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Does Impact Investment remain a niche market in the future?

An empirical study in Germany and Portugal

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Abstract

The purpose of this dissertation derives from the fact that the market for impact investing has recently not met its anticipated growth expectations. In order to scale from a niche to a mass market impact investing also needs to attract retail investors, since additionally demand for impact investing is driven from the bottom up. Thus, for the market to evolve to a mass market in the future the following question arises: What majorly impedes future retail investors from consideration? In order to answer this question an empirical study was conducted in Germany and Portugal with students as a proxy for future individual investors. The study strives to examine the perception of impediments of impact investing defined in the general literature alongside three dimensions: financial return, social return and market infrastructure. The main findings of the study are that there is an indication for a shift in mind-set regarding financial profitability of social enterprises as well as objectives of investment towards social impact. This perception is not dependent on whether sample respondents have had previous investment experience or not, thus supporting the conclusion. Although future investors are willing to trade of financial return for social impact, measurement and accountability still follow traditional return logics. There is a high need for standardized measurement and demonstration of impact achieved. In addition, the perception of challenges of II was found to vary across national boundaries.

Resumo

O propósito desta dissertação prende-se com o facto de que o mercado de investimentos de impacto não tem vindo a refletir às expectativas de crescimento previstas. Para crescer de um nicho de mercado para um mercado em massa, o investimento de impacto deverá atrair investidores de retalho, dado que a procura acrescida de investimento de impacto é impulsionada de baixo para cima. Assim, para este mercado evoluir para um mercado em massa, a seguinte questão coloca-se: O que impede de forma significativa investidores de retalho de o considerarem? De forma a responder a esta questão, foi levado a cabo um estudo empírico com estudantes na Alemanha e em Portugal como um indicador para futuros investidores individuais. O estudo procura analisar a perceção dos entraves do investimento de impacto definidos na literatura, bem como em três dimensões: retorno financeiro, retorno social e infraestrutura de mercado. As principais conclusões do estudo são que há uma indicação para uma mudança na mentalidade relacionada com rentabilidade financeira das empresas sociais, bem como com os objetivos de investimento para o impacto social. Esta perceção não depende do facto de os inquiridos terem tido uma experiência de investimento anterior ou não, corroborando assim a conclusão. Muito embora futuros investidores estejam dispostos a comprometer o retorno financeiro pelo impacto social, a medição e a

responsabilização seguem as lógicas de retorno tradicionais. Há uma grande necessidade de medição padronizada e demonstração do impacto alcançado. Além disso, concluiu-se que percepção dos desafios de II varia entre as fronteiras nacionais.

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Glossary

Abbreviation	Meaning
AUM	Assets under Management
BME	Business Model Innovation & Execution
CA	Capital Allocation
CSR	Corporate Social Responsibility
df	Degrees of Freedom
DEMO	Demonstration
DFI	Development Finance Institution
ESG	Environmental, Social and Governance investing
FR	Financial Return
GIIN	Global Impact Investing Network
GIIRS	Global Impact Investing Rating System
HNWI	High Net Worth Individual
II	Impact Investing
IRIS	Impact Reporting and Investment Standards
MI	Market Infrastructure
SE	Social Entrepreneur
SR	Social Return
SROI	Social Return on Investment
SRI	Socially Responsible Investment
STD	Standardization
USD	United States Dollar
VAL	Valuation
VC	Venture Capitalism
WEF	World Economic Forum

1. Introduction

As an achievement of the corporate social responsibility movement the relevance of social conditions to business success increased in the last quarter of the twentieth century resulting in the socially responsible investing movement (Bugg-Levine & Goldstein, *Impact Investment: Harnessing Capital Markets to Solve Problems at Scale*, 2009). According to Clark et al. (2012) the “old antithesis between society and business is dissolving” even further with impact investing nowadays, outlining that business opportunities can often be found in solving social problems. Impact investments are defined as investments that pursue the generation of measurable social or ecological impact alongside a financial return (GIIN, 2016). In recent years the engagement to deploy capital in such a way, that solves some of the world’s most pressing economic, social and environmental challenges, has increased.

However, the high expectations regarding the development of the impact investing market to a USD 1 trillion industry as forecasted by J.P. Morgan in 2010 (O'Donohoe, Leijonhufvud, & Saltuk, 2010) have fallen short. In order for the emerging sector to realize its attributed potential in the future, “a way to incorporate mainstream investors into the mix” needs to be found (World Economic Forum, 2013). As demand for impact investing is driven from the bottom up (Tickle, 2016), it is therefore crucial to understand what impedes small individual investors from allocating capital to the sector. Therefore the main research question addressed in this dissertation is the following:

What are the major challenges that impede future retail investors from considering an investment for impact?

For the purpose of exploring investor sentiments the following assumption is made: German and Portuguese students will be used as a proxy for future retail investors. Moreover, in order to answer the research question the following structure is adopted: Since this dissertation explores the sphere of impact investing chapter 2. *Literature Review* will provide a review of previous academic literature and market data within five sub-chapters. The first sub-chapter is concerned with defining the practice and scope of impact investing while giving particular attention to its key characteristics. The second sub-chapter focuses on which types of investors are currently prominent in impact investing followed by the current state of the market and its recent as well as its expected

development in the third sub-chapter. Thereafter, the fourth sub-chapter places particular emphasis on academic research dedicated to the general impediments of impact investing while the final sub-chapter accomplishes the theoretical background.

Subsequently in chapter 3. *Methodology* an empirical study conducted will be outlined to identify which impediments of impact investment found in the general literature apply to future individual investors in Germany and Portugal. For this purpose three sub-chapters present the characteristics of the sample, the questionnaire as well as the measurement used in the quantitative study including its descriptive statistics.

Thereafter, in chapter 4. *Results* the general findings of the empirical study will be pointed out followed by a detailed analysis of effects of investment experience and nationality on the perception of impediments of impact investing. The results and their implications on the impact investing market are discussed in chapter 5. *Discussion*.

Finally, the limitations of this dissertation and fields for future research will be depicted in chapter 6. *Limitations and future research* followed by chapter 7. *Conclusions*, summarizing the findings of this study.

2. Literature Review

2.1. Impact Investing

2.1.1. Definition and Framework

The broader term of *social finance* includes all kinds of concepts directed to achieve social and ecological goals by deploying financial capital (Glänzel & Scheuerle, 2016). The concept of investing money in assets that offer a different type of return than a financial yield, thus a social or environmental impact, has been witnessed for centuries (Adam, 2012). However, according to Bugg-Levine and Emerson (2011) the idea of striving for social and ecological impact without sacrificing financial objectives distinguishes the emerging approach of Impact Investing (II) from previous concepts.

In detail, the means of II is to finance organizations that achieve social or ecological impact by applying commercial capital market mechanisms (Nicholls, 2010). Thus II is an innovation suggested to redefine prevalent institutional logics as to capitalize financial markets for social

benefit (Nicholls, 2010) (Moore, Westley, & Brodhead, Social finance intermediaries and social innovation, 2012b). Moreover, O’Donohoe et al. (2010) state that market capitalism fosters the evolvement of more competitive business models to address urgent social challenges. By providing financing (equity, debt or mezzanine¹) to social enterprises investors are entitled to a financial return in form of dividends or interest payments. Given the social purpose of the funded organization, the financial return is accompanied by a social or ecological impact. Besides the funding of the organization the investees often receive sponsorship for managerial development as practiced in commercial venture capitalism (VC) (Glänzel & Scheuerle, 2016). Impact investments can be made in both, emerging and developed markets and “address the world’s most pressing challenges in sectors such as sustainable agriculture, renewable energy, [ecological] conservation, microfinance, and affordable and accessible basic services including housing, healthcare, and education” (GIIN.org, 2017).

Based on Gregory (2016) and the Global Impact Investing Network (GIIN), the following core characteristics essential to II can be identified in order to further define its pattern:

- **Intentionality:** The investor’s intention to have a positive socio-ecological impact is the essential element of II.
- **Investment opportunities:** Financially sustainable investment opportunities, that have a financial return on capital or, at minimum, a return of capital, are critical for II to be initiated.
- **Impact measurement:** The measurement and reporting of social and environmental progress performed by the underlying investment is a key element of practicing II.
- **Spectrum of asset classes and return rates:** II is not restricted to a specific asset class, but is spread across e.g. fixed income, VC and private equity among others. Besides it is a key characteristic of II that the range of financial returns targeted across asset classes includes both below market rate investments and market rate investments adjusted for the specific risk of the investment opportunity. This range is visualized in Figure 1.

¹ „A type of financing that combines debt and equity characteristics. For example, a loan that also confers some profit participation to the lender.” (Financial Times Lexicon, 2017)

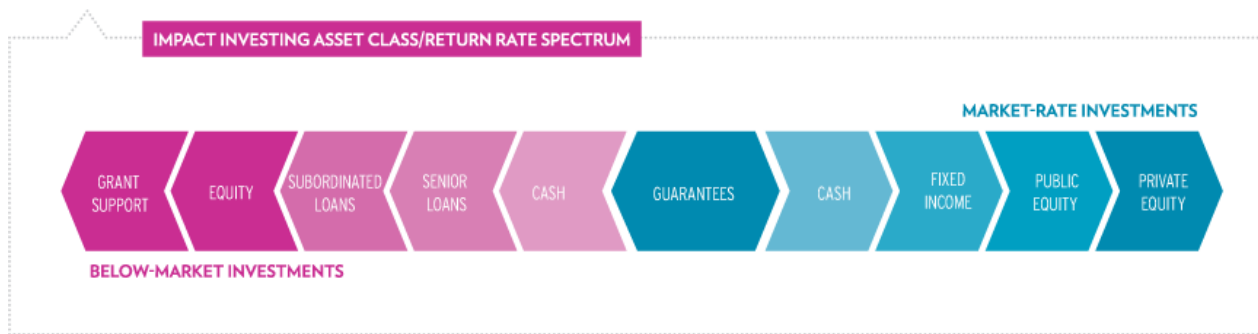


Figure 1: Impact investing asset class / return rate spectrum (GIIN.org, 2017)

To continue, Investor’s approaches to II diversify based on their objectives and capacities. There is mutual consent in the literature of the II approach being a hybrid between commercial financial investment practices and traditional philanthropy by generating effort to create social or ecological benefits alongside profit-oriented investments (Freireich & Fulton, 2009) (Mendell & Barbosa, 2013).

