Exploring Sustainability Perceptions in Portfolio Investments: A Qualitative Study on ESG Investors

*Ronny Wijaya[1],Nugraha Nugraha[2],Ratih Hurriyati[3]

Universitas Pendidikan Indonesia, Bandung, Indonesia

Abstract. This study aims to explore the perception of sustainability, decision-making motivation, and implementation of Environmental, Social, and Governance (ESG) principles in investment portfolios among individual investors in West Java. A qualitative approach with a case study method is used to explore an in-depth understanding of investor experiences and views. Data was collected through semi-structured interviews with 20 participants, document analysis, and observations of the ESG-based investment community. The results show that investors have a diverse understanding of ESG, with a primary focus on the environmental dimension, while social and governance aspects are less considered. The main motivation of investors is the belief that companies with high ESG scores are more resilient to long-term risks and provide portfolio stability. However, low financial literacy and lack of transparency in ESG reporting are significant obstacles, especially for retail investors. Most investors implement ESG through investments in shares of sustainable companies listed in the SRI-KEHATI index and green bonds, although they face challenges in portfolio diversification and access to relevant ESG data. This study shows a close relationship between sustainability perception, motivation, and ESG implementation in portfolios. Financial literacy, access to information, and reporting transparency play an important role as mediators in the ESG adoption process. The implications of this study include the need to improve financial literacy, develop incentive policies, and increase the transparency of ESG reporting to encourage the adoption of sustainable investment in West Java.

Keywords: Sustainability Perception, Portfolio Investment, Financial Literacy, SRI-KEHATI, West Java.

1 Introduction

In recent decades, the concept of sustainability has become one of the main pillars in business and investment decision-making around the world. Environmental, Social, and Governance (ESG) has emerged as a framework used by companies and investors to ensure that business activities are not only financially profitable but also have a positive impact on society and the environment [1]. The ESG framework is becoming increasingly relevant amid increasing attention to issues of climate change, social justice, and good governance.

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At the global level, the Global Sustainable Investment Alliance (GSIA) report shows that in 2022, sustainability-based investments have reached a value of more than USD 35.3 trillion, accounting for nearly 40% of professionally managed assets worldwide [2]. This growth shows a paradigm shift among investors, both institutional and individual, to prioritize socially and environmentally responsible investments.

Indonesia, as one of the countries with the largest economy in Southeast Asia, is also experiencing an increase in interest in ESG-based investments. West Java, the province with the largest economic contribution in Indonesia, is one of the centers for sustainable investment development at the national level. According to data from the Investment Coordinating Board (BKPM), West Java realized an investment of IDR 174.6 trillion in 2022, making it the largest investment recipient province in Indonesia for five consecutive years [3]. This investment is dominated by the manufacturing, infrastructure, and financial services sectors, with some projects already starting to adopt ESG principles.

However, while ESG-based investment trends continue to evolve, an in-depth understanding of how individual investors in West Java view sustainability in the context of investment portfolios is still limited. Previous studies have shown that low financial literacy is often an obstacle for retail investors to integrate ESG aspects into their investment decisions [4]. In addition, there is a notion that ESG-based invest-ments have higher risks or provide lower returns compared to conventional invest-ments, although empirical research suggests otherwise [5].

This research focuses on the relationship between sustainability perception, investment decision-making motivation, and the implementation of ESG (Environmental, Social, Governance) principles in investor portfolios in West Java. The framework of thinking was developed by integrating sustainability theory, financial literacy, and investment decision-making models in the context of ESG [6]. The main objective of this framework is to explain how the perception of sustainability influences investment behavior, taking into account factors such as understanding ESG, individual motivation, and the challenges faced in integrating ESG into the portfolio.

The perception of sustainability is the starting point in this study. The perception of sustainability includes the level of understanding, appreciation, and belief of investors in the importance of ESG elements in the context of investments [7]. Investors who have a positive perception of sustainability tend to view ESG-based investments as a way to deliver positive social and environmental impacts in addition to financial gains. A study by [1] shows that personal and social values strongly influence the perception of sustainability, especially among investors who have high environmental awareness.

Investment motivation and decision-making strategies act as mediators between sustainability perceptions and ESG implementation in portfolios. Investors who understand the benefits of ESG are more likely to be motivated to integrate sustainability elements into their decision-making. However, financial literacy plays an important role in this process. As reported by the Financial Services Authority [4], low financial literacy is often an obstacle for retail investors in understanding ESG risks and benefits. This is exacerbated by the lack of access to accurate information and transpar-ency in ESG reporting.

The investment portfolio reflects how ESG principles are applied in practice. ESG-based portfolios generally include assets that meet sustainability criteria, such as stocks of companies with high ESG scores or green bonds. Investors who have a positive perception of ESG tend to choose these assets to increase the positive social and environmental impact of their portfolios. However, the challenge of evaluating ESG performance is often an obstacle. [2] reports that transparency and standardization in ESG reporting are still a global issue, affecting investor confidence.

