Capacity Building - Deshpande Foundation seeding local social innovation from entrepreneur to entrepreneur

At the heart of venture philanthropy is an engaged approach with the funded organisation. Capacity building of social purpose organisations is one of the main activities for funders in this region. Ideally what is provided by the social investor or resource provider matches what is needed on the side of the social purpose organisation. The social purpose organisations’ needs tend to come from internal parameters in the social purpose organisation, e.g. the development stage of the organisation, the management team, its social mission, business model and growth plans as well as the external environment, which shapes the entrepreneurial eco-system, economic stage of the country and the role of the government. Social investors then have different in-house capabilities to support capacity building and hence need to draw on third-party providers either paid, low- or pro-bono. This requires the venture philanthropy organisation to manage the third-party interactions.

The outcome of this relationship is then capacity building through a variety of tools such as strategic support, professional services and physical infrastructure, which aims to create value in two ways: firstly, real value for the social purpose organisation by helping them to achieve their social missions and secondly, value for the social investor or resource provider by increasing their impact.

Deshpande Foundation’s (DF) capacity building strategy follows a consistent bottom-up approach, working to empower aspiring entrepreneurs and support innovative solutions to local problems. Its Sandbox model gathers social entrepreneurs, advisors and investors in a collective space in building scalable enterprises by providing valuable mentorship, financial empowerment and infrastructure to prospective projects.

About Deshpande Foundation

In 1996, Gururaj “Desh” and his wife Jaishree founded the Deshpande Foundation to address modern social challenges through innovation and entrepreneurship. While the Foundation began its philanthropic activities by distributing grants to non-profits, it has since advanced into implementing independent, large-scale projects in both the United States and India. In 2002, Desh marked the beginning of the foundation’s long-running commitment to innovation and entrepreneurship by dedicating $20 million to The Deshpande Center for Technological Innovation at the MIT School of Engineering in Cambridge, Massachusetts.¹

The Center at MIT sought to translate technological innovations beyond their academic realms and into the commercial world, where they could be applied to generate significant returns. In a similar vein, Desh believed that the social sector in India could also stand to benefit greatly from such innovations. Another more potent reason to be in Hubli-Dharwad is that it is a second tier city surrounded by villages and hence represents a microcosm of India’s typical issues and context. In 2007, inspired by the potential of innovation to solve real-world problems, Desh and Jaishree launched the first Sandbox initiative in Desh’s hometown Hubli-Dharward, Karnataka, India.²

Described as an ecosystem for social innovation and entrepreneurship, the Sandbox can be seen as an incubator that serves as a platform of resources and training for aspiring leaders to transform their ideas into actual enterprises for social impact.³ The initiative has been momentous in igniting a culture of entrepreneurship in Hubli and inspiring a younger generation of social leaders in taking pre-emptive action. Part of DF’s work includes the Deshpande Educational Trust (DET), established in 2010, that
provides “practical skills and impart[s] stronger work ethics among students through experiential learning and vocational training” through programmes such as the Deshpande Fellowship Programme, among others. As of November 2015, over 2,000 alumni have graduated and 16 startup enterprises have been created with DET’s efforts. The trust runs programmes such as the Deshpande Fellowship Programme.

Sandbox Hubli-Dharwad has witnessed significant growth across the region, harnessing over 100 entrepreneurial organisations and 30 startup ventures, with Sandbox alone assisting to scale 8 organizations and helping several others to find a sustainability model and DET fostering 20 startups. Building on this success, Sandbox recently launched two more hubs in India: a second hub in the city of Nizamabad, in the state of Telangana and a third in the state of Uttar Pradesh.

What has worked here in the Hubli Sandbox model is the focus on execution and attention to local context. Desh believed in a bottom up approach and invested in teams on the ground to Naveen Jha as a CEO of DF in India initiated programs that respond to the needs of local area and ecosystem. The success of DF espouses the credo ‘walk the talk,’ where the leadership and team run programs in tandem with their principals set for the grant seekers.

It is the groundedness and long term commitment that has drawn other investors/Sandbox evangelists to replicate the model. Encouraged by these positive responses, DF continues to seek the model’s further expansion and envisions the building of 100 active Sandboxes with networks across 600 districts in India.

Yet the history of Sandbox in Hubli-Dharwad was not without its challenges, several of which are commonly faced by many incubators for social impact. In this case, we will look at the hurdles and solutions Sandbox Hubli-Dharwad has dealt with over the years, with a particular focus on DF’s fostering individual leadership skills as well as organizational capacity based on its hands-on approach.

