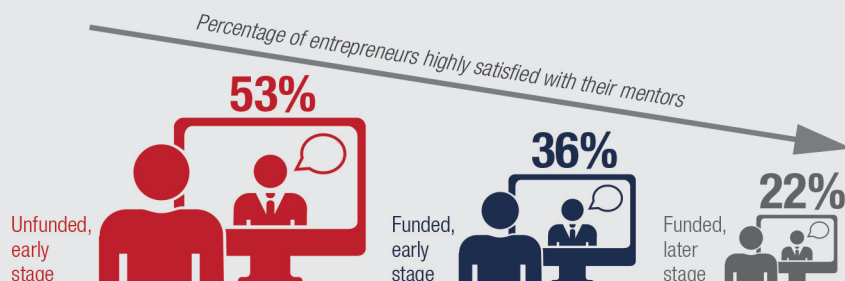
### ➔ Sales-related skills are most important for growing ventures



### ➔ Entrepreneurs' top choice for adding skills: train current staff



### ➔ Mentors and advisors need to change how they help scaling companies



When mentors engage...

A few times per year – **21%** highly satisfied

A few times per month – **36%** highly satisfied

At least once per week – **49%** highly satisfied





# FROM CASH-STRAPPED TO PEOPLE-STRAPPED: WHY THE TALENT CHALLENGE STANDS ABOVE THE REST

Three powerful trends are fueling the unprecedented growth of social entrepreneurship.

First, entrepreneurship is gaining popularity and attracting a new generation of talented men and women in places far beyond Silicon Valley. As Badri Pillapakkam, an Investment Partner at Omidyar Network in Southeast Asia, said: “Five years ago, I used to joke that if you’re on a personals website and listed as an entrepreneur in an emerging market, chances are you’ll get zero hits. Today that trend has changed phenomenally, and it’s cool to be an entrepreneur.”

Second, technology is accelerating the pace of innovation. Entrepreneurs can bring solar-powered energy to rural communities that have never had electricity. Big data enables lenders to make instant loans to people based on unconventional data like cell phone usage. Drones can deliver medications to villages once isolated by poor roads.

Third, impact investing keeps growing. The Global Impact Investing Network’s annual survey showed that 158 members committed \$15.2 billion to impact investments in 2015 and plan to commit 16% more (\$17.7 billion) in 2016.<sup>1</sup>

But even with all these tailwinds, one critical headwind impedes growth – the scarcity of talent. Turning an idea into a company takes more than a single entrepreneur, and getting the right team with the right skills will make or break the effort to take a venture to scale.

We surveyed more than 600 social entrepreneurs and interviewed more than 40 investors, entrepreneurs, and other intermediaries to get to the bottom of why accessing talent is such a challenge for entrepreneurs and what the answers to closing this talent gap might be. (For details, see “A note on the research” on page 26).

## FROM TOUGH TO TOUGHER: SCALING TALENT IS THE LONE CHALLENGE THAT GETS MORE DIFFICULT

Entrepreneurs are staying up at night worried about funding and talent, and no other challenge comes close.

Nearly half of entrepreneurs surveyed described fundraising as either very or extremely challenging. Talent wasn’t far behind, with 36% saying the same about talent acquisition and retention.

This may not be all that surprising, but what stands out about talent is that it is the only challenge that gets harder for entrepreneurs over time. All other challenges get easier.

As companies mature, they are better able to fundraise, design products and services, handle supply chains, and work with regulations.



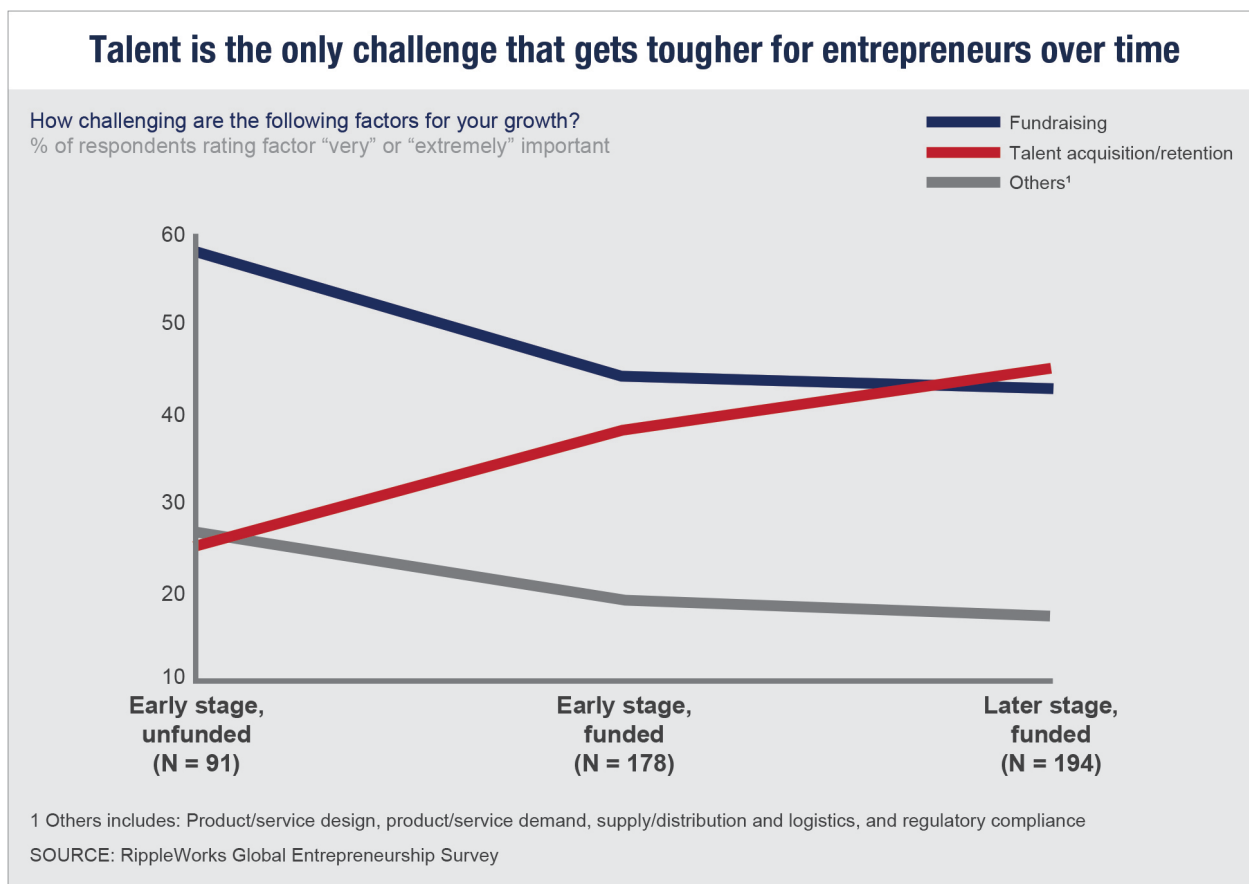
**The Lundin Foundation** invests in high-potential, small and medium-sized businesses, primarily in sub-Saharan Africa. One of its core principles is to enable African leadership, wherever possible, working hand-in-hand with leaders to build trust-based, long-term partnerships.

