The Influence Of ESG And Financial Performance On The Investment Interest Of Generation Z

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Abstract. This study explores the influence of ESG factors and financial performance on Gen Z's investment interest in Indonesia. In the global context, Gen Z has emerged as a significant group of investors, with a high awareness of sustainability and social responsibility issues. This study was conducted in the city of Makassar, involving respondents between the ages of 18 and 24 years old with diverse educational backgrounds. The method used is an online survey, which assesses respondents' awareness of ESG factors as well as their views on the company's financial performance. The results of the study show that Gen Z highly values companies that have a strong commitment to sustainability and business ethics. In addition, financial performance is also a key consideration in their investment decisions. Multiple linear regression analysis reveals that ESG variables have a significant positive influence on investment interest, while financial performance also contributes to increasing investment attractiveness. These findings show that Gen Z wants a balance between financial gain and social responsibility in their investment choices. With a better understanding of the investment preferences of this generation, companies can formulate more effective strategies to attract their attention, thereby being able to compete in a market that is increasingly aware of social and environmental issues.

Keywords: ESG Factors, Financial Performance, Sustainability, Generation Z

1. Introduction

In recent years, Generation Z (Gen Z), which includes individuals born between 1997 and 2012, has become the main focus of attention for various sectors, including the financial and investment industries. Gen Z is expected to become a major force in the global economy, with the potential for digital consumption by 75% of ASEAN consumers and 70% of Indonesian consumers by 2030 [1]. This generation grew up in the fast-paced digital age, experiencing major global events such as climate change, the COVID-19 pandemic, and increased awareness of social injustice. These factors have a strong influence on their values and preferences, including in terms of investment decisions.

One of the unique aspects of Gen Z is their high interest in sustainable investing. Bollen found that young investors prefer companies that are committed to socially and environmentally responsible practices. Young investors tend to direct their funds to companies that pay attention to sustainability and social responsibility, given their values of being more concerned about environmental impact [2]. Duuren et al. that young investors are increasingly interested in investments that take into account Environmental, Social, and Governance (ESG) criteria [3]. This tendency can be explained by their increasing awareness of environmental, social, and governance issues better known as the ESG framework.

ESG is an increasingly popular assessment framework, especially among young investors, that is used to evaluate the extent to which companies adhere to good sustainability

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practices. The Environmental component includes the company's efforts to reduce carbon emissions, manage waste, and use renewable energy. The Social component includes the company's responsibility for workers' rights, consumer safety, and community engagement. Meanwhile, the Governance component refers to the quality of management, transparency, and corporate ethics. Research shows that companies with strong ESG performance often perform better financially over the long term because they tend to manage risk more effectively.

However, for Gen Z, investment decisions are not only based on ethical factors or social responsibility. The company's financial performance also remains one of the main considerations. Huang & Watson says that although companies with high ESG scores are expected to be more attractive, investors do not always see ESG as a key factor in investment decision-making, especially when financial performance is not optimal [4]. A study from Deloitte also shows that while Gen Z is interested in sustainability aspects, they are also very pragmatic [5]. They judge companies based on a combination of moral values and the ability to deliver good financial results. This shows that Gen Z prefers to invest in companies that are able to strike a balance between profitability and sustainability.

In the context of Indonesia, where the Gen Z population reaches 27.94% of the total population [6], this trend is also increasingly visible. Given the large population of Gen Z and their potential to transform the global investment landscape, it is important to understand the factors that influence their investment decisions, especially in the context of ESG as well as the financial performance of companies. This study aims to analyze the influence of ESG and financial performance on Gen Z's investment interests, particularly in Indonesia, and provide deeper insights into how these two factors interact with each other in their investment preferences.

Previous research has discussed the influence of ESG and financial performance on the investment preferences of millennials. For example, research by Friede et al. found that of 2,200 empirical studies examining the relationship between ESG and financial performance, about 90% of the studies concluded that there was a positive relationship between ESG and corporate financial performance [7]. This reinforces the idea that companies that prioritize sustainability often perform better in the capital markets. On the other hand, Amel & Serafeim found that most investors focus more on financial performance than ESG, especially if investing in the company does not guarantee high financial returns. Even among investors who express concern about ESG, many end up not using ESG criteria in their investment decision [8] .

However, studies that specifically focus on Gen Z are still limited. Gen Z has unique characteristics, such as greater attention to sustainability issues and corporate social responsibility, but their investment preferences based on ESG and financial performance have not been explored in depth.

Most research on ESG and financial performance that influences investment decisions is conducted in the context of developed countries. Given the differences in characteristics between generations and cultures, it is important to conduct more specific and contextual research on how Gen Z in developing countries, especially Indonesia, responds to ESG and financial performance factors in their investment decisions. This research is expected to fill this gap by providing more relevant empirical evidence.

