UNIVERSITY OF GOTHENBURG

SCHOOL OF BUSINESS, ECONOMICS AND LAW

The Good, the Bad & the Ugly

- an exploratory study of impact investors' perceptions of impact, return and risk.

Master Degree Project in Marketing and Consumption
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Abstract: In consumer research, the decision-making process of ethical investors has foremost been studied in the context of ESG- and SR investments. However, little attention has been paid to the new breed of ethical investments; impact investments. Impact investments are characterized by a dual return of financial and sustainable nature, where the consumer invests in an impact organization due to its pro-social, or environmental, beliefs. The impact investor's investment behavior is however challenged by dimensions such as perceived risk, trust, financial return and perceived consumer effectiveness (PCE), presenting the impact investor with ethical dilemmas. The study at hand presents three themes of impact investors; *the Investing Philanthropist, the Experienced Investor* and *the Indecisive Investor*, each showcasing different perceptions of the risk-return-impact continuum associated with impact investments, resulting in a new terminology referred to as perceived impact risk.

Keywords: impact investor, consumer behavior, impact investing, ethical investments, SRI, perceived risk, trust, PCE, return, impact.

List of Abbreviations:
ESG: Environmental, Social and Governance investment.
GIIN: Global Impact Investment Network.
MFI: Microfinance Institute.
SR: Socially Responsible.
SRI: Socially Responsible Investments.
PCE: Perceived Consumer Effectiveness.

Ethical investors: Investors pursuing ethical investments.
Socially Responsible (SR) investors: Investors who have invested in SR- or ESG investments.
Impact investors: Investors who have invested in impact investments.

Introduction

The Evolution of Impact Initiatives

- "*Human-beings are much bigger than just a narrow moneymaking machine...*" (Muhammad Yunus, founder of Grameen Bank, in Forbes, 2008).

Disruptive business models, designed to socially or environmentally impact rural areas, were globally recognized in 2005 as the United Nations proclaimed it *The Year of the Microcredit*. One of the microcredit pioneers Muhammad Yunus, founder of the microfinance institute (MFI) Grameen Bank, developed a groundbreaking business model directed towards the bottom of the social pyramid. The business model allowed the poorest of the poor access to microcredits, with the goal of poverty alleviation. The initiative resulted in a global praising, and the entrepreneur was in 2006 awarded the *Nobel Peace Prize* (Clarkin & Cangioni, 2016; Hudon & Sandberg, 2013). This new entrepreneurial outlook on poverty alleviation challenges the previous philanthropic paradigm, where philanthropic initiatives were perceived as the solution to global inequalities. The entrepreneurial perspective suggests that the allocation of capital results in self-employment and local growth in rural areas, whilst attracting new organizations to enter rural markets (Armendáriz & Labie, 2011; Flynn, Young & Bernett, 2015).

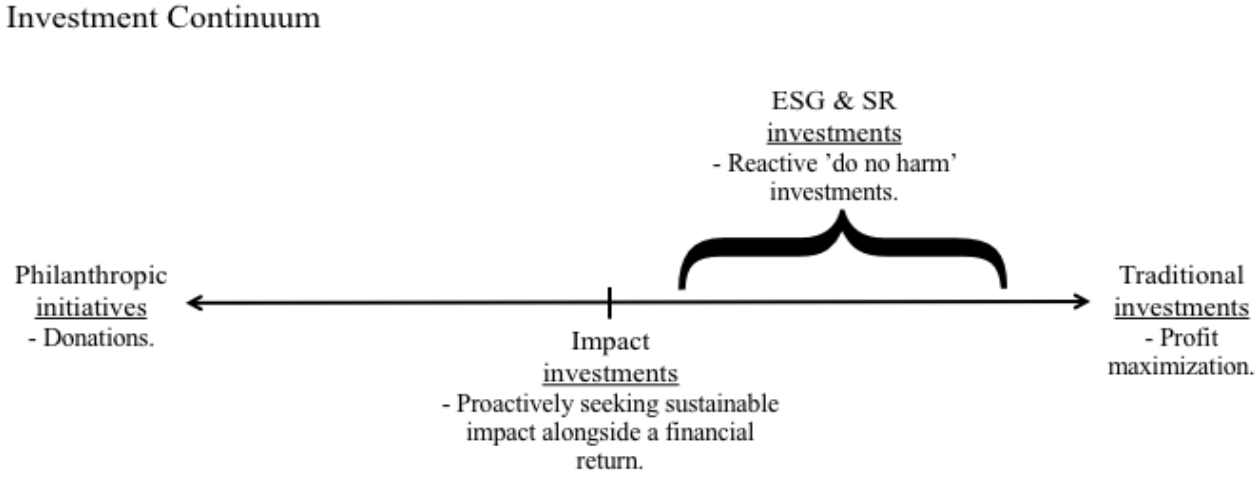
Ethical investing was popularized during the 1980's alongside the forthcoming of Corporate Social Responsibility initiatives. Rather than merely seeking profit maximization as offered by traditional investments, consumers started to demand investments of ethical character, resulting in the emergence of *Environmental, Social and Governance*- (ESG) and *Socially Responsible Investments* (SRI) (Flynn et al., 2015; Nilsson, 2008). These socially responsible investment alternatives allowed the investors to neglect ethically questionable investments, such as weapon or tobacco companies, and to select investments that has been labeled as 'ethical' by standardized measurements (Flynn et al., 2015; Lewis & Mackenzie, 2000). Although these investment alternatives present an opportunity of making ethical investments, scholars question socially responsible (SR) investors' intentions in the decision-making process (Lewis & Mackenzie, 2000; Sandberg & Nilsson, 2015), referring to SRI's as being reactive '*do no harm'*-, or '*feel good',* investments (Flynn et al., 2015). The criticism is foremost directed towards the passive nature of SRI's, where the invested capital rather makes an ethical statement than creating actual sustainable progress. ESG and SRI's revolutionized the financial market, as they facilitated consumers' ability to invest ethically. However, due to the reactive nature of SRI's, the morals of socially responsible investors have been challenged; *are you merely looking to avoid having negative sustainable impact whilst investing, or do you want to make a difference with your capital?*

Following the Year of the Microcredit, impact initiatives such as the Grameen Bank

further affected the financial sector, as a new ethical investment opportunity emerged during the 21st century; *impact investing*. Impact investments are "*Investments made into companies, organizations and funds with the intention to generate positive social and/or environmental impact alongside a financial return.*" (GIIN[1][1], 2017; Clarkin & Cangioni, 2016). Impact investments add an additional dimension to the traditional risk-reward spectrum, as the impact investor not only seeks a return on the invested capital, but also sustainable impact (Flynn et al., 2015; Emerson, 2003; Clarkin & Cangioni, 2016). This new breed of ethical investments differs from its precursors ESG and SRI (see Figure 1), as it allows the investors to translate the invested capital into a specific positive social, or environmental, cause; hence proactively seeking sustainable impact alongside a financial return (Flynn et al., 2015; Clarkin & Cangioni, 2016). Impact investing therefore presents the next generation of ethical investors who are looking to '*do well [financial return] while doing good [impact]*' (Sidgmore, 2014). However, due to its embryonic stage, the impact investing market has received lackluster attention in academic journals, whereas its precursors have been studied in different contexts since their emergence (see Nilsson, 2008; Sandberg & Nilsson, 2015; Lewis & Mackenzie, 2000; Rosen, Sandler & Shani, 1991). Therefore, additional exploratory studies of the phenomenon are of the essence.

Ethical Investment Behavior

Alongside the evolution of the risk-reward continuum with the addition of impact, Anand and Cowton (1993) pondered whether traditional economic theories, such as *utility maximization theory*; investing capital to maximize personal utility (as famously portrayed by Markowitz, 1952), are to be considered relevant in the context of ethical investments. Various scholars are questioning the investor's ability to rationally assess the presented risk, or financial performance, of an investment, due to mankind's subjective nature and bounded



(Figure 1: Investment Continuum. Inspired by Flynn *et al*., 2015).

rationality (see Simon, 1955; Weber & Milliman, 1997; Kahneman & Tversky 1979: 1992; Weber, Blais & Betz, 2002). Therefore, rather than focusing on the objective risk derived from the calculated variance, consumer research scholars prefer a relativistic philosophic standpoint including the terminology *perceived risk;* the investor's perception of '*... the uncertainty and adverse consequences*' of an investment (Dowling & Staelin, 1994, p. 119; Mitchell, 1999). The perceived risk is derived from the investor's perceived importance of loss as well as one's probabilistic estimates, reflecting one's level of uncertainty, i.e. *risk framing* (Conchar, Zinkhan, Peters & Olavarrieta, 2004). Perceived risk was introduced to the field of marketing in the 1960's, and has since made its way into consumer research studies (see Carlsson Hauff, 2014; Weber et al., 2002; Cho & Lee, 2006; Dowling, 1986), and is claimed to be an influential dimension in ethical investment behavior along with *perceived consumer effectiveness* (PCE) and *trust* (Nilsson, 2008). In its years in the financial marketplace, the annual reports of JP Morgan and GIIN (2014; 2015; 2016) have focused on the financial and objective dimension of impact investments. However, little attention has been paid to the behavioral dimensions of impact investors.