**Stephen Nairne**, the Lundin Foundation’s Managing Director, recognizes the primacy of the talent challenge, noting: “It only takes 1-2 people from the investment firm to structure investments. The rest of our team works on helping entrepreneurs source, develop, and retain their company’s human capital.”

<sup>1</sup> “2016 GIIN Annual Impact Investor Survey,” Global Impact Investing Network, [https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey\\_Web.pdf](https://thegiin.org/assets/2016%20GIIN%20Annual%20Impact%20Investor%20Survey_Web.pdf).



But accessing the talent they need to scale doesn't follow that pattern. The percentage of entrepreneurs ranking talent as very or extremely challenging rises from 25% for young, unfunded companies to more than 45% for more mature, funded companies.



Many of the investors we interviewed detailed how access to talent is the one core issue that not enough people, neither entrepreneurs nor investors, are paying attention to.

"Human capital and funding challenges are similar in magnitude, but a whole lot fewer resources are dedicated to human capital challenges," Global Innovation Fund Portfolio Director Nicki Goh said. "Because of a lack of structured programs, to me, [access to talent] is by far the larger problem."

Investors are well positioned to see the challenges beyond funding that entrepreneurs face, and they expressed real willingness to help entrepreneurs build the teams they need in order to scale.

"[Human capital] is miles and miles above everything else," Accion Venture Lab Managing Director Paul Breloff said. "It is, without a doubt, the biggest binding constraint to growth. There's human capital, and then there's everything else."



## WHY ENTREPRENEURS CAN'T HIRE

We don't need another survey to tell us that entrepreneurs in Nairobi or Jakarta face obstacles in recruiting talent. But in order to provide actionable recommendations, we sought to understand why hiring can be so difficult. From entrepreneurs and investors, we uncovered three core reasons.

**Price of top talent.** The top challenge to hiring is that talent is often beyond the budget of entrepreneurs. Many cannot compete with the salaries and total compensation that more established corporations can offer. Nearly 2 out of 5 entrepreneurs said that not having the funds to hire the talent they need was their top hiring challenge. Nearly 2 out of 3 entrepreneurs listed funding in their top 3 hiring challenges.

**Shortage of local talent.** For entrepreneurs in emerging markets, the locally available supply of talent is limited. More than 1 in 5 entrepreneurs called this lack of local talent their top hiring challenge (second only to funding), with half putting supply in the top 3.

**Allure of job security.** Particularly in emerging markets, workers aren't as likely to join a startup or newer organization because of the importance placed on job security. Qualified candidates strongly favor well-known brands and multinational corporations. Many of the interviewees said that few qualified candidates have the risk appetite to join a new venture and that emerging markets need more success stories around entrepreneurship.

## SALES TRUMPS ENGINEERING: GO-TO-MARKET SKILLS DOMINATE ENTREPRENEURS' WISH LISTS

The next step is understanding who entrepreneurs need to hire as they scale their companies. When people think about what skills social entrepreneurs need and lack, especially in emerging markets, many think of engineering and technical skills. Certainly, both are rare and valuable in those markets.

But overwhelmingly, entrepreneurs are desperate for sales help. They rated go-to-market capabilities the most important skills for meeting growth expectations.

Any way we slice the data – by how fast companies are growing, how much money they've raised, how long they've operated – the results are the same. Entrepreneurs consistently point to the same core go-to-market capabilities – customer acquisition, business development, and sales & field management.

Not only are these capabilities the most important, they are also the top hiring priorities. Entrepreneurs are most likely to have open roles to fill in these capability areas over the next 12 months – twice the recruiting need anticipated for engineering.

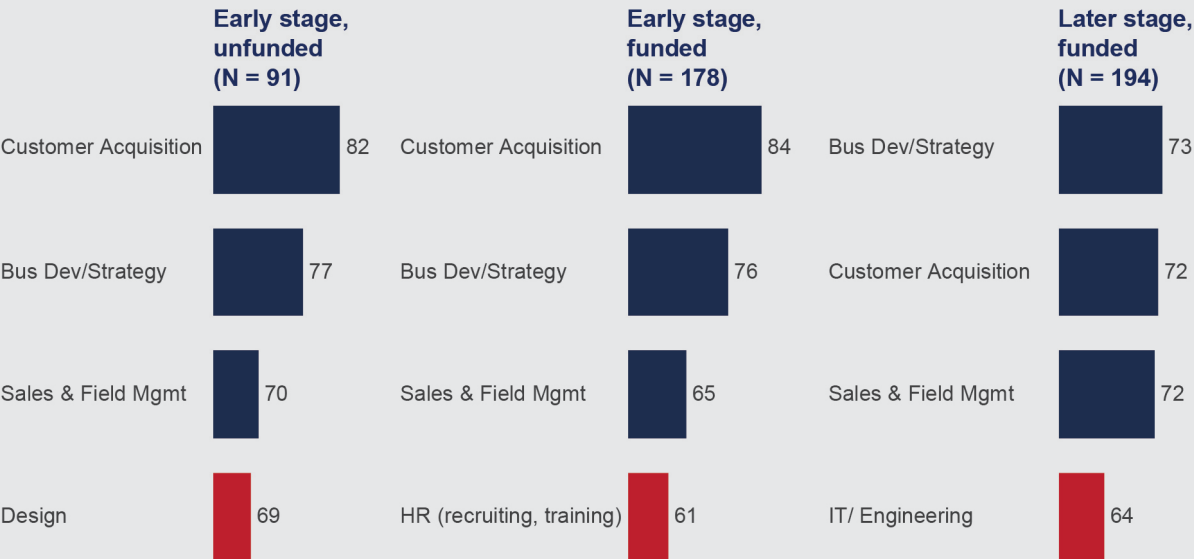


"[Human capital] is miles and miles above everything else. It is, without a doubt, the biggest binding constraint to growth. There's human capital, and then there's everything else."

– Paul Breloff, Accion Venture Lab  
Managing Director

# Entrepreneurs rated go-to-market capabilities the most important skills for meeting growth expectations

How important are each of the following skills/capabilities in enabling you to scale your business in the coming year?  
% of respondents rating factor “very” or “extremely” important



SOURCE: RippleWorks Global Entrepreneurship Survey

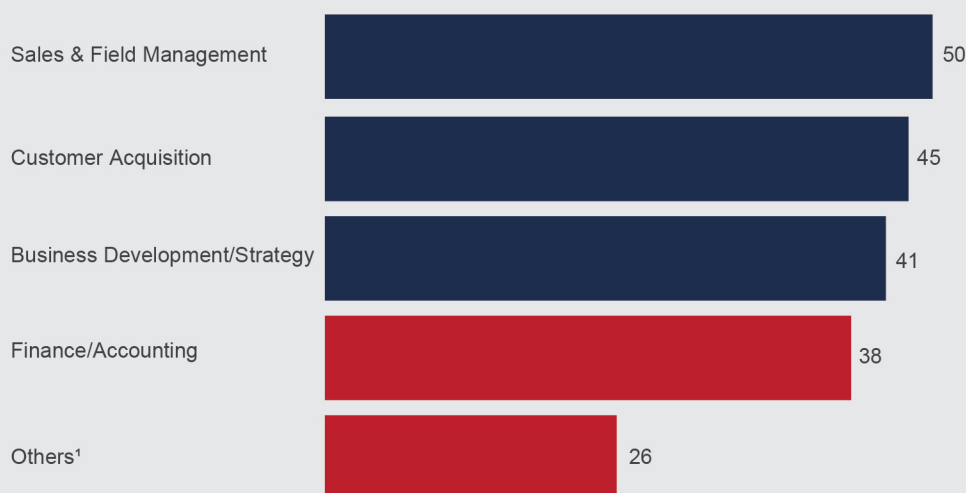


## Entrepreneurs are most likely to have open roles for sales-related positions

What specific roles/positions do you expect to have open in the next 12 months?