2. Methodology Research

This research was carried out in the city of Makassar, which is the largest city in Sulawesi and is known as an educational and economic center. The target population of the study is Gen Z, which consists of individuals between the ages of 18 and 24. With the diversity of educational and economic backgrounds in Makassar, this study aims to explore Gen Z's views on ESG factors and financial performance in the context of investment.

The number of samples determined in this study was 50 respondents, who were selected using the purposive sampling technique. This selection was made taking into account the criteria that respondents must have basic knowledge about investment and demonstrate an interest in social and environmental issues. The purposive sampling method was chosen because it allows researchers to obtain more relevant data from the individuals who best understand the topic being researched [9]

Data collection was carried out through an online survey using a questionnaire which was divided into three main parts. The first part collects demographic information. The second part focuses on respondents' awareness of ESG factors, measured through a Likert scale from 1 to 5, where 1 means strongly disagree and 5 means strongly agree. The third part evaluates respondents' views on financial performance as an important aspect of investing, also using the same Likert scale.

Before being disseminated, the questionnaire was tested on 10 respondents to ensure the clarity and reliability of the questions. These trials help identify potential problems in question formulation and allow researchers to improve before questionnaires are used in larger surveys. [10]. After the revision was carried out, the questionnaire was distributed to 50 respondents through an online survey platform.

Once the data was collected, the analysis was carried out using SPSS statistical software to perform multiple linear regression analysis. The purpose of this analysis is to determine the extent to which ESG factors and financial performance affect Gen Z's investment interest.

3. Result and Discussion

The results of this study reveal important insights into the characteristics of Gen Z investment in Indonesia. Of the 50 respondents, all were between the ages of 18 and 24, with 60% female and 40% male.

3.1 Analysis and Results

a. Test Data Instrument

- Validity test

The basis for making a validity test decision is; 1) If the calculated value > the table or p-value < the value of sig, then the statement in the instrument is declared "valid". 2) If the calculated value < the table or p-value > the value of sig, then the statement in the instrument is declared "invalid".

Table 1 ESG Validity Test X1

	corrected	**r table**	
X1.1	0,379	0,278710593	Valid
X1.2	0,329	0,278710593	Valid
X1.3	0,578	0,278710593	Valid
X1.4	0,421	0,278710593	Valid
X1.5	0,716	0,278710593	Valid
X1.6	0,449	0,278710593	Valid

Table 2 Validity Test of Financial Performance X2

	corrected	**r table**	
X2.1	0,418	0,278710593	Valid
X2.2	0,570	0,278710593	Valid

X2.3	0,484	0,278710593	Valid
X2.4	0,526	0,278710593	Valid
X2.5	0,446	0,278710593	Valid
X2.6	0,413	0,278710593	Valid

Table 3 Investment Interest Validity Test Y

	corrected	**r table**	
Y1	0,625	0,278710593	Valid
Y2	0,491	0,278710593	Valid
Y3	0,329	0,278710593	Valid
Y4	0,587	0,278710593	Valid

Based on the tests in Table 1, Table 2, and Table 3, the r calculation is greater than the r table. Therefore, it can be concluded that all the indicators used in this study are "valid".

- Reliability Tests

The basis for decision-making in the reliability test is; 1) If the Cronbach's alpha value < 0.6, it is declared less reliable. 2) If Cronbach's alpha value > 0.6, it is declared reliable.

Table 4 Reliability Test

	Cronbach's Alpha	**N of Items**
X1	0.654	6
X2	0.658	6
Y	0.630	4

The values of Cronbach's Alpha Table 4 of the variables X1, X2, and Y are 0.654, 0.658, and 0.630 or > 0.6. That is, the statement of each variable is reliable.

b. Classical Assumption Test

- **Normality Test**

The normality test can be carried out by the Kolmogorov-Smirnov test, the analysis technique is as follows; 1) If the probability value of sig 2 tailed > 0.05, then the data distribution is normal. 2) If the probability value of sig 2 tailed < 0.05, then the data distribution is abnormal.

The results of the Kolmogorov-Smirnov test provide and it is known that the probability value (Asymp. Sig. (2-tailed)) is 0.200 > 0.05, which means that the normality assumption is met.

- **Multicollinearity Test**

A multicollinearity test was conducted to ensure that there was no very high correlation between the independent variables (ESG and financial performance). Multicollinearity can be seen through the Variance Inflation Factor (VIF) and Tolerance values. VIF for the variable ESG and financial performance = 1,130 (VIF < 10), so it can be concluded that there is no multicollinearity problem.

Tolerance for the variable ESG and financial performance is 0,885 (> 0,1), which indicates there is no multicollinearity problem between financial literacy and environmental concern attitudes.

