

# Impact Investing B7360

Syllabus & Course Description

Fall Term 2019

PROFESSOR

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## SESSION SCHEDULE

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The table below gives the class and session schedule for each module, together with assignment timing. Classes take place on Wednesday evenings from 6pm to 9pm during term.

Session	Date	Title	Assignment
1	Wed Oct 30 <sup>th</sup>	For-Profit SEs	n/a
2	Wed Nov 6 <sup>th</sup>	Non-Profit SEs	n/a
3	Wed Nov 13 <sup>th</sup>	Hybrid SEs	n/a
4	Wed Nov 20 <sup>th</sup>	Start-up Financing	Group Presentations
5	Wed Dec 4 <sup>th</sup>	Growth Financing	Group Presentations
6	Wed Dec 11 <sup>th</sup>	Final Presentations	Final Paper (later deadline)

## REQUIRED COURSE MATERIAL

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Each session description lists required readings in order to participate in the class. Required readings are essential for satisfactory participation in class discussion and completion of Class Assignments and are fully contained within the Readings Packet supplied as part of the course. Further optional readings will be distributed from time to time and are suitable for those who wish to delve further into the subject, but information contained therein is not necessary to pass the course overall.

Three books are provided to students for the course – these are:

1. John Mullins, *The Customer-Funded Business: Start, Finance, or Grow Your Company with Your Customers' Cash*, 1st edn (Wiley, 2014).
2. Cathy Clark, Jed Emerson and Ben Thornley, *The Impact Investor*, 2012.
3. Antony Bugg-Levine and Jed Emerson, *Impact Investing: Transforming How We Make Money While Making a Difference*, 1st Ed. (Jossey-Bass, 2011).

Further books are recommended below for review as part of this course. Each offers in-depth analysis of topics the course will cover and students are encouraged to read each in order to gain a fuller and more in-depth comprehension of the material.

- Muhammad Yunus, *Building Social Business: The New Kind of Capitalism That Serves Humanity's Most Pressing Needs*, 1st Ed. (PublicAffairs, 2011).
- R. Paul Herman, *The HIP Investor: Make Bigger Profits by Building a Better World*, 1st Ed. (Wiley, 2010).
- Amy Cortese, *Locavesting: The Revolution in Local Investing and How to Profit From It*, 1st edn (Wiley, 2011).
- Justin J. Camp, *Venture Capital Due Diligence: A Guide to Making Smart Investment Choices and Increasing Your Portfolio Returns*, 1st edn (New York, USA: John Wiley & Sons, Inc., 2002).

- Basil Peters, *Early Exits: Exit Strategies for Entrepreneurs and Angel Investors*, 1st edn (MeteorBytes Data Management Corp., 2009).
- Alex Wilmerding, *Term Sheets & Valuations - A Line by Line Look at the Intricacies of Term Sheets & Valuations*, 1st edn (Aspatore Books, 2004).

There are three readings that are useful reference materials for the duration of the course. These are included in the readings packet or on the course information system. Students should obtain a copy and ensure they bring to each class.

1. George Bene, 'Note on Private Equity Deal Structures', *Tuck School of Business*, 2005.
2. Tuck Business School, 'Private Equity Glossary', *Tuck School of Business*, 2002.

## PREREQUISITES & CONNECTION TO THE CORE

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The learning in this course will build on and extend concepts covered in the following core courses:

**Corporate Finance:** Various elements of company valuation techniques, combining theories around equity valuation as relevant for early-stage companies. Students should consider additional review of value-based investment techniques, particularly that around fundamental analysis, as being of most assistance in acquiring key skills from the course. We will also develop these concepts to understand how investors themselves add extra value beyond just capital.

**Financial Accounting:** A firm understanding of basic accounting principles is necessary for reviewing and analyzing case materials successfully. In discussing non-profit entities, the course will cover specific accounting approaches on net assets (equity) and revenue and expense recognition.

**Leadership Development:** Underpinning the principles of social business is strong leadership in business ethics. In examining the various cases selected for the course, discussion will focus on how the main participants met the leadership challenges and will draw on principles, concepts and learning from the core leadership program. Additionally, early-stage transactions almost always involve intimate negotiations – developing intuition around such interactions is of particular importance in benefiting from course content.

**Strategy Formulation:** The analytical techniques for establishing competitive positioning and strategies for social businesses will be used. Principles of value creation and capture are of specific relevance to social businesses in terms of impact generation.