% of respondents with open positions in skill area

N = 628



<sup>1</sup> Average of all others-ranked 5th-14th. Others includes: Operations/Supply Chain, Data Science/Analytics, Information Tech, Software Engineering, Designers, Product Management, Human Resources, Legal, and Hardware Engineering

SOURCE: RippleWorks Global Entrepreneurship Survey

**Entrepreneurs are encountering this challenge in a big way – 33% are currently looking to hire senior leadership, and 56% are looking to fill positions for high-skilled, experienced workers.**



## REWRITE THE RULES OF THE HIRING GAME

As entrepreneurs build their companies, their most critical hires will be senior managers – who are the hardest to hire.

“A big challenge for emerging-market entrepreneurs is finding the right group of second-level officers, so the CEO doesn’t become the COE – Chief of Everything,” Quona Capital Partner Monica Engel said.

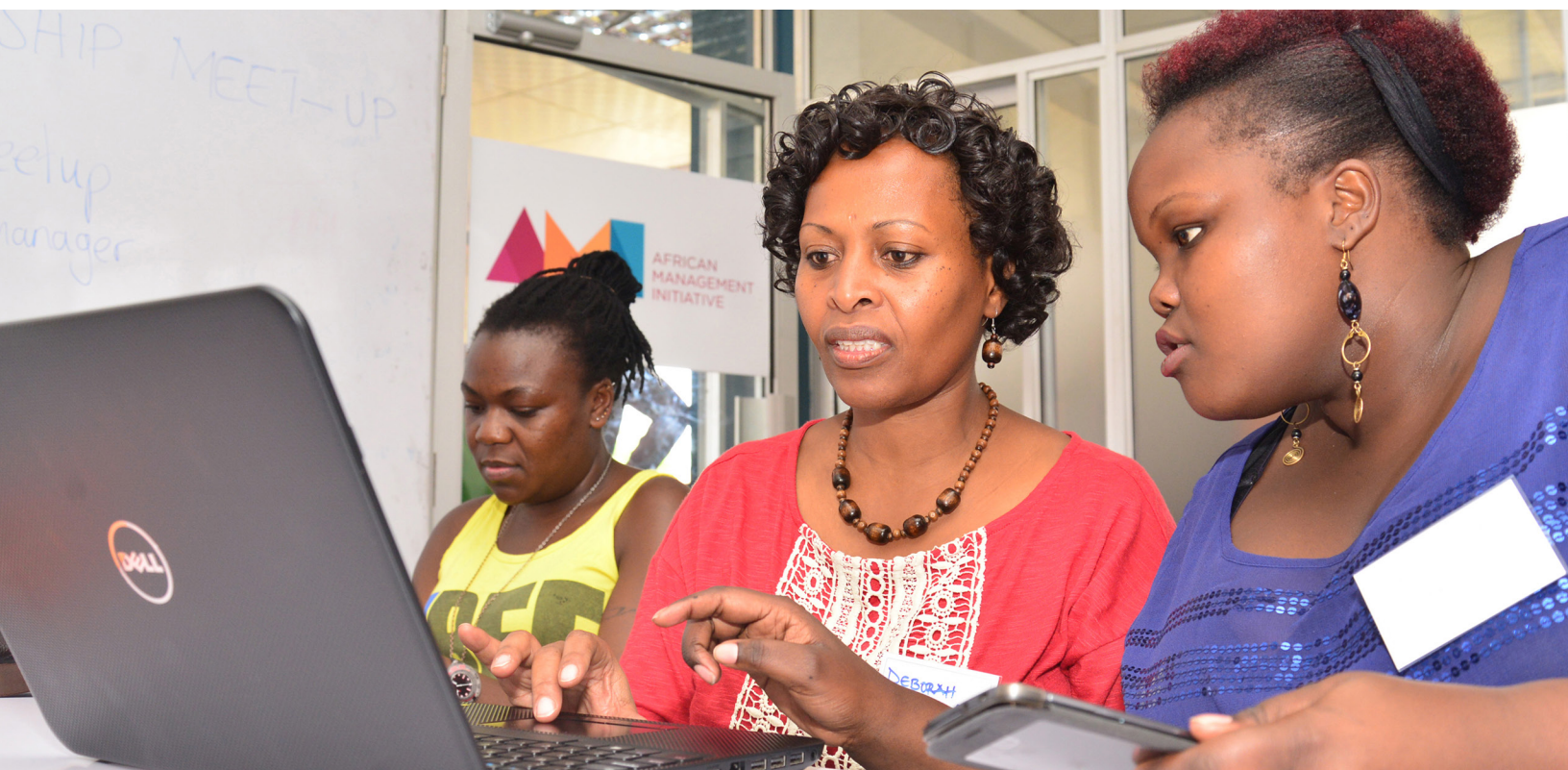
Nearly 3 out of 4 entrepreneurs described filling senior leadership roles as very or extremely challenging, and half said the same about hiring high-skilled, experienced workers.

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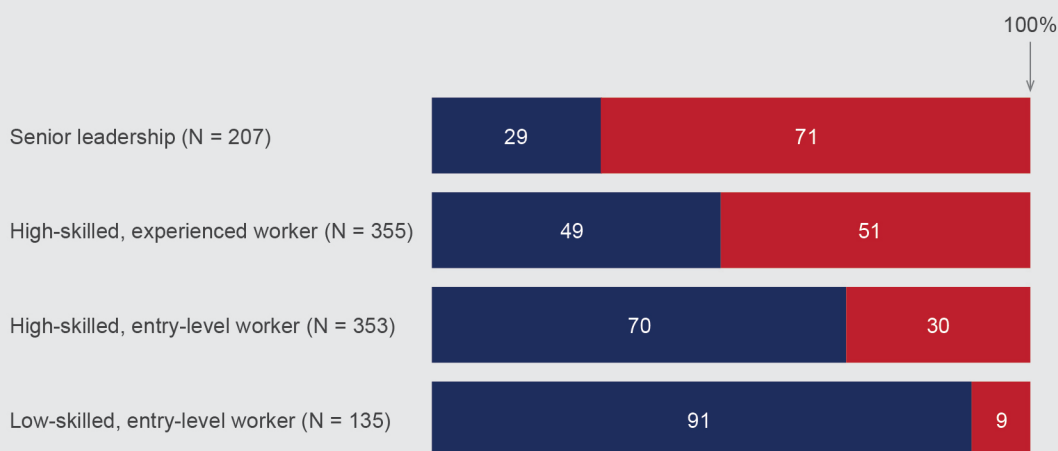




## Nearly 3 out of 4 entrepreneurs described hiring senior leadership as very or extremely challenging

How challenging do you think it will be to fill your currently open roles?  
% of respondents

■ Not at all to moderately challenging  
■ Very to extremely challenging



SOURCE: RippleWorks Global Entrepreneurship Survey

## HARD TO BELIEVE YOU ARE ALREADY LATE: START RECRUITING NOW

Not only are senior leadership positions difficult to fill, they will take the most time. More than half of entrepreneurs said that it has taken them 3-6 months to fill senior leadership positions, and nearly a third said that it took longer than 6 months. Interviews with investors and entrepreneurs showed multiple instances where senior positions were left unfilled for over a year.