However, the tendency of investments towards the two components varies. On the one hand there are investment opportunities, which emphasize profitability over social impact, specified as *finance first* investment (Wood, Thornley, & Grace, 2013). According to Hebb (2013) *finance first* investors are not willing to trade part of the risk-adjusted market rate return for social or ecological impact. From a survey conducted by the GIIN in 2016 and responded by active impact investors follows that 59 per cent of investors are following finance first principles (Figure 2). On the contrary the generation of social and environmental impact as the leading purpose of investments is referred to as *impact first* investment (Bozesan, 2013). The financial aspect is of secondary interest here and serves as potential side effect such that investors are “prepared to take lower returns on their capital to achieve the social and environmental impact they seek” (Hebb, 2013). These investors accounted for 41 per cent of the market in 2016, whereas more than half of them seek returns that are closer to the market rate than to the mere return of capital (Figure 2).

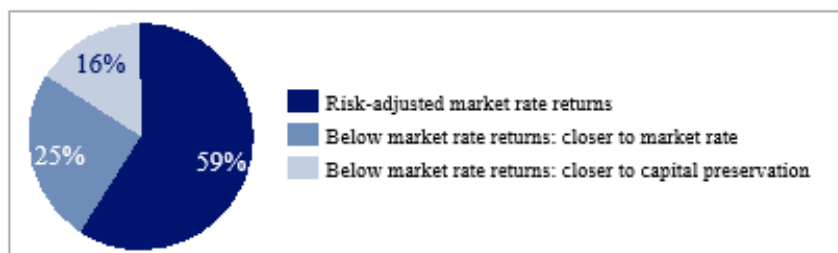


Figure 2: Target financial returns sought in II, n=158 (GIIN, 2016)

2.2.2. Demarcation

II is rooted in the corporate social responsibility (CSR) movement in the 1980s and 1990s, at the time the theory of socially responsible investment (SRI) emerged (Bugg-Levine & Goldstein, *Impact Investment: Harnessing Capital Markets to Solve Problems at Scale*, 2009). Although SRI and II both share ethical values as a common motivation to apply funding and investment activities (Caplan, Griswold, & Jarvis, 2013), the concepts differ fundamentally. The purpose of SRI is to avoid negative social and ecological impact of investments, whereas II is designed to proactively affect social or environmental change (O'Donohoe, Leijonhufvud, & Saltuk, 2010).

On the contrary, investors looking into environmental, social and governance (ESG) investing integrate the respective factors into the investment decision in order to maximize the performance of the investment (Caplan, Griswold, & Jarvis, 2013). This means that investors focus on the maximization of financial returns but do not have the concrete intention to create positive socio-ecological impact. Caplan et al. (2013) explain the materiality of ESG issues to a corporation's performance and therefore to traditional financial indicators, such that ESG is critical for any investors' portfolio profitability and not only for SRI and II investors. Examples of ESG are energy efficiency, waste management, workplace safety and corporate governance.

To conclude, Freireich and Fulton (2009) define II as a complement to traditional philanthropy, including charitable grants and donations, by accelerating the creation of impact through profit-seeking investments.

2.2. Impact Investors

According to O'Donohoe et al. (2010) there is great diversity among investors practicing II. However the shared intention of creating impact as well as the belief of combined socio-ecological and financial achievement establishes common ground (Freireich & Fulton, 2009). The opinion on the dependency of the two variables varies among investors. Some perceive a dependency in inverse proportion, meaning that an increase in one variable leads to a decrease in the other. Others assume the parameters to be independent from each other, hence allowing a simultaneous optimization of social and financial return (Saltuk, Bouri, & Leung, 2011). Investors can therefore be classified along a continuum according to their objective to balance or trade-off financial and social returns.

Regarding the type of investors, II has attracted both institutional and individual investors with different objectives (Figure 3). The leading owners of impact assets include family offices, high-net-worth individuals (HNWIs) and development finance institutions (DFIs). While family offices and HNWIs actively seek investment opportunities to address a range of socio-environmental challenges, DFIs focus on the support of private sector development in developing countries (Klein, Sangaré, & Semeraro, 2014). DFIs are usually majority-owned by national governments that are interested in funds that support economic development of poor areas.

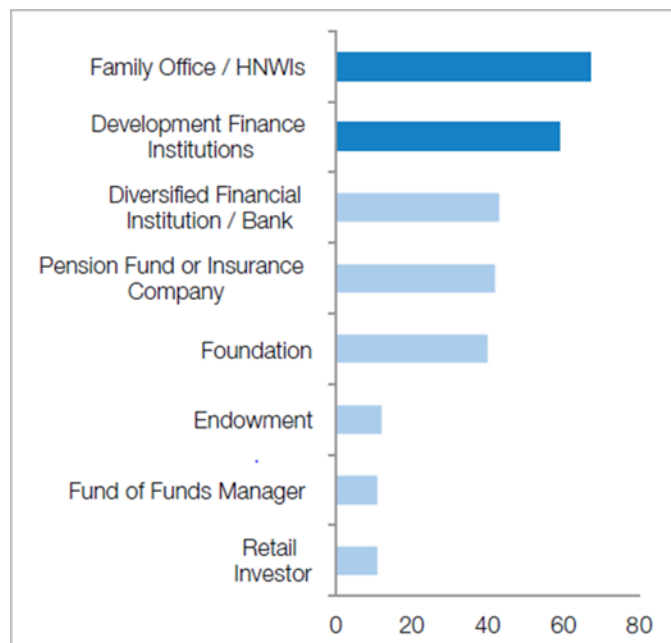


Figure 3: Source of funds for impact investment fund managers by survey score, 2012 (World Economic Forum, 2013)

Other sources of funds for II are private foundations that partner with DFIs, investment banks and other foundations to fund investments related to their social mission. Although also insurance companies and pension funds begin to identify how to deploy their substantial resources best in order to benefit the communities they serve, these investors hold only a small share of impact assets compared to their large share of the global capital pool (Figure 4).

Figure 3 additionally reveals that retail investors are among the smallest capital providers to impact investing funds. However, the focus of previous reports is primarily on institutional investors rather than on individual investors.

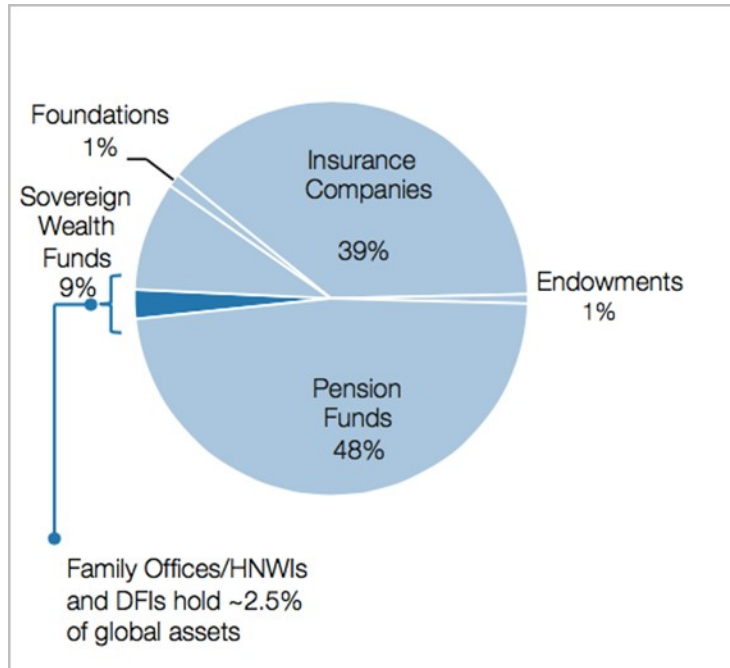


Figure 4: Distribution of Global Asset Ownership by Investor Type, 2011 (WEF, 2013)

2.3. Current State of the Market and Development

According to the World Economic Forum (2013) the term *Impact Investing* was established in 2007, such that market developments started being monitored by then. However, the approaches and results of market size estimation are various among leading institutions of II. The potential size of the sector by 2020 reaches from USD 400 billion to USD 1 trillion by J.P. Morgan and Rockefeller Foundation or USD 650 billion by the Calvert Foundation, which derived the future market size from a representative survey among investment managers (World Economic Forum, 2013). When setting these estimates into perspective, the market is expected to reach approximately 1 percent of total assets under management (AUM) when reaching USD 500 billion and AUM estimated at USD 50 trillion (Freireich & Fulton, 2009).

