Impact Investing
B7360

Course Syllabus

Fall Term 2016

PROFESSOR
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TEACHING ASSISTANT
XXXX
Email: XXXX
INTRODUCTION & OVERVIEW

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 successful investment in social ventures.

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

- Development of social impact business models and selection of appropriate entity type
- Techniques for capitalizing both for-profit and non-profit social ventures, including investment, grants and organic reinvestment approaches
- Assessment and measurement of impact, using a competitive advantage framework to compare social enterprises and determine best growth strategy
- Legal and governance strategies to preserve mission-focus throughout organizational scale

In order to derive greatest benefit from this course, students should:

1. Be able to comprehend and analyze the three standard financial statements and associated metrics such as gross margin
2. Have some experience of entrepreneurship, either as an entrepreneur or with an investor or other support agency
3. Be comfortable working in Excel to analyze financial and metrics information

REQUIRED COURSE MATERIAL

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 all available on the Canvas CMS online. 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.

One course textbook is mandatory for all students:


Two other books are highly recommended:


There are two readings that are very useful reference materials for the duration of the course. These will be included on Canvas for students to download and keep handy for during the class sessions.

**PREREQUISITES & CONNECTION TO THE CORE**

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.
CONTENT & STRUCTURE

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. 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 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 on tackling this challenge.

2. 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.

3. 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.
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.

Methodology
The course will predominantly 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 will be scheduled as indicated in the Course Structure on page 8 to present in specific classes during the course and provide students with in-depth information on real-life examples and focus discussion on specific topics. Updates and preparation details for 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:

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<th>Type</th>
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<th>Discussion of Concepts</th>
<th>Preparation of Submission</th>
<th>Grade</th>
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<td>Group/Group</td>
<td>Permitted with designated group</td>
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<td>Same grade for each member of the group</td>
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<td>B</td>
<td>Group/Individual</td>
<td>Permitted with designated group</td>
<td>Individually (no sharing of any portion of the submission)</td>
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<td>C</td>
<td>Individual/Individual</td>
<td>None of any kind</td>
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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 by the end of the second session and to provide the group membership details to the course TA. Groups may comprise either 3-5 students. Exceptions will be made in extreme cases but not in response to student requests.

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<td>30%</td>
<td>C</td>
<td>Individual Paper</td>
<td>Short discussion/analysis paper. Maximum 4 pages, assignment description will be distributed 4 weeks before the submission deadline.</td>
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<tr>
<td>30%</td>
<td>A</td>
<td>Group Assignments</td>
<td>Each group submits a total of three presentations in response to assignments set during the course.</td>
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For the 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”

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.

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<td>Assignment descriptions will be issued the session prior to each submission deadline.</td>
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<td>Final Group Presentation</td>
<td>The final session is devoted to an entrepreneur/investor pitch session, with each group in the role of either an entrepreneur or an investor. Details will be provided in class. Grading for this assignment will be through a student peer-to-peer model.</td>
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• No electronic devices—laptops, tablets or phones and similar—may be used at any time during the course sessions. Each class will have a 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.

ADDITIONAL OPTIONAL READINGS

Further books are recommended for optional review as part of this course. Each offers in-depth analysis of topics the course will cover and would aid a fuller and more in-depth comprehension of the material:

### COURSE STRUCTURE

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#### Speaker

- Andy Kaplan
- Tomer Inbar
- Donnel Baird
- Preeti Bhattacharji

#### Cases

- Better World Books & Globe Diverse
- Suma Source & Divine Groove
- Social Enterprise Accounting
- B-Lab & Embrace
- Biolo & ECO Etzy & SJF
- Teleservies
- Fresno's SIB for Asthma
- ESG Metrics & Generation Investment Management
- ELY & FYA Concerns

#### Final Presentations

- TBD
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**NOTE:** The table is an excerpt from the syllabus and course description for the IMPACT INVESTING course at Columbia Business School, focusing on the structure and key topics covered throughout the semester. The table highlights the progression of topics from sustainability and impact models, through fundamental techniques to growth strategies, with a focus on impact investing and socially responsible business practices.
SESSION LIST

Session 1: Sustainability of For-Profit Social Ventures

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. Discussion in this opening session will use a framework for assessing sustainability of the ventures, examining the degree to which the product or service requires subsidization.

This class will explore the practical aspects of business in regard to social impact using the examples of Better World Books and Galaxy Desserts. Both companies developed business models around a unique impact strategy and attracted investment capital to achieve growth.

Cases:

- Good Capital & Better World Books
- PCV & Galaxy Desserts

Required Readings:


Session 2: Non-Profits as Businesses

The tax exempt entity model, otherwise known as the non-profit, is a valuable option for corporate structure to achieve sustainability as a social enterprise. Earned revenue from productized business models is an excellent complement or alternative to traditional grants and donations. Class discussion will analyze case examples against the sustainability framework developed in the first session.

The first case for examination is the social enterprise Samasource that, through its impact-focused microwork service, developed a scalable enterprise. 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:

- Samasource
- DonorsChoose

Speaker:

- Andy Kaplan, DonorsChoose

Required Readings:

Session 3: Viability of Hybrid Models
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. Class discussion will extend the development of the comparison framework examining how impact affects competitive advantage and sustainability.

The first case Sanergy presents a valuable example of a multi-entity hybrid model and the challenges experienced in managing diverse operations. With the case of A-List Education, the class will analyze a social enterprise that effectively blended a high impact service and stable business growth rate and tackled the possibility of a multi-entity approach.