Students will be expected to have competence in these areas and be able to apply them during the course. Additional use will be made of content from the following core courses:

**Decision Models:** Much of the graded coursework will require analysis of financial information, and students should look to apply techniques in sensitivity analysis and decision-making with risk assessment.

**Managerial Economics:** Early-stage value assessment leans on the concepts of market segmentation and competitive pricing.

**Marketing Strategy:** Comprehensive analysis of social business strategies requires an appreciation of barriers to entry, power of customers/suppliers and other strategic concepts.

## INTRODUCTION & OVERVIEW

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Impact investing has emerged in recent years as a high potential approach to long-term sustainable social and financial value creation. Although its basic business and investment theories do not differ substantially from that typical in established capital markets, there are unique and specific challenges to successfully investing in social ventures.

This finance elective will provide a detailed introduction to this emerging sector of impact investing, equipping students with vital, practitioner-focused skills in the following areas:

- Equity, debt and alternative investment structuring for early- through late-stage social ventures
- Assessment of impact and financial value for companies and investment portfolios
- Legal and governance strategies to preserve mission-focus throughout organizational scale
- Roles of investment funds and philanthropy in building the impact investing marketplace

## CONTENT & STRUCTURE

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This course is suitable for students interested either in impact investing as an investor or in social enterprises as an entrepreneur. It is also suitable for students wishing to learn about the impact investing and social enterprise space in general. Course material is taught from the perspectives of the company and the investor over the full organizational lifecycle. Course sessions are structured to provide sensible flow to the information and learning.

### Main Principles

Over the sessions the course aims to communicate three fundamental principles, which should be considered general guidelines and insights that apply in any activity undertaken in impact investing.

1. Investments into social ventures at early and growth stages are always dictated by the situational needs and objectives of the individual actors present – the entrepreneurs, investors and advisors. In solely applying quantitative financial analysis to venture deals, awareness of how these individuals' motivations can affect the ultimate terms in a deal is often lost. Recognition and an ability to navigate through this environment is crucial to building a successful career in entrepreneurship or investing.
2. The conflict between financial and social return arises in almost every social venture, regardless of business model. Even if a venture's revenue opportunity is very closely, or

