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Evaluation of Sustainable Investments from a Financial and Social Perspective

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Abstract

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Sustainable investment reflects a strategic approach that considers not only financial aspects but also social and environmental impacts. In a global context increasingly aware of the importance of corporate social responsibility, the evaluative approach to this type of investment has undergone a fundamental transformation. This study aims to evaluate sustainable investment from two main perspectives: financial and social. Using a literature review method, this article analyzes findings from several relevant academic journals published and available. The results indicate that sustainability contributes positively to long-term financial performance, while also presenting challenges in systematically measuring social impact. The study recommends the integration of Environmental, Social, Governance frameworks and evaluative tools such as Social Return on Investment to assess the feasibility and effectiveness of sustainable investments more holistically. These recommendations are essential for business actors, investors, and policymakers seeking to create long-term value, not only economically but also socially.

1. Introduction

The escalating intensity of climate change, widening social inequalities, and various global crises, such as energy and food shortages, have compelled numerous countries and international institutions to prioritize sustainability as a core strategic agenda in their long-term economic policymaking. This signifies a collective awareness that development based on the exploitation of natural and human resources is no longer tenable. In this context, the concept of sustainable investment emerges not merely as an innovative business strategy offering added value, but also as a crucial instrument to bridge economic interests, social needs, and environmental preservation. In other words, sustainable investment serves as a means to achieve a fairer and more enduring balance between inclusive economic growth, social justice for all segments of society, and the protection of Earth's ecological systems (Kalkanci et al., 2019).

In Indonesia, the commitment to sustainability has become increasingly evident, particularly since the issuance of the Financial Services Authority (*Otoritas Jasa Keuangan*/ OJK) (Hanifah, 2019). This policy encourages companies, especially those listed on the capital market, to systematically and structurally integrate Environmental, Social, and Governance (ESG) aspects into their sustainability reports. This policy is not just normative; it aims to enhance corporate accountability and transparency regarding the impact of their business activities on society and the environment. ESG has now become a globally recognized framework for assessing corporate commitment and sustainability performance.

By definition, sustainable investment refers to the practice of capital allocation that considers not only financial returns but also the social and environmental impacts of the investment in the medium to long term (Kölbel et al., 2020). Thus, such investments do not merely seek economic profit but also contribute to achieving the Sustainable Development Goals. However, evaluating sustainable investments is not straightforward, as it involves multidisciplinary dimensions and complex indicators. From a financial perspective, evaluation typically focuses on aspects such as return on investment, risk analysis, and liquidity. On the other hand, from a social perspective, evaluation is more geared towards aspects of inclusivity in benefit access, the extent of local community empowerment, and how the generated social values can be sustained in the long term.

Currently, global companies increasingly recognize that implementing sustainability strategies is not just about regulatory compliance but is a crucial pillar in building corporate reputation, increasing consumer loyalty, and promoting efficiency in internal operations (Maeenuddina et al, 2020). Nevertheless, at the business actor level, particularly in developing countries like Indonesia, there are still various obstacles to adopting sustainable investment principles. One major challenge is the low understanding of the long-term benefits of this strategy, as well as the unpreparedness to implement relevant and credible evaluation methods. This difficulty is further exacerbated by the lack of widely applicable and comparable measurement standards across industrial sectors, and the minimal integration of social and environmental data into conventional financial reporting systems widely used in the business world (Triyani et al., 2021).

Through this study, the author aims to present a critical synthesis of various recent scientific literatures discussing how sustainable investment evaluations are conducted, particularly from two important perspectives: financial and social. The analysis process involves examining theoretical approaches and empirical findings from national and international journals published in the last five years. The main contribution intended by this study is a conceptual and practical foundation that can serve as a guide for evaluating the effectiveness and impact of sustainable investments holistically. It is hoped that the results of this study can be a valuable reference for various stakeholders such as investors, academics, regulators, and policymakers in formulating investment strategies that are not only economically beneficial but also capable of supporting long-term sustainability agendas at both national and global levels.