For an analysis of the expected growth of the II sector the current market size needs to be defined. Estimates calculated by different institutions vary from USD 25 billion in 2013 by J.P. Morgan and GIIN to USD 40 billion in 2012 by the Global Impact Investing Rating System (GIIRS) (World Economic Forum, 2013). Considering a conservative market size of USD 25 billion, the II market “will need to grow by approximately 53 percent annually to reach USD 500 billion or 69 percent annually to reach USD 1 trillion by the year 2020” (ibid). These growth rates are by far exceeding

previous growth rates of related industries, as e.g. the sustainable investing market in the United States scarcely reached double-digit growth per year since 1995 (World Economic Forum, 2013).

When considering more recent market size estimations of the II sector, the growth has not met the anticipations. According to the GIIN (2016) the asset volume within the sector grew from USD 25 billion in 2013 to USD 35.5 billion in 2015 (Figure 5). Therefore the realized compound annual growth rate is 18 percent, 35 percentage points below expectations.

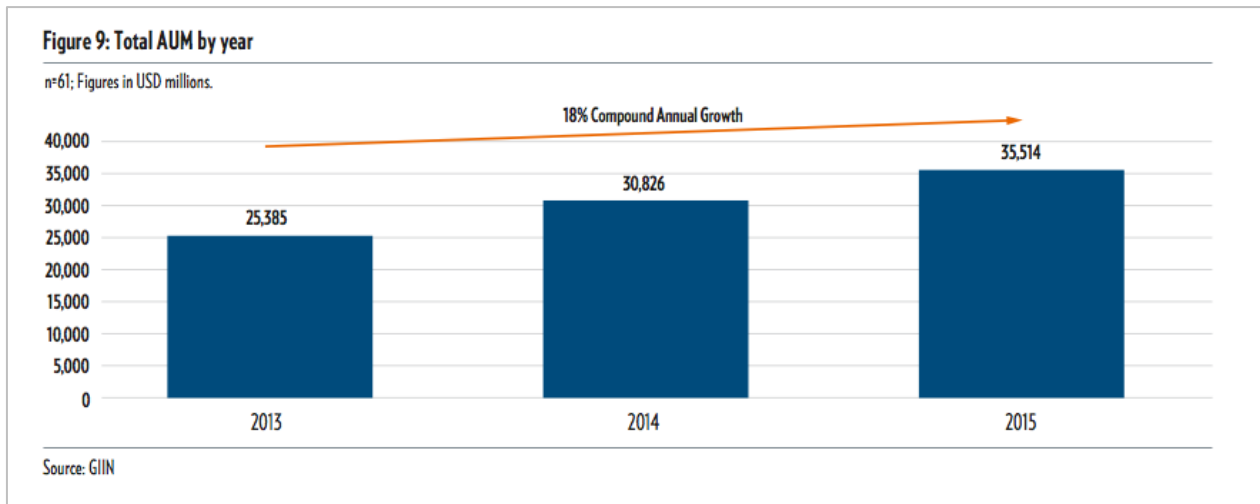


Figure 5: Total II AUM by year (GIIN, 2016)

Furthermore when having a closer look at the allocation of II AUM across sectors, it is visible that Microfinance, Housing and Energy are among the most popular investment targets (Figure 6).

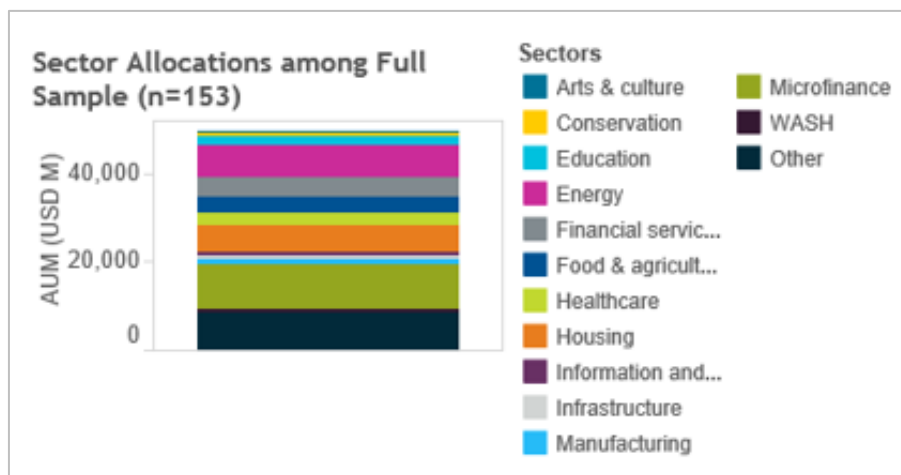


Figure 6: Asset Allocation across Sectors (GIIN, 2016)

2.4. Impediments of Impact Investing

In order to review the challenges for the II sector to overcome, the main barriers identified in the literature are presented systemically along three dimensions. Glänzel and Scheuerle (2016) grouped the nature of the challenges to be related to the expected financial return of II, to the impact generated by II or to the infrastructure of the respective market. Since it is essential to the concept that financial prospects and social return go along with each other in II, especially the challenges related to the first two dimensions are interdependent (Jackson, 2013). Table 1 gives a summarized overview of the findings at the end of this sub-chapter.

Challenges related to financial returns

According to GIIN (2016) the II sector is facing a “lack of appropriate capital across the risk/return spectrum” as the main challenge to the growth of the industry. Investors do not perceive the financial return prospects as adequate given the riskiness of II as they are still strongly influenced by commercial return logics (Glänzel & Scheuerle, 2016). As a result many investment opportunities stay unfunded given that the supply of capital is limited for particular risk-return relationships (Gregory, 2016).

Compared to traditional investments the risk-return relationship for II is not in balance, as investors are exposed to a higher uncertainty to be remunerated their investment for various business model and execution risks. To start with, II enterprises often deploy innovative business models designed to serve social needs better than traditional business models. The unproven nature of early-stage enterprises however contradicts investor preferences, as a “secure income model is a key criterion for investment decision” (Glänzel & Scheuerle, 2016). Therefore the lack of track records impedes stronger investor engagement. In addition Evans (2013) points out that investors and social entrepreneurs (SE) have asymmetric information regarding the intent to fulfil both financial and social goals, therefore principal agent problems cause a higher risk for investors. The perception of investment risk furthermore varies among investors and investees, as the former weight financial risk against financial return when making an investment decision while the latter weight financial risk against social return (Glänzel & Scheuerle, 2016). The unlike level of information and sense for risk between the parties is fortified by a perceived lack of managerial skills of the SE to create a financial yield (Moore, Westley, & Nicholls, The Institutionalization of social investment: The interplay of investment logics and investor rationalities, 2012a). According to Glänzel and

Scheuerle (2016) business competencies are only subordinated factors in the development of social ventures while being a core competence from the investor perspective. Social impact remains the principal objective for the SE and “commercial activity value patterns are only a means to achieve it”. From this follows that a lack of sustainable business cases with long-term financial return prospects are available for investment (Moore, Westley, & Brodhead, Social finance intermediaries and social innovation, 2012b).

Challenges related to social returns

The second dimension analysed by the literature alongside the financial return dimension is the creation of social returns. The accounting of social returns is of utmost importance to II as a portion of financial returns is traded for social impact. Thus there is a broad discussion about the difficulty of measuring social returns and quantifying them in financial terms (Glänzel & Scheuerle, 2016). As social returns often need to be identified indirectly in form of cost savings within the full socio-ecological system the investment-specific “social value creation is not profoundly accounted for in investment contracts” (ibid). From this follows the risk that the impact created by the SEs’ efforts remains largely unnoticed among society and investors (Glänzel & Scheuerle, 2016) and therefore influence the willingness to trade-off social return against financial return in a negative way. Besides the evolvement of standardized measures of social or ecological impact achieved by the SE, such as IRIS² or SROI³, the metrics are still considered either too timely or not to be helpful in contract-designing between investors and investees (Glänzel & Scheuerle, 2016). On the contrary, the measurement often depends on the specific theory of change and is measured case by case.

To continue, the lack of focus on the quantification of social returns results from a more basic challenge impeding II, namely the different stakeholder perceptions about the valuation of social returns. While SEs perceive the socio-ecological impact achieved by their efforts as a compensation for financial remuneration, potential investors are still anchored in thinking of social returns as additional benefit to their financial yield, if not taken as granted (Glänzel & Scheuerle, 2016). This leads to the “tendency to undervalue social returns created in social entrepreneurship” (ibid).

² Impact Reporting and Investment Standards (IRIS): “IRIS is a common language for reporting the social and environmental performance of impact investments. IRIS provides a framework and underlying set of definitions for impact-related terms, analogous to financial reporting standards” (GIIN, 2016)

³ Social Return on Investment (SROI): “A method for measuring and communicating a broad concept of value that incorporates social, environmental and economic impacts.” (Social Impact Scotland, 2017)

Challenges related to market infrastructure

The third dimension that was identified in the general literature that raises challenges for II to scale its importance relative to traditional investments is the still nascent infrastructure available in this market. As research on traditional VC markets reveals the high relevance of trust and personal relationships for investment decisions the lack of investment advisors, pipelines and standardized arrangements and procedures in social impact investing are constraints to its development (Glänzel & Scheuerle, 2016). This is supported by the research of GIIN (2016) resulting that a lack of common way to talk about II is one of the major reasons for investor scepticism. Hence there is consensus in the general literature that transaction costs of search, screening, structuring and monitoring investments is disproportionately high (Gregory, 2016) (Glänzel & Scheuerle, 2016).

Secondly, the difficulty of exiting investments is among the top challenges selected by current II investors interviewed by the GIIN (2016). The lack of a secondary market in which II assets are traded causes that flexible liquidation of investments is not possible.