Ethical investments have received increased attention in academic literature, where scholars such as Nilsson (2008), Lewis and Mackenzie (2000), Renneboog, Ter Horst and Zhang (2008) and Anand and Cowton (1993), identified various dimensions affecting the ethical investment behavior. However, the common denominator of the highlighted research is that they were all studied in the context of ESG or SRI's, using a quantitative research approach. Further, much research has focused on SR investors' morals, and perceptions, of the completed investment. For instance, Lewis and Mackenzie's (2000) quantitative study analyzed the morals, and behavior, of ethical investing in the UK market. The findings implied that the investors used SRI's to clear their conscience, as most investors simultaneously had non-ethical investments with the sole purpose of profit-maximization (ibid). Although SR investors are portrayed as sustainable activists, most are unwilling to sacrifice financial return for a 'good cause' (Rosen, et al., 1991), presenting an intriguing *attitude-behavior gap* (Boulstridge & Carrigan, 2000). This discrepancy is further illustrated in JP Morgan and GIIN's 2016 survey, where 60% of the modern impact investors reported that they were looking for a risk-adjusted return, but that the impact investing market's lack of financial resources fails to present an appealing financial return. This phenomenon is highly interesting, as impact investors show tendencies of sustainable engagement, but simultaneously are unwilling to fully disregard the risk-return continuum in exchange for sustainable development. A qualitative study, exploring the impact investors' perceptions of the trade-off continuum risk-return-impact, could therefore start filling the existing research gap.

Research Purpose

Previous consumer research on ethical investments have primarily been conducted in a quantitative context of ESG or SRI's (see Nilsson, 2008; Sandberg & Nilsson, 2015; Lewis & Mackenzie, 2000; Rosen et al., 1991), where the investor's sustainable perceptions are described as driving forces for engaging in ethical investment initiatives. Although being labeled as sustainable activists, most ethical investors are unwilling to sacrifice financial return for additional sustainable development, due to behavioral dimensions such as perceived risk, perceived consumer effectiveness and trust (Rosen et al., 1991; Nilsson, 2008). The illustrated *attitude-behavior gap* (Boulstridge & Carrigan, 2000) further becomes an interesting topic in the context of the new breed of ethical investments; impact investments. The modern impact investor differentiates itself from its socially responsible precursors, as the impact investor proactively seeks financial return alongside positive impact (Emerson, 2003). However, the impact investor's decision-making process is yet to be fully explored, making it an intriguing topic for consumer research;

> *- The purpose of this study is to explore investors' perceptions of the trade-offs between risk, return and impact, in the context of impact investments.*

Background

The Impact Investing Market

Glancing at the risk-return-impact continuum, impact investors strive for *blended value* when conducting impact investments. Blended value recognizes that commerce, capital and community together can create more value when combined, than separated (Bugg-Levine & Emerson, 2011; Emerson, 2003). Rather than merely maximizing the financial return of an investment, impact investors look to maximize the sustainable impact in conjunction with the expected return. However, impact investors look for a competitive or minimum market-rate return (Saltuk, Bouri, Mudaliar & Pease, 2013), where at least the initial investment is expected in return (OECD, 2015). Although ethical investors showcase green and pro-social attitudes, the lower return of ethical investments is portrayed as a barrier for investors to transform their investment portfolio into becoming fully ethical (JP Morgan & GIIN, 2016; 2015).

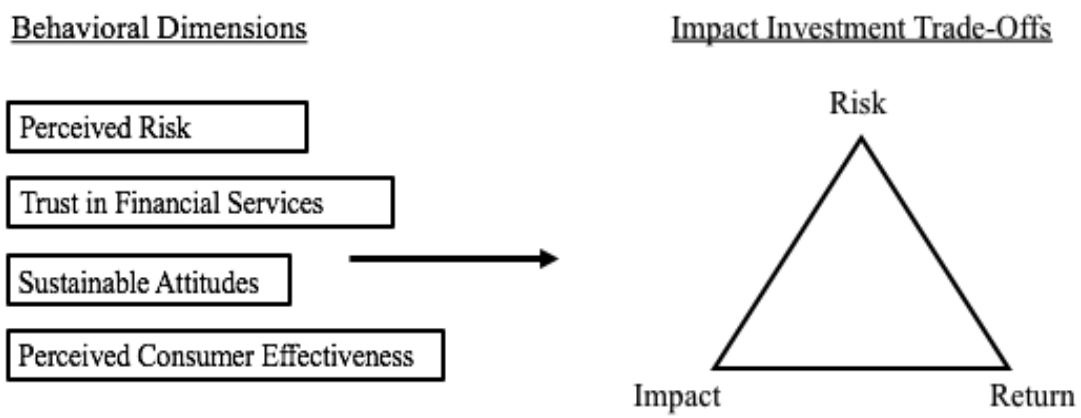
The impact dimension of the investment is a key component used to differentiate the investment category from its precursors ESG and SRI's (OECD, 2015; Flynn et al., 2015), as previous investment alternatives merely allowed the investors to neglect unethical, or questionable, investment opportunities rather than proactively seeking positive impact (see Figure 1). Being in an embryonic state, reports from JP Morgan and GIIN (2015; 2016) indicate that the impact investing market lacks historical market data, and to some extent, business model validation. The financial extent of the

global impact investing market is to this point yet to be determined, but in 2015, 156 fund managers reported that they managed impact assets of a total amount of $77,4 billion (GIIN[1], 2017; JP Morgan & GIIN, 2016). In 2014, 51 analyzed impact funds yielded a 6,9% annual return, as compared to an 8,1% annual return for traditional funds (Gregory, 2016). Further, in Lewis and Mackenzie's (2000) study, one out of five respondents found ethical investment riskier than ordinary investments, whereas JP Morgan & GIIN (2016) presented that nearly 60% of the survey's investors strived for risk-adjusted return. The remaining investors were willing to sacrifice a greater return for a greater cause. This is however contradicted by Rosen *et al.* (1991), who suggest that SR investors are unlikely to accept a lower return in exchange for a sustainable cause. Also, impact organizations use different metrics to measure the expected impact of an investment, which affects the investor's ability to assess the trade-offs between risk-return-impact of various impact organizations (ibid).

Lastly, the emergence of microfinance institutes has brought along distrustful players looking to make a fortune at expense of the poor located at the bottom of the social pyramid, by allowing credits with extreme interest rates (Hudon & Sandberg, 2013). Although disruptive business models possess the power to spread the world's welfare, organizations identify third-world markets as opportunities for organizational growth by exploiting consumers' trust and willingness to 'do good'. Even the microcredit pioneer himself, Muhammad Yunus, was forced from his position at the Grameen Bank being accused of "*... sucking blood from the poor in the name of poverty alleviation.*" (Bajaj, 2011), thus embodying the ethical crisis in the microfinance sector (Hudon & Sandberg, 2013).

