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Impact Investing: Killing Two Birds with One Stone?

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A cornerstone of impact investing is the intentional provision of measurable nonfinancial returns in addition to conventional financial returns. This attractive promise also constitutes the Achilles' heel of impact investing. When two or more goals (e.g., impact and financial returns) are pursued through a single means (e.g., investing), humans tend to believe that the means becomes less effective in achieving either goal. We discuss the conceptual foundations of this likely bias and its implications for the impact investing movement. We also suggest some practical ways to overcome this issue.

Things are what people think they are.

—Friedrich Hayek (1948), "The Use of Knowledge in Society"

The impact investing movement has grown exponentially since the end of 2000s. A comprehensive estimate has put global assets under management at US$502 billion at the end of 2018 (Mudaliar and Dithrich 2019). The term "impact investing" originated with a 2007 meeting organized by the Rockefeller Foundation and applies to "seeking to generate both financial return and social and/or environmental value—while at a minimum returning capital, and, in many cases, offering market rate returns or better" (Harji and Jackson 2012). According to the Global Impact Investing Network (GIIN), impact investments can be defined as "investments made with the intention to generate positive, measurable social and environmental impact alongside a financial return" (GIIN 2019). Three common features of impact investing are frequently cited:

- intentionality of impact,
- expectation of financial returns, and
- measurable impact along nonfinancial dimensions—notably, social, environmental, or governance (or two or three of these) dimensions.

Exhibit 1 provides a comparison of traditional investing and impact investing. The traditional investing paradigm is clearly based on a financial calculus, with profitability as the main target. In contrast, although impact investing keeps the expectation of financial return, it explicitly adds the delivery of measurable nonfinancial benefits as a key objective.

Although the precise term "impact investing" is recent, the concept and the underlying conflict between financial and nonfinancial goals have been discussed for a long time. In their critique of social investing, Langbein and Posner (1980, p. 73) defined social investing as "excluding the securities of certain otherwise attractive companies

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Exhibit 1. Traditional Investing vs. Impact Investing

	Traditional Investing	Impact Investing
Goals	Making money	Making money *and* doing good
Primary criteria of security selection	Profitability	Profitability *and* ability to deliver nonfinancial impact aligned with the investor's values
Nonfinancial impact (social and/or environmental)	Side effect but not sought per se	Intentional
Impact measurement	No	Yes and planned

from an investor's portfolio because the companies are judged to be socially irresponsible, and including the securities of certain otherwise unattractive companies because they are judged to be behaving in a socially laudable way." The terms "attractive" and "unattractive" referred to the conventional objective of investment, which is to make money. The dual objective is clearly stipulated in the mission statement of many impact investments.

The apparent conflict between making money and doing good may, in fact, reveal a convergence of objectives, even sometimes a synergy (Thomas and Starr 2020).[1] For instance, Elevar Equity describes itself as a human-centered capital firm that promises "outstanding investment returns by delivering essential services to disconnected communities underserved by global networks."[2] Using its micro-credit experience, Elevar Equity designed much larger housing loans for low-income clients in India. Similarly, the impact investing team of Nuveen, a US asset manager and wholly owned subsidiary of TIAA, oversees nearly US$1 billion in assets and includes in its portfolio investments designed to create and preserve safe, affordable, and sustainable urban housing while also generating material cash-on-cash and residual returns for investors. In addition to financial returns, Nuveen claims that in the decade of 2009–2018, its

> capital has enabled over 200 companies and fund managers to deliver financial services, healthcare and education to underserved consumers in emerging markets and preserved 20,000 affordable housing units across America. (Unnithan and Spector 2019)

In the environmental realm, Ecosystem Investment Partners, a private equity firm, is expected to spend about US$30 million (out of US$181 million in raised capital) to clean and restore portions of 16,500 acres of Louisiana wetlands. The restoration includes lands that will generate federal environmental restoration credits, which will then be sold to developers and government agencies to offset environmental damage caused by their projects (Schwartz 2014). In simple words, these investment proposals claimed that they can make money *and* do good simultaneously.

The impact investing movement frequently emphasizes its ability to deliver risk-adjusted market-rate returns together with measurable social and environmental improvements (Mudaliar, Bass, and Dithrich 2018). For instance, a report by Gray, Ashburn, Douglas, Jeffers, Musto, and Geczy (2015, p. 28) stated that in a number of market segments, "impact funds in the sample that seek market-rate-returns demonstrate that they can achieve results comparable to market indices." The GIIN's eighth Annual Impact Investor Survey reported that "a majority of respondents indicated that their investments have met their expectations for both impact (82%) and financial (76%) performance since inception. . . . Another 15% even reported outperformance across each of these dimensions" (Mudaliar et al. 2018, p. XIV). These positive results are consistent with a well-cited meta-analysis of about 2,200 studies concluding that the business case for environmental, social, and governance investing is empirically well founded and has been stable over time (Friede, Busch, and Bassen 2015; see also Mudaliar and Bass 2017; Institute for Sustainable Investing 2019).

