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A Study on the Factors affecting the Knowledge of Impact Investing

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ABSTRACT--*Savings and Investment is the key to any nation's economy growth. It is an integral part of peoples' daily decision. Impact investors do investment with an intention to impact positively by measuring the impact of social and environmental causes alongside a financial return. These investors tend to invest in different movable and immovable assets like shares, bonds, real estate, mutual funds. This research is to identify the factors influence the investments which made into different sources Questionnaire method applied to identify the awareness of such traditional investors, socially responsible investors and the sources of influences. Samples collected to identify whether education and experience of investors affect the impact investments pattern are key aspects of the study. Risk and return factor after comparison of both SRIs and Traditional investors seems to be identical in a few cases although the motive is different. It is identified that there is a minimal difference between traditional investors and socially responsible investors which adds to our findings and research problem. Through our discussions, we had identified that investors aimed to incorporate both the financial and social objectives in the investment decision. Socially responsible investing has been developed since the 1970s. Today it serves as a vital aspect of investing culture. SRI is a way to promote practices that aid in developing and also concerns about the environment, which separates them from traditional investors. The main focus of this research study is to identify the differences and similarities claimed between SRIs and traditional investors and reveal their earning capacities and the duration required henceforth.*

Keywords--*impact investing, socially responsible investors, SRI, traditional investors*

I. INTRODUCTION

India, a developing country has a huge task ahead in finding sufficient capital for their country's development. Many countries like India face a lot of trouble in getting out of poverty of low income, low saving, low investment and low employment. As capital output ratio is high, India needs very high investment rates to face all the problems (Seranmadevi & Kumar, 2019) stated above and lead itself into the growth that it expects around the corner.

Investors are aware of the characteristics of investing or investments as they are truly interesting accompanied by challenges and rewards. It is a basic understanding that when there is high risk more rate of return is assured and vice versa. Risk and return are identified to go together. Other important features to add on to investments are safety of the principal amount, liquidity, easy transferability. Stability of income receivable is also expected. As

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mentioned, a variety of investment avenues are available which includes commodities (Gold, Silver etc.), bank, shares etc. All investors are usually found investing their surplus money in these opportunities of investing. Investment industry has largely grown during past times and therefore the types of investments also vary. They are widely classified as Equity, Debt, Mutual funds, Corporate Debentures, fixed deposit, Company fixed Deposits and Post office Savings.

Investors in share market can be classified into two types such as i) Traditional Investors and ii) Socially Responsible Investors. Investors who tend to have only financial goals are termed to be traditional investors, which separates them from the socially responsible investors. The assumption that investments made by the traditional investors are rational is under criticism. As a matter of fact investigation has helped us very little about their preferences (Gireeshan, 2020). Humans are social creatures and are highly influenced by values and perceptions and decisions are made accordingly. Behavioral Finance adds on to these statements stating that one should not make decisions depending only on objectives and also a perspective to state and focus on the key areas that traditional finance has failed to explain or faces difficulties in explaining.

To summarize, the notion of traditional investors is just investing money into well-known assets such as the mentioned above. Alternative investments are also contrasted under traditional investments. They expect Capital appeciation interest and other earnings and dividends.

Socially Responsible investors have social goals with financial goals(Gireeshan, 2015). Socially responsible investors include social values in their investment along with the financial goals as traditional investors. The reasons for this pattern of investment will be sustainability, market based approaches, investment performance analysis and the scope of impact. The success of socially responsible investing depends on the investor’s objective. If the investor seeks change in the environment or society, returns are of less importance. Primarily it is they have to rely on their own evaluation of performance of the investments. They may be categorized into low risk and low engagement, low risk and high engagement and high risk and high engagement.

Some of the examples of socially responsible investments are a) Investments in tobacco, alcohol and firearms. (Mutual Funds) b) Investment in Socially Responsible investment companies (Community financial institutions) c) Special Purpose Fund and d) Pay for Success (Social impact Bonds). Socially responsible investors require their investments to be in par with their social values, as just financial goals are not the only goals for SRIs. The investor’s social values and ethics are subjective, which may be motivated by family, faith and legacy considerations.