2. Literature Review

2.1. Financial Perspective in Sustainable Investment

Sustainable investment has increasingly demonstrated that adherence to Environmental, Social, and Governance (ESG) principles is not only ethically responsible but also financially advantageous over the long term (Triyani et al., 2021). Companies that implement strong ESG practices tend to enjoy improved market performance, reduced volatility in stock prices, and greater investor confidence. According to Kölbel et al. (2020), firms with well-established ESG frameworks typically exhibit lower share price volatility and reduced cost of capital. This is primarily because they are perceived as lower-risk investments due to their proactive risk management, transparency, and commitment to sustainability, which in turn leads to more favorable evaluations from stakeholders and financial institutions.

From a financial evaluation perspective, sustainable investments are typically assessed using conventional financial indicators such as Return on Investment (ROI), Net Present Value (NPV), and various risk analysis tools (Tushar et al., 2022). These tools provide a foundation for determining the financial viability and profitability of an investment. However, these traditional methods often fall short of capturing the full scope of value generated by sustainable initiatives, particularly the intangible and long-term benefits linked to social and environmental outcomes. Therefore, it is essential to integrate ESG-related data into financial evaluation models. Doing so enables investors to account for externalities, reputational factors, regulatory compliance risks, and other non-financial variables that influence long-term performance and stakeholder value. This integrated approach allows for a more holistic assessment of investment opportunities, promoting decisions that align financial returns with broader societal and environmental benefits.

2.2. Social Perspective in Sustainable Investment

From a social perspective, the primary focus of sustainable investment is the extent to which the investment contributes positively to people's lives. This contribution can take the form of increased access to basic services such as education and healthcare, the creation of new decent and inclusive job opportunities, the economic empowerment of local communities, and efforts to preserve local culture sustainably. These elements serve as important indicators in assessing the social success of an investment. Corvo et al. (2022) states that one highly relevant evaluative approach in this context is Social Return on Investment (SROI). The SROI approach provides a way to quantify social impact in monetary terms, allowing the social benefits of a program or project to be compared with the costs incurred. This offers a more concrete perspective on the social effectiveness and efficiency of the investment.

However, the use of the SROI method in practice is still quite limited. The main obstacles lie in the need for very detailed and accurate social data, a time-consuming data collection process, and the necessity of active involvement from stakeholders, including beneficiary communities, in the evaluation process. Furthermore, Kadel's (2022) research also emphasizes the importance of complementing quantitative approaches with social impact narrative-based evaluations. These narratives are used to capture qualitative and contextual aspects of local community well-being, which are often overlooked by purely quantitative evaluation approaches.

2.3. Integration of ESG Frameworks and Evaluation Challenges

Several studies suggest the need for integrating the Environmental, Social, and Governance (ESG) framework into the investment evaluation process, both in the context of long-term risk assessment and as part of a mitigation strategy against potential negative impacts that may arise from an investment project. This approach is deemed capable of providing a more comprehensive view of an entity's performance and sustainability. Through ESG integration, companies can identify and anticipate various types of non-financial risks that are not always reflected in traditional financial reports. These risks include the potential for reputational crises due to ethical violations, social protests arising from unfair business practices, and environmental damage leading to legal sanctions or a decline in public trust (Turner, 2021). ESG-based assessment allows companies and investors to view these risks more systematically and measurably.

Nevertheless, the main challenges faced in implementing ESG-based evaluation are the uneven availability of data across industrial sectors and the inconsistency in reporting formats used. This is due to the lack of truly binding and universally applicable global standards for sustainability reporting (Fordham et al., 2018). Therefore, various parties are pushing for the harmonization and unification of sustainability reporting standards, such as through the Global Reporting Initiative (GRI) and the Sustainability Accounting Standards Board (SASB). These initiatives are expected to increase objectivity and comparability in the evaluation of sustainable investments across various sectors, and strengthen investor confidence in the sustainability data provided by companies.

