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Assessing the Social and Financial Impact of an Investment

A due diligence team, made up of members of the Social Venture Fund (SVF) at the University of Michigan's Ross School of Business, had completed its assessment of the innovative education startup LearnZillion, Inc. The team recommended to the SVF members and board that LearnZillion was worth investing in because it reasonably aimed to fulfill SVF's dual priorities of positive and meaningful social impact, as well as feasible and significant financial returns.

Now, looking forward to 2012 and beyond, the major questions for SVF included how much to invest, how and when success in social impact could be measured, and what was the realistic yet ideal balance of priorities between social and financial impact results. Additionally, to what extent could a rigorous predictive analysis be done before finalizing the terms of investment?

The Social Venture Fund's Approach to Impact Analysis

History of SVF

During the heart of the 2008 financial crisis, four students[i] from the University of Michigan's Ross School of Business gathered in a classroom armed with whiteboards and the optimistic belief that, even as the markets collapsed around them, financial returns could spark social returns as well.[1] Their "doing well by doing good" philosophy advocated that entrepreneurial companies could address social problems while also earning adequate profits.[2] In this view, the incorporation of social returns into an investment thesis did not represent a cost, constraint, or charity, but instead could be used as a competitive advantage.[3] Questions regarding priorities and the tension between profit and social good, however, needed to be addressed.

The University of Michigan offered support for what became the nation's first student-led impact investing fund and decided to locate it in the Zell Lurie Institute for Entrepreneurial Studies. In SVF's first year, student members focused on creating internal processes, recruiting other students, structuring

i Gilad Meiri, Michael Yifrah, Eric Rosenthal, and Luis Calderon.

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