Hubli-Dharwad – building the culture of entrepreneurship from the ground-up

The Deshpande Center at MIT for a large part has thrived because its location - geographically, institutionally and culturally speaking - granted it invaluable access to social and financial capital from universities, corporations, venture capitalists and other well-resourced actors. These concentrations of infrastructure, capital and human resources that MIT is capable of accessing produced a dynamic environment conducive to the Center’s innovative and entrepreneurial activities.

When Desh thought of his birth place, Hubli-Dharwad, it seemed the polar opposite to this ecosystem at MIT. While India, in 2006, had an above-average 8% growth rate, driven largely by the IT, Business Process Outsourcing (BPO) and Knowledge Process Outsourcing (KPO) industries, and Hubli-Dharwad enjoys a close 400km proximity to two urban centres (Bangalore, and Mysore, the second largest city in the Indian state Karnataka), for the most part the Hubli-Dharwad region lacked the financial, physical and human infrastructure necessary for the establishment of an institutional concept like Sandbox. In fact, the Sandbox area encompassed a central city base with a majority rural population.

It was therefore necessary for the Foundation to begin building its operations from the ground up, supplying critical infrastructure and investing in already established organisations to generate a culture of entrepreneurship that would trigger social initiatives from within Hubli-Dharwad itself. Sandbox hoped that interactions between students, researchers and non-profit organisations, all held within a collective space, would create genuine enthusiasm and respect for the practice of social innovation.
To transform Hubli-Dharwad into a regional focal point for social innovation, the Foundation built a number of integrated initiatives over the last few years centered around the themes ‘Create, Enable, Engage and Connect’:

The model was designed in line with Deshpande’s mission to foster a dynamic center for entrepreneurship and social innovation. Together, Sandbox’s initiatives provide a graduation track for aspiring entrepreneurs, supporting individuals from various professional and educational backgrounds, with experience in different sectors and industries, to fulfill or explore their entrepreneurial ambitions. Successful graduates from DF’s educational and training programmes, such as the Deshpande Fellowship Programme (DFP), are often granted the opportunity to further their skills and ideas in Sandbox’s own incubator programme and translate their ideas into tangible enterprises.

Starting Principles - Teaching people how to fish

Naveen Jha, CEO of Deshpande Foundation in India, outlines the early challenge of being seen as the solution and getting people to become the solution themselves: “In the initial days we were looked upon as messiahs with money and would get requests for ‘funds’ for random things or to ‘solve’ people’s problems. With time it has changed as we had designed it in such a way that we ask people living in the Sandbox area ‘We’d like to solve ‘x’ problem, could you tell us how could we do it the best?’ In other words, our business is about helping people help themselves.” This mindset change from expecting handouts to being the solution themselves is slowly taking place. For DF, it permeates all of their programmes and provisions.
Starting Principles – local relevance

In fostering a culture of entrepreneurship, “[Deshpande] learned that for funding to be effective, it must be driven by local needs and ensure that there is a local commitment and capacity to use resources effectively.”\(^{11}\) For Desh, relevance in social innovation is paramount: “You still need innovation, but relevance has to lead the process. It’s the deep understanding of the problem and then pulling in [the necessary] ideas that causes the social innovation.”\(^{12}\)

This insight was gained through initially attracting 20+ international organizations \(^{13}\) through grants to Hubli-Dharwad during the first year of Sandbox. International organisations appeared to require more capital (four times as much) than local ones, yet failed more frequently and often lacked commitment to the local region (for instance, most had representatives in Bangalore and only one employee in Hubli-Dharwad itself). As a result, Deshpande Foundation concluded that “this ‘helicopter development’ had little to no impact in the community” and that “solid commitment to the local community was needed.”\(^{14}\)

Building local and committed innovation and entrepreneurship

DF’s early challenges demonstrate to its team that in order for organisations to be empowered the staff and its leaders must experience and relate to the social cause at hand. For Sandbox, then, the goal became cultivating individuals in various segments of the Hubli-Dharwad community who would address social challenges with sensitivities to local context. It does so by creating leaders, engaging youth and enabling social entrepreneurs.

Creating local entrepreneurial leaders

To DF co-founder Desh, the importance of leadership at any level of an organisation cannot be emphasised enough. He notes that non-profit organisations are typically headed by strong leaders but severely limited by weak middle management. While many in the social sector come from reputable academic backgrounds, they lack the professional skills and experience required to effectively manage an organisation.