Challenges of impact investing		
Dimension	Problem Area	Challenge
Financial return (FR)	Capital allocation (CA)	Lack of appropriate capital across the risk/return spectrum
		Capital constraints
	Business model & execution (BME)	Early-stage business model innovation
		Principal agent problems
		Lack of managerial skills of SE
		Lack of sustainable business cases
Social return (SR)	Demonstration (DEMO)	Difficulty of measuring impact
		Lack of visibility of impact generated
	Valuation (VAL)	Differential valuation of social returns
Market infrastructure (MI)	Standardization (STD)	High transaction costs
		Liquidity & exit risk

Table 1: Summary challenges of impact investing (author's own)

2.5. Summary and hypotheses

Emerging from the CSR and SRI movement starting in the 20th century, II was expected to abolish the polarity of financial and social returns further while becoming a USD 1 trillion industry by 2020. In order to pursue the generation of measurable social return alongside financial return financially sustainable investment opportunities for any asset class are required, besides the investor's intention for impact creation. The prevalent academic research on II indicates that these conditions are currently not met and identifies numerous challenges the market faces. An overview of the impediments of II in the general literature can be seen in Table 1, classified along three dimensions: financial return, social return and market infrastructure. In order for II to realize industry expectations in the future small individual investors are required to drive demand from the bottom up. Therefore an empirical study is conducted in chapter 3. *Methodology* to identify the major challenges of future retail investors to invest in II in order to assert for which reasons II could remain a niche market in the future.

As a result of the literature review of impediments on II no particular hypotheses for testing have been developed. Given the nascent nature of previous research conducted this dissertation does not serve the purpose of exploring causal relationships between specific impediments and potentially related independent variables. The focus is set to identify the most critical from the catalogue of challenges for a previously unsought target group, namely retail investors.

3. Methodology

In order to analyse the main challenges that II faces in order to develop from a niche market to a mass market a quantitative study was conducted. The quantitative survey is based on previous qualitative early-stage research of Glänzel and Scheuerle (2016) and is an effective strategy to build on previous findings. In the following subchapters the components of the empirical study will be outlined.

3.1. Sample

Respondents

To explore which are the major challenges of II to ascend from a niche market in the future, it is important to gather the impediments that potentially keep future individual investors from

allocating their capital to impact assets. Thus it is crucial to define the target group of future individual investors, also known as retail investors.

As this study focuses on the development of the II market in the near future given the assumptions made, the age group of respondents was set from 18 to 34. Assuming that the average investor age is above 35 years old given the simultaneous increase of age and disposable income, the respondents of the survey will on average serve as an approximation for the next generation of investors. Secondly, an essential criterion for investment to happen is disposable income. As future disposable income is difficult to forecast, this study uses education as an indicator. Assuming that the likelihood of disposable income for investment increases with an academic degree, university students serve as the target group of this survey. The third characteristic of a retail investor that needs to be accounted for is individuality. This means that he buys and sells assets for his own personal account and not for a company or organization. Hence a retail investor does not need to have an academic or professional background in finance and from this follows that the field of study does not serve as a limitation in collecting responses to the study.

As a further definition of the group of respondents nationality serves as an indicator. As this study focuses on Germany and Portugal respondents from other nations were excluded from the sample. 140 questionnaires were completed. Thereof 34 questionnaires were excluded from the sample given the defined age group (2), other nationalities than German or Portuguese (4), other professions than being a student (32) or a mixture. Thus, 106 questionnaires were used for this study. Appendix 1 gives an overview of the composition of the sample.

Sampling Procedure

In order to collect responses to the study, the questionnaire was shared via a social media channel, namely Facebook, and direct mailing. On Facebook the study was shared in closed groups of international university students of HSBA Hamburg School of Business Administration and CATOLÍCA-Lisbon School of Business and Economics, which are based in Germany and Portugal respectively. Additionally, the survey was shared among the network of mostly German individuals meeting the criteria of the sample, thus it was possible to obtain responses from students apart from the field of business and economics. As of January 2017 59% of Facebook users are aged from 18 to 34 (Statista, 2017), hence this procedure ensures to obtain the opinion of the targeted age group.

The respondents completed an online questionnaire with the survey application *Qualtrics*. Afterwards the answers have been transferred to *Excel*, which was used to analyse the results of the empirical study.

3.2. Questionnaire

Development and Structure of the Questionnaire

The questionnaire used for this study was specifically developed for the purpose of this dissertation. Given the nascent stage of empirical research in the field the questionnaire is based on the early-stage qualitative research of Glänzel and Scheuerle (2016) who were able to confirm “most of the barriers mentioned in the general literature on impact investing” by a series of semi-structured interviews. Besides questions on the respondents’ previous experience on impact and traditional investment it thus contains questions that are meant to analyse in how far the specific impediments identified in chapter 2.4. are observable among potential future individual investors.

Build upon Glänzel and Scheuerle (2016) the main part of the questionnaire concerning the impediments of II is organized along three problem dimensions: Challenges regarding the financial return dimension, the social return dimension as well as the dimension of market infrastructure. Table 1 gives an overview of the impediments accounted for in this survey. The dimensions of financial and social return are further sub-grouped to gain a better understanding of the nature of the restraint of investors. The impediments for II arising from the market infrastructure have been adapted from the literature and reduced to general infrastructure risks that are not specific to market boundaries, as the research of Glänzel and Scheuerle (2016) focuses on the German market exclusively.

Moreover a question regarding the consideration of different sectors for II was integrated before the last section of the questionnaire comprises socio-demographic characteristics relevant to evaluate respondent’s target group fit.

All in all, each respondent answered between 74 and 75 questions, varying due to the adaption of the questionnaire according to respondents’ answers.

Since the questionnaire was distributed to respondents internationally, namely to Germans and Portuguese, it was composed in English. Given the target group characteristic of striving for an academic degree it was assumed that respondents are proficient in English.

The full questionnaire is attached in Appendix 2.

Pre-test of the Questionnaire

Before the questionnaire was spread for the purpose of collecting responses a pre-test was conducted. During the test phase seven students that rank among the targeted group of respondents answered the questionnaire paying special attention to the clear formulation of questions and understanding with regards to content. The participants of the pre-test were chosen to spread across academic fields in order to ensure the efficiency of the questionnaire across the sample. The average age of the test sample is 25.43 years while five of the participants are German and two are Portuguese. Subsequently, the feedback and ideas for improvement resulting from the test were incorporated in the questionnaire before an academic expert recommended further changes.

Appendix 3 gives an extensive overview of the test sample.

3.3. Measurements and descriptive statistics

Introduction

For the purpose of gaining a deeper insight to respondents' pre-knowledge of II as well as their previous experience in general investments dummy variables are used that either take the value 0 or 1. If the respondents' answer to a dichotomous item is positive, the variable adapts the value 0, whereas a negative answer is coded as 1. From this follows that the introducing set of questions are measured on a nominal scale. Table 2 shows the distribution of previous experience among participants. Table 3 outlines the frequencies of respondents being familiar to the different terms currently used in the field of II (Freireich & Fulton, 2009).

Distribution			
	N	Yes (%)	No (%)
Have you ever heard about II before?	106	59.4	40.6
Have you ever invested your own money before?	106	40.6	59.4
Have you ever invested somebody else's money before?	106	3.8	96.2
Have you ever invested in II or similar before?	106	0.9	99.1

Table 2: Distribution previous investment experience

Distribution			
Have your ever heard of the following terms before?	N	Yes (%)	No (%)
Socially responsible investing	106	83.0	17.0
Sustainable investing	106	84.0	16.0
Social investing	106	74.5	25.5
Blende value	106	6.6	93.4
Mission-related investing	106	21.7	78.3
Value-based investing	106	38.7	61.3
Ethical Investing	106	72.6	27.4
Triple Bottom Line	106	20.8	79.2

Table 3: Distribution familiarity with terms used in II

Impediments of II

Each individual impediment of II is directly measured by one or multiple items of the questionnaire. The items were measured on a 7-point Likert scale to ensure sufficient variation in the respondents' answers (Mooi & Sarstedt, 2011). Moreover this scaling method has the advantage of variables being treated as metrically scaled howbeit they are ordinally scaled (ibid). The direction of measurement is the following: The lower the score of a variable, the higher the relevance of the impediment for II. A score below 4.00 indicates a tendency for an impediment whereas a score above 4.00 indicates the opposite.

To study how future retail investors perceive the impediments of II 24 questions included in the survey were directed to this research question. Appendix 4 exhibits a tabular overview of all items measuring the impediments and whether an impediment is accounted for by a single item or by multiple items. In case of single item impediments the mean of respondents' scores serves as measurement, while in case of multi-item impediments the average score was calculated by adding the single scores of each item and dividing through the overall number of items directed to measure the relevant impediment. Thereafter the mean values of the individual impediments were firstly aggregated to the sub-groups and subsequently to the three dimensions of challenges following the same procedure. Table 4 exhibits the descriptive statistics of the sub-groups of the three dimension of challenges.

Descriptive Statistics						
Dimension	Sub-group	N	Minimum	Maximum	Mean	Std. Deviation
FR	CA	106	1.00	7.00	4.00	1.7027
FR	BME	106	1.33	6.67	4.11	1.5312
SR	DEMO	106	1.00	7.00	3.08	1.2725
SR	VAL	106	1.00	7.00	3.75	1.6960
MI	STD	106	1.00	7.00	4.30	1.6277

Table 4: Descriptive statistics sub-groups

Sector Preferences

Supplementary the consideration of different sectors for II was measured on a 7-point Likert scale in order to ensure enough variation in scores between different sectors. A dichotomous measurement, meaning either considering investment in a specific sector or not, might have led to less differentiable results. Table 5 shows the descriptive statistics on sector preferences.

