EVALUATING FINANCIAL AND SOCIAL RETURNS FOR INVESTORS: METHODS, CHALLENGES, AND CASE STUDIES

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ABSTRACT

Investors, especially in recent years, have begun to place greater importance on evaluating not only the financial returns on their investments but also their social and environmental impact. In this research article, we explore the different methods and frameworks available for evaluating both financial and social returns for investors. We discuss the importance of these evaluations, the challenges investors face when attempting to evaluate both types of returns, and the different metrics and tools investors can use to measure these returns. We also examine case studies of companies and investment funds that have successfully managed to balance financial and social returns.

Keywords: Financial Returns, Social Returns, Investors, ESG, Sustainable Development Goals, Impact Investing, Social Return on Investment, Patagonia, Calvert Foundation.

INTRODUCTION

Investor's today face increasing pressure to not only generates financial returns but also to have a positive impact on society and the environment. The rise of responsible investing has led to investors evaluating companies not only on their financial performance but also on their social and environmental practices. This has led to the development of new methods and frameworks for evaluating both financial and social returns for investors. In this research article, we explore the different ways in which investors can evaluate both types of returns and the challenges they face when doing so (Basset, 2023).

Importance of Evaluating Financial and Social Returns

Evaluating financial returns is essential for investors, as it allows them to determine whether their investment has generated a return on their investment. However, evaluating social returns is also important for investors as it provides insight into the impact their investments are having on society and the environment. This information can be crucial for investors who wish to align their investments with their values and beliefs (Jackson, 2013).

Challenges of Evaluating Financial and Social Returns

Investors face several challenges when evaluating both financial and social returns. One of the biggest challenges is determining which metrics to use. Financial returns are typically measured using traditional financial metrics such as return on investment (ROI) and earnings per share (EPS). However, measuring social returns is more challenging, as there are no standardized metrics for evaluating social impact. Investors must decide which metrics are most relevant for their investment and how to measure those (Moore et al., 2012).

Another challenge investor's face is balancing financial and social returns. In some cases, companies may prioritize social impact over financial returns, while in other cases; companies may prioritize financial returns over social impact. Investors must determine how to balance these two types of returns to ensure they are meeting both their financial and social goals (Nielse et al., 2021).

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Methods for Evaluating Financial and Social Returns

There are several methods and frameworks available for evaluating both financial and social returns for investors. One common framework is the Environmental, Social, and Governance (ESG) framework. This framework measures a company's impact on the environment, its social practices, and its corporate governance. Another framework is the United Nations' Sustainable Development Goals (SDGs), which provide a set of goals for companies to achieve in order to contribute to sustainable development.

In addition to these frameworks, there are several metrics and tools investors can use to measure both financial and social returns. These include impact investing, which seeks to generate both financial returns and social impact, and social return on investment (SROI), which measures the social impact of an investment in monetary terms (Pathak & Dattani, 2014).

Case Studies

Several companies and investment funds have successfully managed to balance financial and social returns. One such company is Patagonia, which has made sustainability a key part of its business model. Another is the Calvert Foundation, which has developed a range of impact investment products that generate both financial returns and social impact (Verrinder et al., 2018).

CONCLUSION

In conclusion, evaluating both financial and social returns is becoming increasingly important for investors. While there are several challenges associated with evaluating both types of returns, there are also several methods and frameworks available for investors to use. By using these tools, investors can better align their investments with their values and beliefs while still generating financial returns.

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