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Centre for Emerging Markets Solutions (CEMS)

The Centre for Emerging Markets Solutions (CEMS) is an inter-disciplinary research centre at the Indian School of Business (ISB) in Hyderabad that is devoted to the creation of market-based solutions to the problems of the developing world in general, and India in particular. CEMS began as a node of the Base of the Pyramid (BoP) Learning Lab Global Network1, an initiative of the Center for Sustainable Global Enterprise at Cornell University’s Johnson Graduate School of Management. The BoP Network focuses on engaging and collaborating with people at the “base of the [socio-economic] pyramid” to define and co-create businesses in poor and developing regions of the world. Along the way at ISB, the mandate evolved beyond that of the BoP Lab, and therefore, the decision was taken to set up CEMS as a new centre with the explicit mandate to conduct research into issues of inclusive growth.

The Centre’s affiliated faculty and staff currently support six interrelated “vertical initiatives” through research, and industry support to develop these solutions. These initiatives include: Small business and Finance; Affordable Housing and Urbanization; Education and Skilling; Healthcare; Energy; and Philanthropy. According to Dr. Reuben Abraham, Clinical Assistant Professor at ISB and Executive Director of CEMS, the six initiatives have developed organically over the life of the Centre, based on the idea that sustainable solutions to developmental problems are fundamentally interrelated and therefore cannot be developed in isolation or silos. In the process of addressing the needs of start-ups in the small and medium enterprises (SME) sector for financing, for example, one can finance small businesses that use the market to address healthcare needs, such as an entrepreneurial firm offering private affordable eye care services. In such ways do the CEMS initiatives complement one another.

The SME sector is the real driver of job creation, particularly in the developed nations of the world, notes Dr. Abraham. At the same time, he says that while jobs in the SME sector account for over 80% of employment in the U.S. and other developed nations, less than 10% of jobs in India are part of the SME sector. As a result, CEMS’ initial efforts were aimed at identifying the factors that hold the Indian SME sector back from being the engine of social and economic growth that it could (or should) be, such as access to financial backing and start-up capital, availability of professional managerial capacity, access to knowledge networks and best practices, and policy/structural obstacles.

In order to address these factors and create successful market-based solutions to socio-economic problems, ISB has positioned CEMS as the strategic advisor to the SONG fund. SONG Investment Advisors is a US$ 17 million venture capital enterprise financed and owned by the George Soros Economic Development Fund, the Omidyar Network (created by eBay founders Pamela and Pierre Omidyar), and Google.org (the philanthropic arm of Google). Housed at CEMS, SONG Investment Advisors looks for viable start-ups whose business plans address one or more of the six vertical initiatives, and support them with investments of between US$ 500,000 and US$ 4 million over the life of the firms. CEMS complements this role by providing industry research, company and industry due diligence, and post-investment strategy to the SONG fund2. The financial backing provided through the SONG fund, as well as specific project grants from private donors and other charitable foundations, has been instrumental to funding the work of CEMS, particularly since ISB is a non-profit higher education institution and thus barred by current Indian law from holding equity positions in the ventures that CEMS supports.

CEMS has worked with ventures and equity funds to create positive social impact without compromising on financial returns. One example of such a venture is a private sector vocational education firm, which Dr. Abraham says has returned 320% on investment while creating 20,000 jobs a year, through the training received by the firm’s students. Another venture has now become India’s largest private stand-alone waste management firm (also highly profitable) which has a positive impact on 10-20 million

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people, directly through the creation of jobs, but mostly indirectly through the proper disposal and
treatment of waste.

Aside from Small Business and Finance, the other five initiatives are equally important in showing that, as
Dr. Abraham says, “the poor are not a charity case or liability, but an opportunity and a market that can be
served profitably.” Since, for example, more than half of India’s 700 million rural residents are likely to
gravitate toward urban centers in the next decade, and existing urban housing shortfall in India already is
estimated at 25 to 30 million units\(^3\), properly executed urbanization will be vital to the economic and social
well-being of the country. Dr. Abraham estimates that 99% of the demand for housing comes in the sub-
$20,000 category (per house), and therefore the development of low-cost housing, on which traditional
real estate markets typically misprice risk, is essential to the urbanization process.

“Urbanization done well could be a potential solution to climate change, as urban density leads to less
pressure on land and better utilization of natural resources,” says Dr. Abraham. Simply enforcing carbon
emissions reduction is inefficient and likely ineffective as a standalone solution to climate change,
particularly in developing nations like India. It must therefore be paired with proper urban planning and
environmentally sound construction of new urban centers. To that end, CEMS has conducted research,
incubated, and spun out commercially an affordable housing company which is building houses in the
range of US$ 5,000-10,000 at multiple project sites in India. Not only will this venture endeavor to show
the long-term profitability of the low-income housing market, but it will also address environmental and
social needs.

CEMS’ numerous external projects will be turned into case studies and subsequently used by ISB
students, according to Dr. Abraham. Because ISB’s signature Post Graduate Programme in Management
is an intensive one-year program, most students are unable to participate directly in the work of the
Centre aside from the odd independent study project or experiential learning projects, despite what Dr.
Abraham describes as a high level of interest in the activities of CEMS. As a result, most ISB students
who wish to directly participate in CEMS’ work do so as alumni. Several ISB alumni now work directly for
the Centre, including the Associate Director of CEMS, Ms. Nidhi Reddy\(^4\). In addition, CEMS conducts
many lectures and workshops for ISB students, using its wide but more importantly, multi-disciplinary,
network.

Most importantly, however, both the research and incubation projects of CEMS show again and again
that the foundational premise of the Centre is a valid one. “Financial and social returns are not mutually
exclusive,” says Dr. Abraham, but can be generated simultaneously. He warns that the so-called “triple
bottom line” of financial, social, and environmental returns does depend on an organization’s ability to
meet the first bottom line (i.e., it must be able to turn a profit). Nevertheless, CEMS has shown that the
triple bottom line is very attainable for organizations that are able to use the market creatively to generate
sustainable solutions.

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End Notes