Companies, especially scaling companies, can't afford to wait 6-12 months with vital senior leadership roles unfilled. Entrepreneurs need to forecast their senior hiring needs much further in advance and understand that the process of sourcing, recruiting, and hiring qualified candidates will take longer than they think.

Just as entrepreneurs are visionary in how they anticipate consumer and product trends, they need to be far-seeing in

how they predict their upcoming hiring needs. They definitely can't afford a delayed start.

Dr. Gayathri Vasudevan, Co-Founder of LabourNet, plans for filling senior leadership positions a full year in advance. Dr. Vasudevan actively sources candidates for LabourNet from other organizations, spending 3-6 months speaking with candidates on a regular basis to build strong relationships and familiarize them with the company.

Doing so not only allows her to get a head start on the hiring process to account for the time-intensive nature of hiring, but it also allows her to filter candidates for their commitment to LabourNet's mission and enables her to keep retention rates high for newly hired managers.

“Many of them come from big companies so they have never seen cash flow problems, for example,” Dr. Vasudevan said. “On average, most of them have been exposed to all our warts and problems for 3 months to a year, so then they know, and they come in with eyes wide open.”

## CEO AS CHIEF HIRING OFFICER: NO DELEGATING THIS TOP PRIORITY

A common theme emerged in our interviews: Those who are best positioned to overcome the talent challenge are the ones who take it the most seriously.

Asked why some entrepreneurs are more successful than others in hiring the talent they need, investors and entrepreneurs pointed frequently to CEOs who make hiring a strategic priority. They dedicate significant time and energy to sourcing, screening, and attracting candidates.

One CEO has a policy of interviewing all final-round candidates with his companies. Another conducts regular – sometimes daily – phone calls with candidates for months at a time to ensure the right person is brought on.

Fred Swaniker of the AL Group has built strong pipelines of talent for the four organizations he has founded (African Leadership Academy, African Leadership University, African Leadership Network, and Africa Advisory Group). He credits his emphasis on the CEO's role in hiring, saying that he devotes half of his time to recruiting, which has been core to his success in recruiting key hires.

“A huge part of the recruiting for an organization like mine is the vision of what we are building,” Swaniker said. “Whoever joins my team needs to be sold on the vision. Who better to hear that from than me?”

### African Leadership Group (AL Group)

is an ecosystem of institutions which share a common vision: transforming Africa by developing and connecting a new generation of ethical, entrepreneurial leaders. The African Leadership Academy, one of AL Group's member institutions, has already developed about 1,000 new leaders. ALU, AL Group's institution for tertiary education, is looking to expand from 2 to 25 campuses, with 10,000 students each.

**Founder Fred Swaniker** speaks of AL Group's mission in transformational, not incremental, terms: creating a movement of leaders, revolutionizing tertiary education, transforming a continent, changing the world. To realize this bold vision, he recognizes that he needs world-class talent – and spends 50% of his time on hiring. “If you get that right, the rest of your life is easy. It's so important. As the CEO, I don't let that go.”

## WIN THE RECRUITING BATTLE: HOW TO COMPETE BEYOND THE PAYCHECK

Competing on salary is a losing battle for entrepreneurs. Entrepreneurs called inadequate funds their top recruiting challenge – a challenge that persists no matter how much funding they raise.

Companies that secure more than \$2 million in funding begin to see limited supply of the right talent in local markets emerge as their top hiring challenge. But even then, limited funding remains a top 2 challenge to hiring.



“Many [senior hires] come from big companies so they have never seen cash flow problems, for example. On average, most of them have been exposed to all our warts and problems for 3 months to a year, so then they know, and they come in with eyes wide open.”

– Dr. Gayathri Vasudevan, Co-Founder of LabourNet

## Funding persists as a hiring challenge as companies raise money

What are the greatest challenges you face in hiring the right talent for your organization?

% of respondents ranking reason as #1

### Companies with no funding (N = 256)



### Companies with ≤\$2M in funding (N = 223)



### Companies with >\$2M in funding (N = 149)



SOURCE: RippleWorks Global Entrepreneurship Survey

Of course, attractive and fair compensation is important, but we found concrete steps that entrepreneurs can take when their desired talent seems beyond their budgets' reach.

## PERFECT THE OFFER: CLOSE THE DEAL WITH A WINNING VALUE PROPOSITION

As Fred Swaniker described when explaining why he prioritizes recruiting among his responsibilities, social entrepreneurs need to sell jobs like they sell their products.

Entrepreneurs need to be able to inspire recruits by articulating their strongest asset – their mission and vision – while understanding and speaking directly to the needs of their potential hires.

Lisa Mikkelsen, a Senior Manager on Omidyar Network's Human Capital team, described it in terms of telling a story. "Really, it's about: Why do people join your organization? Why do they stay? How can you share that message externally? How can we get better at telling our story?" Mikkelsen said, "You have to find what matters to the employee and leverage it. Recruiting success is ultimately about incremental improvements to your process and strategy."

Entrepreneurs can use the following framework to develop an employee value proposition that goes beyond monetary compensation.

**A great company** makes a future employee proud to work there. Social entrepreneurs especially have the opportunity to captivate potential employees with the company's mission and vision. Entrepreneurs can also bring to life the quality of

products, strong financial or operating performance, and even success of employees.

Though reservations about joining a newer company still exist in emerging markets, millennial workers in those markets are drawn to working for an exciting, high-potential company. In North African countries, for example, the top career goal of college graduates is to be entrepreneurial or innovative in their work.<sup>2</sup>

**Exciting work** draws potential candidates to the role and responsibilities of a position. This can include highlighting a job's autonomy and span of control.

One energy startup in India delegated more decision-making responsibility to director-level positions in important areas like budgeting in order to give those managers more independence and help them develop more quickly.

**An energizing culture** attracts those who want a dynamic working environment. Entrepreneurs can demonstrate to candidates how their teams reinforce key company-wide values to create a positive working culture.

A financial solutions provider in Brazil redesigned the HR department and “humanized” the workplace by making the company more people-oriented – for example, regularly and publicly praising employees on Facebook, at work events, and even through phone calls to their families. The results – low turnover, 100% of the staff reporting pride in working at the company, and 95% saying they are “happy” to work there.

**Effective talent management** rewards employees by having the company give back to them in order to recruit, develop, motivate, and retain the right people.

Investing in employees through training and development, which we will discuss next, is not only critical for company growth, it can also be a strong recruiting tool. In PricewaterhouseCoopers's global survey of millennial workers, the biggest factor in accepting a job offer was the opportunity for personal development. Of the benefits they would want from a potential employer, millennial workers' top choice was training and development programs.<sup>3</sup>

A healthcare venture in Kenya recruited a Chief Operating Officer from a larger, more established firm, despite a lower salary, because of exposure to and mentorship from well-respected investors.