Making money while doing good is intuitively appealing because it has the potential to combine the best of two worlds that were frequently considered opposites. Of course, money earned in the financial realm as a result of conventional investments can serve subsequently to feed philanthropic projects, but the two aims have traditionally been achieved sequentially. In impact investing, the aims overlap.[3]

From a behavioral viewpoint, the impact investing premise also contains an Achilles' heel, at least for a subset of investors—a suspicion that neither aim can be fully met this way.[4] We are not the first to sound the alarm bell (e.g., Brest and Born 2013), but we go deeper by examining here some heuristics-based reasons for this likely point of view and the underpinning rationales. For instance, an expert in impact investing stated that

> in attempting to bridge the gap between impact investing and mainstream finance, we have often been left straddling the two—with suspicion from both communities that we are unable to deliver or fulfill the dual objectives. This, despite the fact that after three years, we know we have outperformed the stipulated benchmark in gross terms by investing in bonds which generate a clear positive environmental and social impact. (Kinnersley 2013)[5]

Similarly, Shami Nissan, head of responsible investment at Actis, stated about impact investing that "some may see an inherent conflict or need to compromise either financial returns or impact, but our view is that the two are mutually supportive" ("Six Trends In Impact Investing" 2019). Similarly, Matthew Slovik, head of Global Sustainable Finance at Morgan Stanley, reported the following:

> The myth that sustainable investing requires a financial tradeoff has been surprisingly sticky, despite research demonstrating that companies with strong social or environmental practices outperform their peers on a variety of measures. (Institute for Sustainable Investing 2019)

In briefly reviewing the increasing literature that explores the financial performance of impact investing, we do not question the ability of impact investing to simultaneously reach the two goals. Our primary aim is to discuss why perceptions frequently differ from the reality. We emphasize the role of subconscious biases in would-be impact investors. Indeed, when a single action (e.g., investment) is assumed to achieve multiple goals (making money and doing good), this action is frequently *perceived* as less effective than a single-purpose effort. The more goals the action claims to meet, the less individuals believe that any goal will be successfully accomplished. This "goal dilution" effect is likely to lead investors on both sides (finance and impact) to be skeptical and to discount the objective results delivered along the two dimensions. This distortion of reality is not simply quibbling over words. It may significantly limit potential investors and reduce investors' willingness to engage in impact investing. More conventionally minded investors are urgently needed, however, in impact investing.

To back up our reasoning, we apply recent behavioral insights to the impact investing premise. Neglecting the goal dilution issue may reduce the persuasive power of promoters of impact investing. We draw some managerial and policy conclusions from these biases that lead us to consider several strategies to overcome or reduce the biases. We suggest that advocates of impact investing avoid a one-size-fits-all approach. We discuss the extension of some strategies inspired by nascent social psychology and consumer psychology literature devoted to multipurpose products and some behaviorally based solutions (e.g., Godeke, Pomares, Bruno, Guerra, Kleissner, and Shefrin 2009; Davies and Brooks 2017; Statman 2019). As a preview, we investigate the use of informational "nudges," the tailoring of promotional messages to the mindset of investors, segmentation strategies that allow division of assets into different goal-based buckets, and the enhancement of sustainable and behavioral finance literacy. Throughout the article, we present examples and anecdotal evidence to reinforce the relevance of the discussion.

The Financial Performance of Impact Investing

As noted previously, we do not question whether impact investing outperforms or underperforms conventional investing. Nevertheless, we review here some evidence regarding the financial performance of these two types of investments. Indeed, if investors commonly observe impact investments being outperformed by conventional ones in terms of financial return, their aversion to impact investing is rational and reasonable.

One of the first studies to directly address this important issue (Gray et al. 2015) analyzed the financial performance, relative to public market equivalents (PMEs), of 32 private-equity impact investing funds that targeted market rates of return and invested in a total of 170 portfolio companies. They found that

> a pooled end-to-end aggregate PME calculation for the 170 market-rate-seeking investments in the sample returns a PME gross of fees,

> expenses, and carried interest of 0.98 (12.94% IRR [internal rate of return], 9.03% mIRR [modified IRR]), compared to a spliced Russell Microcap/Russell 2000 index, indicating nearly identical performance with the market index. (Gray et al. 2015, p. 4)

A comprehensive review of available research to date on the financial performance of impact investments (Mudaliar and Bass 2017, p. 26) concluded that

> impact investors seeking market-rate returns can achieve them. Across various strategies and asset classes, top quartile funds seeking market-rate returns perform at similar levels to peers in conventional markets. In many cases, median performance is also quite similar. . . . Generally, the range of fund returns in impact investing mirrors that in conventional investing.