- **Heteroscedasticity Test**

The heteroscedasticity test is whether in the model the regression aims to test whether there is inequality of variance from the residual of one observation to another. If the variance of the residual of one observation to another observation remains constant, it is called homoscedasticity, if the variance is different it is called heteroscedasticity.

It can be seen that the sig value of the ESG is 0,013 > 0,05 which indicates that there is no heteroscedasticity and the sig value of the financial performance is 0,022 > 0,05.

c. Moderate Regression Analysis

Table 5 Moderated Regression Analysis

Coefficients[a]

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	6,158	2,643		2,330	,024
	X1	,233	,091	,338	2,572	,013
	X2	,219	,093	,311	2,365	,022

a. Dependent Variable: Y

The value of the constant (intercept) is 6.158, which means that when X1 and X2 are zero, Y is predicted to be worth 6.158. Every 1-unit increase on X1 will increase Y by 0.233, and every 1-unit increase on X2 will increase Y by 0.219. These two independent variables had a significant effect on Y because the p-value of both was less than 0.05, which showed that the change in X1 and X2 had a real effect on the change in Y.

Table 6 Determination Coefficient Test

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	,531[a]	,282	,251	1,31053

a. Predictors: (Constant), X2, X1

An R^2 value of 0.282 indicates that 28.2% of the variation in Y can be explained by the combination of X1 and X2.

3.2 Discussion

The effect of ESG (X1) on investment interest (Y) can be seen from the results of multiple linear regression analysis which shows a coefficient value of 0.233, with a p-value of 0.013. This p-value is smaller than the significance level of 0.05, which means that ESG variables have a significant influence on investment interest. This means that the better the performance of a company's Environmental, Social, and Governance (ESG) factors, the greater the interest of individuals to invest in the company.

This influence indicates that potential investors are not only considering the financial aspect alone but also sustainability factors related to ESG. For example, if a company shows a good commitment to protecting the environment, social responsibility, and transparent governance, then it can increase Gen Z's interest in investing.

These results are consistent with previous research that emphasized the importance of ESG in investment decisions. Friede et al., in their meta-analysis of more than 2000 empirical studies, found that good ESG performance is often positively correlated with investor interest and long-term financial performance [7]. This is also supported by the research of Eccles et al., which shows that companies with strong ESG strategies tend to be more desirable by investors because they are seen as more sustainable and able to face future risks [11].

The effect of financial performance (X2) on investment interest (Y) in this study is shown through the results of multiple linear regression analysis. Based on the analysis, the regression coefficient value for financial performance is 0.219 with a p-value of 0.022. Since this p-value is smaller than the significance level of 0.05, it can be concluded that financial performance has a significant influence on investment interest. This means that any improvement in a company's financial performance will be followed by an increase in individual interest in investing in the company.

Good financial performance is often seen as an indicator of stability and a positive outlook for investors. This is due to the belief that companies that have solid financial performance, such as consistent earnings, high profitability, and efficient management, are more likely to provide favorable returns to their investors. Therefore, investors tend to choose companies with strong financial performance as a place to allocate their funds.

These results are supported by various previous studies. For example, research by Margolis and Walsh found that there is a positive relationship between a company's financial performance and investor preferences. Companies that are able to show good financial results tend to be more attractive in the eyes of investors because they are expected to be able to provide stable returns [12].

4. Conclusion

The study shows that both ESG and financial performance factors significantly influence Gen Z's investment interest. With a regression coefficient of 0.233 for ESG and 0.219 for financial performance, these two variables show that Gen Z investors not only consider the financial aspect but also the sustainability aspect in their investment decisions. These results are in line with previous research that indicates that companies with a strong commitment to sustainability and good financial performance tend to be more attractive to investors, reflecting a combination of profitability and social responsibility as key factors in investment decision-making.

From these results, companies that want to capture the attention of Gen Z need to strengthen their commitment to sustainability, transparency, and social responsibility. The study also emphasizes the importance of a deeper understanding of how these young people respond to these factors so that companies can develop more informed marketing strategies and decision-making. Given Gen Z's great potential in the global economy, a focus on sustainability and good financial performance will not only meet the expectations of young investors but can also improve the competitiveness of companies in an increasingly informed and conscious market of social and environmental issues.

This research has several limitations. First, a relatively small sample size, namely 50 respondents, can limit the representativeness of the findings to the Gen Z population in Indonesia as a whole. In addition, the study was conducted in Makassar, so the results may not fully reflect conditions in other areas with different social and economic dynamics. The use of online surveys also has the potential to cause respondent bias, because the data collected is self-reported. Therefore, further research is recommended to expand the sample size and research area. Future research may also use blended methods, such as in-depth interviews or focus discussion groups, to better understand Gen Z's investment preferences.

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