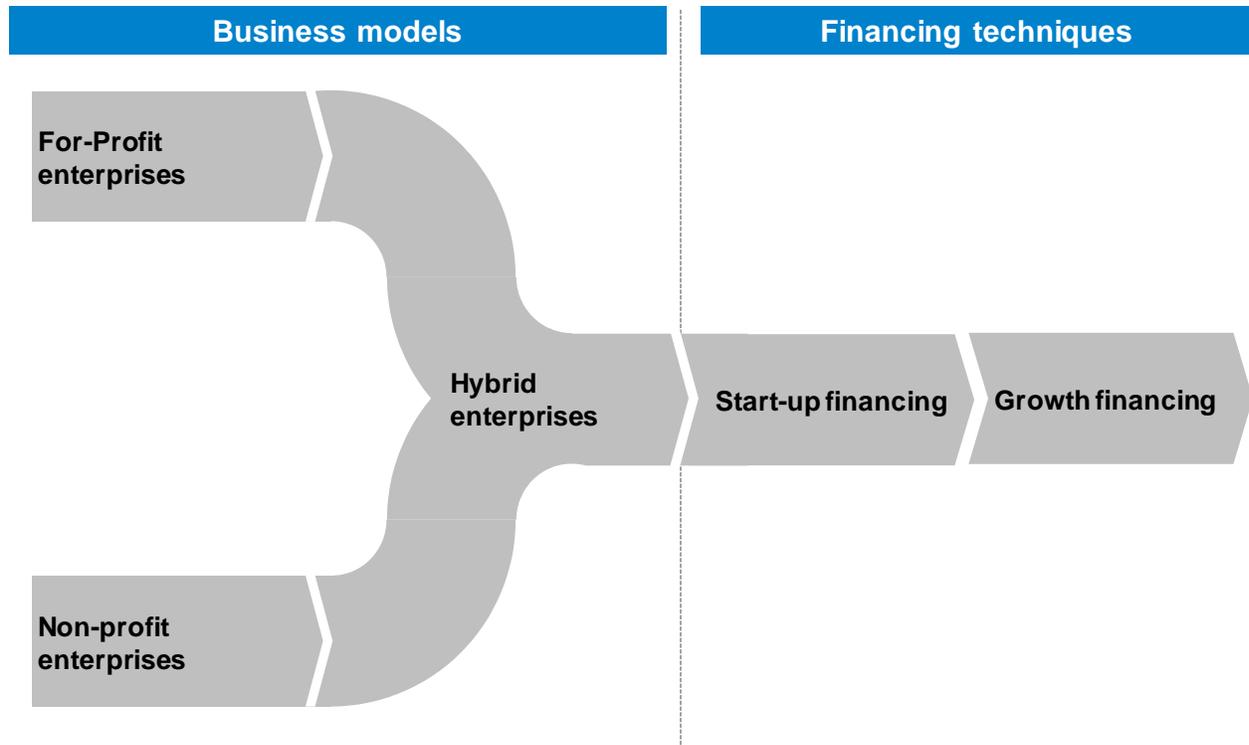


Figure 1 Course Structure & Flow

even fully, aligned with its social change strategy, there will inevitably be pressure to prioritize one over the other. A number of current initiatives in legal and governance domains are centered around tackling this challenge.

3. Entrepreneurs frequently focus on capital raising from the very outset of their business—this often tends to cloud the immensely valuable aspect of revenue generation and the advantages it offers for market assessment, product development and improvement in business value. A focus on positive cash generation as early as possible is a highly advisable approach for any entrepreneur.

All students must possess strong financial skills and solid competence in Microsoft Excel. Experience of venture equity and debt financing methods is beneficial, but not essential. By the end of the course, students will have acquired understanding and skills in investment structuring for small and large enterprises, evaluating deal opportunities from financial and social returns perspectives, and structuring and operating impact investment funds.

Focus will be placed on aspects where impact investing is in contrast to typical industry approaches. To that end, a short introduction to financing techniques will be provided at the beginning of the course to basic investment instruments usable for capital financing, but students should recognize that the sessions from that point on will assume solid understanding of those early concepts.

## Methodology

The course will use the case method with instructional readings around finance techniques and tools for each class, incorporating multiple preparatory assignments in structuring investments for the case examples. Lecture materials will be used to illustrate key technical concepts, but the majority of class time will be devoted to discussion.

External speakers may be scheduled to present in specific classes during the course to provide students with in-depth information on real-life examples and focus discussion on specific topics. Information on external speakers will be released as the course progresses.

## Assignments & Method of Evaluation

Students should note that preparation requirements for the course assignments will adhere to the standardized assignment descriptions listed below:

Type	Designation	Discussion of Concepts	Preparation of Submission	Grade
A	Group/Group	Permitted with designated group	By the group	Same grade for each member of the group
B	Group/Individual	Permitted with designated group	Individually (no sharing of any portion of the submission)	Individual
C	Individual/Individual	None of any kind	Individually	Individual

Students will be graded for the course as described in the next table below. Detailed instructions for each of the assignments will be issued in good time before the assignment is due.

Students will be required to form groups within 24 hours following the first session and to provide the group membership details to the professor. Groups may comprise either 3 or 4 students. Exceptions will be made in extreme cases, and not in response to student requests.

%age	Type	Title	Description
40%	A	Group Assignment	Each group submits a single presentation in response to assignments set for sessions 4-5. Groups will be allocated to the sessions, and assignment descriptions will be issued approximately 4 days prior to each session.
60%	C	Final Exam	Final take-home written exam, performed individually. The exam details and deadline will be given during Session 4. The questions set will focus on either the entrepreneur or investor perspective, and you will be able to select from various cases taught during the course for the subject of your submission. The exam deliverable will be short

Percentage	Type	Title	Description
			proposal, accompanied by whatever spreadsheets and other materials you feel worthwhile to support your proposal.
<b>100%</b>	<b>Total Grade</b>		

For the two Group Assignments, groups may be asked to present their submissions in class to support and encourage discussion on the case topics. Any presentation will not affect the grade awarded.

Whilst not allotted a specific percentage in the course grading structure, individual in-class participation in discussions is considered highly valuable in demonstrating your interest in and aptitude with the course materials. Clearly insightful and complementary contributions to discussion, even if challenging the conclusions being met, are considered of highest value. The value of your contributions may be factored in when assigning your final grade, depending on the proximity of other scores.

The following non-negotiable stipulations apply to the course:

- This course is drop only.
- Attendance at the first session is compulsory to remain registered for the course.
- Absence from a class will affect the grade unless under extreme circumstances.
- Absence from more than one class will result in a no grade award regardless of circumstances.