“Really, it’s about: Why do people join your organization? Why do they stay? How can you share that message externally? How can we get better at telling our story? You have to find what matters to the employee and leverage it. Recruiting success is ultimately about incremental improvements to your process and strategy.”

– *Lisa Mikkelsen, Human Capital Senior Manager  
with Omidyar Network*

<sup>2</sup> “Talent attraction in emerging markets: What university students look for in future employers and the implications for companies that seek to hire them,” Universum, 2015.

<sup>3</sup> “Millennials at work: Reshaping the workplace,” PricewaterhouseCoopers, 2011. <https://www.pwc.com/m1/en/services/consulting/documents/millennials-at-work.pdf>.



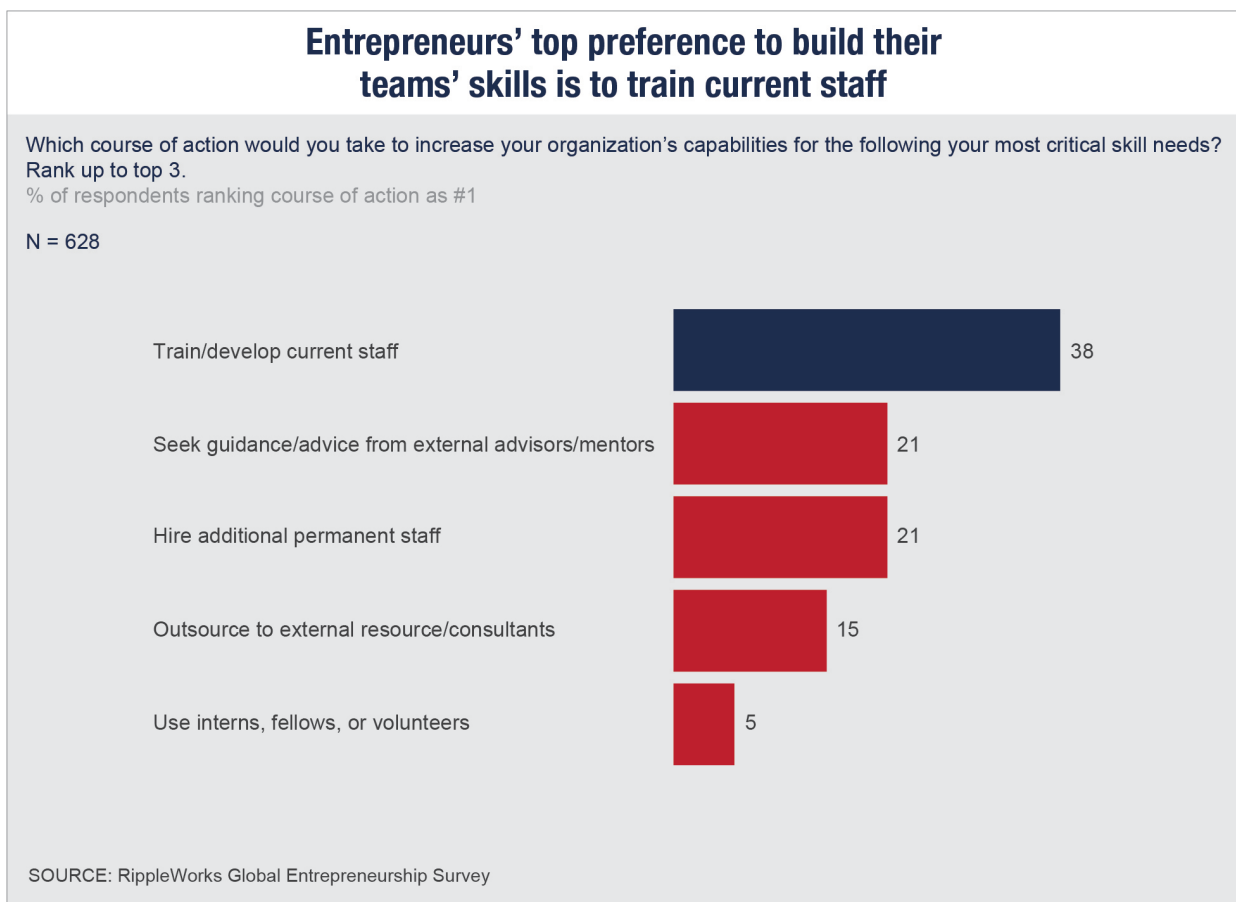




# GO BEYOND TRAINING EMPLOYEES: GROW YOUR FUTURE LEADERS

While more successful hiring is essential to overcoming the talent challenge, we found better training and employee development just as important.

We asked entrepreneurs how they prefer to build their teams' crucial skills. Hands down, the most preferred way is training current staff.



With hiring such a difficult challenge, particularly for senior management positions, entrepreneurs need to train their employees not just to do today's jobs, but to become tomorrow's company leaders. Better training today will mean fewer hiring headaches tomorrow.

This emphasis on leadership development has implications for everyone involved with social enterprise. Entrepreneurs should elevate skills training and leadership development to a core competency. External organizations that support early-stage ventures should seek every opportunity to help them, especially by transferring knowledge and building capacity. Investors should fund organizations that provide training and development services to growing companies, especially if they focus on leadership and management training.

## PARTNER UP: TURN TO OUTSIDE SUPPORTERS TO SCALE TRAINING

Elevating training and development to a core competency can be a daunting task, but outside partners are there to help.

Take sales, for example. Entrepreneurs greatly prefer training current staff over hiring to strengthen customer acquisition (43% training vs. 21% hiring) and sales and field management (45% training vs. 25% hiring).<sup>4</sup>

Lisa Mikkelsen has seen several Omidyar Network companies turn to outside organizations that specialize in training salesforces. "I've heard from some of the companies that working with a sales consulting group is the best money they've ever spent."

Third-party partnerships produce particularly valuable results when companies invest in building specific skills that they know they will need tomorrow, as well as today. Glocal Healthcare in India, for example, partners with organizations like George Washington University and India's National Skill Development Corporation to develop training programs on topics ranging from nursing to acute care to hospital management.

Investors also recognize the need to enhance training and development for their portfolio companies. Acumen has started two training programs for their portfolio companies – one for CEOs and another for senior managers.

"No matter how much Acumen is invested in these companies, they won't go anywhere if CEOs don't trickle down their skills into their companies," said Molly Alexander, who runs Acumen's Talent Development.

In partnership with the African Management Initiative, Acumen runs a "senior manager boot-camp" for 25 senior managers in Acumen companies. The boot-camp uses a blended learning approach, with a nine-month long online program and four face-to-face meetings.



**African Management Initiative** empowers African managers and entrepreneurs through practical and accessible learning and development tools. AMI's unique approach combines personalized learning journeys, practical courses from Africa's top business schools, and a peer accountability system to help managers apply what they learn. AMI delivers its content on an easy-to-use web and mobile platform with optional offline workshops that bring learning to life.

AMI envisions an Africa **transformed by 1 million managers** performing effectively and responsibly. According to AMI's December 2015 Impact Survey, 97% of AMI users apply what they learn at work, and 86% report improved effectiveness.