Cases:
• Sanergy
• A-List Education

Required Readings:

Session 4: Financial Analysis and Investment Techniques
Building on the business model analysis from the first three sessions this fourth session will dig first into financial analysis of various social enterprises to demonstrate how the impact focus is reflected in the financial statements of the companies. The second segment will review how the widely used equity, debt and convertible instruments are employed to capitalize early stage ventures. Appreciation of the fundamental characteristics of these techniques is crucial in understanding how ventures are assisted through capital investment. Materials will also cover the design of stock classes to implement various approaches to governance.

Our case material provides accounting comparisons for various different social enterprises. Analysis of convertible notes will use industry examples provided electronically in-class.

Case:
• Issues in Social Enterprise Accounting: A "Detective" Exercise

Required Readings:
• Venture Deals: Be Smarter Than Your Lawyer and Venture Capitalist, Feld and Mendelson. – Chapter 8

Session 5: Non-Profit Financing

We revisit non-profits in detail in this session to review the essentials of grants and donations, both how they contribute to organizational development and how they are handled in the financial statements. Readings and class discussion will demonstrate how unrestricted and restricted grant capital augments other forms of financing but also how dynamics of the sector limit how impactful the capital can be to growing a social enterprise in which governance and the principles of charitable purpose are significant factors.

The case materials used for discussion will compare two social enterprise bakery models: the New York City-based Hot Bread Kitchen and the Hong Kong-based iBakery. The iBakery case will also offer the opportunity to examine how social enterprises are defined internationally.

Cases:
- Hot Bread Kitchen
- iBakery

Required Readings:

Session 6: Impact Focus and Strategy

By this stage in the course we will have discussed a wide variety of social business models, analyzed them using the sustainability framework and developed an understanding of the essential methods of venture capitalization. At this mid-point we will solidify a framework for assessing and measuring impact, and then consider how entrepreneurs select corporate entity type based on the impact focus and business strategy.

The class include a review of emerging models such as the benefit corporation and also the B Corp certification initiative. The main case for discussion is that of Embrace, a valuable example of how evolution in the business model can lead to hybridized structures. The recent research into how social entrepreneurs often switch or evolve their corporate models will be reviewed.

Cases:
- B-Lab – Can it Scale Business as a Force for Good?
- Embrace
Speaker: Tomer Inbar, Patterson Belknap

Required Readings:


Session 7: Techniques for Financing Growth #1

Much of the discussion prior to this session will have focused on the use of external capital to fund the business expansion. This class will review how certain strategies can be employed to fund growth organically and the benefits and drawbacks of the approach. This may include spin-off products, consulting, up-front deposits and other techniques to fund working capital. Other methods such as partnerships with related entities can also provide resources to fuel business scale.

The case example is that of Blocpower, a social enterprise that has adopted a variety of financing techniques since inception. Materials issued in-class will be used to explore the various models of cash-generative.

Case:

- Blocpower

Speaker: Donnel Baird, Blocpower

Required Readings:


Session 8: Techniques for Financing Growth #2

In this second session to focus on techniques for financing growth the class will review crowdfunding as a useful tool to raise external capital for product development and to gain market traction. In defining the various types of crowdfunding, discussion will consider the benefits and drawbacks of each. This session will also review how businesses can falter as growth exposes underlying issues in the structure, make-up and governance.

The Biolite case is an excellent example of a business with impact focus. Our second case, E+Co, rounds out our examples of hybrid entities and the challenges that are experienced at a high growth rates.
Cases:

- BioLite: The Little Stove that Could?
- E+Co: A View from the Boardroom

Required Readings:


Session 9: Retaining Impact at Scale

As social businesses grow there can be increasing difficulty in retaining the dual focus on impact and financial return as the shareholder structure becomes more varied. Organizational and cultural challenges can affect how the impact is preserved and shareholder exits, gaining liquidity for investors, also present challenges for retaining the impact focus. Strategies to transition ownership to employees over time can be both an attractive option for founders and an effective method to sustainably compensate employees.

The well-known company Etsy and its status as a B Corp will be discussed. Our second case, SJF & Ryla, will explore how successful exits can occur and also consider how an employee ownership strategy could be employed.

Cases:

- Etsy: Keeping it Real By Keeping Taxes Low
- SJF Ventures & Ryla Teleservices

Required Readings:


Session 10: The Emerging Model of Social Impact Bonds

The Social Impact Bond has emerged as a potential financing structuring for helping scale effective and efficient non-profit enterprises. However, the model does present a series of challenges in structuring the investment and delivering the intended results.

This session will discuss the SIB model and using the Fresno Asthma case examine the difficulties that are experienced in implementing such projects. The format adopted will be an innovative class-wide debate centered on a single proposition around the long-term viability of the SIB model.

Case:
Fresno’s Social Impact Bond for Asthma

Required Readings:


Session 11: The Impact Investor Perspective

Extrapolating from the principles discussed throughout the course, this session will examine techniques for assessing Environmental, Social and Governance (ESG) factors that when integrated into investment analysis and decision making have proven valuable for identifying long-term value creation opportunities. Content covered will also include the new SASB standards for corporate reporting.

In closing out the session and the content of the overall class, we will discuss perspectives on how foundations and private wealth management contribute to the impact investing sector.

The ESG Metrics and Generation Investment Management cases will be discussed in class, to examine the general sector and the example of a major equity fund employing related principles and approaches.

Case:

- ESG Metrics: Reshaping Capitalism?
- Generation Investment Management

Speaker:  Preeti Bhattacharji, FB Heron Foundation

Required Readings:


Session 12: Group Presentations

The final session comprises of group presentations for business and investment strategies for various social enterprises chosen earlier in the course. Peer-to-peer grading will be carried out using a dedicated online platform during the class.