## Course Management & Instructors

The course will be delivered through the Canvas course management system. All required readings will be posted online in Canvas for each of the class sessions. All assignments are to be posted by student groups to Canvas folders as advised by the professor or TA.

Students should note that intensive use will be made of Canvas to deliver further optional readings and information relevant to the course content and discussion.

## THE “LEARNING CONTRACT”

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The classroom environment is governed by the Learning Contract described below. By registering for this course, students commit to fulfilling and upholding the terms stated in the Contract.

- No electronic devices – laptops, tablets or phones and similar – may be used at any time during the course sessions. Each class will have a short break in roughly the middle of the total three-hour timeframe.
- Classes will begin and end on time. Students must arrive in time for the start of the class.
- Cold calling will be adopted by the professor. No prior notification will be given.
- Students should focus on active and constructive participation in classroom discussion.

The Learning Contract will be distributed to all students in advance of the first session.

## CLASS TOPICS

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The following sections describe each class, the selected cases for discussion, guiding questions for consideration in preparing the cases and finally the required readings.

### Session 1: For-Profit Social Enterprises

Much of the recent focus on social enterprise and impact investing has been around the viability of for-profit entities and sustainable business models for creating impact. Our readings for this class will explore the theoretical aspects of business in regard to social impact, and our cases will examine two specific examples of for-profit social enterprises highlighting the challenges that can exist in financing these types of entity.

The Good Capital and Better World Books (BWB) case illustrates one of the earlier impact investment scenarios, with a recently created investment fund looking to secure its first social investment. BWB presents an ideal opportunity, but there are significant challenges around structuring an investment that would meet the objectives of all parties involved. In discussing the case and reviewing actual events that have transpired since, this class will explore those challenges and cover innovative solutions suitable for general adoption in impact investing.

Continuing the theme of assessing deal examples in the social venture space, we then review Pacific Community Ventures' investment into Galaxy Desserts and aspects around its business model, impact focus and exit opportunity.

### Cases

- Good Capital & Better World Books
  - What exactly is BWB's "cost of doing good"? How does it affect the business model?
  - Can BWB's business model scale successfully? What adjustments may be necessary at different levels of scale?
- PCV & Galaxy Desserts
  - What do you think of Galaxy Dessert's impact model?
  - How effective do you think PCV's social return metrics are? How would focus on social values and mission be affected as Galaxy Desserts scales?

### Required Readings

- Michael E. Porter and Mark R Kramer, 'Creating Shared Value', *Harvard Business Review*, January-Fe (2011), 62-77.
- Milton Friedman, 'The Social Responsibility of Business Is to Increase Its Profits', *The New York Times Magazine*, 1970.

### Session 2: Non-Profit Social Enterprises

Solid comprehension of the tax exempt entity model, otherwise known as a non-profit, is critical for entrepreneurs and investors in the social enterprise marketplace. An understanding of how

non-profit business models develop from initial grants and donations through to scale and sustainable revenue generation is important for developing a career in the sector.

Our class on non-profits will discuss first the social enterprise Samasource, examining its business model, financing opportunities and possible options for growth. Our second case is that of DonorsChoose, another highly successful and widely known non-profit, that has effected substantial change in the education sector.

### Cases & Guiding Questions

- Samasource
  - How should Samasource fund their growth going forward? Should the company create separate for-profit and non-profit businesses? Why?
  - How can Samasource manage improvement and learning in their delivery centers going forward?
- DonorsChoose
  - What is DonorsChoose disrupting in order to create social impact?
  - How did DonorsChoose's business model evolve from the start-up through growth?

### Required Readings

- Bethany Coates and Garth Saloner, 'The Profit in Nonprofit', *Stanford Social Innovation Review*, 2009.
- William Foster and Jeffrey Bradach, 'Should Nonprofits Seek Profits?', *Harvard Business Review*, Vol. 83.Issue 2 (2005), pp92-100, 148.

### Session 3: Hybrid Social Enterprises

Integration of financial and impact considerations demands innovative approaches to organizational structuring. Impact entrepreneurs have spearheaded the use of hybrid entities, adopting specialized governance and controls. Expanding upon current legislation, industry initiatives have developed new organizational types designed to tackle challenges around managing and financing social ventures.

The nonprofit organization B-Lab has pioneered the creation of benefit corporation legislation, in addition to establishing GIIRS as a ratings and analytics assessment system for social and environmental impact of companies and funds. Various other legislative options have been developed by the wider sector, including the L3C and flexible purpose corporation.