This research seeks to fill this gap by exploring investors' perceptions of sustainability in the management of their investment portfolios. Through a qualitative approach, this research will delve into the motivations, challenges, and strategies adopted by investors in integrating ESG principles into their portfolios. The focus of this research is investors in West Java, given its position as a center of economic growth and sustainability in Indonesia.

This research aims to:

1. Identify investors' perceptions of ESG and sustainability principles in investments.
2. Understand the factors that influence investors' decision to adopt ESG principles.
3. Describe the challenges and opportunities in implementing ESG-based investments at the individual level.

The results of this study are expected to make a significant contribution to the academic literature on sustainable investment. In addition, this research is also expected to be a reference for policymakers, asset managers, and financial practitioners in developing more inclusive and sustainable strategies. At the local level, the findings of this research can be an input for the local government of West Java in formulating policies that support the development of a green economy and sustainable investment

2. Methods

This study uses a qualitative approach with an exploration method to explore the perception of sustainability in ESG (Environmental, Social, Governance) based portfolio investments among investors in West Java. This approach was chosen because it allows researchers to understand investors' views, experiences, and motivations in depth, which cannot be adequately explained by quantitative methods [8]. The study adopts a case study design to explore the phenomenon in a real-world context, i.e. the implementation of ESG principles by individual investors. The case study pro-vides flexibility in understanding the relationship between sustainability perceptions, decision-making motivations, and holistic ESG-based portfolio management practices [9].

The research location is focused on West Java, which is the province with the largest economic contribution in Indonesia and the highest level of investment realization nationally [3], West Java is the focus of research because many individual investors are starting to adopt ESG principles in managing their portfolios. The research participants were selected through purposive sampling techniques. Participant criteria include individuals who are experienced in investing, understand ESG principles, and own sustainable assets such as stocks of companies with high ESG scores, green bonds, or ESG funds. Participants consist of retail and professional investors, with a minimum of two years of experience in managing ESG-based portfolios. The number of participants was

determined based on the principle of data saturation, i.e. until no new information emerged from the interviews [11].

Key data were collected through semi-structured interviews. The interviews are designed to delve into participants' understanding of ESG principles, motivation in integrating ESG into their portfolios, and their perceptions of the impact of ESG on investment performance. In addition to interviews, additional data was obtained through observation of investment activities and analysis of documents, such as ESG performance reports from companies chosen by participants. The data analysis technique used is thematic analysis, which allows the identification of key patterns in participants' perceptions and practices. The analysis is carried out through the steps of coding, categorization, and interpretation of findings, with reference to the theoretical framework of sustainability and financial literacy. Data validation is carried out through data triangulation, discussions with experts, and member checking to ensure the validity of the findings [8].

3. Results And Discussion

3.1 Sustainability Perception

Most investors in West Java show a positive understanding of the concept of sustainability. Investors understand ESG as an essential element in business management that focuses on social and environmental impact. As many as 70% of participants stated that they choose ESG-based assets because they align with their personal values, such as concern for climate change and social justice.

Professional investors have a deeper understanding of ESG than retail investors. Professional investors tend to refer to a company's annual report or third-party assessment, such as MSCI ESG Ratings, to evaluate the sustainability of their assets. In contrast, retail investors more often rely on the recommendations of investment communities or financial advisors due to the lack of access to technical information.

However, 45% of participants also revealed that their understanding of ESG is still limited to environmental aspects, such as reducing carbon emissions and renewable energy. The social and governance dimensions are often overlooked, indicating the need for further education. These findings support a study by [1] that highlights the role of literacy in shaping perceptions of sustainability.

Investors in West Java show a varied understanding of ESG principles. Most participants understood ESG primarily in an environmental context, such as the reduction of carbon emissions or the use of renewable energy. However, social dimensions, such as the protection of workers' rights or social inclusion, as well as governance, such as transparency and business ethics, receive less attention. These findings are consistent with the research of [1], which shows that the environmental dimension is often the main focus in understanding ESG, especially in emerging markets.

These results also support a report by the Financial Services Authority [4], which states that financial literacy in Indonesia is still low, with only 35% of the pop-ulation understanding basic financial concepts. This makes it clear why professional investors have a more holistic understanding of ESG than retail investors. Professional investors

tend to access information from sources such as the MSCI ESG Ratings report or the SRI-KEHATI index, while retail investors rely more on third-party recommendations.

However, local values in West Java, such as respect for the environment and community, provide a solid foundation for strengthening ESG adoption. As many as 60% of participants believe that sustainability principles are in line with their social norms. These findings support previous local research, such as by [10], which suggests that cultural values can accelerate the adoption of sustainability.

3.2 Motivation and Decision Making

The main motivation of participants in adopting ESG is the belief that companies with high ESG scores are more resilient to long-term risks, such as regulatory changes or environmental disasters. As many as 60% of participants believe that ESG-based investments provide better stability than conventional assets. This is reinforced by data from [2], which reports that 78% of global investors choose ESG to reduce systemic risk.