II. STATEMENT OF THE PROBLEM

While considering SRIs and Traditional investors, traditional investors are of large number. This is a problem identified due to unawareness and the common expectations of traditional investors. Traditional investors seek immediate or short-term return as it is not always the case in a socially responsible investment. Risk and return factor after comparison of both SRIs and Traditional investors seems to be identical in few cases although the motive is different (Senthil & Padma, 2019). As with SRI the risk applies both to financial returns and social impact. The difference in risk and return is minimal. How can the awareness of impact investing expand or what are the ways that impact investing and other terms like socially responsible investing can be informed

III. REVIEW OF LITERATURE

Alenis (2016) addresses the similarities between selection of stock investment portfolio and practicing impact investment in portfolios. Gerritson (2016) to understand impact, it must be measured and evaluated. And advices that impact investing can be seen as an improvement over socially responsible investing. According to Riina (2016) there is no statistical difference between impact types, investor types or the size of the portfolio in Europe. He stated that the strategy of impact investing is relatively new in the market and there is a necessity to develop active practices of impact investing. The study suggests that to have a successful measurement framework of impact that will help in growth of measurement of impact through the respective securities. One of the major findings of the research was that the investors do not measure the actual impact. Saebi (2018) states that the there is an increasing interest in impact investing wherein the investors are seeking to gain dual objectives in their investment, but most of the key fundamental aspects have not been addressed. The research also emphasizes of Norwegian impact investors also lack measurement activity. Bugg-Levine & Emerson (2011) identifies the Impact investing as a field of capital investment where capital is used to maximize the combined value of social, environmental and financial performance. Impact investment is place where the investor's aims to create positive impact social and environment impact alongside financial return.

IV. SCOPE OF STUDY

This research study will consider the patters of investments of both traditional and impact investments. It will consider education and experience as the major factors affecting the knowledge of impact investing. And it covers other areas such as the objectives, forms of investment and their risk and return and investor's motives. Behavior of investors after investment is not part of the study. Research is limited to motives keeping in par with the objectives and research questions.

V. SIGNIFICANCE OF THE STUDY

The aim of the research is to identify the key factors affecting the growth and knowledge of the impact investors and socially responsible investors in India. Our research adds to the knowledge of impact investing in India and its importance in India. This study will make a pavement for various researches to be conducted on the same as we have analyzed the most basic concept of awareness for the study. Investing pattern today combines the goals of financial and philanthropic capital. In accordance the research will inform that both traditional as well as socially responsible investment have a lot in common where a investor can coincide both the objectives and can accordingly make his investment decision.

VI. LIMITATIONS OF THE STUDY

The key hindrances in the study were the slightest difference between socially Responsible Investors and Impact investors, which affected our study in analyzing the differences. And, identification of the required samples was difficult as we required opinions from people with different levels of education and also genuine investors.

VII. RESEARCH QUESTIONS

a. Does education affect the knowledge of an investor about Impact investing?

b. Does experience affect the investing patterns of an individual?

VIII. OBJECTIVES OF THE STUDY

a. To study the key similarities between traditional investors and socially responsible investors

b. To find out whether qualification and experience of an investor affects the knowledge of impact investment.

IX. RESEARCH METHODOLOGY

In order to achieve our research objectives, well-structured questionnaire were distributed to genuine investors in Bengaluru, Karnataka. One of the main focuses was to identify genuine investors and collect the necessary data. Questionnaires were distributed in online mode via Google Forms and data was collected in the month of January 2020.

Since the study use quantitative research method to analyze the similarities and differences in the investment pattern of traditional and socially responsible investors, and also how their education level has an impact on their investment decision, primary data recourse is collected by employing questionnaire method and also personal opinion of few investors regarding the same has been taken. Secondary data sources are articles on traditional investment, related journals, website briefing on investment plans in India, papers on Investing with dual objectives, investment behavior of traditional investors and business papers. 120 completed questionnaires were received and only 40 were selected for the study which met the criteria for consideration respectively. Simple Random Sampling was used for the same. Various investors from Bengaluru who are students and employees from various organizations were considered for the study. Keeping account of the objectives and hypothesis framed statistical tool chi square test was used to identify if experience affects the knowledge of the investors about Impact Investment. The statistical software SPSS version 22 was used for data analysis.