The Deshpande Fellowship Programme (DFP) was therefore created to cultivate middle managers who can serve as a facilitator between a non-profit’s founders and its grassroots beneficiaries. The rigorous programme, which draws 23-28 year-old graduates and postgraduates interested in social development sector, covers 28 diverse modules using a hands-on approach to equip participants with skills to communicate effectively, analyse project needs and manage team operations.

In addition to DFP, Sandbox has developed a holistic range of training programmes, each designed to nurture various members of the workforce:

- Deshpande Koutilya Fellowship (DKF): A 5-month programme to help individuals translate academic qualifications into practical skills needed in fields such as accounting, banking, finance in Tier 2 and Tier 3 cities in India (defined respectively as populations between 50,000 to 99,999 for Tier 2 & 20,000 to 49,999 for Tier 3).
- Deshpande Susandhi Fellowship (DSF): A 4-month residential programme to build leadership skills, entrepreneurship & high work ethics to boost employability.
- Susandhi Krishi Chetana (SKC): A 4-month intensive residential course that prepares young agriculturalists for future challenges. Participants are educated on better cultivation methods and trained to take up management responsibilities. The programme also aims to
support the agricultural industry by training facilitation officers who can effectively liaise between farmers, agricultural companies and governments.

Sandbox Hubli-Dharwad’s experiences are shared through the Development Dialogues, the Indus Entrepreneur (TIE) and the Champions Programme. In particular, the Development Dialogue is a strong example of how local experiences can be shared outside of Hubli-Dharwad, annually gathering approximately 2,000 diverse practitioners, professionals, entrepreneurs and college students for a 3-day conference to discuss the potential of entrepreneurial initiatives in nurturing solutions for development. By drawing external parties into the region, Sandbox presents its organisations with greater exposure to other innovative ventures and approaches to pressing social problems both within and outside of Sandbox. The sheer magnitude of the conference works to create enthusiasm around Sandbox’s activities, inspire its own entrepreneurs, and promote the region as a leading center for social innovation.

Engaging leadership potential of youth

Fostering the next generation of regional leaders lies at the heart of Deshpande’s many training programmes. One such initiative is Deshpande’s LEAders Accelerating Development (LEAD) programme, which encourages students from universities located in the Sandbox region to select social issues they care about in their local communities and implement their own creative solutions. Guided by mentors and LEAD alumnus, these students are required to immerse themselves in fieldwork and grassroots operations to gain hands-on experience.

LEAD’s sample has created a case for entrepreneurship in a community in which many parents and school administrators valued academics over extra-curricular activities. It has since inspired a younger generation of social workers by presenting them the opportunity to get in touch with business practicalities while making an active contribution to society. By 2015, the programme had received an overwhelming 50,000 student participants from more than 100+ different colleges and universities within the Sandbox region.

LEAD’s success prompted DF to integrate with the Sandbox Startup programme to encourage more students to adopt an entrepreneurial approach to social development issues. Through the Sandbox Startup programme, DF was able to partner with local universities to formally integrate the practice of entrepreneurship into school curriculums by introducing courses on its practical applicability in society.

Enabling social entrepreneurs

Desh insists on supporting experimental approaches to social innovation to maintain Sandbox’s status as “a place where individuals and organizations with innovative solutions to pressing social needs could experiment and build their organizations to scale without fear of failure.”

Under the Enable stream (see image above), Sandbox supports entrepreneurs across various sectors of the economy through the Navodyami, Entrepreneurs-in-Residence programme (now known as Sandbox Startups) and traditional grant making. Navodyami operates in five districts in North Karnataka and enables rural entrepreneurs earning 5,000-10,000 INR (US$77 - 153) a month to scale their enterprises. By 2014, “out of the 120 Navodyami graduates, 43 have grown by three to four times successfully incubated in the programme and are in various stages of scaling up.”

In addition to this, the incubator programme Entrepreneurs in Residence (EIR) (renamed Sandbox Startups in 2015), proudly serves as a “ready living laboratory” for committed individuals to test and scale their innovative ideas in Tier 2 & 3 cities in India. Sandbox Startups invests in adept leaders and ideas with significant potential to improve the welfare of local communities in areas of agriculture,
education, health and livelihoods. Sandbox selects its partners in tri-annual cycles and supports a range of organisations at various stages of growth in a 200 km radius around Sandbox. Throughout its engagement, Sandbox Startups provides the organisation with assistance in the forms of mentorship, physical space, seed funding, networking opportunities and event exposure.

