**The Effect of Framing Communication Strategies on Impact Investment Decisions**

Francesca C. Faugno

Annenberg School of Communication and Journalism, University of Southern California

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Social responsibility is a growing trend in business across the world. Sustainability and social impact are increasingly important to consumers and investors in almost every industry (Renneboog et al., 2008). This ethical consumerism trend includes certifications, corporate social responsibility (CSR) initiatives, and as this paper will discuss, a focus on impact investments. Broadly defined, impact investments are financial investments that involve both financial returns as well as philanthropic, or social objectives (Höchstädter & Scheck, 2014). Over the next decade, the impact investing marketplace is expected to amass between 400 million and 1 trillion US dollars. Potential profit is projected to reach up to 667 billion USD in that time period (Clarkin, 2016). With the growth of the impact investment industry, it has become a widely recognized business approach and a relatively unexplored research area.

The term impact investing first emerged in 2007. The Rockefeller Foundation coined this term to describe a kind of investment that valued social impact, as opposed to just financial returns (Harji & Jackson, 2012). Following this, the foundation also created the Global Impact Investing Network (GIIN) to promote growth of the industry. Soon after, many new investors began to engage in impact investing. One of the largest investments since then was the Ford Foundation’s pledge to one billion dollars into social enterprises over the next ten years (Reisman et al., 2018). This being said, 2007 was not the inception of socially responsible investments as a concept. Socially responsible investing is a practice that has been used for over 70 years, and much of what previous scholars referred to as socially responsible investing can constitute what many now define as impact investing (Barber et al., 2020).

Today, scholars generally agree on two essential components to what constitutes an impact investment. The first component is that the investment will yield a financial return of some kind. This concept is also present in conventional investing. The second component is that there will be a non-financial result that broadly has some kind of social impact (Höchstädter & Scheck, 2014). These kinds of impact can include, but are not limited to, poverty reduction, improved access to education, and prevention of environmental degradation. An example of this model would be investing working capital loans into building for-profit schools, to be repaid with interest. This model improves access to education, while repaying stakeholders. There have been efforts to discriminate between impact investments and investments in companies that are solely profit oriented but associated with positive industries like clean energy (Barber et al., 2020). Impact investing also does not include investments which are merely branded to come across as socially conscious (Barber et al., 2020). For the purpose of this paper, research on socially responsible investments that fit these criteria will be used interchangeably.

The first theoretical area that this paper will engage with is motivations for engaging in impact investing. There is a body of research that is dedicated to understanding the motivations for investors to engage in impact investing, although no study is comprehensive. Scholars continue to try to codify the different kinds of motivations at play ( Barber et al., 2020; Brandstetter & Lehner, 2015). There are nonetheless calls to continue research in this area around decision making frameworks (Lyons & Kickul, 2013;Harji & Jackson, 2018). There have also been numerous attempts by scholars and organizations to quantify the nonpecuniary benefits of the model, including the Impact Reporting and Investment Standard (IRIS), which is run by GIIN, however there is not yet an agreed upon metric (Reisman et al., 2018). Because one of the tenets of the investment strategy is that it measures success on two axes, academics have attempted to create a standard for measuring these factors against each other with a compatible metric (Brandstetter & Lehner, 2015).

The second theoretical area that this paper attempts to incorporate is framing theory. Specifically, this means determining best applications of framing to communicate benefits based on motivations of potential investors. Framing theory refers to the way that people orient their conceptions of a particular issue based on the perspectives with which they approach them (Chong & Druckman, 2007). This is to say that, to change the way information is presented or communicated may change the way they perceive a potential investment. Research does suggest that the way that sustainability categories are constructed has a substantial impact on investment decisions (Hartzmark & Sussman, 2019).

Both academics and business practitioners can benefit from an analysis of incentives and communication strategies around impact investing. Because the term impact investing was coined relatively recently, the body of literature surrounding it is constantly evolving. Because there is still no unified framework for understanding impact investment, there is opportunity for academics to pioneer theoretical framework on the topic. For social enterprises that want to attract investors, there are best practices for communication strategies that likely depend not only on the risk and reward analysis of the social enterprise, but also on the motivations of the investors. By taking into account all of these factors, social enterprises can tailor their framing strategies to investors. This study aims to analyze the motivations of investors when it comes to impact investing and use this to determine what kind of framing leads to the best communication strategies for different situations.

**Literature review**

Because the field of impact investing is still developing, the academia on the subject is somewhat limited and constantly evolving. Specifically, earlier work on socially responsible investment may be oriented more toward investments that minimize social harm as opposed to having a more positive, additive impact. This is due to the fact that, as previously mentioned, the term impact investment was not officially coined until 2007, providing a starting place for scholars to define and analyze (Höchstädter & Scheck, 2014). The subsequent literature has been more cohesive due to having a common starting point.

There is a body of work dedicated to understanding investor motivations when it comes to impact investing. The double bottom line that is associated with this investment strategy implies that impact investors may have different motives than conventional investors, although it is not enough just to assume this to be true without empirical data. The major point of difference which has been the subject of research is the importance of financial outcomes.

One study that set out to discern a difference between conventional investments and impact investment motives was McLachlan and Gardner’s 2004 study, which took a survey of 109 investors, who were sampled from Australian investment service companies. This study did notfind evidence that socially responsible investors cared less about financial returns, although the article is careful to mention that this does not mean that there is no mechanism for weighing financial return with other social impact factors (McLachlan & Gardner, 2004). This reflects the early conceptions of the investment style, which struggled to formulate a unified measurement for combined social and financial returns.