<sup>4</sup> Business development was the only one of the top 3 capabilities that had a different pattern: seeking guidance from mentors and advisors ranked first (36%), followed by training (33%) and hiring staff (16%).







# IMMEDIATE RELIEF REQUIRED: HOW TO IMPROVE THE VALUE OF MENTORS AND ADVISORS

Long-term fixes can take time – time that entrepreneurs don’t have.

Overall, 63% of entrepreneurs said that their inability to access the talent they need will have high or critical impact on their businesses. That number jumps to 75% for funded, early-stage companies – the companies expecting the highest revenue growth. Scaling companies need solutions immediately.

An entrepreneur can’t wait 6 months to find a Chief Technology Officer to solve a pressing IT problem. Nor can an entrepreneur wait a year to find a strategic sales leader to structure the salesforce or to recruit an HR leader to build a robust sales training program.

Facing critical needs and desperate for solutions, entrepreneurs turn to external short-term fixes to bridge the gap. While we researched various ways entrepreneurs get help right away, such as fellows and outsourcing to tap shared services, we focus here on one of the most popular sources of immediate help – mentors and advisors. Mentors and advisors have contributed significant value to entrepreneurs around the world, and we have identified ways that they can be even more effective.

## MENTORS AND ADVISORS: BUILDING LONG-TERM STRENGTH WITH A SHORT-TERM FIX

An Endeavor Insight study of tech firms in New York City found that startups with a founder mentored by a top-performing entrepreneur are three times more likely to become top-performers themselves than other companies.<sup>5</sup>

Investors and mentorship organizations like Endeavor can help young entrepreneurs connect with others who have faced similar challenges and coordinate effective mentorship. In our interviews, investors and entrepreneurs touted mentors and advisors as a way to simultaneously fill temporary skill gaps and build long-term capabilities.

But later-stage companies are far less likely to get high value from mentors and advisors, despite having the most critical talent needs.

Over half of young, unfunded companies reported high satisfaction with the value that they received from mentors. But as companies mature, their satisfaction with mentorship drops steeply—to 36% for young, funded companies and 22% for more mature, funded companies.



**IGNIA** is a venture capital firm that invests in high-growth healthcare, housing, financial services, and utility enterprises targeting the 70% of the population at the base of the socio-economic pyramid of Mexico.

“Entrepreneurs need capital, but they need much more than that,” **IGNIA** managing director **Álvaro Rodríguez Arregui** said. “When you are starting something, you will always need help . . . We help them think better, help them open doors.”

<sup>5</sup> The study defined “top-performer” as meeting one of three criteria—significant acquisition: an exit of at least \$100 million; investor traction: top 10% of peer group in equity funding raised; or internal scale: top 10% of peer group in number of employees. See “The Power of Entrepreneur Networks: How New York City Became the Role Model for Other Urban Tech Hubs,” *Endeavor Insight*, November 2014.

## TIPS FOR BUILDING PRODUCTIVE MENTOR-MENTEE RELATIONSHIPS

From our interviews, we distilled our findings into what both can do to foster productive mentor-mentee relationships.



### ENTREPRENEURS SHOULD

- **Identify their greatest need for help.** Entrepreneurs that leverage mentors effectively understand their weaknesses and are open to external perspectives. As Geeta Goel of the Michael & Susan Dell Foundation India noted: “More experienced entrepreneurs leverage mentors very well. They tend to have an extreme level of humility, as well as an extreme level of confidence to not be scared of not knowing all the answers.”



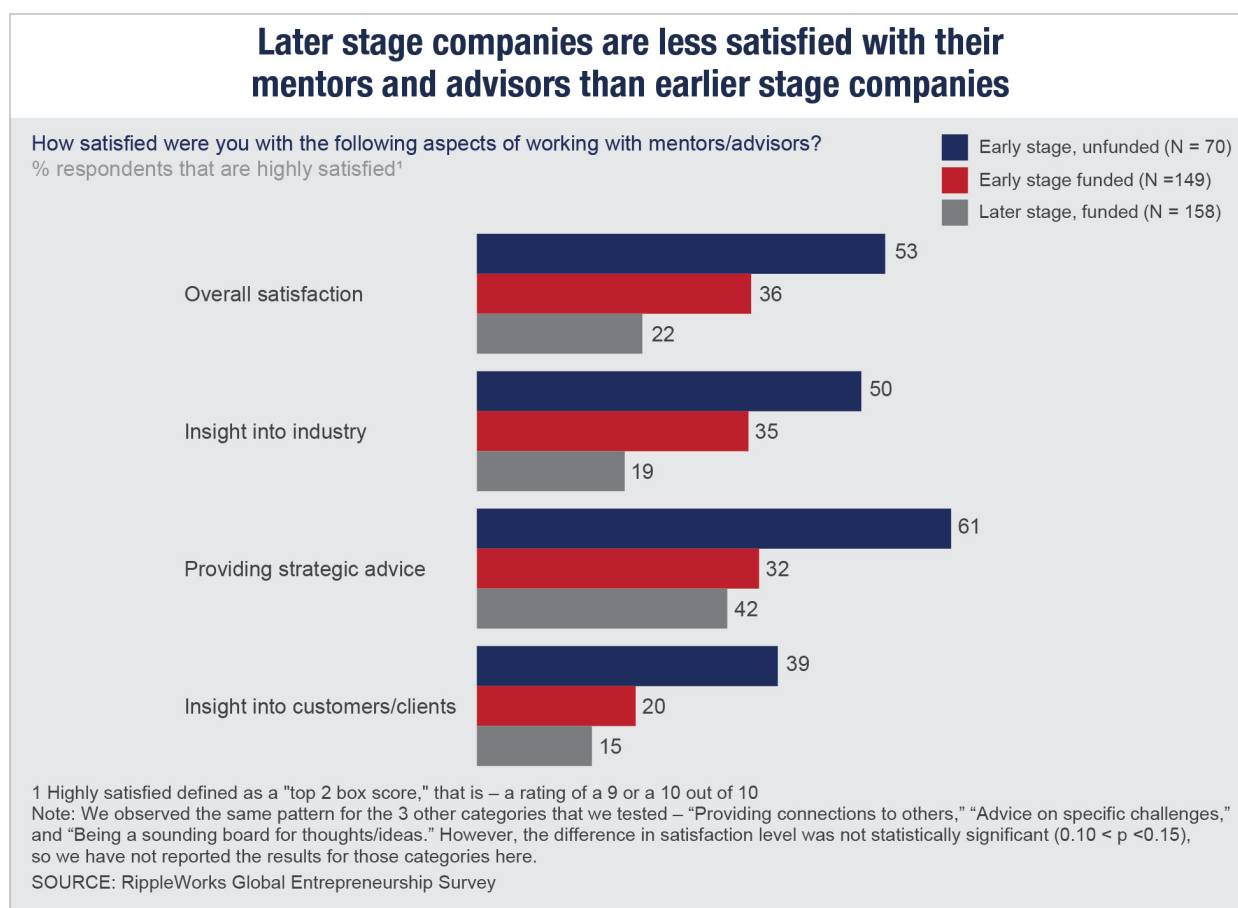
### MENTORS SHOULD

- **Build deeper relationships with fewer mentors.** Entrepreneurs should develop strong relationships with a few trusted mentors, investing more deeply in these relationships, rather than taking a little from a lot of advisors.
- **Teach the mentee to fish.** No mentoring relationship can or should last forever. Mentors should encourage knowledge transfer and capacity building so the company will be better equipped to handle challenges down the line.
- **Own what they don’t know and be ready to learn.** Mentors may not always have a full understanding of the local context in which the entrepreneurs operate, which makes two-way learning paramount. Mentors need to own what they don’t know and ask the right questions along the way.