This review also emphasized that performance varied from one fund to another, which suggests that fund manager selection is key to achieving strong returns.

A recent report from Morgan Stanley (2019) used Morningstar data on exchange-traded and open-end mutual funds active in any given year from 2004 to 2018 to analyze 10,723 funds. Among the key findings is the following: "The returns of sustainable funds were in line with comparable traditional funds. There was no consistent and statistically significant difference in total returns" (Morgan Stanley 2019, p. 1). Moreover, the report emphasized that sustainable funds may offer lower market risk: "Sustainable funds experienced a 20% smaller downside deviation than traditional funds. This was a consistent and statistically significant finding" (Morgan Stanley 2019, p. 1). This study also found that in turbulent markets, sustainable funds' downside deviation was significantly smaller than that of traditional funds. They stressed that these findings might come as a "surprise to the *53% of individual investors who believe that investing sustainably requires a financial trade-off*" (Morgan Stanley 2019, p. 9; emphasis added).

The 2019 Morgan Stanley report echoed the findings of the academic contribution of Gibson and Krueger (2018). These authors computed a weighted average portfolio-level sustainability score, or ecological footprint, and provided evidence that investors with better sustainability footprints attained higher risk-adjusted investment performance. The authors suggested that the main mechanism through which better sustainability translates into better investment performance is not return enhancement but, rather, risk reduction. If risk reduction is added to financial returns and impact benefits, the situation could even allow investors to kill "three birds" with one stone!

To present an unbiased overview of the current debate, we also point out some contributions that found a negative relationship (significantly fewer than those that found a positive relationship) between impact investing and investment returns. For instance, Barber, Morse, and Yasuda (2020) found that in the period they studied (1995–2014), impact funds earned internal rates of return (IRRs) that were 4.7 percentage points lower *ex post* than the IRRs of traditional venture capital funds. Nevertheless, given that several previous studies explicitly considered impact investments that were seeking *market* rates of return, these mixed findings are consistent with previous ones.

Not all impact investors seek risk-adjusted market-rate returns; some even target returns to be below competitive market returns. According to Mudaliar et al. (2018), 36% of survey respondents targeted below-market-rate returns, 20% targeted returns close to market rate, and 16% sought returns close to capital preservation. Barber et al. (2020) also documented that some investors derive nonpecuniary utility from investing in dual-objective funds and are willing to earn lower returns in exchange for impact. Unnithan and Spector (2019) provided substantial details about the nonmonetary achievements of Nuveen that some investors might consider valuable compensation for lower financial returns. For example, they reported that in 2018, Nuveen reached more than 147 million low-income consumers with low-cost, high-quality essential services, such as financial services, health care, education, and housing. That same year, Nuveen's impact portfolio reduced 1.8 million metric tons of CO_2 and recycled 80,000 tons of waste.

Despite increasing evidence of a positive relationship between impact and investment performance, several points remain debatable—most notably, the extent to which various dimensions of impact investing contribute to performance, the mechanisms through which such performance enhancement occurs, and the direction of causality (Bolli, Degoumois, Doronzo, and Zbinden 2017). Moreover, the success of impact investing could derive from the compound effects of impact delivery and other company characteristics. For example, socially responsible companies targeted by impact investors might have some common characteristics that lead to success. Ferrell, Liang, and Renneboog (2016) showed that socially responsible companies tend to have low free cash flow, high leverage ratios, and high pay-performance sensitivity.[6] Therefore, investors' decisions on impact investing as well as the performance of impact investments could depend on these company characteristics, not on the social or environmental impacts of the investments per se. Distinguishing the pure effect of impact investing from the effects of other company-specific factors that are closely related to social and environmental impacts is far from easy and beyond the scope of our article.

In the following section, accepting that impact investments can simultaneously achieve the two goals of making money and doing good, we examine heuristics-based reasons that lead some would-be investors to consider this dual promise with suspicion.

Why the Dual Promise of Impact Investing Is Still Considered with Skepticism

He who chases two rabbits catches neither.

—*Confucius*

Several mechanisms and biases might explain why some investors are likely to discount the dual promise of impact investing, regardless of objective reality. For ease of exposition, we assume that financial returns constitute the primary goal of impact investing and making the world a better place, an additional and intentional goal. For instance, Renewal Funds (Impact Assets, undated) claims that it invests in

> early-growth stage companies, in Canada and the U.S., creating portfolios designed to *deliver above market financial returns* at a lower risk profile than traditional venture capital funds while delivering strong social and environmental performance. (emphasis added)

The order of the goals (financial returns first) can be reversed (environmental/social returns first), and the reasoning remains the same.