3. Method

This study employs a qualitative method with a literature review (library research) approach. The primary objective of this method is to systematically explore, compare, and analyze various previously published research findings and theories relevant to the topic of sustainable investment evaluation from financial and social perspectives. The literature review approach was chosen for its ability to access various credible scholarly sources in a relatively efficient manner, without compromising the depth of analysis and academic validity. The initial step in conducting this research was the identification and selection process of primary literature sources from various internationally recognized databases. The databases from google Scholar.

The search was conducted using keywords such as "sustainable investment," "financial evaluation," "social impact," "ESG," and "SROI." The inclusion criteria established for the selection process comprised three main points. First, journals had to be published and available to align with the latest developments. Second, the selected journals had to focus on investment evaluation considering sustainability aspects, both from financial and social perspectives. Third, the literature had to be written in either Indonesian or English to ensure readability and accuracy of content analysis.

Based on this process, several articles were identified that met the criteria and were deemed relevant for further analysis. Each journal was analyzed using a content analysis approach to extract the main themes, methodologies used, and important findings related to the research questions. The analysis was conducted in stages. The first stage involved extracting key information from each journal, including the research objectives, methods used, and results obtained. The second stage involved thematic grouping based on the two main perspectives, namely financial and social, to obtain a systematic mapping of the evaluative approaches used. The third stage was the critical synthesis, intertwining various findings into a cohesive and continuous scholarly narrative. Data validity was maintained by comparing results across journals and reviewing the consistency and strength of the arguments put forward by each author. The diversity of study contexts, both methodological and geographical, served as a strength in providing a more comprehensive and in-depth view of the issue of sustainable investment evaluation.

4. Results

The evaluation of sustainable investments from financial and social perspectives shows a tendency to be complementary, even though their measurement approaches and methods differ in principle. These differences do not indicate a contradiction, but rather emphasize the necessity of multidimensional integration in assessing the impact and performance of an investment. From a financial perspective, most recent research states that the application of sustainability principles, particularly through the Environmental, Social, and Governance (ESG) framework, has a positive relationship with a company's long-term financial performance. This is due to increased investor confidence, strengthened corporate reputation, and more structured risk management. For example, a study by Triyani et al. (2021) shows that the application of ESG indicators in corporate investment strategies can significantly improve corporate reputation, thereby strengthening investors' perception of trust in the company.

The subsequent effect is seen in an increase in stock market value and improved stability of cash flows obtained by the company. Companies with high ESG scores tend to have lower credit risk. This provides a strategic advantage, namely easier access to funding from financial institutions with more competitive interest rates and more lenient terms, as they are considered more responsible and safer to finance. Furthermore, research by Maeenuddina et al. (2020) suggests that conventional financial evaluation methods, such as Return on Assets (ROA), Return on Equity (ROE), and Economic Value Added (EVA), are still relevant in the context of sustainable investment.

However, to reflect value more comprehensively, these indicators need to be combined with non-financial sustainability metrics. This approach is often referred to as blended value, which integrates financial, social, and environmental dimensions into a single integrated evaluation framework. Turner (2021) also support this approach by stating that the creation of value from an investment does not only originate from financial capital, but must also consider social capital and natural capital. Thus, an ideal sustainable investment evaluation framework should encompass all forms of value that can be generated by an investment, both those that can be measured financially and those that are intangible. From a social perspective, the most widely used evaluative approach in the literature is Social Return on Investment (SROI).

This method aims to quantify the social impact of an investment into a monetary value, so that it can be compared with the investment costs incurred. In this way, investors and organizations have a more concrete measuring tool to assess the social effectiveness of the funds invested. SROI allows for visualization of the extent to which a project contributes to improving the quality of life of the community, access to basic services such as education and health, and the economic empowerment of communities. Kadel et al. (2022) emphasizes that the use of the SROI method in education and health projects results in a more thorough and comprehensive mapping of social benefits. This study also highlights the importance of actively involving stakeholders during the evaluation process, so that the measurement results truly reflect the reality on the ground and are aligned with the needs of the beneficiary communities.