Descriptive Statistics						
Sector	N	Minimum	Maximum	Mean	Std. Deviation	
Sustainable Agriculture	106	2.00	7.00	5.36	1.1313	
Renewable Energy	106	2.00	7.00	5.66	1.0945	
Housing, Health Care and Education	106	2.00	7.00	5.68	1.1002	
Microfinance	106	1.00	7.00	4.03	1.6003	
Ecological Conservation	106	2.00	7.00	4.22	1.4929	

Table 5: Descriptive statistics sector preferences

Socio-demographics

Age is used as a categorical variable with different intervals of ages. This system is reasonable for the analysis of future investor preferences since members of a birth cohort share opinions and experiences (Glenn, 2005). Thus, the variable for age is ordinally scaled. All respondents who do not match the categories 18-24 years or 25-34 years were excluded from the sample, given the mismatch with the target group. Table 6 gives further details on the distribution of age within the target group.

Frequencies		
Age	Frequency	%
18 - 24	79	74.5
25 - 34	27	25.5
Total	106	100.0

Table 6: Frequencies age groups

In order to assess the participants target group fit, a categorical variable for the respondents' profession was used. All respondents who chose a category different from "Student" were excluded from the sample. Table 7 shows the distribution of the fields of studies of the respondents matching the target group.

Frequencies		
Field of Study	Frequency	%
Behavioural Science	1	0.9
Business Administration	56	52.8
Computer Science	1	0.9
Economics	13	12.3
Engineering	9	8.5
Finance	14	13.2
Forest, Environment and Earth Studies	1	0.9
Law	1	0.9
Linguistic & Cultural Studies	2	1.9
Mathematics	3	2.8
Medicine	1	0.9
Social Sciences	4	3.8
Total	106	100.0

Table 7: Frequencies field of study

Moreover, nationality is a variable that was measured during the study on a nominal scale. Besides "Portuguese" and "German" the respondents had the opportunity to opt for "Others" and were hence excluded from the sample. Therefore within the sample the nationality can only adapt two values, 0 or 1 for German or Portuguese nationality respectively. In table 8 the distribution of nationalities of survey participants is described further.

Frequencies		
Nationality	Frequency	%
German	71	67.0
Portuguese	35	33.0
Total	106	100.0

Table 8: Frequencies nationality

4. Results

4.1. General Results

Introduction

The descriptive statistics show that roughly 60 per cent of respondents are familiar with the term of II. However only one participant states to have previously invested in II, which is in line with the findings of WEF (2013) that retail investors hold the smallest share of II AUM. This result cannot be seen as representative for retail investments given that the respondents are considered to become investors only in the future. But taking into account that 41 per cent of respondents state to have invested their own money before, it is a reflectance of the market. The perception of the impediments based on whether the respondents have invested their own money before or not is further analyzed in chapter 4.2. *Effect of investment experience on impediment perception.*

Furthermore it is worth mentioning, that the terms of SRI, sustainable investing and ethical investing are more established among the sample than II, whereas blended value, mission-related investing and triple bottom line are by far the ones with least familiarity.

Impediments of II

Regarding the main research question the descriptive statistics indicate that the challenges related to the social return outweigh the impediments regarding the financial return and market infrastructure dimension.

The challenge of demonstrating the socio-ecological impact achieved has the lowest average score (M = 3.08), meaning that it is considered the highest impediment to invest for impact by the survey respondents. Furthermore the different valuations of social return among investors and investees

have a score below the sub-groups of other dimensions ($M = 3.75$).

Moreover, the results of the survey regarding challenges related to the financial return of an investment for impact oppose the findings of the general literature. Contrary to expectations the challenges are not perceived as impediments for investment when considering the aggregated results. Both sub-groups of challenges related to capital allocation and business model execution have mean scores that indicate neutrality ($M = 4.00$ and $M = 4.11$). However, the disaggregated statistics for the single challenges exhibit that the inadequate financial return prospects given the risk of II as well as the innovative nature of social enterprises are constraints to investors (Table 9). Anyhow, the latter challenge is offset by other challenges related to the business model and execution risk identified in the literature, which are not perceived as such by the survey respondents. It is worth mentioning that contrary to expectations, the participants of the study do not suspect different objectives between investors and investees. Besides, SEs are not perceived to have a lack of managerial skills to create also a financial return besides social impact. Therefore, principal agent problems as well as the potential lack of managerial skills of the SE have mean scores that indicate no impediment for II ($M = 4.49$ and $M = 4.69$).

Descriptive Statistics						
Sub-group	Challenge	N	Minimum	Maximum	Mean	Std. Deviation
CA	Lack of appropriate capital across the risk return spectrum	106	1.00	7.00	3.81	1.8251
CA	Capital constraints	106	1.00	7.00	4.20	1.5481
BME	Early stage business model innovation	106	1.00	6.00	3.14	1.2168
BME	Principal agent problems	106	1.00	7.00	4.49	1.5841
BME	Lack of managerial skills of SE	106	2.00	7.00	4.69	1.0544

Table 9: Descriptive statistics challenges related to financial returns

The statistics of the challenges related to the market infrastructure of II behave similarly to those of the financial return dimension. Contrary to the findings in the literature the sample of future retail investors does not perceive the lack of standardization in the market as impediment to invest for impact, as both challenges related have mean scores above 4.00 (Table 10).

Descriptive Statistics						
Sub-group	Challenge	N	Minimum	Maximum	Mean	Std. Deviation
STD	Lack of common way to talk about II	106	1.00	7.00	4.40	1.6108
STD	Liquidity & exit risk	106	1.00	7.00	4.20	1.6757

Table 10: Descriptive statistics challenges related to market infrastructure

Sector Preferences

The descriptive statistics for the sector preferences (Table 5) exhibit that housing, healthcare and education ($M = 5.68$) are the top priorities to survey respondents for investment, closely followed by renewable energies ($M = 5.66$) and sustainable agriculture ($M = 5.36$). It is noticeable that the scores for an investment in microfinance ($M = 4.03$) and ecological conservation ($M = 4.22$) are significantly lower than for other sectors. Therefore the preferences of the sample used as a proxy for future retail investors differ from the current market status since the largest share of capital in II is allocated to microfinance, as outlined in chapter 2.3. *Current State of the Market and Development*.

4.2. Effect of investment experience on impediment perception

To get a deeper understanding of the challenges that II is facing from the point of view of future retail investors, it is crucial to differentiate the survey respondents by their experience in the investment sphere. It is assumed that respondents who have previously invested their own money at the financial markets are more sensible towards the shortfalls of the II market. Survey respondents that have no previous experience in investing their own capital are only hypothetically exposed to the uncertainties of investment and therefore their risk return profile might be biased.

Thus the responses obtained that are related to the impediments of II will be distinguished by the variable *investment experience*, defined by the following item: *Have you ever invested your own money before?* 40.6 percent of participants answered this item positively, as exhibited in Table 2. The item included in the survey for the purpose of exploring how many respondents have ever invested somebody else's money is not used to further analyze the results. Since only 3.8 percent of the sample answered this question with "Yes" further examination would not yield significant results.

The descriptive statistics indicate that respondents who have previously invested their money are generally perceiving the impediments of II related to the financial return stronger than unexperienced respondents. The opposite holds for impediments related to the market infrastructure, whereas no clear indication is visible for challenges regarding the social return of II. Table 11 exhibits the full results.

Descriptive Statistics						
Dimension	Sub-Group	Challenge	Previous investment experience			
			No		Yes	
			N	Mean	N	Mean
FR	CA	Lack of appropriate capital across the risk return spectrum	63	3.95	43	3.59
FR	CA	Capital constraints	63	4.25	43	4.14
FR	BME	Early stage business model innovation	63	3.15	43	3.13
FR	BME	Principal agent problems	63	4.50	43	4.47
FR	BME	Lack of managerial skills of SE	63	4.52	43	4.93
SR	DEMO	Difficulty of measuring impact	63	3.00	43	3.21
SR	VAL	Differential valuation of social returns	63	3.81	43	3.66
MI	STD	Lack of common way to talk about II	63	4.33	43	4.50
MI	STD	Liquidity & exit risk	63	4.17	43	4.23

Table 11: Descriptive statistics by level of investment experience

As the variable investment experience separates the sample into two groups – previous experience or no previous experience – an independent sample t-test is used to compare these two groups regarding their perception of the impediments of investing for impact. The objective of the conduction is to explore whether the differences in means are statistically significant. The t-test assumes that the variances in the two groups are homogenous. This assumption is tested using an F-test two sample for variance. From this follows that the equality of variances is given for all items except the items designed to explore the difficulty of measuring impact within the social return dimension. Appendix 5 exhibits the detailed results of the F-test.

As a result it is proceeded with a two-sided sample t-test that does not assume equal variances to test whether there is a significant difference of perception within the sub-group DEMO. For all

other sub-groups the two-sided t-test is conducted assuming equal variances. Despite the indications of differences in means by the descriptive statistics, no significant difference in the perception of the impediments of II can be proven. Solely a difference in perception of the managerial skills of SEs is significant on a 95% level, meaning that participants who have ever invested their capital before have more trust in SEs to manage financial returns than respondents who are unexperienced in the investment sphere. The results of the t-test are depicted in Table 12.