First, we discuss two mechanisms—the goal dilution bias and the zero-sum bias—that explain how adding features to a product or service that has a primary goal or function is likely to cause a decrease in the perceived quality or instrumentality of each feature. Second, we develop the Presenter's Paradox: when more is less. In terms of this paradox, proposers adopt an additive perspective—they think that adding more features increases the value of a deal—whereas would-be customers tend to consider the average of the features instead of the sum. These two mechanisms explain why impact investing is likely to be perceived as delivering less than what it really delivers.

The Goal Dilution Bias. Individuals have a tendency to believe that an entity performing a single function is better at that function than another entity performing the same function and additional ones. Adding goals is viewed as reducing or diluting the effectiveness at meeting each goal. Investors may be subject to the goal dilution bias (e.g., Zhang, Fishbach, and Kruglanski 2007; Grolleau, Mzoughi, and Sutan 2019), so when a firm pursues financial, environmental, and social goals by a single means (the investment), people may perceive the firm as less effective at achieving the goals than a firm pursuing each individually. For example, an investment promising to deliver market-rate returns and simultaneously provide affordable housing might be perceived as less effective than an investment promising only market-rate returns. This distorted perception may lead investors to unduly dismiss the promise of impact investing.

The Zero-Sum Heuristic. The zero-sum bias (Chernev 2007; Chernev and Carpenter 2001) is the tendency of individuals, including investors, to judge intuitively that resources invested in one dimension (e.g., producing an impact on nonfinancial issues) are automatically matched with an equivalent loss of resources for other dimensions (e.g., the financial return), even if the objective situation is not actually a zero-sum condition. Chernev (2007) suggested that dedicating resources to the additional attributes is perceived to come at a cost to the primary attribute. Consider this example: Investors from developed countries, such as Great Britain, can fund and provide solar kits for households in African regions with no access to electricity. As households pay for the kits over some years, investors recoup their investments "with interest three times that offered by high street banks" (Mannion 2018), but the reality can be perceived as less rosy.[7]

This bias seems to be strongest in relation to the allocation of desirable resources, especially in the case of intergroup interactions, such as the situation of investors vis-à-vis impact beneficiaries (Meegan 2010). For investors who share this conviction, financial success is possible only at the expense of other people's failures (Rozycka-Tran, Boski, and Wojciszke 2015). These two biases can be reinforced by the conventional wisdom that doing good frequently requires sacrificing something—for example, convenience or financial returns sacrificed for environmental or social returns. In summary and regardless of objective results, some investors are likely to perceive impact investing as delivering less than market-rate returns on the financial dimension.

The Presenter's Paradox. Finally, consider the Presenter's Paradox (Weaver, Garcia, and Schwarz 2012). This paradox pertains to the conflict between adapters and agents who believe that presenting additional features will strengthen the likelihood of the agents' success. The proposers of impact investing believe that, in addition to presenting financial returns, providing details about how the proposed investments will enhance people's lives will convince investors to adopt impact investing and drive more money into impact investments. Recent studies (e.g., Weaver, Hock, and Garcia 2016) have found, however, that proposers fail to appreciate that those evaluating their propositions (e.g., investors) frequently adopt an averaging approach, as in adding warm water to hot water, thus producing a more moderate average temperature. Attempts to close a deal by adding extra features to an already strong proposal, therefore, may lead to a reduction in the overall attractiveness of that proposal. In other words, an audience of potential impact investors with a financial mindset is, in fact, less likely to be persuaded to engage in impact investing after receiving a message that contains both weak (e.g., impact-related) arguments and strong (e.g., financial return–related) arguments compared with a message that contains the stronger arguments only.

All in all, the clear warning is that promoting or advancing two or more goals through the same investment tool can inadvertently harm the appeal of the tool for some investors. Moreover, the effect is likely to be reinforced when the goals are very different, do not face the same time horizon, and are subject to different measurement uncertainties. A natural objection to this reasoning comes in the form of the growth of impact investing, so why should one care about these obstructions? We argue that the apparent growth of this business must not hide what happens behind the headlines. The current growth may be explained by investors "picking the low-hanging fruit" of early products or by preaching to the already converted—that is, the pioneers or investors who are already convinced by the double promise of impact investing. Once the early growth has been exhausted, convincing other investors—notably, mainstream investors—to make the switch may become difficult. In that case, understanding the underlying factors causing reluctance in investors will enable the impact investing community to refine and strengthen its arguments.