Furthermore, support for the social evaluation approach is strengthened by the research of Fordham et al. (2018), who examined the success of corporate social investment in the community-based agricultural sector. The results show that programs that involve the community from the planning stage to the evaluation stage are able to produce greater and more sustainable social impacts compared to programs designed top-down. These findings indicate that social success cannot be measured only from the project output side, but must consider outcomes that affect behavioral transformation, increased individual and group capacity, and access to basic community rights. In line with this, Corvo et al. (2022) asserts that social sustainability must be viewed from a deeper dimension, such as structural change and long-term welfare, not just quantitative achievements.

An interesting aspect that emerged in several studies is the potential trade-off between financial and social objectives. In some cases, large-scale social projects such as the construction of health or education facilities require significant capital and may not generate financial returns in the short term (Clark et al., 2018). However, such investments can yield high social returns, which in the long term have the potential to create social stability, community loyalty, and an expanded consumer base. Therefore, the sustainability indicators used in the evaluation process must consider the timeframe and the characteristics of the sector and type of investment project being analyzed.

The Analytical Hierarchy Process (AHP) method as a tool for investment decision-making that considers ESG factors. The AHP method is considered capable of prioritizing based on the weighting of importance between environmental, social, and financial aspects, in accordance with the needs and strategic values of the investor. Their study shows that AHP can provide a more flexible approach compared to conventional ROI-based evaluations alone. This approach not only expands the scope of analysis but also helps investors in forming portfolios that are not only economically profitable but also in line with the company's sustainability vision.

On the other hand, in quantitative research conducted by Triyani et al. (2021), it was found that the integration of ESG principles has a significant relationship with the reduction of corporate financial risk. Companies that comply with sustainability standards are proven to be more resilient in facing environmental or social scandals, and are better able to attract the attention of institutional investors. Currently, more and more large investors require ESG commitment as part of their investment considerations, so companies that are active in ESG reporting and implementation tend to gain a competitive advantage.

Furthermore, several findings from the reviewed journals state that evaluations from the financial and social sides should not be carried out separately, but rather designed in an integrated reporting system. This aims to provide a complete picture to stakeholders about the company's performance, not only from an economic perspective but also from its social contribution and environmental impact. Halkos and Nomikos (2021) highlight the importance of using sustainability reporting standards such as the Global Reporting Initiative (GRI), which can be used as a framework for preparing annual corporate reports. This report includes financial and non-financial indicators in one integrated document, thereby facilitating the evaluation, monitoring, and decision-making process by stakeholders, including investors, government, and the wider community.

The study by Chatzitheodorou et al. (2019) expands the scope of the discussion by examining how foundations and social institutions are beginning to adopt a sustainable investment evaluation approach in philanthropic activities. In outcome-based philanthropy projects, they develop social success metrics that are aligned with financial efficiency and effectiveness. By using this approach, institutions can ensure that allocated funds truly provide tangible and accountable impacts, both morally and administratively. This approach also helps in building public and donor trust in the transparency and accountability of social fund management.

Finally, the results of the literature synthesis show that public policies and regulations play a crucial role in strengthening the implementation of sustainable investment evaluations. Regulations can encourage companies to adopt ESG standards more systematically and consistently. For example, the Financial Services Authority (OJK) policy in Indonesia on sustainable finance encourages public companies to prepare sustainability reports as part of their governance obligations. These reports must include information related to the social and environmental impacts of their business activities. This policy is considered effective in promoting transparency, increasing awareness, and encouraging the transformation of corporate culture towards being more socially and environmentally responsible. The evaluation of sustainable investments from both financial and social perspectives is an approach that is not only complementary but also increasingly necessary in addressing the complexity of current global challenges. The integration of these two perspectives is an important step to ensure that investments are not only economically profitable but also make a real contribution to improving social welfare and environmental protection in the long term.