### TOGETHER, ENTREPRENEURS AND MENTORS SHOULD

- **Set clear expectations, including for interaction frequency and engagement length.** Successful mentorship requires shared expectations of the relationship, including duration and frequency of interaction. Stronger commitments – to longer engagement and more frequent interaction – maximize value.



## ONE SIZE DOESN'T FIT ALL: ENTREPRENEURS NEED DIFFERENT MENTORSHIP AT DIFFERENT STAGES

The declining satisfaction rates sound a clear call to tailor mentorship and advisory services to better meet the needs of scaling companies.

While generalized counsel to develop entrepreneurs as strategic leaders greatly benefits early-stage entrepreneurs, later-stage, scaling companies have more specialized needs. They require mentors and advisors who bring specific skills and partner with them, getting their hands dirty to help solve critical problems.

We found three ways to strengthen mentorship to better meet the needs of later-stage companies.

**Use mentors to tackle specific challenges.** Entrepreneurs want mentors to bring expertise that can help them overcome their business challenges. They rated specific functional and industry expertise as the primary reason they would seek help from a mentor. Experience relevant to the entrepreneur's business challenges ranked second.

Even as they appeal for more relevant expertise and experience from mentors, entrepreneurs of growing firms are less satisfied with the help they get. As the surveyed entrepreneurs advanced from unfunded to funded companies, their satisfaction with mentors' advice on specific challenges dropped from 54% to 37%.

The entrepreneurs most successful at leveraging mentors tap their expertise to help internal teams tackle critical issues. Aldi Haryoprato, Co-Founder and CEO of PT Ruma in Indonesia, said that he finds high value in mentors who help solve complex internal problems that stymie his team. About once a month, he turns to his network, as well as networks of partner organizations like Endeavor and RippleWorks, to bring in advisors with specialized expertise that can fill his team's knowledge gaps.

Intermediaries focused on providing mentors and advisors can step up their game in facilitating the relationship between entrepreneurs and mentors. Entrepreneurs and investors advocated for a more structured process to closely match entrepreneur needs with advisor skills.

"I'm a member of many entrepreneur networks and very few work well," said Gabriel Manjarrez, CEO of Mimoni in Mexico. "What I've found that works is that the network can't rely on entrepreneurs to figure out what they need and who they should be calling to satisfy that need. You need an external organization to make the connections, follow up, and get in the middle of setting up the initial meetings."

Mentorship can also evolve to become more challenge-focused by expanding beyond the lead entrepreneur and deeper into the organization. Matching senior and middle managers of scaling companies with outside mentors and advisors to transfer knowledge and build capacity can better translate mentorship into real-world action.

**Embed mentors in the business through more frequent engagement.** Entrepreneurs are far more likely to be highly satisfied with their mentors when they engage at least once a week. Half of the entrepreneurs surveyed who engaged with mentors at that rate were highly satisfied, compared with less than a quarter of those who engaged with mentors, at most, a few times a year.



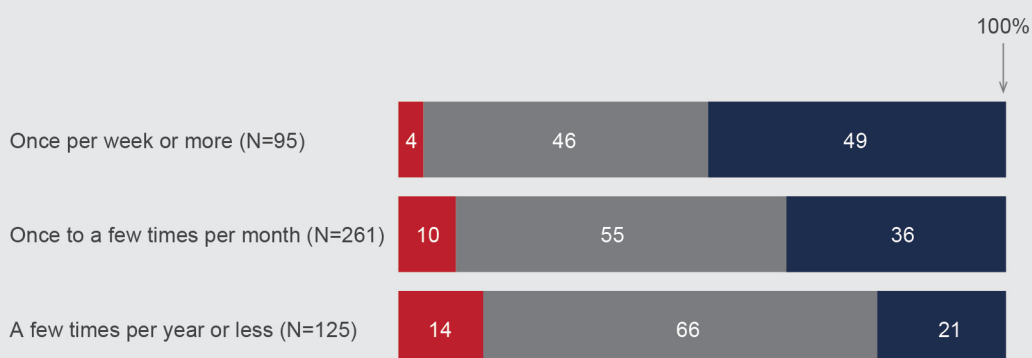
"I'm a member of many entrepreneur networks and very few work well. What I've found that works is that the network can't rely on entrepreneurs to figure out what they need and who they should be calling to satisfy that need. You need an external organization to make the connections, follow up, and get in the middle of setting up the initial meetings."

– *Gabriel Manjarrez, CEO of Mimoni in Mexico*

## Entrepreneurs are far more likely to be highly satisfied with their mentors when they engage at least once a week

Overall, how satisfied are you with the value your mentors/advisors bring to your organization?  
% of respondents

■ Dissatisfied  
■ Neutral  
■ Highly satisfied



SOURCE: RippleWorks Global Entrepreneurship Survey

As Lumia Capital Partner Chris Rogers put it: "Most mentor relationships won't work unless you are current and embedded in the relevant business."

Álvaro Rodríguez Arregui, co-founder and Managing Partner of IGNIA, said that frequent interaction allows a mentor to act like a coach. "Mentoring can't just be 'tell them what to do.' Coaching is more of a close encounter – more constant, with more accountability than mentoring."

### Mentorship matchmaking: requirements beyond expertise.

Of course, a mentor's expertise and experience are essential to success, but so is rapport between the entrepreneur and the mentor.

As Vox Capital partner Daniel Izzo said: "Personal chemistry is so important. [The mentor] has to be someone you truly admire; and for the mentor, the entrepreneur has to be someone you truly respect."

Izzo echoed Manjarrez's call for intermediaries to get more involved in matching entrepreneurs with mentors – not just to bring the right skills, but also the right personality. "Don't just assign mentors to entrepreneurs. Help present people to them."

This may seem like an obvious point. But the themes of chemistry and trust came up repeatedly in interviews as a prerequisite for forging the deep working relationships that add the most value.

**Aavishkaar** is an innovator in early-stage investment, adopting the venture capital methodology to serve the low-income market in underserved regions of India. Of Aavishkaar's portfolio companies, 84% were started by first-time entrepreneurs, and 94% have a rural or semi-urban market as their main focus.

In Aavishkaar's own words: "We nurture enterprises with the hope to nurture humanity in turn, and with the desire to spread the idea of inclusion and sustainability."



## GETTING MAXIMUM VALUE FROM SHORT-TERM FELLOWS

Entrepreneurs turn to fellows, including interns and volunteers, for immediate help meeting their talent needs – first and foremost, because fellows are cost-effective and, secondarily, because they can engage for the short term, as needed.

Survey satisfaction with fellows was fairly strong – 30% of entrepreneurs reported high satisfaction – but lower than the 45% who are highly satisfied with their mentors and advisors.