Independent Sample T-Test for Equality of Means					
Challenge	df	t stat	critical t (two-sided)	p-value	Hypothesis*
Lack of appropriate capital across the risk return spectrum	104	-1.60	1.66	0.11	Do not reject Ho
Capital constraints	104	-0.52	1.66	0.61	Do not reject Ho
Early stage business model innovation	104	-0.13	1.66	0.89	Do not reject Ho
Principal agent problems	104	-0.12	1.66	0.90	Do not reject Ho
Lack of managerial skills of SE	104	1.98*	1.66	0.05	Reject Ho
Difficulty of measuring impact	92	1.49	1.66	0.14	Do not reject Ho
Differential valuation of social returns	104	-0.83	1.66	0.41	Do not reject Ho
Lack of common way to talk about II	104	0.92	1.66	0.36	Do not reject Ho
Liquidity & exit risk	104	0.17	1.66	0.86	Do not reject Ho

* The hypothesized difference between the two means is 0 tested on a 5% confidence level.

Table 12: Independent Sample T-test for equality of means by level of investment experience

4.3. Effect of nationality on impediment perception

Moreover, the differential perception of impediments could be influenced by investors' nationality. As this study focuses on two groups of nationalities, it is therefore helpful to distinguish the results obtained for the two groups to get a better understanding of the drivers of impediment perception. 67.0 percent of participants of the survey are German while the remaining 33.0 percent are Portuguese. The frequencies of nationality are exhibited in Table 8.

The descriptive statistics of the analysis indicate that respondents of Portuguese nationality are generally perceiving the impediments of II related to capital allocation stronger than German participants. Furthermore this holds for the differential valuation of social returns. No such strong indication to either one of the nationalities is visible for other challenges, except that there seems to be a major difference in the perception of liquidity and exit risk, being perceived as a much stronger impediment by German respondents compared to the Portuguese peer group. These

anticipated differences will be subject to further statistical testing. Table 13 exhibits the full descriptive statistics.

Descriptive Statistics						
Dimension	Sub-Group	Challenge	Nationality			
			German		Portuguese	
			N	Mean	N	Mean
FR	CA	Lack of appropriate capital across the risk return spectrum	71	3.95	35	3.50
FR	CA	Capital constraints	71	4.31	35	3.98
FR	BME	Early stage business model innovation	71	3.13	35	3.18
FR	BME	Principal agent problems	71	4.54	35	4.39
FR	BME	Lack of managerial skills of SE	71	4.68	35	4.71
SR	DEMO	Difficulty of measuring impact	71	3.06	35	3.14
SR	VAL	Differential valuation of social returns	71	3.89	35	3.47
MI	STD	Lack of common way to talk about II	71	4.38	35	4.44
MI	STD	Liquidity & exit risk	71	3.80	35	5.00

Table 13: Descriptive statistics by nationality

As the variable nationality also separates the sample into two groups – German and Portuguese – an independent sample t-test is used to compare these two groups regarding their perception of the impediments of investing for impact. The objective of the analysis is to explore whether the differences in means are statistically significant. The t-test assumes that the variances in the two groups are homogenous. This assumption is tested using an F-test two sample for variance. From this follows that the equality of variances is not given for challenges related to the sub-groups CA, BME and DEMO. Appendix 6 exhibits the detailed results of the F-test.

Thus, for reasons of simplicity it is proceeded with a two-sided sample t-test that does not assume equal variances beforehand for all challenges. Differences in perception of impediments are found to exist for several challenges on a 95% significance level. Firstly, the lack of appropriate capital across the risk return spectrum is perceived as a stronger impediment by Portuguese citizens than by Germans. This means that Portuguese perceive the financial return prospects of II not adequate given its riskiness. Secondly, the same relation holds for the impediment that valuation of social returns varies among investors and investees. Lastly, the perception of the liquidity and exit risk in II among different nationalities, namely German and Portuguese, is found to be significantly different on a 99% level (two-sided t-crit.: 2.65). In detail, Germans evaluate the lack of a secondary market which provides the option to liquidate II investments at any given time as more

critical than Portuguese. The results of the t-test are depicted in Table 14.

Independent Sample T-Test for Equality of Means					
Challenge	df	t stat	critical t (two-sided)	p-value	Hypothesis*
Lack of appropriate capital across the risk return spectrum	95	2.18	1.99	0.03	Reject Ho
Capital constraints	94	1.73	1.99	0.09	Do not reject Ho
Early stage business model innovation	89	-0.36	1.99	0.72	Do not reject Ho
Principal agent problems	78	0.72	1.99	0.47	Do not reject Ho
Lack of managerial skills of SE	72	-0.18	1.99	0.86	Do not reject Ho
Difficulty of measuring impact	94	-0.66	1.99	0.51	Do not reject Ho
Differential valuation of social returns	79	2.39	1.99	0.02	Reject Ho
Lack of common way to talk about II	75	-0.28	1.99	0.78	Do not reject Ho
Liquidity & exit risk	66	-3.63	1.99	0.00	Reject Ho

* The hypothesized difference between the two means is 0 tested on a 5% confidence level.

Table 14: Independent Sample T-Test for Equality of Means by nationality

5. Discussion

The main finding of this study is that there are differences in the perception among the categorized impediments of II. To be more precise: Challenges that are related to the demonstration and valuation of the social or ecological return of II present a bigger impediment to future retail investors to invest for impact than other challenges.

This is opposing the previous research on institutional impact investors conducted by the GIIN (2016) that lists challenges related to the financial return dimension or shortfalls in the market infrastructure among the top three impediments. On the contrary, the respondents of this study rank only one challenge related to financial return among the top three, whereas the others are related to social returns. Given the difference in the two samples, from this follows that future individual investors have a different set of priorities compared to actual impact investors from the GIIN's annual survey, which represented by fund managers governing their clients' capital. Hence, in order to ascend from a niche market and appeal retail investors in the future, it is critical to focus on resolving the challenges related to the impact measurement and valuation of II. The financial return is considered to be of secondary interest.

Starting with the first, the measurement and demonstration of social returns, the II market is in a state of discrepancy. As outlined in the literature the measurement of social impact generated by a

social enterprise is highly dependent on the specific business model (Glänzel & Scheuerle, 2016). However, standardized approaches to performance measurement of non-financial results provide the transparency and support to investors “to understand their risks and opportunities comprehensively, including factors associated with intangible and reputational value”, as stated by Bloomberg (2017). Thus in order to gain efficiencies in the II market and counteract the reservation of retail investors due to a lack of accountability of social returns, the development of further standardized metrics is required.

To conclude, a major challenge of II is the balance of standardization and individualization when measuring the non-financial returns generated. As the established metrics are considered to be too timely or costly by current investors as well as SEs (Glänzel & Scheuerle, 2016), new ways of providing figures that are comprehensive across business models but also require only moderate effort to generate are needed.

Since the results of the study do not only indicate a higher need for demonstration of social returns but also a lack of trust in the business model innovation and execution of the social sector, a standardized score also taking into account the financial dimension besides the social dimension could possibly increase investor confidence.

Secondly, and in line with previous research conducted the study reveals that the different valuation of social returns among investors and investees is among the strongest impediments for investors to consider in II. This challenge is proof of the ongoing barrier created by institutional logics⁴. The proxy for future retail investors is concerned about the SE following social sector logics whereas they themselves are still partly following commercial return logics. From this follows that II has not overcome the challenges of combining social sector characteristics with commercial finance logics yet (Glänzel & Scheuerle, 2016). However, according to the study the financial return dimension seems to lose its unmated importance to investors in the future. Setting this into perspective shows that future retail investors are not focused on the financial return in II anymore but still trust the characteristics of commercial finance logics. Hence, these characteristics need to be transferred to the social perspective of II, resulting for example in the development of measurement and accountability of social returns in financial terms, as stated above.

Surprisingly there is evidence in the study that investors do not doubt the capability of the SE to act according to commercial return logics, which deviates from previous findings in the literature.

⁴ „[...]the belief systems and associated practices that predominate in an organizational field[...]“ (Scott, Ruef, Mendel, & Caronna, 2000)

Nonetheless it supports the conclusion that there is generally enough trust in social sector capabilities if sufficiently paired with commercial return metrics.

To conclude, the previous literature concentrates on current investors which are impeded mostly by challenges related to financial return. On the contrary the focus of this study is on future retail investors, which are mostly challenging the social return dimension. Thus one can conclude a shift of mind-set regarding the profitability of social enterprises as well as objectives of investment towards social impact.

This is supported by the results of studying the effect of the level of investment experience on impediment perception. Although the risk profile of individuals should alter with previous experience in the investment sphere, no significant difference in perception of impediments among the experienced and the unexperienced respondents could be found. Therefore one can assume that the supposed shift in mind does not only build on the fact that students are only hypothetically exposed to the risks of investment and are therefore biased, but rather can be considered as a veritable development.

An additional result of the study conducted is that impediment perception shows variation across national boundaries. In this study Germany and Portugal were analysed and show significant differences in the perception of several risks related to II. Possible reasons for these differences are cultural disparities, investment habits but also the stage of development of the II market among others. The higher impediment of Portuguese students compared to German students to invest in II given that the return prospects are not adequately offsetting its risk is supported by a higher level of uncertainty avoidance within the Portuguese culture (Hofstede, 2017). Moreover, it was found that Germans are stronger restrained by the missing opportunity to exit the investment than Portuguese. This effect could among others be explained by the German II market to still be in its infancy (Glänzel & Scheuerle, 2016), whereas the interest in the social investment market is already at a growth stage in Portugal (Portuguese Social Investment Taskforce, 2014). This is due to the increase of popularity of II leading to the investments within the market gaining liquidity.