Theoretical Framework

Due to the impact investing market's embryonic stage, this new breed of ethical investments is yet to be fully mapped in the academic field of marketing. Nilsson's (2008) quantitative ethical investment study explored socially responsible (SR) investors investment behavior. Being the precursor of impact investments, SRI's are described as '*do no harm*' investments, where the investor neglects unethical alternatives and rather seeks investment opportunities with minimal negative social, or environmental, impact. Thus, the investment category of SRI's differs from the 21st century impact investment category, as the latter involves investors looking to translate their invested capital into positive impact (Flynn et al., 2015; Clarkin & Cangioni, 2016). Further, Nilsson (2008, p.309) explored ethical investors' behavior using Social, Environmental and Ethical (SEE) factors, including *Pro-Social Attitudes, Trust* and *Perceived Consumer Effectiveness* (PCE) along with *Perceived risk*. The presented SEE dimensions are dominated by quantitative research, however, as no previous attempts have been made to explore investors' perceptions of impact investments, Nilsson's (2008) behavioral dimensions will be used as a frame of reference;



(Figure 2: Overview of Theoretical Framework)

Perceived Risk

Rather than focusing on the objective, or technical, dimension of risk, consumer research emphasizes the investor's perception of '*the uncertainty and adverse consequences*' of an investment (Dowling & Staelin, 1994, p.119), thus allowing subjective perceptions and feelings into the assessment process (Nilsson, 2008; Hansson, 2010). The perception of risk mirrors the investor's assessment of risk in conjunction with a risky situation where the outcome is uncertain (Sitkin & Weingart, 1995; Mitchell, 1999). The process of a risky choice includes two interconnected dimensions of perceived risk as presented in Dowling and Staelin's (1994) definition; an investment's uncertainty and its adverse consequences, where the expected outcome is unknown (Taylor, 1974; Cho & Lee, 2006; Sitkin & Weingart, 1995).

Kahneman and Tversky's (1979: 1992) *prospect theory* questions the previously recognized consumer research paradigm where '*utility is a concave function of money*' (p.264), by illustrating that the prevailing circumstances of a risky choice affects an investor's perception of risk. The theory suggests that the decision-maker is flawed by cognitive biases in conjunction with probabilistic alternatives involving risk, as it includes *decision weights,* i.e. preferences, in the risk framing process. The decision weights are used to justify the decision where the outcome is unknown (Kahneman & Tversky, 1992; Highhouse & Yüce, 1996). To determine the perceived risk, the individuals benchmark the loss versus gain of a specific investment, which are influenced by its adverse consequences, such as outcome history (Sitkin & Weingart, 1995). This implies that an investor's, for instance, previous investment experience, influences how (s)he, perceives the presented risk and evaluates the expected loss and gains (Dowling & Staelin, 1994; Kahneman & Tversky, 1979; Cho & Lee, 2006).

Weber, Siebenmorgen and Weber (2005) ponder whether the perceived risk of an investment shares certain characteristics of the ones proposed in traditional economic theories. As proposed by Markowitz (1952), the selection of a traditional investment is

based on the observations of a, for instance, fund's financial performance, along with the calculations of macroeconomic trends. However, as seen from a consumer research perspective, scholars argue that the setting of which the financial performance is presented, affects the investor's perception of risk due to its *bounded rationality* (Simon, 1955; Weber et al., 2005; Taylor, 1974; Sitkin & Weingart, 1995). Weber *et al.*'s (2005) experimental study in turn identified biases in the risk assessment process where an investor who recognizes the name of an alternative, or has an emotional connection towards it, is more likely to perceive the investment as less risky than an unknown investment; a so-called *home bias*. Thus, the name, as well as the contextualization of an investment, have the potential to affect the investor's perception of risk (ibid). The subjective notion is further strengthened as an emotional statement, in conjunction with risk, intensifies the perceived risk. A factual statement affects the investor less than an emotional one, which has practical implications, as most financial statements are restricted by law in how they must, or must not, be expressed (Weber, 2004; Carlsson Hauff, 2014). Therefore, from the perspective of socially responsible investors, one might wonder how the consensus of ethical investments as being *'*good*'*, affects the risk assessment of ethical investments.

Risk Propensity

As discussed by Kahneman and Tversky (1979: 1992), the subjective dimension of the investor's assessment of risk becomes a key aspect in the decision-making process. An investor's attitude towards risk is identified as an influential dimension in the risk assessing process (Nilsson, 2008). The risk attitude is referred to as *risk propensity,* and influences the investor's decision-making as it represents where the investor stands on the risk-taking or -avoidance spectrum (Conchar et al., 2004; Carlsson Hauff, 2014). Thus, risk propensity is "*... an individual's current tendency to take or avoid risk.*" (Sitkin & Weingart, 1995, p.1575).

Scholars question whether risk propensity is to be considered a constant, or a changeable, trait. Schubert, Brown, Gysler and Brachinger (1999) suggest that the individual's risk propensity is contextual. The context of the decision is processed prior the assessment of risk, which ultimately affects the individual's perception (Conchar et al., 2004). Therefore, Sitkin and Weingart (1995) suggest that risk propensity is to be looked upon as a *stable, but changeable* trait of the investor's attitude towards risk.

Trust in Financial Services

In consumer research, the perceived uncertainty of risky decision-making is correlated to an individual's experienced trust (Carlsson Hauff, 2014). However, Mayer, Davis and Schoorman (1995) question the causality between the two dimensions, wondering how they coexist; "*it is unclear whether risk is an antecedent to trust, is trust, or is an outcome of trust*" (p.711). Concerning the unsettled causal relationship, Carlsson Hauff (2014) adds in her study of the Swedish pension system,

that a higher level of trust leads to a decreased perceived risk, resulting in a more risk-taking behavior. Furthermore, trust has been defined by several scholars (see Morgan & Hunt, 1994; Mayer et al., 1995; Moorman, Desphandé & Zaltman, 1993), in which Arena, Lazaric and Lorenz (2006) derived three common denominators of;

- *a relationship where A is trusting B to complete C.*
- *B has power over A's outcome.*
- *A has perceived expectations of B's behavior.*

The relationship between trust and risk is characterized by uncertainties and knowledge asymmetry. Therefore, in credence service industries such as financial services, trust becomes increasingly important due to its intangible and risky nature involving monetary transactions (Mortimer & Pressey, 2013; Carlsson Hauff, 2014). As an attempt to reduce the perceived risk, investors value the relationship between themselves and the service provider (Sapienza & Zingales, 2011), where trusting investors tend to purchase riskier assets by relying on previous service experiences, called *experimental realism* (Hardin, 1993; Carlsson Hauff, 2014). Further, Mattilla (2001) suggests that a strong investor-service provider relationship compensates a poor service experience, such as a failed investment, and that trusting investors are more likely to stay with the service provider than non-trusting one.

Along the emergence of relationship marketing and CSR activities, consumers have become increasingly exposed to ethical product claims (Nilsson, 2008). Resulting in that modern organization's green marketing activities have established potential barriers of (dis)trust between the brand and the consumer. One of the greatest challenges associated with the impact investing market is how the expected impact ought to be measured (Flynn et al., 2015; Clarkin & Cangioni, 2016; JP Morgan & GIIN, 2016). Due to the lack of standardized measurement tools, impact organizations implement different calculations and measurements when portraying the expected impact of an investment (ibid), making it difficult for investors to evaluate the accuracy, and trustworthiness, of the impact estimations. Further, Nilsson (2008) suggests that the skepticism towards ethical claims influences the SR investor's willingness to invest in ethical funds, although (s)he finds the cause appealing. Therefore, one might wonder how the communicated impact of impact investments influences the trust and, risk assessment, of the impact investors, as well as their overall perceptions.

Sustainable Attitudes

Investors' attitudes do not necessarily reflect their actions, a phenomenon referred to as the *attitude-behavior gap* (Boulstridge & Carrigan, 2000). This gap highlights the discrepancy of an individual's positive environmental attitude and its unwillingness to invest in green funds. A SR investor is claimed to be an activist, where the ethical investment is considered an extension of one's perception of life (Rosen et al., 1991);

- "*... the top reasons these respondents [impact investors] allocate capital to impact investments are commitment as a responsible investor...*" (JP Morgan & GIIN, 2016, p.4).

