INVESTING IN SOCIAL VENTURES (B8767)

Spring 2017

Professor Bruce Usher

Uris Hall 316A

Office Hours: By appointment only (contact 212 854 7631 / bmu2001@columbia.edu)

Classes are on Mondays from 2:15pm-5:30 pm, beginning Monday, March 20th.

REQUIRED COURSE MATERIAL

Investing in Social Ventures utilizes the following cases, articles and background readings:

Session 1: Due Diligence
- How Venture Capitalists Evaluate Potential Venture Opportunities (805-019)
- Best Practice Guidance for Angel Groups – Due Diligence
- Kheyti (India): Application to the Tamer Social Venture Fund

Session 2: Venture Presentations
- Presentations provided by Tamer Social Venture Fund applicants

Session 3: Due Diligence – Emerging Markets
- Actis: January 2008 (808-130)
- Ziqitza Health Care Limited (INS295)

Session 4: Funding Non-Profits
- Venture Philanthropy: Its Evolution and Its Future (313-111)
- GiveWell: Real Change for Your Dollar (SI-122)

Session 5: Measuring Impact
- The Robin Hood Foundation (310-031)
- B Lab and the Impact Assessment Evolution (SM-220)

Session 6: Valuations and Deal Structure
- Best Practice Guidelines for Angel Groups – Deal Structure and Negotiation
- Acumen Fund and Embrace: From the Leading Edge of Social Venture Investing
REQUIRED PREREQUISITES AND CONNECTION TO THE CORE

This course requires the standard prerequisites for elective finance courses:

Prerequisite(s): B6300 Corporate Finance

Corequisite(s): B8306 Capital Markets & Investments

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

<table>
<thead>
<tr>
<th>Core Course</th>
<th>Connection with Core</th>
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</thead>
<tbody>
<tr>
<td>Corporate Finance</td>
<td>1. Time value of money</td>
</tr>
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<td></td>
<td>2. Efficient markets</td>
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<tr>
<td></td>
<td>3. Risk</td>
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<tr>
<td>Decision Models</td>
<td>1. Use of analysis in decision making</td>
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<td></td>
<td>2. Decision making under uncertainty and risk</td>
</tr>
<tr>
<td>Global Economic Environment I</td>
<td>1. Role of financial markets in the economy</td>
</tr>
<tr>
<td></td>
<td>2. Exchange rates</td>
</tr>
<tr>
<td>Managerial Economics</td>
<td>1. Analyzing complex decision making under uncertainty</td>
</tr>
</tbody>
</table>

Students will be expected to have mastered these concepts and be able to apply them in the course.

COURSE DESCRIPTION

This half semester course provides students interested in impact investing with the opportunity to perform due diligence on early stage social ventures (nonprofit and for-profit ventures with a social or environmental mission). Students will be randomly placed in teams that will evaluate social entrepreneurs who have applied for funding from the Tamer Social Venture Fund, completing detailed due diligence on the applicants, the social ventures and the sector. The course will conclude with a written due diligence report and a recommendation to the Tamer Social Venture Fund Investment Board.

This course is designed to teach students how to perform due diligence on early stage social ventures, including for-profit and nonprofit ventures. The course is composed of six modules:

1. **Due Diligence** – understanding the process that impact investors use when evaluating early stage social ventures, building on the experience of traditional venture capitalists and angel investors.

2. **Applicant Presentations** – social ventures that have applied to the Tamer Social Venture Fund will make short presentations to the class, followed by meetings with their assigned due diligence student teams.

3. **Due Diligence: Emerging Markets** – identifying and managing the challenges faced by early stage impact investors in developing countries, examining both traditional investors and investors focused on social ventures.
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4. *Funding Nonprofits* – understanding how leading philanthropists evaluate nonprofit organizations for donations and other forms of funding.

5. *Measuring Impact* – evaluating the tools used by impact investors and philanthropists to measure their effectiveness.

6. *Valuations and Deal Structure* – understanding how investments in early stage socially ventures are valued and optimally structured by impact investors.

**COURSE OBJECTIVES**

This course is designed for MBA students interested in impact investing, social entrepreneurship, or philanthropy. The objective of the course is for students to learn both the theory of investing in early stage social ventures and the practice of evaluating early stage social ventures through a due diligence process. This course is not designed for the evaluation of larger/long running social enterprises.

Students may find that the social venture assigned to their group is difficult to communicate with, provides incomplete information, and/or appears unlikely to succeed. While these situations are not ideal, they represent the reality of investing in early stage social ventures and students should be prepared to manage these challenges, recognizing that they provide a valuable learning experience.

**ASSIGNMENTS**

Students are randomly assigned in groups of three to four. Each group is responsible for completing (i) a mid-course two-page plan on their due diligence process, (ii) a final due diligence report of five pages plus exhibits, and (iii) a two-page summary of their final due diligence report with recommendations for improvement that will be submitted to the social venture.

**METHOD OF EVALUATION**

This course will utilize readings, cases and guest speakers. The guest speakers are primarily venture capitalists, impact investors, or philanthropic leaders, providing an opportunity for students to meet industry specialists. This course requires active class participation, and students’ grades will be heavily dependent on the quality of class discussion.

Grades will be based on class participation, the mid-course due diligence process plan, the final due diligence report and the feedback report provided to the social ventures. The mid-course due diligence process plan is a two-page outline of your group’s proposed due diligence of the social venture you will be evaluating. The final due diligence report is a five-page report plus exhibits, evaluating the social venture as a candidate for funding from the Tamer Social Venture Fund. Each group is also required to
provide their assigned social venture with a two-page summary of feedback and recommendations based upon their due diligence report.

Students’ grades in the course are based on the following metrics:

<table>
<thead>
<tr>
<th>Metric</th>
<th>Percentage</th>
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</thead>
<tbody>
<tr>
<td>Class participation</td>
<td>40%</td>
</tr>
<tr>
<td>Due Diligence Process Plan (Type A – group/group)</td>
<td>10%</td>
</tr>
<tr>
<td>Final Due Diligence Report (Type A – group/group)</td>
<td>40%</td>
</tr>
<tr>
<td>Feedback and Recommendations to the Social Venture (Type A – group/group)</td>
<td>10%</td>
</tr>
</tbody>
</table>

At the end of the course, each group member will be asked to complete a confidential poll indicating the percentage that each member contributed to the due diligence process and the three written reports. Results of the poll may affect student grades in the course.

**CLASSROOM NORMS AND EXPECTATIONS**

Students are required to prepare for each class by reading and analyzing the assigned readings and cases. Students are expected to add thoughtful analysis to each class discussion. Many classes will include a guest speaker, and students are expected to engage guest speakers with questions and comments.

There is a “no devices” policy in this course. Please leave your phones and computers off. Violations of this policy will lead to deductions from a student’s class participation grade.

Students are requested to sit in the same seat for the duration of the course to enhance class discussion and facilitate grading of class participation. Please choose your seat in the first class.