Overall, this finding is in line with the II market being considered to be of domestic nature given the high level of involvement of national governments as investors (Social Impact Investment Taskforce, 2014).

6. Limitations and Future Research

The findings of this dissertation are subject to several limitations, especially of methodological nature. To start with, the sample is adequate to give an indication with regards to the major challenges of II, but is not representative to prove theoretical norms. Firstly, the sample size is rather narrow and focused on Germany and Portugal. Secondly the properties of the sample restrict theoretical implications for II, since the participants of the survey are only a proxy for the group of interest with several assumptions outlined in *Chapter 3.1.: Sample*. As the results of this study are based on these assumptions, for instance that impediments related to social return will be the major challenge to overcome in II, they are preliminary and require further examination. Especially further approximation of the selected sample to the target group increases the reliability of results. The field of study of the sample has a high focus on business, which therefore decreases representativeness.

Moreover, the study does not verify that the barriers identified as critical to overcome arise in II solely. For instance, the challenges related to the sub-group BME are also relevant impediments in the regular investment sphere. Therefore it cannot be identified to what extent this impediment is specifically restraining social investments. Supplementary research might focus on the differences of the impediment in social investments compared to regular investments.

Furthermore, as the study builds on the impediments of II found in the general literature, it does not take into account other criteria of the investment decision of investors. The interdependence of decision factors related to II and other criteria, for instance level of income, gender or sentiments, are interesting subjects for further research.

Lastly and related to the previous limitation, the characteristics of the defined group of interest itself complicate the generalization of results. As retail investors are characterized by their individuality, their investment decision is driven by very diverse motives and strategies. Therefore in order to overcome the challenges of II further research needs to be conducted for understanding more about retail investors' perspectives.

7. Conclusion

The objective of this dissertation was to evaluate which impediments could restrain the II market from ascending from a niche market to a mass market in the near future. With such purpose in mind the research question was defined as: *What are the major challenges that impede future retail*

investors from considering an investment for impact?

Hence the general literature on II was reviewed, identifying challenges of the II market within three dimensions: financial return, social return and market infrastructure. Thereafter a quantitative study with German and Portuguese students as a proxy for future retail investors was conducted, examining their perception of the impediments defined in previous research.

The results of the study show an indication for a shift in mind-set regarding financial profitability of social enterprises as well as objectives of investment towards social impact. This perception is not dependent on whether sample respondents have had previous investment experience or not, thus supporting the confidence of the generalization of conclusions. However, future retail investors still follow the logics of commercial finance in terms of measurement. Especially the demonstration and valuation of social returns are subject to a lack of standardization and therefore trust of investors. Moreover the perception of challenges of II was found to vary across national boundaries, being dependent on cultural differences as well as the specific market development stage.

All in all, this study provides valuable insights for both practitioners as well as researchers. Nevertheless, caution is warranted in generalizing these findings especially due to the fact that the study was conducted with a sample that serves only as a proxy for the target group subject to the analysis.


Appendices

Appendix 1 – Sample Composition

Sample Composition							
No.	Profession	Age	Nationality	No.	Profession	Age	Nationality
1	Employee	25 - 34	German	36	Employee	18 - 24	German
2	Employee	25 - 34	German	37	Student	25 - 34	Other
3	Student	18 - 24	German	38	Employee	25 - 34	Other
4	Student	25 - 34	German	39	Employee	18 - 24	Other
5	Student	25 - 34	German	40	Student	18 - 24	German
6	Student	18 - 24	German	41	Student	18 - 24	German
7	Student	18 - 24	Portuguese	42	Student	18 - 24	German
8	Employee	25 - 34	German	43	Student	18 - 24	German
9	Entrepreneur	18 - 24	Other	44	Student	18 - 24	German
10	Student	25 - 34	German	45	Student	25 - 34	German
11	Student	25 - 34	German	46	Employee	25 - 34	German
12	Student	18 - 24	German	47	Student	18 - 24	Portuguese
13	Student	18 - 24	German	48	Employee	25 - 34	German
14	Student	25 - 34	German	49	Employee	25 - 34	German
15	Student	18 - 24	Portuguese	50	Student	18 - 24	German
16	Student	18 - 24	German	51	Employee	18 - 24	German
17	Employee	18 - 24	German	52	Student	18 - 24	German
18	Student	18 - 24	German	53	Employee	25 - 34	German
19	Employee	25 - 34	German	54	Employee	18 - 24	German
20	Employee	18 - 24	Other	55	Student	18 - 24	Other
21	Student	18 - 24	German	56	Student	18 - 24	German
22	Employee	25 - 34	German	57	Student	18 - 24	Other
23	Student	25 - 34	German	58	Student	18 - 24	German
24	Employee	35 - 44	German	59	Other	25 - 34	German
25	Student	18 - 24	German	60	Employee	18 - 24	German
26	Student	18 - 24	Portuguese	61	Student	18 - 24	German
27	Student	25 - 34	German	62	Student	18 - 24	German
28	Employee	18 - 24	German	63	Student	25 - 34	German
29	Student	25 - 34	German	64	Student	18 - 24	Portuguese
30	Student	25 - 34	Other	65	Student	18 - 24	German
31	Employee	18 - 24	German	66	Student	18 - 24	German
32	Student	25 - 34	German	67	Student	18 - 24	German
33	Employee	25 - 34	German	68	Student	18 - 24	German
34	Student	25 - 34	German	69	Student	18 - 24	German
35	Student	18 - 24	German	70	Student	18 - 24	German

71	Student	18 - 24	Other	106	Student	25 - 34	Portuguese
72	Student	18 - 24	German	107	Student	25 - 34	Portuguese
73	Student	18 - 24	German	108	Student	18 - 24	Portuguese
74	Student	18 - 24	German	109	Student	18 - 24	Portuguese
75	Employee	18 - 24	German	110	Student	18 - 24	Portuguese
76	Student	25 - 34	Other	111	Student	18 - 24	Portuguese
77	Student	18 - 24	Portuguese	112	Student	18 - 24	Portuguese
78	Employee	25 - 34	German	113	Student	18 - 24	Portuguese
79	Employee	18 - 24	German	114	Student	25 - 34	German
80	Employee	18 - 24	German	115	Student	18 - 24	Portuguese
81	Student	18 - 24	German	116	Student	18 - 24	German
82	Employee	25 - 34	German	117	Student	18 - 24	Portuguese
83	Student	25 - 34	German	118	Student	25 - 34	Portuguese
84	Entrepreneur	18 - 24	German	119	Student	25 - 34	German
85	Employee	18 - 24	German	120	Student	18 - 24	German
86	Student	18 - 24	Other	121	Student	18 - 24	Portuguese
87	Student	25 - 34	German	122	Student	18 - 24	Portuguese
88	Student	18 - 24	Portuguese	123	Student	18 - 24	German
89	Employee	25 - 34	German	124	Student	18 - 24	Portuguese
90	Employee	25 - 34	German	125	Student	18 - 24	Portuguese
91	Employee	35 - 44	German	126	Student	18 - 24	Portuguese
92	Student	18 - 24	German	127	Student	18 - 24	German
93	Student	18 - 24	Portuguese	128	Student	18 - 24	Portuguese
94	Student	18 - 24	Portuguese	129	Student	18 - 24	German
95	Student	18 - 24	Portuguese	130	Student	18 - 24	Portuguese
96	Student	25 - 34	German	131	Student	18 - 24	German
97	Employee	18 - 24	German	132	Student	18 - 24	Portuguese
98	Student	18 - 24	German	133	Student	18 - 24	Portuguese
99	Student	25 - 34	German	134	Student	18 - 24	German
100	Student	18 - 24	Portuguese	135	Student	18 - 24	German
101	Student	18 - 24	Portuguese	136	Student	18 - 24	German
102	Student	25 - 34	German	137	Student	18 - 24	German
103	Student	18 - 24	Portuguese	138	Student	25 - 34	German
104	Student	18 - 24	Portuguese	139	Student	25 - 34	German
105	Student	18 - 24	Portuguese	140	Student	18 - 24	German

Appendix 2 – Survey Questionnaire



**CATOLICA
LISBON**
BUSINESS & ECONOMICS

Cover Page

Dear Participant,

thank you for taking the time to complete this survey for my master thesis, in which I try to understand the key challenges for impact investing to evolve from niche to mass market.

The survey will take approx. 6 minutes. Please answer all questions honestly, there is no right or wrong!

Please be ensured that all of your answers are anonymous and that they will be treated with absolute discretion. Thank you very much in advance for your help!

- Vivian Voß

Introduction

Have you heard about "Impact Investing" before?

Yes

No

Have you ever heard of one of the following terms before?

Yes

No

Socially Responsible Investing	<input type="radio"/>	<input type="radio"/>
Sustainable Investing	<input type="radio"/>	<input type="radio"/>
Social Investing	<input type="radio"/>	<input type="radio"/>
Blended Value	<input type="radio"/>	<input type="radio"/>
Mission-Related Investing	<input type="radio"/>	<input type="radio"/>
Value-Based Investing	<input type="radio"/>	<input type="radio"/>
Ethical Investing	<input type="radio"/>	<input type="radio"/>
Triple Bottom Line	<input type="radio"/>	<input type="radio"/>

Have you ever invested your own money at the financial markets?

Yes

No

Have you ever invested somebody else's money at the financial markets?

Yes

No

Have you ever invested in Impact Investment or similar (Q2) before?

Yes

No

Questions related to Financial Returns

Venture Capital is financing that investors provide to startup companies and small businesses that are believed to have longterm growth potential. Expected returns in Venture Capitalism vary, but we assume that traditional returns are around 20%.