Finally, we also recognize that some nonheuristic factors could be significantly affecting perceptions about impact investing. Examples are economic conditions and market sentiment. For instance, investors may be generous in putting their money in socially responsible investments in a bullish market but tend to rule out philanthropic goals and focus on financial returns in a bearish market or in case of recession. For example, many alternative energy companies, which are typically included in impact investments, underperformed the broader market and demonstrated greater volatility than the market during the 2018 downturn (e.g., Frankfurt School-UNEP Centre 2019).

Implications of the Goal Dilution Effect for Impact Investing

A natural and likely implication of the previous discussion is the reduction in attractiveness of impact investing, especially for investors who unduly perceive these investments as riskier and less likely to fully deliver their promises than traditional investments.[8] The result is lower evaluations of impact investments and fewer decisions to participate in impact investing. This rationale constitutes a major challenge for the impact investing movement. To counter the effects, promoters of impact investing may be tempted to overstate or exaggerate what is or will be delivered/provided by their impact investment products. Financial returns, with the availability of well-standardized, consensual procedures and relevant benchmarks (e.g., risk-adjusted market-rate returns), seem easy to measure. Measuring multidimensional and nonfinancial outcomes, however, is challenging and is open to various interpretations and manipulations that can be used to reassure (or mislead) investors (Kerr 1975). But when investors understand that the exaggerated promises cannot be fulfilled, such a short-term tactic can compromise the long-term strategy of, threaten the credibility of, and harm the whole sector.[9]

Not all investors exhibit the same aversion to compromising or sacrificing financial returns (or speed of returns) or assuming extra risks in order to undertake impact investing. On the one hand, investors with a returns-first mindset may devalue promises of financial returns that are announced as close to (or above) risk-adjusted market-rate returns when an impact on nonfinancial dimensions is promised. On the other hand, investors with an impact-first mindset may devalue nonfinancial impacts because of the promise of market-like returns, especially if these investors compare impact investing with such alternatives as grants (see, e.g., Hillebrandt and Halstead 2018). Charming some investors with impact promises can come at the cost of alarming other investors, who will discount the financial return promises.

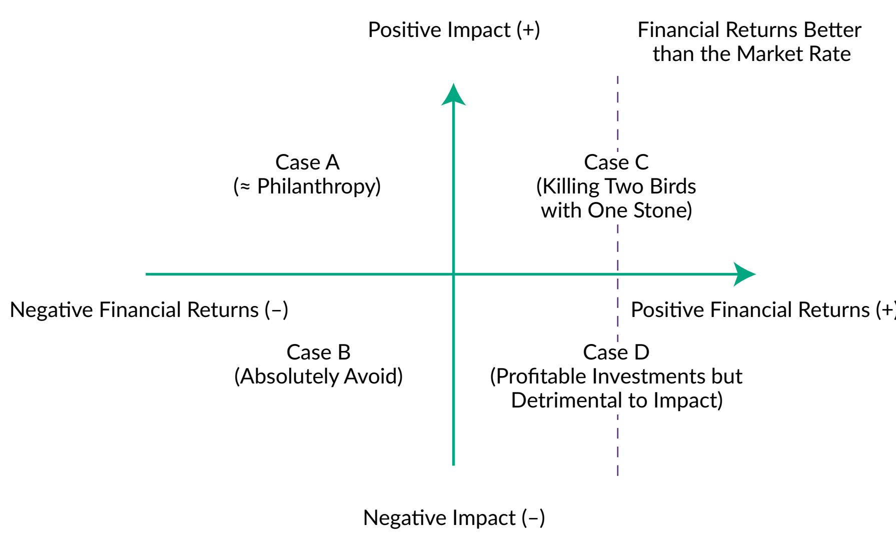
The *perceptions* about investment promises by potential investors can be considered in a simplified two-dimensional space of interest shown in **Figure 1**: negative on financial returns versus positive on financial returns along one dimension and negative in relation to impact versus positive in relation to impact along the other dimension. Of course, these perceptions are related to the *expectations* of potential investors. Moreover, each dimension (financial performance and impact) has investors along a continuum, but the matrix allows identification of four polar cases. What most impact investments promise is located in the Case C quadrant. For a given impact level, a further distinction (indicated by the dotted line) concerns positive financial returns that are either lower than market-rate returns (Case $C^{<}$) or higher than market-rate returns (Case $C^{>}$). Investors with a financial mindset first will be interested in the Case $C^{>}$ space. At the same time, if an impact investment is likely to really deliver these high financial returns, the provider need not emphasize the impact dimension; mainstream finance actors will invest automatically. The worst situation is Case B, a lose-lose situation. Investors with these perceptions are very unlikely to invest at all unless the decision is completely irrational or undertaken for goals that fall outside this two-dimensional framework. The two other situations fall in between these extremes. In Case A, money is sacrificed to reach nonfinancial returns, such as giving to charities with the requirement to demonstrate impact (Hillebrandt and Halstead 2018). In Case D, impact is sacrificed to deliver positive financial returns and even returns higher than market rate. Case A and Case $C^{<}$ represent investors' perceptions with an impact-first mindset who can be interested in sacrificing some financial gains to reach impact outcomes (Barber et al. 2020).