 Despite McLachlan and Gardner’s (2004) inability to prove impact investors had lower expectations of their financial outcomes, subsequent studies have disagreed. In 2008, Renneboog et al. published a study of comparing conventional mutual funds with socially responsible mutual funds from 17 countries. The results of this study called attention to the tension of impact investing, suggesting that investors in socially responsible funds *may* be more willing to sacrifice some financial returns in exchange for the social outcomes (Renneboog et al., 2008). This study paved the way for future research to measure the specific financial tradeoffs investors are willing to make for social impact. Because this study involved a much larger scope and more geographically diverse sample, it is more generalizable than McLachlan and Gardner’s survey (2004). This study is often cited by subsequent impact investment literature, particularly that which attempts to prove or quantify the willingness to pay for impact.

 One study which has proven that financial decision making differs for impact investments was a 2015 study by Kovner and Lerner. This study covered 28 venture capital funds that focused on community development. They concluded that this kind of impact fund was more likely to invest in the early stages of a social enterprise and was less likely to exit companies after lower success rates(Kovner & Lerner, 2015). This is a concrete example of how investors do accept lesser financial returns in social impact settings. The implication is that it provides empirical evidence for theory that Renneboog et al. (2008) put forth, and has subsequently become the prevailing belief; the theory that impact investors are willing to sacrifice some financial returns for impact.

 A 2020 study by Barber et al. provided compelling and detailed evidence that investors are willing to pay for social impact. Specifically, the study refers to nonpecuniary benefits, which are benefits that do not include financial returns. This study used data from Prequin’s Investor Intelligence and Performance records. After screening, they were left with 159 impact funds and 4500 traditional funds. They key finding from the study was that financial returns for impact funds are 4.7 points lower on average than those earned by traditional venture capitalist counterparts (Barber et al., 2020). This contributes to support the idea that investors trade of financial returns for impact.

In 2019, Hartzmark and Sussman attempted to examine how individuals value nonpecuniary benefits of investments. This study analyzed the impact of the 2016 release of Morningstar sustainability ratings. These ratings gave funds a score from one to five “globes”. They key finding was after the sustainability rating were published, there were large reallocation of money to highly ranked funds. Investors treated sustainability as a positive attribute, despite records of these funds having lower financial returns (Hartzmark & Sussman, 2019). These findings are in line with the previously mentioned literature, because it proves lower financial returns are not a complete deterrent for impact funds (Barber et al., 2020). This study also builds on prior research because it demonstrates that sustainability actually adds value.

Because impact investors have demonstrated a willingness to sacrifice financial returns for impact, this gives rise to questions about how to determine the nonfinancial motivations for investment decisions. Previous research seemed to imply that motivation for social impact investments stemmed from personal belief systems and concern for ethical practices (McLachlan & Gardner, 2004; Renneboog, 2008). This belief was addressed in Reidel and Smeets’ 2010 report. This report used a combination of survey responses and incentivized experiments. The sample was based on Dutch investors. Like a number of other scholars, they agree that financial returns play less of a role than in conventional investments. They add a unique perspective to the debate by incorporating aspects of social signaling as well as social preferences. Social preferences refer to the intrinsic interest in social good, similar to other theories. Social signaling refers to the extrinsic benefits one can get from investing in impact areas. For example, an impact investor can improve his or her public image by investing in socially responsible ways. This supports the idea that there are nonpecuniary benefits that are based in self-interest. The idea that all social impact motivations are altruistic in nature is something other scholars do not always consider.

Barber et al.’s (2020) theoretical contribution to understanding nonpecuniary outcomes is the breakdown investor attributes into categories. This was one of the first theories to categorize impact investors into different types. Of the nine types outlined in the study, developmental organizations, financial institutions, and public pensions displayed the highest ratings. Doing this allowed the authors to ascertain attributes of high willingness to pay investors. These included things like investors with organizational missions and investors facing high political pressure (Barber et al., 2020). This revelation is particularly interesting because it builds upon Reidel and Smeets’ idea of extrinsic factors influencing impact investment decisions.

Glac’s 2010 study also addresses the concept of outside factors determining the extent that an investor values impact. Glac performed an experiment on a pool of 240 undergraduate students from two U.S. universities. This study was set within a cognition framework to study the implications of framing on investment decisions. It explored two main cognitive models for investment decisions. The first was framed as a financial decision with elements financial knowledge similar to conventional models. The second framework was framed as an expressive decision, where investing was linked to personal identity and beliefs. The study found that the way that investments were framed influenced both the likelihood of engaging in socially responsible investments as well as how much financial return investors are willing to sacrifice for socially responsible investments. When participants were primed with financial frameworks, they were not only more likely to choose socially responsible investment, they were also less forgiving of return differentials than the control groups. The results of this study imply that there are a number of factors that can influence socially responsible investment decisions.

The development of the literature surrounding socially responsible investing has provided a good basis for future research into the impact investing field. As various studies have established, there are a number of different motivations for investors to choose impact funds. The next steps should be to study what communication strategies are best suited for specific investor motivations.

A continuation of this literature review would contain research on:

* Communication strategies
* Framing theory
* ROI/ performance metrics
* conventional investment

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