But few entrepreneurs have transformed short-term fellows into long-term employees. Only 5% called fellows a preferred way to build company capabilities.

“Free or cheap resources is something that’s pretty hard to say no to,” Acumen Post-Investment Manager Justus Kilian said. “But when you’re looking at really filling a talent gap and helping a company improve over the long term, we’re not really seeing that yet.”

Whether entrepreneurs are aiming to use fellows for short-term relief or long-term improvement, our interviews shed light on how entrepreneurs can get the most value out of fellows.



### ADD FELLOWS TO THE TALENT PIPELINE

- Entrepreneurs win big when fellowship programs yield full-time hires. Success requires making long-term commitment a priority when sourcing and vetting candidates and setting fellows up for short-term success.



### ENGAGE FELLOWS FOR AT LEAST 6 MONTHS

- Learning about the local market and getting on-boarded require an upfront investment of time, which pays off only if the fellow stays long enough to create value.



### BRING IN FELLOWS FOR WELL-DEFINED, HIGH-IMPACT PROJECTS

- The fellow should be able to own and complete the project during the period of the engagement. This requires finding a high-value project for the company, as well as a fellow with the right skills to take it on.



### FIND FELLOWS WITH GENUINE PASSION FOR THE MISSION

- Investors and entrepreneurs we interviewed stressed that the dedication of fellows is a crucial factor to consider. Fellows should be in it for more than “work tourism.”

Manoj Sinha of Husk Power spoke highly of the fellows he has engaged. One even became his Director of Business Development for East Africa.

“The fellows have become really sharp at the end of the fellowships with Husk,” Sinha said. “They have a lot of independence that we have provided in our management system that allows them to make certain decisions. It makes them productive, but also more confident in whatever they undertake as a project.”

## CONCLUSION: MOVING FORWARD

Today, access to talent stands as a critical obstacle to growth for social entrepreneurs around the world who want to scale their impact.

Entrepreneurs face a myriad of challenges as they grow their companies, and talent joins fundraising at the top of that list. But talent – and talent alone – gets tougher as companies mature. In particular, hiring senior leadership is a critical, time-intensive challenge for entrepreneurs, but finding and attracting the right senior managers can be the make-or-break difference for scaling enterprises.

This talent challenge is well known but hasn't received enough attention because entrepreneurs need solutions, and they need them now. Everyone – entrepreneurs, funders, and intermediaries alike – needs to respond with the sense of urgency that this challenge mandates. Doing so can enable entrepreneurs to surround themselves with the teammates they need in order to take their impactful companies to scale.

### What entrepreneurs can do

- Plan way in advance. It will take longer than you think to bring on the senior leaders who will help scale your company. Predict your hiring needs as far ahead as you can and don't waste any time when recruiting potential candidates.
- Bring hiring and recruiting to the forefront of your responsibilities. Prioritize recruiting as a crucial part of your role as the CEO.
- Form and articulate the winning argument on why a qualified candidate should join your team. Inspire recruits through your story, mission, and vision.
- Train your team members – not just to help them do their jobs better, but to grow them as the future leaders of your company.



### What investors can do

- Help entrepreneurs plan in advance for critical hires and provide strategic funding to accommodate hiring needs.
- Seek out opportunities to bring in portfolio-wide training services, especially for senior and middle managers.
- Fund organizations that are actively helping entrepreneurs address their talent challenges.

### What intermediaries can do

- Develop training and development support for growing enterprises, specifically to build the middle and senior managers who will help take these companies to scale. This requires going beyond skills training into leadership and management development.
- Bring the right mentors and advisors to the right entrepreneurs. Evaluate mentors' skills and experience carefully and their match with an entrepreneur's exact needs. Facilitate productive relationships that maximize value through frequent engagement and sustainable knowledge transfer.

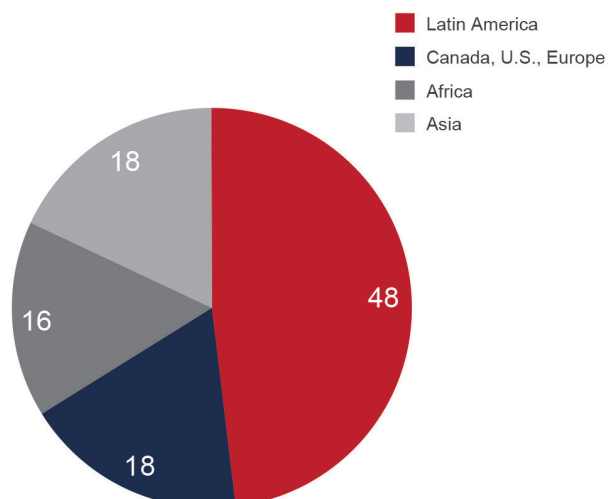
## A NOTE ON THE RESEARCH

We surveyed 628 social entrepreneurs around the world. In developed markets, that meant a company with a clear mission to address a social challenge. In emerging markets, where the majority of our respondents operate, we included all entrepreneurs with the view that job creation has social impact.

- 76% of the survey respondents were the founder/CEO of the company.
- 64% of companies were for-profit, 21% not-for-profit, and 15% a hybrid.
- 59% of companies had received some level of grant or venture funding; 41% had not received any funding.

The survey sample represented a broad range of sectors, from agriculture to education, financial services, health, and more.

The sample included companies all over the world:



The survey participants were at various stages of growth:

- Early stage, unfunded companies: < 2 years old, with no grant or venture funding and very low expectations for revenue growth (91 companies)
- Early stage, funded companies: ≤ 4 years old, with grant or venture funding and very high expectations for revenue growth (178 companies)
- Later stage, unfunded companies: ≥ 2 years old, with no grant or venture funding and low expectations for revenue growth (165 companies)
- Later stage, funded companies: > 4 years old, with grant or venture funding and moderate expectations for revenue growth (194 companies).

We also interviewed 37 investors and 10 entrepreneurs, representing companies in various geographies.

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ANDE Central AM	IGNIA	Posible
Asha Impact	iLab	ProInspire
Ashoka	Impact Hub	Promotora Social Mexico
Aspada Advisors	Impulsa	PT Ruma
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Carao Ventures	LEAP	Shell Foundation
Catholic Relief Services	LeapFrog Investments	Skoll Foundation
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Dagon Holding	Lok Capital	Spire
D-Prize	Lumia Capital	Startup Chile
DRK	Lundin Foundation	Startup Mexico
Echoing Green	MasterCard Foundation	SVX Mexico
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Emerson Collective	Mimoni	The Resolution Project
Enactus	Monterey Institute	Unreasonable Institute
Endeavor	Morningside Venture Capital	USAID
Gates Foundation	MovingWorlds.org	Venture Well
Global Alliance for Clean Cook Stoves	Michael & Susan Dell Foundation India	Village Capital
Global Innovation Fund	Mulago	Vox Capital
Glocal Healthcare	Nacional Monte de Piedad	Wayra
Golden Seeds	NESsT	WEConnect International
Google Capital India	New Ventures	Yo Emprendedor
Green Momentum	Novastar	
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RippleWorks Foundation connects leading expertise from Silicon Valley and the larger tech sector with promising social ventures around the world.

RippleWorks' volunteer experts partner with ventures to jointly tackle an immediate challenge, with a focus on knowledge transfer and capacity building.

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