If such an investment possibly creates social or ecological impact...

	Totally unacceptable	Unacceptable	Slightly Unacceptable	Neutral	Slightly Acceptable	Acceptable	Perfectly Acceptable
...are you willing to accept a return, that is 3-8 % lower compared to non-impact investments?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...are you willing to accept a higher risk compared to non-impact investments?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...are you willing to accept both a lower return and a higher risk compared to non-impact investments?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Imagine that you have a limited amount of money to invest. If one investment possibly creates social or ecological impact...

	No priority	Low priority	Somewhat low priority	Neutral	Moderate Priority	High Priority	Essential Priority
...would you prioritize this investment over traditional investments that have a higher return?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...would you prioritize this investment over traditional investments that have a lower risk?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...would you always invest a certain percentage of your available capital to that type of investment?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Imagine that you screen companies to invest your money in. How likely is it that you consider to invest in a company...

	Definitely not consider	Not consider	Probably not consider	Might or might not consider	Probably consider	Consider	Definitely consider
...that has no secure income model?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that has no proof of previous successful performance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that has no peer group that has proven to be successful?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that is not listed in a market where you could resell your investment?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In Impact Investment social or ecological return is generated alongside a financial return. Imagine that you invest your money in such a social enterprise, how satisfied would you feel...

	Extremely dissatisfied	Moderately dissatisfied	Slightly dissatisfied	Neither dissatisfied nor satisfied	Slightly satisfied	Moderately satisfied	Extremely satisfied
...if the social return is achieved rather than the expected financial return?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...if the achievement of financial and social return is not in balance?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...if the company manager values social return more than financial return?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

In Impact Investment social or ecological return is generated alongside a financial return.

	Terrible	Poor	Not Good	Average	Good	Very good	Excellent
How do you perceive the managerial skills of a social entrepreneur to create financial returns?	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Questions related to Social Return

A social impact investment usually has a return below the market average, however the lower financial return is supposed to be compensated by a social return. A social return is defined as a social or ecological improvement achieved by the efforts of the social enterprise.

If I invest my money in a social enterprise, it is important to me...

	Strongly disagree	Disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Agree	Strongly agree
...that the impact of my investment is exactly measured and communicated (e.g. 20 ex-prisoners were placed in jobs)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that the impact of my investment is financially quantified (e.g. 2000€ in costs for prison have been saved)	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that the impact that my investment generates is comparable to other impact investment opportunities.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that the impact of my investment in the whole socio-ecological system is measured	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If I invest my money in a social enterprise, I perceive...

	Strongly disagree	Disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Agree	Strongly agree
...the financial return as potential upside of my investment, but not mandatory.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...the social return as potential upside of my investment, but not mandatory.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...that the social return solely is not enough for my financial investment.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

There is a variety of investment forms available, which target social or ecological wellbeing. Socially Responsible Investing, Values-Based Investing and Environmental, Social and Governance (ESG) Screening are among these, to mention only some of them.

With the variety of investment strategies available...

	Strongly disagree	Disagree	Somewhat disagree	Neither agree nor disagree	Somewhat agree	Agree	Strongly agree
...it is more likely that I invest in one of them.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...it takes me less time and effort to consider my investment decision.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
...I perceive the market as more mature.	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

If you were willing to invest in impact, which of the following sectors would you consider?

	Definitely not consider	Not consider	Probably not consider	Might or might not consider	Probably consider	Consider	Definitely consider
Sustainable Agriculture	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Renewable Energy	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Housing, Health Care and Education	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Microfinance	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>
Ecological Conservation	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>	<input type="radio"/>

Demographic Questions

What is your profession?

Student

Employee

Entrepreneur

Other

Please select your field of studies.

How old are you?

Under 18

18 - 24

25 - 34

35 - 44

45 or older

Please choose your nationality:

Portuguese

German

Other

Appendix 3 – Test Sample Composition

Test Sample Composition				
Participant	Profession	Age	Nationality	Field of Studies
1	Student	25	German	Social Sciences
2	Student	29	German	Business Administration
3	Student	24	German	Engineering
4	Student	24	German	Forest, Environment and Earth Studies
5	Student	29	German	Business Administration
6	Student	23	Portuguese	Business Administration
7	Student	24	Portuguese	Business Administration

Appendix 4 – Questionnaire Item by Impediment

Dimension	Problem Area	Challenge	Question Construct	Questionnaire Item
FR	CA	Lack of appropriate capital across the risk return spectrum	Venture Capital is financing that investors provide to startup companies and small businesses that are believed to have long-term growth potential. Expected returns in Venture Capitalism vary, but we assume that traditional returns are around 20%. If such an investment possibly creates social or ecological impact...	...are you willing to accept a return that is 3-8 % lower compared to non-impact investments?
				...are you willing to accept a higher risk compared to non-impact investments?
				...are you willing to accept both a lower return and a higher risk compared to non-impact investments?
FR	CA	Capital constraints	Imagine that you have a limited amount of money to invest. If one investment possibly creates social or ecological impact...	...would you prioritize this investment over traditional investments that have a higher return?
				...would you prioritize this investment over traditional investments that have a lower risk?
				...would you always invest a certain percentage of your available capital to that type of investment?
FR	BME	Early stage business model innovation	Imagine that you screen companies to invest your money in. How likely is it that you consider to invest in a company...	...that has no secure income model?
				...that has no proof of previous successful performance?
				...that has no peer group that has proven to be successful?
MI	STD	Liquidity & exit risk		...that is not listed in a market where you could resell your investment?
FR	BME	Principal Agent Problems	In Impact Investment social or ecological return is generated alongside a financial return. Imagine that you invest your money in such a social enterprise, how satisfied would you feel...	...if the social return is achieved rather than the expected financial return?
				...if the achievement of financial and social return is not in balance?
				...if the company manager values social return more than financial return?
			In Impact Investment social or ecological return is generated alongside a financial return.	How do you perceive the managerial skills of a social entrepreneur to create financial returns?

SR	DEMO	Difficulty of measuring impact	A social impact investment usually has a return below the market average, however the lower financial return is supposed to be compensated by a social return. A social return is defined as a social or ecological improvement achieved by the efforts of the social enterprise. If I invest my money in a social enterprise, it is important to me...	...that the impact of my investment is exactly measured and communicated (e.g. 20 ex-prisoners were placed in jobs)
				...that the impact of my investment is financially quantified (e.g. 2000€ in costs for prison have been saved)
				...that the impact that my investment generates is comparable to other impact investment opportunities.
				...that the impact of my investment in the whole socio-ecological system is measured
SR	VAL	Differential valuation of social returns	If I invest my money in a social enterprise, I perceive...	...the financial return as potential upside of my investment, but not mandatory.
				...the social return as potential upside of my investment, but not mandatory.
				...that the social return solely is not enough for my financial investment.
MI	STD	Lack of common way to talk about II	There is a variety of investment forms available, which target social or ecological wellbeing. Socially Responsible Investing, Values-Based Investing and Environmental, Social and Governance (ESG) Screening are among these, to mention only some of them. With the variety of investment strategies available...	...it is more likely that I invest in one of them.
				...it takes me less time and effort to consider my investment decision.
				...I perceive the market as more mature.

Appendix 5 – F-test two sample for variance by variable *investment experience*

F-test two sample for variance		
Item	p	Hypothesis*
Q6_1	0.0906	Do not reject Ho
Q6_2	0.1904	Do not reject Ho
Q6_3	0.1161	Do not reject Ho
Q7_1	0.1619	Do not reject Ho
Q7_2	0.4269	Do not reject Ho
Q7_3	0.4653	Do not reject Ho
Q8_1	0.4086	Do not reject Ho
Q8_2	0.3017	Do not reject Ho
Q8_3	0.4923	Do not reject Ho
Q9_1	0.4571	Do not reject Ho
Q9_2	0.0530	Do not reject Ho
Q9_3	0.4929	Do not reject Ho
Q10	0.2765	Do not reject Ho
Q11_1	0.0222	Reject Ho
Q11_2	0.2917	Do not reject Ho
Q11_3	0.2789	Do not reject Ho
Q11_4	0.0449	Reject Ho
Q12_1	0.4943	Do not reject Ho
Q12_2	0.4618	Do not reject Ho
Q12_3	0.1873	Do not reject Ho
Q13_1	0.3358	Do not reject Ho
Q13_2	0.3804	Do not reject Ho
Q13_3	0.3015	Do not reject Ho
Q14	0.2021	Do not reject Ho

* The null hypothesis is that the two variances are equal tested on a 5% confidence level ($\alpha=0.05$).

Appendix 6 – F-Test two sample for variance by variable *nationality*

F-Test two sample for variance				
Dimension	Sub-Group	Challenge	p-value	Hypothesis*
FR	CA	Lack of appropriate capital across the risk return spectrum	0.0047	reject Ho
FR	CA	Capital constraints	0.0075	reject Ho
FR	BME	Early stage business model innovation	0.0206	reject Ho
FR	BME	Principal agent problems	0.1528	Do not reject Ho
FR	BME	Lack of managerial skills of SE	0.3573	Do not reject Ho
SR	DEMO	Difficulty of measuring impact	0.0061	reject Ho
SR	VAL	Differential valuation of social returns	0.1441	Do not reject Ho
MI	STD	Lack of common way to talk about II	0.2409	Do not reject Ho
MI	STD	Liquidity & exit risk	0.4265	Do not reject Ho

* The null hypothesis is that the two variances are equal tested on a 5% confidence level ($\alpha=0.05$)

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