The incubation process begins with piloting new ideas. Sustainable interventions that yield significant returns during its testing stage will then undergo plans for scaling. These successful innovations will receive referrals from Deshpande Foundation to other potential partners, including state/government organisations, private investors, individual entrepreneurs and other community actors.

Source: Deshpande Foundation 2014

What Sandbox Start-ups provides to its entrepreneurs

In addition to these programmes, Deshpande Foundation provides grants to organisations that have a high likelihood to impact local lives. They are given to organisations at all stages of development, with 30-40% of grants issued to organisations establishing the feasibility of an idea, 30-40% to organisations replicating an idea in Karnataka and 20% to organisations focused on scaling. Grant recipients include non-profit, hybrid social enterprises, and for-profit organisations. By 2014, the 7-year-old programme had helped more than 100 organisations and impacted 1.15 million lives.22 These three prongs of the Navodyami and the Sandbox Startups programme, plus its grantmaking activities, drive the entrepreneurship angle of the Deshpande Foundation’s Sandbox.

Mentors are an integral part of all of DF’s programmes.23 In October 2015, Sandbox Startups had 300 employees, including the new Sandboxes in Karnataka and Uttar Pradesh. In Hubli alone there are 250 full-time employees to support Sandbox activities.24 Sandbox’s startups receive mentorship from established entrepreneurs with similar backgrounds and experiences (for instance, matching mentors with mentees based on experience in scaling in a certain industry).

In addition, weekly peer support groups meetings are held. In these, all entrepreneurs bring issues they are encountering to the table for others to help shape possible solutions. Mentors meet with their assigned entrepreneur and potentially her/his team at least one month for a formal meeting.
Quarterly meetings are also held with a wider audience drawn from the greater community of mentors, participants and fellows.

So while DF “keeps [on average] 20% for the capacity building of the organisation in various form in each grant”, DF’s India CEO, Naveen Jha, is keen to emphasise that “Capacity building is an inherent component of the Sandbox ecosystem, both in terms of resources and in terms of extending expertise. We are proud to have a great advisory group who are readily available with their advice. Moreover, we believe, more than the structured capacity building programs, [that] the ecosystem exists with all kind of resources, peers, networks and of course the Foundation where a partner could take their time and space to seek support and advice.”

Underlying Core Principles and Practices

Before structuring Sandbox’s incubation and funding model, Desh carefully considered the key challenges affecting the non-profit sector. Firstly, he noted that non-profits are rarely subjected to the checks of market forces and hence lack significantly in accountability. Secondly, typical funding granted to non-profits is usually highly conditional on the investors’ terms, leaving non-profits little autonomy in their decisions. These problems, which stem from the very nature of the social sector, have been detrimental to non-profits’ productivity and hold wide implications for the value of non-profit funding.

To rectify these issues present in the social sector, the Sandbox team sought to enforce performance expectations while allowing their grantees greater flexibility to experiment and innovate. For instance, Naveen Jha notes that he focuses on making sure that conversations with partners always get into specifics of the business model and bring the point home (i.e. examining whether the envisioned solution would be the most efficient and effective way to solve a problem). The grants team relentlessly works on both aspects - efficacy and efficiency - so that the solution become scalable.

Noting the relative advantages of the for-profit sector, Sandbox thus adopted particular funding principles similar to those employed by venture capital firms.

Leadership-based selection

Firstly, the Sandbox team weighs its decision to support a grantee on the potential of the individual leading the ground operations rather than on the idea itself. This comes from the belief that the right people will make an idea work, no matter how. It evaluates leaders through personal meetings on less tangible qualities such as their tenacity, execution capacity and adaptability, in addition to their experience in the field.

This is also evident in DF’s programme on fostering entrepreneurial mindsets through the Deshpande Fellowship Programme (DFP) and the LEaders Accelerating Development (LEAD) programme.

Hands-On Involvement

Secondly, Sandbox promises a long-term engagement with its grantees - continually providing them with strategic advice in organisational management and operations until they are fully ready to exit. Instead of enforcing performance metrics and one-off reviews, Sandbox gets in touch with the base-level operations by conducting quarterly site visits and monthly check-ins with non-profit leaders at the Sandbox offices. Notably, Sandbox rarely explicitly funds general overhead expenditures, on the principle that funds could be better channelled into strengthening organisational capacities, thereby increasing efficiency and minimising costs.
There has been some resistance to DF’s intimate approach from non-profit leaders who felt that the involvement was too intense, but overall, the reception has been positive and resulted in more organisations adopting rigorous practices resembling VC-backed ventures. The questions of whether such organisations would like to grow (and if so, at what pace) are entirely left up to the partners; the Foundation’s decision on how much resources and time they dedicate to the partnership largely depends on the partners’ stance to these questions.