Pro-social attitudes positively influence the investor willingness to invest in ethical investment opportunities (Nilsson, 2008; Lewis & Webley, 1994), simultaneously, the investor benchmarks the expected impact against the perceived risk and expected financial return of the impact investment (Emerson, 2003). Alongside the emergence of sustainable goods and services, the consensus was that consumer possessing pro-sustainable attitudes would per default prefer sustainable alternatives (Crane, 2000). However, although the investors showcase green and pro-social attitudes, the lower return of SRI or impact investments, as compared to traditional investments, is portrayed as a barrier for investors to transform their investment portfolio into becoming fully ethical (JP Morgan & GIIN, 2016; 2015; Lewis & Mackenzie, 2000), as the ethical investor is unwilling to sacrifice financial return for an ethical cause (Rosen et al., 1991). In contrast to traditional economic theories (e.g. Markowitz, 1952), where the investor looks to maximize its utility, impact investors look to balance the investment to have the most impact per invested unit (Emerson, 2003). When deciding upon what ethical investment opportunity to pursue, SR investors tend to use various strategies (Sandberg & Nilsson, 2015). *The philanthropic strategy* appeals to individuals that seem less interested in a higher return on their investment (Sandberg, 2008). The strategy corresponds to Flynn *et al.*'s (2015) belief that impact investors are a mixture of philanthropists and traditional return-seeking investors. According to Sandberg (2008); "… *the central issue is how they can make as much money as possible, money which they then can donate (parts of) to particularly effective social charities"* (p.32). Further, *the supportive strategy* is used by investors who look to invest their money in organizations, or funds, which they deem as exemplary and mirrors their sustainable beliefs (Sandberg & Nilsson, 2015).

In JP Morgan and GIIN's (2016) survey, most investors answered that the primary impact objective was either environmental or social, whereas merely 5% strived for both. This phenomenon corresponds to Bratt's (1999) theory, suggesting that the labeling of individuals possessing 'sustainable attitudes' is too broad of a categorization. Instead, the author suggests that individuals tend to care more deeply for niched dimensions in the broader definition. Furthermore, nearly 50% of the SR investors looks for a competitive or minimum market-rate, return (Saltuk et al., 2013), where at least the initial investment is expected in return (OECD, 2015). Thus, ethical investors do not merely seek profit or social impact, but rather both (GIIN [2], 2017; Emerson, 2003; Bugg-Levine & Emerson, 2011; Clarkin & Cangioni, 2016; Flynn et al., 2015).

Perceived Consumer Effectiveness

An ethical dilemma is associated with ethical investments, namely how investors

perceive their investments effectiveness. Investors' reasons to partake in ethical investments are commonly morally grounded, or derived from the belief that the investment is effective in terms of its expected impact, referred to as the *screening process* (Sandberg & Nilsson, 2015; Renneboog et al., 2008). This dilemma corresponds to the depiction of the investment categories SRI and impact investments. SRI's, or '*do no harm investments*' are portrayed as investment alternatives for investors looking to neglect unethical, or questionable, funds (Flynn et al., 2015). Cowton and Sandberg (2012) label such a perspective as the *moral purity perspective,* looking to clear one's conscience through SRI. Impact investments, however, are per definition made to deliver social, or environmental, impact. Sandberg and Nilsson (2015) therefore claim that the ethical investor use a screening process when deciding upon making an ethical investment, where the perceived effectiveness of the investment opportunity plays a pivotal role in the decision-making process.

Perceived Consumer Effectiveness (PCE) is an influential dimension associated with the decision-making process of sustainable goods and services (Antonetti & Maklan, 2013; Ellen, Wiener & Cobb-Walgren, 1991; Nilsson, 2008). The terminology mirrors the consumer's belief that one's actions can make a difference being a solution to a specific problem (Ellen et al., 1991, p.103). Sandberg and Nilsson (2015) suggest that the effectiveness perspective is associated to ethical investments, as certain investors believe that green investments ought to make a difference. However, as previously mentioned, investors' attitudes do not always reflect its actions (Boulstridge & Carrigan, 2000; Rosen et al., 1991), where PCE is said to be an explanatory dimension of the displayed discrepancy (Roberts, 1996; Nilsson, 2008). PCE reflects the belief that an environmental friendly, or pro-social, behavior will result in a positive outcome; thus presenting a trade-off between an action (e.g. a financial investment) and its expected impact, where the individual perceives him-, or herself as the solution of a problem (Ellen, et al., 1991; Kim & Choi, 2005).

Nilsson (2008) ponders whether the socially responsible attributes of ethical investments causes biases in the assessment of risk, questioning whether an ethical dimension increases, or decreases the perceived risk. Lord and Putrevu's (1998) study investigated whether the undertone of a message (i.e. positive or negative) would affect the decision-maker differently, depending on it being high-, or low-, PCE. For instance, a positive message resulted in positive beliefs and attitudes, ultimately affecting the low-PCE individual more. However, a positive message did not bring a sense of urgency, and the individual did therefore postpone the pro-environmental action (ibid). Further, much like the home bias as presented by Weber *et al.* (2005), CSR activities positively affect the consumer's assessment of a brand. In the context of ethical investments, it affects the investment's perceived financial performance (Nilsson et al, 2014; ClearlySo,

2011). As ESG investments are derived from various CSR measurements, it allows the investor to select, or neglect, (in)appropriate alternatives (Auer & Schuhmacher, 2015), where the expected impact of ethical investment opportunities is an important factor in the investor's decision-making process (JP Morgan & GIIN, 2016; Lewis & Mackenzie, 2000; Nilsson, et al., 2014). Nilsson *et al*. (2014) therefore wonder whether the positive associations of ethical investments ultimately affect the investor's assessment of the investment's financial performance.

Methodology

Methodology Selection

This study's exploratory nature, combined with the lack of academic research on impact investors behavior, made a qualitative *case study* suiting as a research methodology, as case studies look to explore the behavior of a group of individuals, or a specific phenomenon (Yin, 1981; Eriksson & Kovalainen, 2008)). Previous consumer research in the context of ethical investments have foremost used a quantitative research designs (see Nilsson, 2008; Weber et al., 2005, Lewis & Mackenzie, 2000; Renneboog et al., 2008), however, due the study's exploratory purpose, a qualitative research approach was selected. Qualitative research strives to create understandings of individuals' decision-making and actions, where the underlying perceptions and ideas of the studied phenomenon is of interest (Bryman & Bell, 2013). The study at hand could therefore be utilized as a springboard for future consumer research within the context of impact investments.

The presented study's theoretical framework is derived from Nilsson's (2008) study on ethical investment behavior. The derived dimensions were thereafter defined, and applied, in a qualitative context. Further, Dowling (2004) suggests that scholars studying decision-making terminologies, such as perceived risk, tend to use different variables measuring the same underlying construct. Therefore, Dowling (2004) states that the operationalization of the key concepts becomes increasingly important. Previous consumer research studies suggest that the assessments of ethical investments are affected by multiple factors (see Nilsson, 2008; Weber et al., 2005; Kahneman & Tversky, 1979; Carlsson Hauff, 2014). Therefore, Yin (1981) and Eriksson and Kovalainen (2008) suggest that a qualitative case study is relevant for studies looking to explore multiple dimensions within a specific context. Rather than measuring the investor's 'actual' behavior using a Likert-scale questionnaire, a qualitative consumer research study strives to explore the investor's behavioral aims (Young, Hwang, McDonald & Oates, 2010).

Another aspect to consider is the classification of case studies, where the literature distinguishes between *intensive* and *extensive* case study designs (Eriksson & Kovalainen, 2008; Bryman & Bell, 2013). The case at hand has the characteristics of an *intensive* case study and is found suitable due to its exploratory nature (Eriksson & Kovalainen, 2008). With its qualitative,

ethnographic and interpretative nature, the purpose of such studies is to explore the case from within, and to create an understanding from the viewpoint of the respondents. To learn how a specific case works, a thick and contextualized description of the case is needed, referring to the interpretation of the interviews to understand the underlying details and logic of the case and consumer actions (ibid).

Lastly, the presented study's research design is of qualitative nature, with a *subjectivist* interview approach, striving to capture investors' perceptions, viewpoints and understandings of the studied phenomenon (Eriksson & Kovalainen, 2008). The purpose of exploring investors' perceptions of the trade-offs associated with impact investments therefore makes interviews suitable as a research design (Bryman & Bell, 2013; Eriksson & Kovalainen, 2008). Semi-structured interviews are implemented to standardize the interview process, where each question is predetermined to capture a specified dimension within the study (ibid). Yet, the design leaves room for the interviewer, and the interviewee, to elaborate on the presented questions and answers (Eriksson & Kovalainen, 2008; Bryman & Bell, 2013). Each question of the interview guide is derived from, and inspired by, previous research within consumer research and impact investment surveys (see Appendix 1). The questions were thereafter rearranged and rearticulated to suit the research design.