In short, a clear vision of the types of investors can significantly help financial advisers align proposals with investors' mindsets.

Insights for Overcoming the Goal Dilution Effect

To avoid or reduce the goal dilution effect, we discuss the suggestions offered by the social psychology and consumer psychology literature. We also consider general behavioral insights that can be applied in this context. Nevertheless, empirically grounded findings are scarce, and as far as we know, no one has made a contribution specially devoted to impact investing. For these reasons, we caution the reader not to consider these insights ready-to-use solutions that can be directly applied to how one presents impact investing. The ideas should be

Figure 1. Characterizing Investors According to Their Perceptions of the Promise of Impact Investing



regarded as lines of thought that deserve further investigation, in relation to impact investing.

Tips Inspired by the Psychology Literature Devoted to Multipurpose Products. First, an intuitive solution to avoid the goal dilution effect is to reduce the number of goals that are simultaneously pursued—preferably to one or by prioritizing one goal over others by giving up or deferring some goals (Köpetz, Faber, Fishbach, and Kruglanski 2011). Köpetz et al. (2011, p. 810) also stressed that individuals who highly endorse several goals are more likely to prefer multiple final means:

> In the presence of several objectives, goal conflict may be avoided via multifinal means, which advance all of the active goals at once. Because such means observe multiple constraints, they are fewer in number than the unconstrained means to a single goal.

Applied to the investing question, the implication is that one should segment investors according to the value(s) they endorse in the investing realm and match investment proposals to their priorities. For some investors, advisers would select investment proposals that prioritize one goal over the other one—either making money or doing good. For investors who highly value the two goals, the goal dilution effect does little harm because impact investing offers a refreshing way to reconcile the two goals. In short, knowledge of investors' mindsets and priorities (see Diouf, Hebb, and Touré 2016) and segmenting them into groups based on the number and nature of their values can allow one to avoid a one-size-fits-all approach. Promotional messages can be tailored to the various segments.

Second, the literature also suggests that reducing the perceived competition or conflict among goals or increasing perceived goal similarity can weaken the dilution effect and increase the adoption of multiple goals (Zhang et al. 2007). Regarding impact investing, the more that making money and doing good are perceived as aligned or synergistic, the more investors are likely to embrace impact investing. Thomas and Starr (2020) posited that the societal goals of impact investing are, in fact, the source of above-market returns:

> As traditional financial efficiencies have become more fully integrated and priced into assets, environmental and social factors provide a lens to identify untapped value in all types of companies by driving sales, reducing costs and boosting productivity through improved governance, inclusion and diversity initiatives, workplace investments in human capital, and investments in energy sustainability.

Concretely, to persuade investors, advisers may have to identify these underlying mechanisms and provide convincing evidence that the two goals are aligned, even synergistic in some circumstances.

Third, Park (2014) showed that the dilution effect of multiple goals is likely to diminish as people perceive progress toward the primary goal. Applied to the impact investing business, if advisers and proposers can make investors perceive progress toward their focal goal (investment returns), investors are likely to accept impact investing as the secondary goal. Convincing results for the primary goal help alleviate the goal dilution effect.

Fourth, there is emerging evidence that individuals' incidental moods alter their perceptions of multipurpose products. Being in a positive mood amplifies the perception of differences and conflicts between multiple goals. A positive mood makes individuals perceive multipurpose products as less useful for reaching the goals simultaneously. Based on their findings, Pocheptsova, Espinoza Petersen, and Etkin (2015, p. 302) recommended that advertisers

> be careful not to pair emotional advertising appeals with explicit multipurpose product claims, but instead focus on one key feature of the product when using positive affect as an advertising tactic. By contrast, multipurpose claims are more appropriate for informational appeals in advertising.

Given that investment-related decisions are somewhat influenced by moods (see Hirshleifer and Shumway 2003), this dimension should not be neglected. Applied to the impact investing industry, this insight suggests that when the provider decides to focus on a key goal, the provider should distinguish informational appeals from emotional appeals.