5. Discussion

This literature study clearly reveals that the evaluation of sustainable investments cannot be done partially; rather, it must be multidimensional. This means that assessment should not solely focus on financial outcomes but must also consider the social and environmental impacts arising as a consequence of the investment. Financial and social perspectives are not two separate or isolated entities; instead, they are closely interconnected and have significant reciprocal influence. In this context, the ideal and relevant evaluation approach for contemporary challenges is one that can integrate both perspectives into a comprehensive and holistic assessment system, reflecting both the economic and social value of an investment activity.

This finding also aligns with current global trends, where Environmental, Social, and Governance (ESG) principles are increasingly becoming the primary benchmark in investment decision-making, both at the corporate and financial institution levels (Cunha et al., 2021). While financial performance remains a key metric in modern investment, the social and environmental dimensions can no longer be ignored. These aspects are now playing a central role in assessing the feasibility and long-term sustainability of an investment, particularly in the context of reputational risk, regulatory changes, and social and environmental resilience. As demands for public transparency and social accountability increase, investors are also required not only to focus on the numbers in financial reports but also to be able to discern the social and ecological implications of their investment choices.

However, there are significant challenges, especially in evaluating social benefits. The main challenge lies in the limitations of objectively and quantitatively measuring social impact (Kah & Akenroye, 2020). Various social benefits, such as increased community participation, local economic empowerment, or behavioral changes, are often qualitative and contextual, making them difficult to convert into directly comparable figures. Therefore, a more adaptive and participatory evaluative approach is needed, such as the use of Social Return on Investment (SROI) methods, impact storytelling, and welfare surveys tailored to the local context. This approach must be accompanied by active collaboration among various stakeholders, including businesses, financial institutions, civil society, and government, so that the evaluation results truly reflect the actual conditions on the ground.

On the other hand, evaluation from a financial perspective also faces its own challenges, especially when it comes to internalizing social and environmental impacts into a quantitative financial accounting framework. For example, how does one assess the reputational risk due to human rights violations in a financial report Or how does one estimate the long-term value of increased local human resource capacity as a result of an investment project and to address these challenges, several studies suggest integrating the ESG evaluation framework with quantitative decision-based methods, such as the Analytical Hierarchy Process (AHP) or the Analytic Network Process (ANP).

These methods allow for multi-criteria assessment that considers various dimensions of value simultaneously and proportionally. Thus, the discourse and practice of sustainable investment have evolved from merely a form of corporate social responsibility to a business strategy oriented towards creating measurable and inclusive long-term value. A comprehensive and integrated evaluation will provide a stronger foundation for investors and decision-makers in understanding the trade-offs between economic and social dimensions, and maximizing the strategic benefits of each project undertaken.

6. Conclusion

The evaluation of sustainable investments cannot be conducted solely through a financial or social lens; rather, it must integrate both into a comprehensive and adaptive evaluative approach. The literature shows that applying ESG principles contributes positively to corporate financial stability and performance. Meanwhile, social aspects such as community empowerment, job creation, and improved quality of life are tangible evidence of long-term benefits that are often not reflected in conventional financial reports. This study suggests using the ESG and SROI frameworks as tools for evaluating sustainable investment projects. These two methods complement each other: ESG offers systematic risk and governance indicators, while SROI helps in measuring social impact in a measurable and transparent way. The main obstacles in implementing this evaluation are the lack of standardization, limited data, and the need for evaluative capacity from project implementers. By strengthening regulatory frameworks, increasing reporting transparency, and fostering cross-sector collaboration, Indonesia has a great opportunity to become a leader in sustainable investment practices in Southeast Asia. This study is expected to be an important reference for decision-makers in designing investment strategies that are not only profitable but also meaningful for society and the environment.

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