Case Selection

To conduct the intensive case study, the Gothenburg based organization TRINE was selected. TRINE is an impact organization which allows individuals to invest in solar-energy projects in rural Sub-Saharan Africa, with a return on the initial investment. The organization was founded in 2015, and has ever since completed eleven projects[2] with hundreds of unique investors. The organization's CEO, Sam Manaberi, is a spokesperson of the coexistence between *people-planet-profit*, where; "*There's no shame in making money whilst saving the world."* (Sam Manaberi, found in Skarin, 2016). Conducting semi-structured interviews with individuals who have invested in one, or several, solar-projects, therefore provides an opportunity to explore the perception of the risk-return-impact spectrum in its proper context. Thus, TRINE enables an intensive case study as its investors are applicable to the studied phenomenon's definition.

Selection of Respondents

To ensure that the respondents were to be classified as impact investors, a quantitative pre-study questionnaire was developed (see Appendix 2). The questionnaire was influenced by previous studies within the field of impact investing (see JP Morgan & GIIN, 2016; ClearlySo, 2011), where the questions foremost concerned the definition of the studied phenomenon and individuals' perceptions. Thus, depending on the obtained answers from the pre-study survey, (in)appropriate interviewees could be derived. Further, the respondents were

[2] April, 2017

selected from the impact organization TRINE, both via their Facebook page and personal email contact. The sampling method is therefore to be categorized a *convenience sampling* (Bryman & Bell, 2014). The demographics of the respondents are illustrated in Appendix 3.

Interview Process

Throughout the study, eleven interviews were completed, where eight of the interviews were held online (Skype), whereas three were conducted in a physical setting in Gothenburg. Each interview was recorded with the interviewee's approval, where after they were all transcribed and analyzed. The average time for the interviews was ~27 minutes. Each interview followed a predetermined script which functioned as the core of the conversation. However, depending on the pace and depth of the interview, the structure of the questions could come to vary. As proposed by Eriksson and Kovalainen (2008), the questions were formulated so that the interviewee could elaborate on the subject and express what (s)he deemed important.

Seven out of the eleven respondents were of Swedish origin. Even though the majority of the respondents were Swedish speaking, all interviews, with the interviewee's consent, were conducted in English to avoid translational errors in the transcription process. Further, due to the financial nature of the investigated topic, anonymity became a determinant of trust between the interviewer and interviewee, as the deployed financial investment were considered confidential information. Therefore, in line with ethics in research practices (Eriksson & Kovalainen, 2008), all interviewees were given aliases to assure anonymity.

Data Analysis

To analyze the collected data, the qualitative data management system NVIVO was utilized. NVIVO allows the researchers to analyze, structure and categorize the collected qualitative data by uploading transcribed material into the software. As qualitative research is prone to receive criticism due to its subjective data management, NVIVO was utilized to identify connections and similarities in the gathered data, as well as strengthen the quality measures associated with the research design by adding a computer-aided dimension (Bryman & Bell, 2013; NVIVO, 2017).

The data was analyzed in two phases; data recognition and data interpretation. In the data recognition phase, the NVIVO tools '*Word count*', '*Word tree*' and '*Word cloud*' were utilized, identifying the interviewees most frequently used words (*investments* [481], *impact* [209], *think* [172] and *return* [145]). The data recognition tools allowed a clear overview of the obtained data. A similar technique was applied on each individual interview, deriving the most common keywords. In the phase of data interpretation, each interview was analyzed, and coded, using a subjectivist approach. A subjectivist analysis strives to capture how the respondent perceives the authentic experience, where the meaning of the spoken word is of the essence (Eriksson & Kovalainen, 2008). Using this analysis

method, three investor themes could be identified, expressing different perceptions of the completed impact investment. The themes were named; *The Investing Philanthropist, The Experienced Investor and The Indecisive Investor*. Prior to the sorting of quotes, definitions regarding each code and theoretical theme were developed. This process also created threshold criteria where certain quotes and topics were excluded based on judgements linked to the theoretical framework (Eriksson & Kovalainen, 2008).

Reliability

In qualitative research, the quality measure *reliability* analyzes the study's *dependability*, (Bryman & Bell, 2013). This quality measure concerns the study's transparency, along with the researcher's ability to logically present, and reproduce, the obtained information (Eriksson & Kovalainen, 2008; Bryman & Bell, 2013). Dowling (2004) elaborates on consumer research and its reliability, claiming that scholars tend to use different constructs measuring the same dimension. Therefore, due to its appearance in many different contexts and variations, most studies of perceived risk cannot be considered as strict replications, but rather imperfect replications (ibid). Further, as intensive case studies are unique in their research design (Eriksson & Kovalainen, 2008), the degree of replication, in terms of findings, is debatable. However, as seen from a methodological standpoint, the presented study is deemed replicable. The methodological approach is derived from previous research within consumer research and impact investments, where the analyzed dimensions were operationalized using definitions proposed by scholars with many citations (Google Scholar). However, as previously mentioned, the unique elements of the studied setting make the obtained results difficult to reproduce in different contexts. Furthermore, as stated in preceding paragraphs, the theoretical framework has been the guiding light in developing the interview guide as well as the interpretation of data. This process would refer to the quality measure of *conformability,* as the findings and interpretations are logically derived (Eriksson & Kovalainen, 2008).

Validity

The research *validity* questions the study's ability to capture, and reflect, the specific operationalized concepts. Qualitative research adapts the quality measure by using the terms *credibility* and *transferability*. These dimensions concern the study's generalizability and the level of certainty regarding one's claims (Eriksson & Kovalainen, 2008; Bryman & Bell, 2013).

A common misstep associated with consumer research studies on perceived risk is forgetting the context of the operationalization. For instance, Dowling (2004) stresses that a study looking to evaluate the decision-making process prior a decision, ought to be analyzed in a pre-decision context. Otherwise, the conceptualization might produce a sample selection bias, as the respondents cognitively suppress the perceived risk of the completed action to a justifiable level (ibid). However, due to the embryonic stage of impact

investing market (Clarkin & Cangioni, 2016), finding investors with the intentions to invest in future impact initiatives, is problematic. As an attempt to justify Dowling's (2004) criteria, the interview questions placed the respondents in a context where they had to elaborate on their decision for future investment opportunities.

Lastly, as stated by Eriksson and Kovalainen (2008), the focus of an intensive case study is not to find evidence transferable to different contexts. Instead, the authors suggest that the research design strive to examine, and understand, how the specific case functions and the underlying reasons behind it. Although the case of TRINE and its investors present a desired context, one cannot present the obtained result as absolute truths. The analyzed investment context is limited to a specific social, and environmental, cause (i.e. solar-energy, Africa), where scholars such as Bratt (1999) suggests that sustainable attitudes are complex and difficult to generalize to a wider audience. Therefore, one cannot assume that the perceptions of TRINE's impact investors are generalizable to the impact investing market in its entirety. However, due to the case study's exploratory nature, generalizable results were never intended as an indicator of research quality.

Methodological Challenges

One of the greatest challenges of the data collection process was to obtain a sufficient amount of respondent. Although TRINE agreed to provide interview objects, the willingness to participate was lackluster. Yet another challenge was the identification of 'proper' impact investors. By following the definition proposed by Clarkin and Cangioni (2016) and GIIN[1] (2017), one might derive what an impact investor's characteristics are. However, the conundrum is whether an investor is to be labeled an impact investor after completing merely one investment, or whether a certain percentage of one's investment portfolio ought to be impactful.

The fact that only one of the interviewees had English as their mother tongue could be a linguistic barrier. However, as previously stated, the interviewees agreed to conduct the interviews in English, and were also given the opportunity to explain and express themselves in Swedish if deemed necessary, to clarify certain statements.

Case Contextualization

TRINE is a Gothenburg based fin-tech startup organization founded 2015. The organization allows consumers to invest (a minimum of €25) in solar-energy projects in rural Sub-Saharan Africa, with a return on the investment. Currently, TRINE has completed eleven solar projects, ultimately empowering ~98.000 people to escape energy-poverty. The business-model of TRINE makes the organization an intermediary between the impact investors and the solar-energy partner, where TRINE becomes a crowdfunding platform allocating the capital of impact investors to a solar-energy partner in Africa (TRINE, 2017). Thus, TRINE themselves do not directly install, or sell, the solar-energy goods, but rather act as a microfinance institute (MFI).