Other Strategies Inspired by the Behavioral Finance Literature. In this section, we develop some strategies that are informed by the behavioral finance literature—for example, Godeke et al. (2009), Davies and Brooks (2017), and Statman (2019)—and are intended to debias, or nudge, individuals in such a way as to overcome or at least reduce the intensity or frequency of the unwanted behavior

(Lilienfeld, Ammirati, and Landfield 2009). Given that suboptimal decisions significantly harm performance, debiasing decision makers can lead to sizable performance improvements and does not need to be expensive (Hoffman, Huber, and Smith 2017). Debiasing techniques can be deployed at various levels—for instance, an investment management firm adjusting the expectations of its clients and a fund adjusting the beliefs of its investment managers.

A first natural tactic might be to inform or remind investors (or managers) at the right time that they have subconscious biases; being aware of their biases, they may be able to reduce the impact of the biases. Concretely, training investors or asset managers can help them notice their automatic reactions and slow these reactions down in favor of more rational responses. Financial advisers act as a "gateway" for would-be investors, so they play a crucial role in informing and training their clients. Thus, when the advisers themselves are trained, the result is a multiplier effect. For instance, Ron Albahary, chief investment officer of the Threshold Group, a US$3.3 billion registered investment adviser in the United States, has indicated that being conscious about personal and team biases helped his team members understand how they approach different decisions in their portfolios (Schwartz 2017; see also De Paola, Gioia, and Piluso 2020).

A related technique is to enhance information presentation and framing (Agnew and Szykman 2005; Morrin, Broniarczyk, and Inman 2012; Morewedge, Yoon, Scopelliti, Symborski, Korris, and Kassam 2015; Davies and Brooks 2017). The multidimensional nature of impact investments can expose would-be impact investors to information overload and lead them to overemphasize the financial dimension in order to simplify their decisions. Well-trained financial advisers can offer guidance and help clients align their portfolios with their values by presenting easy-to-understand and well-organized information ("Final Report by the Implementation Taskforce . . ." 2018; IOSCO 2019).[10] To facilitate a rational analysis by (maybe unsophisticated) would-be impact investors, information might include appropriate feedback from others who are relevant to the investor or the decision—for example, other qualified investors or advisers (Giddens 2018). This approach is a smart way to exploit the well-known herd behavior in financial markets.

Suppressing or, at least, not mentioning some issues to some investors would seem logical in order to avoid the goal dilution effect. Interestingly, some producers manufacturing green products have suppressed information about their "greenness" efforts in order to not harm perceptions about the products' more traditional qualities (Grolleau et al. 2019). Even if presenting a two-goal investment as a one-goal investment strategy makes sense from a logical viewpoint, however, this strategy is ethically questionable and poses high litigation risks, especially if investors whose priority is financial returns end up having a negative impact on the overall aspects of impact investing.

How the impact investment is framed in a presentation is crucial (Farrow, Grolleau, and Mzoughi 2018). Ronald Albahary of the Threshold Group quoted an insightful and practical example about the power of framing in communicating with a client. He asked the client, "You have $20 million; would a 10% loss be acceptable?" The client said yes. But when the question was framed as "Would you be comfortable losing $2 million?" the client said no (Schwartz 2017). With already-motivated investors, a financial adviser can even harness the power of loss aversion by framing an impact dimension as a way to avoid an environmental or social loss rather than a way to gain something. Moreover, labeling the impacts of an investment "collateral results" or "side effects," not necessarily "main goals," could reduce the influence of the dual goal problem for profit-minded investors.

Another strategy is to use a "bucket approach" inspired by the mental accounting concept (Thaler 1999; Shefrin and Statman 2000; Brunel 2003). Financial advisers are known to help their clients regarding important investment decisions at three distinct points: (1) at the time of acquiring a new client, (2) when substantial inflows of capital occur (e.g., inheritance, bonuses, asset sales), and (3) during periodic portfolio reviews (Bafford 2014). Financial advisers can help a client go beyond the goal dilution bias by using a checklist to determine the asset allocation strategy for this specific client. In addition to the usual questions—notably, the financial considerations—the adviser can ask a simple question such as "Is your investment portfolio aligned with your values?" This approach can help investors consider impact investing (Bafford 2014). Goal-based compartmentalization means placing investments in a series of buckets, each connected to a specific goal with its own time horizon and risk profile. The idea is that clients may tolerate (expectations of) lower financial returns for the impact-oriented bucket, or they may have longer horizons for their impact investing, especially during times of market volatility.