Stage-Based Support and Evaluation

Thirdly, the nature of Sandbox’s support is determined by the organisation’s (grantee or partner) respective stage of development. Each phase of organisational growth is characterised by “common inflection points” that calls for the appropriate mentoring and resources to minimise the probability of failure at that specific stage. Sandbox’s support instruments include financial assistance, the provision of human resources and market sector, strategic, or operational expertise. Once the organisation succeeds in achieving significant growth, Sandbox will encourage them to scale up their operations to amplify their social impact. Needless to say, part of Sandbox’s effect is predicated on the vibrant ecosystem Sandbox strives to provide, which they hope has a cascading effect for new entrants and existing participants alike.

Exit Strategy

Deshpande Foundation believes none of the organisations they support should be dependent on DF for a long term sustainability. The Foundation defines sustainability in three ways:

- One, if the model is taken over by the market - as in the for-profit world - with the exception that the customer demographic be bottom of the pyramid.
- Second, if the model is adapted by mainstream institutions or the government.
- Third, if the organisation’s broad bases its funding partners.

In all three cases the Foundation plays a role in helping with the transition and building capacity for the enterprise to run independently.

In sum – local solutions from the bottom up

The Sandbox model is a well-integrated ecosystem, with each of its programmes working to power and draw upon one another. In particular, Sandbox Startups is an avenue for selected graduates from Deshpande’s leadership programmes to found their own start-up within Sandbox and transform their ideas into scalable enterprises. Graduates of the Deshpande Educational Trust (DET) Programme are also regularly placed into Sandbox Startups portfolio teams with roles such as senior management and frontline duties. This allows Sandbox to provide its graduates with further opportunities to advance their skills, while reducing hiring and training costs without compromising on reliability. Local relevance and local solutions are the core principles of Sandbox, which aims to design tractable social solutions. DET is part of that effort, with a projected minimum of 10% of DET graduates expected to continue in their entrepreneurial endeavours with the support of Sandbox Startups and another 15-20% projected to remain engaged in the entrepreneurial space as entrepreneurs in various start-ups and supporting organizations.

Next on DF’s agenda is working to build out the four interconnected themes of its programmes, with an emphasis on the first (Create) theme:
• Create (continuing to offer and expand upon its range of skilling programmes)
• Enable (continuing its grant-making activities and Sandbox Startups programme)
• Engage (continuing its current Development Dialogue and LEAD initiatives)
• Innovate (continuing its Navodyami programme and other agricultural initiatives and introducing malnutrition programmes).

It is in the last leg within which DF has come to 'do' things themselves as well. As a foundation, to take on a proactive role (as opposed to a supportive, funding-based one) became a core part of the strategy, as the Foundation increasingly found that it was important for it to be personally involved in innovation on the ground and participate in the development of solutions that were effectively contextualized and scalable.32
4 http://detedu.org/ Accessed on 28/10/2015
5 Microsoft Article Deshpande Foundation [forthcoming at the end of Nov 2015]
7 Email conversation with Naveen Jha on 27 Oct 2015
8 Conversation with Naveen Jha on 12 Oct 2015
10 Email conversation with Naveen Jha 3 Nov 2015
12 Deshpande, Gururaj. *Getting Thinkers to Do and Doers to Think*. TEDxAshokaU. Arizona State University, Feb 10, 2012.
13 Email conversation with Naveen Jha 3 Nov 2015
17 Email conversation with Naveen Jha 3 Nov 2015
18 Email conversation with Naveen Jha 3 Nov 2015
20 As of 4 October 2015, exchange rate of 0.015 USD to 1 INR.
23 Conversation with Naveen Jha on 12 Oct 2015
24 Email conversation with Naveen Jha on 3 Nov 2015
25 Email conversation with Naveen Jha on 27 Oct 2015
26 Email conversation with Naveen Jha on 27 Oct 2015
29 Email conversation with Naveen Jha on 27 Oct 2015
31 Email conversation with Naveen Jha on 27 Oct 2015
32 Email conversation with Naveen Jha on 27 Oct 2015

This work is licensed under a Creative Commons Attribution-NonCommercial-ShareAlike 4.0 International License.