TRINE launched its first campaign in Sidonge, Kenya, in November 2015. The solar-energy partner, RVE.SOL, received a €30.000 microloan with a 2,66% expected annual return from 16 unique investors. The investments are calculated to impact 250 people, reduce 146 tons of CO2 emissions and be fully repaid within five years (TRINE, 2017). The impact organization presents the *expected annual return*, *expected social* and *environmental impact* as well as *project risk* for each investment opportunity, where each project differs in its characteristics. Lastly, in 2016, the impact organization's project in Nakuru, Kenya, failed; affecting 136 unique investors of a total €80.000 credit. However, after a period of time, TRINE fully refunded the investors of the failed project (TRINE, 2017).

Risk

For each solar-energy project, TRINE presents the risk associated with the investment opportunity, highlighting the risk of entering emerging markets, project insolvency, currency fluctuations and force majeure. Before granting a microcredit to a solar-energy partner, TRINE conducts a due-diligence process to assess the project risk, analyzing the potential partner's financial- and organizational strength, track record, technology and country profile. After assessing the potential projects situation, TRINE rates the project from A (low risk) to D (higher risk). Further, certain projects are presented with risk-reducing Catalytic First-Loss Capital. Such investments opportunities are supported by external parties, who looks to secure 50% of a potential loss (TRINE, 2017).

Return

Each project differs in its expected return as well as duration (i.e. estimated repayment time). Some projects are short-term investment opportunities, lasting for one year, whereas others are mid- to long-term lasting for up to five years. The average expected annual return for the ten investment opportunities is 5,33%, which is just shy of general market performance (~6,9% annually), (Gregory, 2016). Much like traditional economic theories suggest, the return of each investment opportunity at TRINE is derived from the presented risk (TRINE, 2017). Although the organization has completed ten solar-energy projects, the business-model of TRINE is yet to be fully validated. The microloans are still to be fully re-paid by the solar-energy partners, meaning that, to date, the investors have merely received return on the investment, but not been fully repaid.

Impact

For each investment opportunity, TRINE presents the expected social impact (the expected number of people provided with solar-energy) as well as the expected environmental impact (replacing fossil fuels with sustainable energy). There are multiple factors affecting the expected impact of a project. Depending on the project's duration, characteristic and size, the expected impact differs (TRINE, 2017). However, TRINE does not communicate how the estimation of an investment's social impact is calculated on the organization's website. Instead, the

organization presents narratives of each projects, describing how the access of solar-energy would change the life of the people in rural Africa from the perspective of the local population.

Analysis

The analysis of the obtained empirical data resulted in the derivation of three unique impact investor themes. The three themes were named; *The Investing Philanthropist, The Experienced Investor* and *The Indecisive Investor* to communicate the theme's underlying perceptions of the explored risk-return-impact continuum.

The Investing Philanthropist

- "*I have always been interested in sustainability issues. One might even call me an environmental activist.*" (Berit).

Risk

When addressing risk, the investors expressed such a high level of risk propensity, that one could refer to the perceived risk as being next to nonexistent. Rather than elaborating on the financial risk, the Investing Philanthropists addressed the risk being the fear of excluded sustainable impact. A potential lost financial reimbursement was completely disregarded, and the loss was rather portrayed as a failed opportunity to improve the world's well-being. Therefore, in the case of the Investing Philanthropist, the risk was overpowered by the perceived effectiveness of the impact investment;

- "*I decide that something is interesting, that I can lose this money, and that it is fine... The risk does not really matter.*" (Maria),
- *"At the certain moment I fully expect some of the investments to go rotten and that is ok. I am not in it for the money."* (Christian).

Kahneman and Tversky (1979; 1992) suggest that an individual's perceived risk affects the decision-making process. However, in the context of the Investing Philanthropist, the risk associated with the investment had a reversed influence on the impact investor's risk perception, where the riskier the investment opportunity, the more impact would (potentially) be generated. The pro-social decision weights in the decision-making process therefore affected the impact investor's risk assessment (Kahneman & Tversky, 1992; Highhouse & Yüce, 1996) to such an extent that the perceived risk was entirely neglected. One might wonder whether sustainable initiatives such as impact investments create powerful biases in the risk-assessing process, due to its positive emotional connections (Weber et al., 2005), making the entire risk dimension less significant in the decision-making process. Maybe, the perceived positive impact triumphs the uncertainty and unknown consequences of the investment, where the PCE of these investors is a driving force in the decision-making process.

Further, the Investing Philanthropists display a strong belief in impact initiatives. Although the investors disregarded the financial risks of the investments, one might

wonder how failed projects might reflect the trust between the impact organization and the investor. The correlation between trust and risk therefore becomes an interesting dimension for the Investing Philanthropist, where the PCE triumphs the perceived risk of the investment and results in a trust in the impact initiative. But if the impact fails, it could result in a distrust towards the impact organization or even the microfinancing market in its entirety.

- "*[My biggest concern is] that the people that are supposed to be impacted do not get the impact that is foreseen. Which means that if you tell a person that we're collecting a lot of money in the western world to give you a healthier light system, and it does not come true, is my biggest concern. That the promise does not materialize.*" (Eric).

Return

The investments of the Investing Philanthropists are extensions of their sustainable lifestyle. The dimension of impact is critical for the investors, whereas the expected financial return is an irrelevant dimension in the decision-making process, as they are not in it for the money. The Investing Philanthropist corresponds to Sandberg's (2008) portrayed philanthropic investment strategy, where investors are less intrigued by receiving a financial return on the investment. However, unlike Rosen *et al.* (1991) and Emerson (2003), the Investing Philanthropists are willing to sacrifice financial return in exchange for impact, and do not necessarily strive for blended value;

- "*Even though I don't hope for any return as such, I hope for the impact to become reality. Which means that my primary return is quantified by impact.*" (Eric).

The investors have further abandoned traditional philanthropic initiatives, such as charity, due to the distrust towards philanthropic organizations. They find traditional charity organizations outdated, but simultaneously disregard, and neglect, the dimension which characterizes the new breed of sustainable business models; the financial return alongside sustainable impact.

Lastly, even after reviewing the investors negative perceptions of financial return, one might question whether these investors are to be categorized as 'true' impact investors. The definition of impact investments suggests that financial return is a key dimension of the impact initiative; *investments made into companies, organizations and funds with the intention to generate positive social and/or environmental impact alongside a financial return.*" (GIIN[1], 2017; Clarkin & Cangioni, 2016), making it difficult to define the investing philanthropists, as their actions and perceptions are placed in-between impact investments and philanthropic initiatives.

Impact

Although the Investing Philanthropists deem the financial return unnecessary, the investors showcase a strong belief in that the investment would generate positive sustainable impact (PCE). The expected impact is the absolute cornerstone of the decision-making process, where the most impactful project is selected, no matter the perceived risk or return. The Investing Philanthropists present a high PCE, where the invested capital is perceived as a strong difference-maker, ultimately correcting the world's inequalities (Antonetti & Maklan, 2013; Ellen et al., 1991);

- *"... the investment will make more families have a better life, just like ours. That the children can go to school and develop themselves and that they can put their efforts into other things that we in the developed world take for granted. Like their health."* (Christian).

Unlike the findings of JP Morgan & GIIN, (2015; 2016), the Investing Philanthropists do not look to invest primarily for social or environmental reasons, but rather both. These investors are determined that their investments would make the world a better place for everyone.

The Experienced Investor

- "*The people living in the community obviously have had a change in life due to the money we have invested, but I also get something back.*" (Simon).

Risk

The Experienced Investors are aware of the potential consequences of a failed project. Yet, the perceived risk is considered feasible due to the received blended value of financial- and impactful return. Unlike the Investing Philanthropists, the financial return of the impact investment is perceived as a key component in the decision-making process, where the impact dimension differentiates impact investments from previous investment opportunities, making it a crucial aspect to the impact investment concept. However, the expected financial- and impactful return must triumph the perceived investment risk;

- "*… as an investor I probably would not want it to be much riskier and I think that if it was, I would expect a higher return. So, if they were to offer a project with 10% return with an E rated risk, I would consider that, but it would have to pay off. If it were a 5% return with an E-risk I would probably pass on that and wait for the next one*." (Justin).

According to Rosen *et al.* (1991), ethical investors tend to be unwilling to sacrifice financial return for additional impact, resulting in a attitude-behavior gap. On the contrary, Nilsson (2008) suggests that SR investment behavior is influenced by the investment's perceived financial performance along with its perceived effectiveness, where investors are not only investing for egocentric gain (financial), but also altruistic (sustainable impact). This niched category of 'do good' investors

(Sandberg, 2008) demonstrates complex trade-offs between the potential dual return associated with impact investments. Therefore, one might wonder how the Experienced Investor defines blended value, and *to what extent one is willing to sacrifice financial return in exchange for increased impact*?