Finally, the heterogeneity of would-be impact investors in terms of the amount of their funds to invest, preferences, education, objectives, and wealth levels requires various strategies, not a one-size-fits-all approach. For instance, institutional investors might be targeted individually with specifically developed approaches. They generally have greater access to academic research than retail investors, can benefit from specific and dedicated training about given biases, and are able to apply advanced analytics to large sets of historical data. Advanced tools can help them identify and isolate specific biases (including the goal dilution bias), estimate the effect of biases on their portfolios, and initiate countermeasures (Hoffman et al. 2017). Reaching retail investors, who are sometimes less sophisticated than institutions, may necessitate large-scale approaches—for example, artificial intelligence–based, digitalized wealth management tools and robo-advisers that provide tailored content, possibly based on behavioral analysis. These devices can also help investors' financial advisers, who may be more interested in the devices than their clients are and more likely to digest the information related to multipurpose financial products.

Indeed, thanks to a domino effect, targeting financial advisers makes sense as a way to effectively reach individual investors. Long-term consequences can be achieved by enhancing financial literacy among financial advisers as well as future investors—in school and university curricula or through investing and business media. Developing educational programs on impact investing or promoting free, investor-friendly, and easily accessible information on impact investing can help reduce biases about the issue by emphasizing the synergies between the two goals ("Final Report by the Implementation Taskforce . . ." 2018; Thomas and Starr 2020). Some online educational platforms and interactive websites already aim to help retail investors (or advisers) discover their behavioral biases (or those of their clients) and offer tips on how to manage and overcome them.

Conclusion

The Confucius quote "He who chases two rabbits catches neither" is an interesting adage but not an absolute truth. If someone chases two rabbits that are following the same path or moving in the same direction, they may both be caught one by one. Nevertheless, investors are humans and are subject to various biases and heuristics. We argued that the very promise of impact investing may be its main Achilles' heel for some investors. In other words, when an impact investing proposer puts everything that might catch an investor's eye into the financial product, the proposer is inadvertently making the financial product look weaker, not stronger. This effect should not be underestimated.

We also advocate for grappling with the unconscious biases of investors and other actors in the impact investing sector. Such understanding can help influencers and promoters of impact investing reach their objectives.

Finally, we suggested several practical ways that might override the detrimental effects of the biases.

Our contribution raises interesting issues for further research. An important issue is related to time. For instance, does positioning the investment decision in the future reduce the power of the goal dilution effect? Moreover, is it possible that lower financial returns today (compared with immediate market rates) would be compensated by higher financial returns in the long term? Do investment size or investor gender influence the likelihood of the goal dilution effect? Does this dilution effect become stronger when a higher number of goals ($N > 2$) is involved? For instance, risk reduction might be an additional goal.

Rather than closing the debate, our contribution is an emphatic call for adding behavioral insights into the impact investment toolbox.

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Notes

1. For example, Langbein and Posner (1980) discussed the apparent conflict between making money and doing good. They noted the case of the New York City schoolteachers' pension fund, Teachers' Retirement System, which purchased US$860 million of New York City bonds as part of the plan that prevented the city from going bankrupt in late 1975. This social objective, a category of impact investing, was considered worthy by the union but, on the surface, could have led to a potentially bad financial outcome for the investors. Nevertheless, a case could be made that the investment attacked two birds with one stone because the investors (beneficiaries) would have lost everything if the city had gone bankrupt. We are grateful to the editor for pointing us to Langbein and Posner's insightful paper.

2. See the firm's website at www.elevarequity.com.

3. Discussing the risk dimension of impact investing is beyond the scope of our contribution. We recognize, however, that impact investing can also be used to lower the risk of the total portfolio, even if this effect is not automatic. We elaborate on this point later in this article.

4. Some authors who question the ability of impact investing to achieve its promises even maintain that "donating effectively is usually better than impact investing" (Hillebrandt and Halstead 2018).

5. See also Gray et al. (2015); Mudaliar and Bass (2017).

6. The pay-performance sensitivity corresponds to the degree to which executive pay reflects corporate performance, with higher sensitivities indicating a closer alignment.

7. "High street banks" are large retail banks with hundreds of branch locations.

8. For sake of brevity, we consider all the mechanisms discussed previously under the goal dilution label.

9. The challenges related to measurement of social and environmental impacts gave rise to the launch of IRIS+ (https://iris.thegiin.org) by GIIN to be the "generally accepted system for impact investors to measure, manage, and optimize their impact."

10. An intuitive idea would be sequential presentation (promoting one goal now and another one later) rather than simultaneous presentation of the two dimensions. For instance, the presenter could emphasize convincing financial results and then stress that they were obtained thanks to synergies with the nonfinancial, or impact, dimension (Thomas and Starr 2020). A pilot survey experiment mimicking real-world conditions with various treatments could inform agents attempting to debias investors on the most successful candidates.

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