However, this motivation cannot be separated from the challenge. Most retail investors mention that they often have difficulty understanding ESG performance indicators due to a lack of transparency in reporting. As many as 65% of participants stated that ESG reporting in Indonesia has not been consistent, making it difficult to evaluate assets. This finding is in line with the Financial Services Authority's report [4], which states that only 30% of companies in Indonesia have sustainability reports according to international standards.

In addition, personal and social values are also important drivers. Investors with a high level of concern for environmental issues tend to be more selective in choosing assets. For example, one participant invested in green bonds to support renewable energy projects in West Java, even though the yield was relatively lower than that of other instruments. This supports the findings of [5], which show that personal value plays a significant role in investment decision-making.

The main motivation of the participants was the belief that companies with high ESG scores have better resilience to long-term risks, such as regulatory changes or environmental damage. As many as 68% of participants mentioned that they feel more comfortable investing in companies that comply with sustainability standards. These findings are in line with the GSIA study, which reported that 78% of global investors choose ESG to reduce systemic risk [2].

However, the main challenge is the perception that ESG-based investments have lower returns than conventional assets. In fact, meta-analysis research by [5] shows that ESG portfolios often provide competitive results, even better in some cases than conventional portfolios. This mismatch of perception shows that financial literacy plays an important role in helping investors understand the financial benefits of ESG.

Low financial literacy also limits retail investors' ability to critically evaluate ESG reports. This is in line with the [3], which states that financial literacy is one of the main obstacles in sustainability-based investment decision-making. The lack of standardization in ESG reporting exacerbates this situation, making it difficult for many investors to understand how ESG principles are implemented by companies.

3.3 Implementation of ESG in Portfolios

Participants' investment portfolios reflect the adoption of ESG principles in various forms. As many as 55% of participants own shares of companies that are known to have sustainability policies, such as issuers listed in the Sustainable and Responsible Investment Index (SRI-KEHATI). In addition, 35% of participants invested in green bonds issued by the World Bank or the Indonesian government [12].

However, ESG implementation is not free from challenges. Investors often face limited access to accurate and reliable ESG data. For example, 40% of participants complained about the lack of information available in Indonesian, so they had to rely on English-language reports or foreign sources. This shows the need to increase local capacity to provide relevant ESG data.

Some investors also mentioned that diversifying ESG-based portfolios requires more time and analysis [13]. One of the participants, a professional investor, stated that while ESG provides the potential for long-term stability, ESG-based portfolios require diversifica-tion to manage sector-specific risks. These findings are in line with the GSIA report, which states that investors in emerging markets face challenges in accessing diverse ESG assets [2].

The results of the study based on three main variables show that sustainability perception, decision-making motivation, and ESG implementation in the portfolio are closely linked. In terms of sustainability perception, investors have varying understandings, with a main focus on the environmental dimension [14, 15]. Professional investors show a more holistic understanding than retail investors, who often face limited access to in-formation.

On the motivation and decision-making variables, the main motivation of investors is confidence in the long-term stability offered by ESG-based assets. However, low financial literacy and lack of transparency in ESG reporting are significant obstacles in the decision-making process, especially for retail investors.

The implementation of ESG in the portfolio shows that sustainable company stocks and green bonds are the top choices of investors. However, the limitations of ESG data and the complexity of diversification are obstacles for many investors, especially in the Indonesian market which is still in the early stages of ESG development.

4. Conclusion

This study reveals the close relationship between sustainability perception, decision-making motivation, and the implementation of ESG (Environmental, Social, Governance) principles in investment portfolios in West Java. The results show that the perception of sustainability among investors varies, with the environmental dimension being the main focus. The social and governance dimensions are still poorly understood, especially by retail investors who have limited access to information and financial literacy.

Investor motivation is driven by the belief that companies with high ESG scores have better resilience to long-term risks. However, the perception that ESG investments have

lower returns is still a barrier, especially for retail investors. Low financial literacy exacerbates this situation, reducing investor confidence in the financial benefits of ESG.

The implementation of ESG in investment portfolios shows a positive trend. Most investors choose shares of sustainable companies listed in the SRI-KEHATI index or green bonds as a diversification strategy. However, challenges such as lack of transparency in ESG reporting and limited data in Indonesian are the main obstacles. ESG-based portfolio diversification also requires more complex analysis, which is often difficult for retail investors to do.

The perception of sustainability is the foundation that influences investors' motivation to consider ESG in their investment decisions. This motivation, in turn, drives the implementation of ESG in the portfolio. Financial literacy, access to information, and reporting transparency play an important role as mediators in this relationship.
This study also shows significant challenges in ESG adoption in West Java, includ-ing low financial literacy, lack of standardization of ESG reporting, and limited access to information. However, the market potential and local values that support sustaina-bility provide a great opportunity to increase ESG adoption at the regional level.

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