Return

The Experienced Investors express positive attitudes towards sustainable initiatives as well as a willingness to convert the investment portfolio into becoming purely impactful. The investors have previous experiences in traditional investment markets, where the pursuit of financial return in combination with proactive sustainable investments were desired;

- "*I have some funds and pension in Australia and I was looking for something like this, but in the past looking at the sustainable investment options there would only be 'do no bad' options available.*" (Justin).

Following the emergence of the impact investing market, the Experienced Investors could transform their non-impactful, or even unethical, portfolio into a desired ethical state. Furthermore, the investors perceive the financial performance as weaker than traditional funds, but the lesser financial return is compensated by the investment's expected impact, which generates additional value. This mindset contradicts the JP Morgan and GIIN (2015; 2016) findings, claiming that the weaker financial performance of the impact investing market is a barrier for establishing fully ethical portfolios. These investors illustrate complex trade-offs between risk-return-impact, where the three dimensions coexist. Emerson's (2003) notion blended value highlights the impact investor's portrayed pursuit of additional value, which traditional investments are unable to produce. A definition which seems highly applicable on this investment category as the investments are perceived to yield a dual return of financial- as well as impactful character.

Impact

Striving for blended value, the Experienced Investors are looking to make money out of the solar investments, whilst simultaneously having a sustainable impact. However, it is difficult to say in what perceived order these dimensions are placed in the decision-making process. The addition of impact to the classic risk-return continuum is perceived as an opportunity to re-define the impact investor's investment portfolio, making it more ethical and mirroring one's sustainable beliefs;

- *"I think that by, let us say leading by example, it is possible to change the world and also make or create awareness of important issues and also make other people interested in these issues."* (Jonas).

The opportunity to make impactful investments is perceived as a great leap from being a primarily monetary driven investor, to becoming an ethical one. The expected impact does therefore bring additional value to the investor, as impact investments

generates a value which traditional investments are unable to produce (Flynn et al., 2015). The new investment opportunity is further perceived as more effective than traditional donations, as it looks to generate positive social impact, rather than minimizing negative outcomes. Thus, impact investments are perceived as proactive.

The Indecisive Investor

- *"I heard about it from a friend, and it sounded very good so I wanted to try it out"* (Peter).

Risk

The relationship between risk and trust becomes an interesting topic in the context of the Indecisive Investors. Scholars suggest that the two concepts interplay, where a trusting investor is more likely to invest in risky alternatives than non-trusting investors (Carlsson Hauff, 2014; Mattilla, 2001). The investors perceived the risk of investing in TRINE as a potential barrier for additional financial commitment, due to its yet invalidated business model. The uncertain outcome of the investment thus influence the indecisive investors to become more cautious in their decision-making (Taylor, 1994; Cho & Lee, 2006; Sitkin & Weingart, 1995; Arena et al., 2006), although the business model itself is perceived as revolutionary and intriguing. However, the investors were aware of the consequences of a failed investment, and reduced the perceived risk by claiming that the investments were completed due to a 'good cause'; being placed in a portfolio with a solely sustainable purpose. Much like Nilsson *et al.*'s (2014) theory of an ethical investment creating biases in the assessment of its financial performance, one might wonder whether these investors are using this strategy to rationalize the perceived risk by categorizing the financial commitment as expendable, due to its stated sustainable purpose. However, if the investment would not be reimbursed, the investors would not commit to future impact investments in TRINE;

- "*If the investment fails, I will not invest again. But if it works, I will invest more money into different projects. As long as you get your initial investment back!*" (Peter).

Furthermore, the future validation of the impact organization's business model becomes a key aspect, where the Indecisive Investors (dis)trust the organization's ability to fulfill the promises of impact and financial return (Arena et al., 2006). Using the literature on risk and trust, it is difficult to distinguish the notions from one another in the context of impact investments. Both concepts are defined by the common denominator of an 'uncertain outcome', where the investor questions the impact organization's ability to perform the promised action, ultimately influencing its perceived risk and decision-making (Arena *et al.* 2006 & Dowling & Staelin, 1994).

Return

The Indecisive Investors have a somewhat peculiar relationship to the investment's financial return. As previously mentioned, the investors justify the investment due to its

ethical cause. Simultaneously, the investors (at least) want the initial investment back if the project would fail. Such behavioral gaps are traits which characterizes the Indecisive Investor, making him, or her, ambiguous. The Indecisive Investor looks for business model validation, so that one can evaluate and plan for future impact investment opportunities. Further, the financial performance of the investment is therefore perceived as being of secondary nature in the initial investment phase, as the investor's portfolio is not of financial character. Instead, the investors have developed an additional portfolio, with the sole purpose of financial prosperity;

- *"I have an additional investment portfolio. In this portfolio, the financial return and risk are the only two aspect I consider. This is where I want to make my money. In the ethical portfolio, I am less eager to make money and strive for positive impact, but I do not want to lose my investments. But in the financial portfolio, of course I want a good return on my investment."* (Alexander).

The relationship between risk and financial return is thus a conundrum. On the one hand, the investors are risk avert, looking to validate TRINE's business model before committing additional financial resources. Simultaneously, the investors are aware of the risks involved, and realize the risk of losing the financial investment. However, this risk is rationalized as the investment is made for a 'good cause', and placed in their non-financial investment portfolio.

Impact

For the Indecisive Investors, the dimension of impact is perceived as a primary factor when conducting impact investments, due to the portfolio's sustainable nature;

- "*I tried to influence my friends to do ethical investments, but they did not seem to share my vision for it. I was very puzzled. They did not really understand how it worked, that it seemed risky and they did not see how their money could be translated into real impact.*" (Alexander).

However, unlike the previous investor categories, these investors sustainable attitudes rather reflect a 'do no harm' mindset, like SRI investments where the investors are looking to avoid unethical investment opportunities (Flynn et al., 2015; Nilsson, 2008). Rather than expressing the benefits of the addition of solar energy in rural areas, the indecisive investors see the investment as an opportunity to make an ethical investment, or even a way for carbon-offsetting.

One might question whether these individuals are aware of the sustainable effectiveness the investments offer (Kim & Choi, 2005; Antonetti & Maklan, 2013; Nilsson, 2008), or whether the investment decision foremost is morally grounded (Sandberg & Nilsson, 2015). The presented dilemma of moral and sustainable effectiveness becomes problematic in the context of impact investments, as the

subjective characteristic of PCE allows the consumer to individually determine how a problem ought to be solved; "*Perceived consumer effectiveness is [the] belief that the efforts of an individual can make a difference in the solution to a problem*." (Ellen et al., 1991, p.103). To some, the investment ought to empower people to escape energy poverty (altruistic attitude), whereas others look to reduce their negative sustainable impact to reach a state of personal well-being (egocentric attitude).

Summary of Trade-Offs

	Investing Philanthropist	**Experienced Investor**	**Indecisive Investor**
Risk	Close to non-existent, as seen from a financial perspective. However, the investors expressed concerns of the risk of excluded impact.	The risk is a function of impact and return. If the investment is perceived not to yield the desired blended value, the investment will not be pursued.	High perceived risk. However, the risk is rationalized using different investment portfolios. Losing money in the ethical portfolio is justified by its 'good cause'.
Return	Unnecessary or even undesired in financial terms. The investors did not want the end-consumer in the bottom of the pyramid to finance his, or her, return.	A crucial tool for creating a sustainable economic eco-system. Willing to sacrifice some financial return in exchange for additional impact.	Return on investment works as a business model validation. Crucial for future impact investments. However, the financial return is of secondary nature due to the portfolio's ethical cause.
Impact	Key determinant in the decision-making process. Triumphed risk and return as a decision weight.	The impact dimension makes the investment category appealing compared to previous investment categories, as it presents the investors with blended value.	The investors perceived impact as an opportunity to clear one's conscience. Yet, the PCE of the investment was high.