X. ANALYSIS AND INTERPRETATION

Statistical methods Chi-Square test and Anova were used to analyze the data collected. The statistical software SPSS version 22 was used for data analysis. In accordance to our research questions, data was collected based on the experience to know about their knowledge on impact investing; just a basic understanding of impact investing was needed for answering the question. On the other hand we have also tested the hypothesis on qualification and the level of awareness or knowledge of impact investing of the individuals. To identify if experience affects the knowledge of impact investing chi square test was used and as there is involvement of scalable values anova test was used to identify if qualification affects the level of awareness. The hypothesis are stated below

$H_{0:}$ There is no significant relationship between experience and knowledge of impact investing

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Table 1 : Chi-Square Test : Experience and Knowledge of Impact Investing

	Value	df	Asymp. Sig. (2-sided)	Exact Sig. (2-sided)	Exact Sig. (1-sided)
Pearson Chi-Square	4.284[a]	1	**.038**		
Continuity Correction[b]	2.965	1	.085		
Likelihood Ratio	4.245	1	.039		
Fisher's Exact Test				.080	**.043***
Linear-by-Linear Association	4.174	1	.041		
N of Valid Cases	39				

* Significant at 5% level of significance

Table 2: ANOVA Test : Qualification and Knowledge of Impact Investing

	Sum of Squares	df	Mean Square	F	Sig.
Between Groups	1.310	3	.437	.458	.713
Within Groups	33.357	35	.953		
Total	34.667	38			

Source: SPSS Output

The hypothesis was tested with the available data to identify if experience affects the knowledge of impact investing. Table 1 shows the results of the test conducted and it is evident that the P value is lesser than 0.05 (significance level) the null hypotheses is to be rejected. It can be identified that experience has a significant role to play with the knowledge of impact investing.

The test results of anova resulted in a p value of 0.713 which was to identify if qualification affects the awareness of impact investing. From table 2 we can interpret that there is no significant relationship between qualification and knowledge of impact investing. The results identify the qualification and experience of individuals on the impact investing in India. The study proves that these variables are significant, because the assumption of impact growth in India (which will be one of the most important considerations for growth prospects) is being hampered by lack of knowledge of the same. It is agreeable to discuss about social stock exchanges and having a framework to measure impact from them. But, unawareness of the same will not lead us to growth. The misconception that returns are lower with respect to impact/SR investing is also a hindrance due to lack of knowledge.

The main differences between thematic investing, impact investing and ESG investing are also to be analyzed which will result in more efficient awareness of investment opportunities. As we have analyzed we have identified that experience does affect the awareness of impact investing whereas qualification does not affect the same. Investors who have been investing for more than two years are aware of impact investing whereas investors with less experience are not fully aware of the same. The qualification variable includes various disciplines of study involved; hence their chances of such investments are less. So along with the major findings it can also be inferred that investors only after their investing activities identify the other investments which may help them achieve dual objectives. A lot of theoretical research is to done before the initiation of social stock exchanges in India.

XI. DISCUSSION AND CONCLUSION

According to the responses in the questionnaire that is given to the participants, the results found that the investors aimed to incorporate both the financial and social objectives in the investment decision but are unaware of the basic concepts. There are several ways to approach investment goals. A relatively new approach towards investment is Goal Based Investing where both the risk and return factor is high. Under this you can consider the time horizon and risk level separately for each goal, and invest accordingly. Investors today argue that by targeting investments with high degree of risk and return such as investments into early stage ventures and ventures that operate in emerging market, achievement of the social objectives is by default insured.

It has been stated in the research that there is slight difference between traditional investing and socially responsible investing as investors now try to achieve both high social impact and financial performance. It highlights the importance of taking up scalable and innovative proposition, with a social mission that has potential for a large reach. Although it can be identified that Risk and Return of these investors in a short period of time is almost similar. Certain difference between both kinds of investment allows investors to reconcile their dual objective. Higher investment practices are to be cultivated and proper training and information is to be available to investors. The study suggests further research on the scope of impact investing in India and basic knowledgeable aspects of impact investing.

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