Appropriate selection of these corporate structure options for an enterprise and having a vision on how that structure should evolve through scale, is a critical aspect with social ventures. Impact investing needs to accommodate these corporate forms and the resulting implications on financial return and portfolio management.

In considering the case of Acumen Fund and Embrace, the class will analyze an enterprise exemplifying an increasing trend in the sector around integration of a non-profit and a for-profit entity into a single business model. Our second case, GiveDirectly, is a very successful, high-growth non-profit that is also considering the viability of an explicit hybrid model.

### Cases & Guiding Questions

- Embrace
  - How can social impact track record and future potential be factored into financial valuation? Should it be factored in?
  - How viable are partnerships models between for-profit and non-profit entities? Where are the risks?
- Blocpower
  - What opinion do you have of Blocpower's chances to scale with venture investment?

### Required Readings

- Julie Battilana and others, 'In Search of the Hybrid Ideal', *Stanford Social Innovation Review*, 2012.
- Allen R Bromberger, 'A New Type of Hybrid', *Stanford Social Innovation Review*, 2011.
- James D Thompson and Ian C Macmillan, 'Making Social Ventures Work', *Harvard Business Review*, 2010, pp66–73.

### Session 4: Start-up Financing

Various strategies can be employed in start-up environments for both for-profit and non-profit enterprises to build business momentum and test the validity of the vision and business model. Attention should be paid by entrepreneurs to these techniques as they are very effective in helping to create sustainable and scalable organizations.

The detailed A-List Education case will be used to illustrate these challenges from the perspective of an organization that has established a strong baseline for operations and seeks to expand to scale using a hybrid revenue and financing strategy. Two other organizations – Blocpower and Hot Bread Kitchen – will be discussed in class to compare and contrast different approaches and solutions.

We will also review briefly the basic structural elements of the Social Impact Bond and current material around its success and potential.

### Cases & Guiding Questions

- A-List Education
  - Given the options available, what financing strategy would you recommend for A-List Education and why?
  - What aspects of the business model, if any, help to categorize A-List Education as a social enterprise?
- Propel
  - Which revenue generation model is most likely to achieve scale?
  - What about Propel's business model would make it attractive to venture investors?

### Required Readings

- Clayton M Christensen and others, 'Disruptive Innovation for Social Change', *Harvard Business Review*, 84.12 (2006), 94–101, 163.
- John Mullins, 'Use Customer Cash to Finance Your Start-Up', *Harvard Business Review*, July-Augus (2013).
- Antony Bugg-Levine, Bruce Kogut and Nalin Kulatilaka, 'A New Approach to Funding Social Enterprises', *Harvard Business Review*, 2012.

## Session 5: Growth Financing

The design and strength of structures are tested most at extremes, and in business this extreme often comes through scale. The solutions used in integrating financial and impact returns present particular hurdles in reaching long-term sustainability for social ventures. Public markets have a particular role to play as a common source of liquidity for early-stage venture investors, however the dynamics around investor behavior change dramatically with that transition.

The SJF & Ryla Teleservices case provides excellent material for analyzing multiple investment rounds, the integration of a social impact focus into an established business model and how such disruption can lead to positive returns for the investors.

And as our last case for discussion in the course we will examine in detail the case of E+Co and Persistent Energy Partners, a fascinating example of the opportunities and challenges in creating and scaling a social enterprise that manages a complex portfolio of international investments.

### Cases & Guiding Questions

- SJF & Ryla Teleservices
  - What unique challenges did Ryla's service-based model create for SJF in valuing the enterprise?
  - In structuring the round, how could SJF have better tackled the issues of capital availability?
- E+Co
  - What are the risks with deal evaluation in E+Co adopting a self-assessment approach with opportunities?
  - E+Co's strategy mixed very early-stage with later stage growth investments - why was this approach taken?

### Required Readings

- Yvon Chouinard, Jib Ellison and Rick Ridgeway, 'The Sustainable Economy', *Harvard Business Review*, October (2011), 52–62.
- Paul Brest and Kelly Born, 'When Can Impact Investing Create Real Impact?', *Stanford Social Innovation Review*2, Fall (2013).
- Tim Brown and Roger Martin, 'Design for Action', *Harvard Business Review*, 2015.

## Session 6: Growth Financing

Details for the final session will be released during the course and confirmed well in advance on Canvas.