Across all three investor themes, the perceived efficiency (PCE) of the investment was an influential decision weight. Rather than expressing concerns of losing the financial commitment, most investors expressed the worst-case scenario being the exclusion of sustainable impact. Meaning, the PCE of the impact investment is challenged by the perceived risk of not obtaining the desired sustainable impact. Apart from an impact organization's invalidated business model, one might wonder whether the displayed perceived risk of excluded impact is derived from a distrust towards the impact market in its entirety, like the portrayed ethical crisis in the microfinance sector. Hudon and Sandberg (2013) claim that disruptive business models have brought along unethical players, who are looking to make profit on the expense of the poor. Much like the ethical crisis in the microfinance sector, the Philanthropic Investors express a dissatisfaction with the potential financial return of the impact investments, derived from the fear of exploiting the end-consumer's inferior financial position. Using this mindset, the investors are questioning the differentiating attribute of impact investments; the ability of 'doing well (financial return) while doing good (impact)'. In contrast to the Philanthropic Investor, the Experienced Investor deemed the financial return of the impact investment as a critical decision weight in the decision-making process. Simultaneously, the Experienced Investor valued the impact dimension highly, presenting a perception similar to Emerson's (2003) notion blended value.

The impact investors displayed various perceptions of the financial return, resembling Sandberg and Nilsson's (2015) research on ethical investors moral preferences, where investors are said to strive for either moral purity (egocentric gain) or sustainable effectiveness (altruistic gain). However, Sandberg and Nilsson's (2015) study is conducted in the context of SRI's, meaning that the investment's effectiveness is of reactive nature, as compared to impact investments proactive nature (Flynn et al., 2015). In the context of impact investors, the PCE of the investment was considered the differentiating factor in the decision-making process, as no other investment alternative could produce a similar blended value. However, an ethical dilemma presents itself, as the two dimensions associated with blended value (impact alongside financial return) collide. As portrayed by the Investing Philanthropists, an impact investment with an appealing financial return alongside a lackluster impact could be perceived as unethical, as the investor's egocentric mindset overpowers the altruistic dimension of impact. The Investing Philanthropist questions the intentions of monetary driven investors, such as the Experienced Investors, where the financial return is perceived as a key decision weight. The impact investment's perceived financial return therefore plays a crucial role in the ethical dilemma, presenting a conundrum in terms of the trade-off between financial return and sustainable impact; *how much impact could an impact investor trade for financial return, and still label the investment as sustainable*? The trade-off between the two

dimensions could arguably come to determine the impact investor's perceptions in the decision-making process.

Conclusion

The addition of impact to the traditional risk-return continuum affects the decision-making process of modern impact investors, where the PCE of the investment becomes a key decision weight. The low, or even non-existent, perceived risk, is derived the investors strong underlying pro-social attitudes. The investor's willingness to 'do good', along with its high sensed PCE (Nilsson, 2008), overpowers the perceived risk of losing the invested capital (Kahneman & Tversky, 1992). Hence, the PCE of making impactful investments in rural areas affects the perceived risk, as the sensed sustainable benefits become an influential decision weight in the risk assessment process. Further, the high risk propensity, and low risk assessment, is justified by labeling the investment as ethical. Although most investors (at least) want the initial investment reimbursed, the perceived risk of losing the committed financial assets is diminished by using 'feel good' methods, similar to Cowton and Sandberg's (2012) moral purity perspective. The investors assess the invested capital as expendable, due to the investment's sustainable nature. Using this technique, the impact investors justify a risky impact investment, as the capital could have a positive sustainable outcome in areas where it is needed the most. Thus, the high PCE, along with the perception of the financial commitment being expandable due to its noble cause, diminishes the investor's perception of risk, making the investment's sustainable impact a key decision weight.

Rather than expressing concerns of the investment's financial risks, most investors question the impact organization's ability to secure, and deliver, the investment's estimated impact. Therefore, one might wonder whether the investors are more concerned of the investment's expected impact, i.e. its effectiveness, than its expected financial performance. As suggested by Nilsson (2008), modern consumers are daily harassed by organizations making environmental claims, ultimately affecting the trusting relationship between the two parties. However, modern consumers are more likely to pursue ethical investments if the investments are perceived as a solution to a sustainable problem (ibid). The relationship between the SEE (Social, Environmental, Ethical) dimensions trust, perceived risk and PCE therefore becomes an interesting aspect in the context of impact investments, as the impact organization, in a trustworthy manner, must communicate the investment's expected effectiveness. Although the investors perceive the investments as extensions of their sustainable beliefs, TRINE's yet invalidated business model makes the investors hesitant to transform the investment portfolio into becoming fully impactful, as they express concerns of the impact organization's trustworthiness and the ability to fulfill its stated obligations. This phenomenon contradicts previous findings in the context of SR investments, where the perceived risk was assessed as lower than in the context of traditional investments, due to SR

investments positive associations (Lewis & Mackenzie, 2000). Therefore, a new terminology is presented in the studied context; *perceived impact risk*. This notion is a mixture of PCE, perceived risk and trust, which to date is lacking in modern consumer research literature. The perceived impact risk is derived from investors resembling the Investing Philanthropist and the Indecisive Investor, whose underlying sustainable perceptions are driving forces in the decision-making process, but are yet uncertain of the impact organization's credibility. The terminology therefore suggests that the perceived risk is not of financial nature, but rather a sensed risk of excluded sustainable impact from a failed impact investment.

Lastly, the broad definition of the notion impact investments suggests that the action of investing into an impact organization is the defining factor (Clarkin & Cangioni, 2016; GIIN[1], 2016); meaning that an investor merely have to invest in an impact organization once in order to be categorized as an impact investor. The prevailing definition thus neglects the investor's underlying pro-sustainable perceptions, consequently making it easy for one to be become an impact investor. The identification of a 'legitimate' impact investor therefore becomes problematic, as no additional criteria than the action of one impact investment is needed. The impact investing market thus replicate a similar crisis as the one portrayed in the microfinance sector itself (Hudon & Sandberg, 2013), where individuals can exploit the social development of rural areas for personal economic gain, in the name of poverty alleviation. An ethical dilemma is therefore presented, where the investment category's differentiating dimension of sustainable impact is diminished in relation to the egocentric dimension of financial return.

Contributions

Theoretical Contributions

The research on consumer behavior in the context of impact investing has been lackluster. Therefore, the findings of the presented study are of exploratory nature, which could be of use in future research. The study presents different perceptions of the trade-offs associated with impact investments, being portrayed using three investor themes; *The Investing Philanthropist, The Experienced Investor* and *The Indecisive Investor.*

Further, a new terminology is presented, which to date is missing in modern consumer research; *perceived impact risk.* The notion mirrors the sensed risk of excluded impact, derived from potential poor prevailing market circumstances, or the distrust towards an impact organization's ability to perform its stated obligations. Excluded impact was portrayed as the '*worst-case scenario*' for many impact investors, whereas the perceived risk of financial loss often was justified due to the investment's stated noble cause. Therefore, future research could analyze the proposed terminology, as the impact dimension is perceived as a key component in the investor's decision-making process.

Practical Contributions

For impact organizations looking to attract ethical investors, this study's contributions suggest that the perceived risk of excluded impact and organizational trustworthiness are two important aspect to take into consideration when designing one's communication strategy. The consumer's inability to verify the investments impact creates uncertainties and an increased perceived risk. This potential barrier of perceived risk and distrust can therefore be reduced by implementing tools such as 'user stories'; illustrations of how the individuals are being positively affected by the impact initiatives. By doing so, the investors can follow the progress of additional investments whilst getting the opportunity to assess the investments sustainable effectiveness.

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Appendix

Appendix 1 - Interview questions;
https://drive.google.com/open?id=17f7PT6XWcckvbq1mQUtOz257bnnOjegOFfcLFuCMf2o

Appendix 2 - Pre-study questionnaire;

https://drive.google.com/open?id=13dfQ48j9sfw1JA1MWdYaEam7bTnZ36Pdnbjb9OFLGug

Appendix 3 - Respondents

Name of Interviewee(s)	**Type of interview**	**Nationality**	**No. of TRINE investments**
Maria	Physical meeting	Swedish	1
Eric	Skype	Swedish	3
Jonas	Skype	Swedish	4
Daniel	Skype	Swedish	3
Christian	Skype	Dutch	3
Alexander	Skype	Russian	1
Peter	Skype	Norwegian	1
Niklas	Skype	Swedish	2
Simon	Skype	Swedish	1
Berit	Physical meeting	Swedish	1
Justin	Physical meeting	Australian	7