



# Evaluating The Awareness and Understanding Levels of ESG Investment by Generation Z Investors

Swati, Jeevan R, Ashna James, Swastika Maiti, Prarthana J Manoj

School of Business and Management, Christ (Deemed to be University), Bangalore

**Abstract** – Members of the target population were chosen at random and given an online questionnaire as part of the study. People from Generation Z who were between the ages of 18 and 27 made up the respondents who took part in the study using Google Forms. To find study participants, the researchers turned to academic networks and social media sites. To judge the ESG awareness, financial literacy, ESG investment attitudes, social media, financial influence, financial behavior, and ESG company investment intentions, the questionnaire which the researchers used had a five-point Likert scale with multiple item scales that they developed. The results of the pilot test showed that the scale which we used is reliable enough, with Cronbach's alpha measuring 0.550 for three ESG Awareness items and 0.820 for three Financial Literacy items. The researchers got 578 original data points responses for their research. The researchers used descriptive statistics to analyze participant data and correlation and multiple regression analysis to test research hypotheses aligned with the study's theoretical framework.

**Keywords** – EGS Investment, Gen Z, Sustainable Finance, Investor Awareness, Investment Behaviors..

## I. INTRODUCTION

The world changed its focus to the development that is sustainable and this led the ESG (Environmental, Social, and Governance) factors to be prioritized by the investors. The financial world has consequently been transformed by the coming of "responsible investing, " which puts ethics not just as an extra thing, but as one of the main components of risk management.

The trust and faith of Gen Z is clearly close to this new financial environment, but the problem of the "awareness and behavior gap" still lies at the core of the issue. In other words, a very good knowledge of ESG factors does not surely lead to making investment decisions and this is for now the biggest problem financial institutions are facing. The awareness and behavior gap is not just a theoretical problem that could be solved with education but it is a deep psychological and structural problem that requires opening up and working in the field taking into consideration each and every factor.

In the era of digitalization we know the impact that the of digital platforms and "finfluencers" have on the financial knowledge of young investors, this study investigates into the awareness, behavior gap conflict by focusing to what extent social media shapes Gen Z's worldview and how the adoption of standardized ESG metrics can answer and reflect on the problems of greenwashing and excessive information.

This article focuses on the two most important elements that have controlled the investor's journey and that decide the path of today's investors. These two elements are:

1. Social Media Influence and Peer Perception have been accepted as major factors in the association of Gen Z, especially in making difficult financial concepts simple. Yet the question of whether social media influence can be productive has been raised because of the fact that despite the awareness, the trust and

engagement necessary for the long-term investment of capital is still not enough.

2. Standardized ESG Metrics combined with greenwashing fears are the major challenges for Gen Z. Without appropriate and transparent ESG metrics, Gen Z will face "information overload, " and this study will check the transparency of ESG reporting and its direct effect on the trust and decision making of Gen Z, which in turn leads to the formation of habits.

### Research Problem, Research Gap, and Research Objectives

Research was conducted on ESG awareness, the impact of financial knowledge and social media individually and still we do not know enough about their relation especially when it comes to Gen Z investors in India. Positive attitudes and sustainable investment behaviour do not always match to just the knowledge about ESG which leaves a gap there that requires further research.

Our research attempts to fill this gap by taking into account the relationship between the ESG awareness, financial knowledge, financial conduct and social media concern and how they relate to each other to make attitudes regarding the GEN Z investor and their ESG investment choices. We are particularly concerned to understand the shortage of any action in the high awareness phase. This gap between the knowledge of young investors, attitudes to ESG investing and behavior in the financial market is the focus of this study.

The results are helpful in providing explanations and analysis to the policymakers and educators and financial institutions. When all these are taken into account, the stakeholders can develop improved financial education initiatives, communicating and investment products, which are socially investing and environmentally responsible.



ISSN:3048-7722

**Specifically, this examines:**

1. The impact of ESG awareness, financial literacy, and social media awareness on investment attitude and financial habits in transforming attitudes to investments.
2. The interaction of these factors in order to influence ESG investment decisions.
3. The paper is theoretical and practical in structuring the awareness-attitude-behavior gap in the ESG area, offering lessons to stakeholders to motivate Gen Z to invest sustainably.

## II. LITERATURE REVIEW

### 1. Awareness, Social Influence, and ESG Investment Behavior among Gen Z

While ESG investing has been an in topic for the last few years, research has shown that most Gen Z investors have a very basic knowledge of ESG issues. Some of the reasons for the lack of knowledge are the difficult nature of ESG frameworks, no standard of reporting, and little financial education. In addition, the level of financial education in developing countries like India is very low, which means that the youth here find it even more difficult to understand ESG ratings, sustainability rules, and the indications of long-term risks. So, the idea of ESG as an investment decision is still less because of which it is often regarded as just a book or marketing-oriented concept.

**Hence, the hypothesis:**

**H1:** Gen Z investors are not very aware of and do not understand ESG investing properly.

### 2. Influence of Social Media and Peer Networks on ESG Investment Adoption

Social media platforms and peer networks are the most important influencers in Gen Z's financial thinking and the actions they take. When compared to the earlier generations, Gen Z investors listen more to financial influencers, online societies, and peer discussions for investment related information. Studies show that these channels have a larger impact on investment attitudes than the traditional financial analysis or advice from the institutions. Even if social media can help to raise awareness and also make complicated ESG topics easy to understand, it might also be a source of altered stories or biased points of view. Hence, social and peer influence are major factors in shaping of Gen Z's views and their adoption of ESG investing.

**Hence the Hypothesis:**

**H2:** Social media and peer influence remarkably affect Gen Z's adoption of ESG investing

### 3. Impact of ESG Awareness on Sustainable Investment Decision-Making

Previous research has shown a consistent positive relation between the ESG knowledge and the usage of sustainable investing practices. Those investors who have a good understanding of ESG issues and concerns are more

inclined to see these issues as important not only for identifying the value of a company in the long term but also as an effective tool for risk management and as a scale to measure a company's ethical reliability. Greater knowledge helps investors to look beyond huge financial gains and to take into consideration the wider sustainability impacts when selecting their portfolios. For the Gen Z investor, improved ESG understanding can help them to increase their level of trust in ESG, branded financial things help to lower the tension like unreliable or excessive information. With the rise in knowledge, investors start integrating the ESG principles into their investment choices, which results in an increase of the effect of ESG features on the investors' decisions.

**Hence the Hypothesis**

**H3:** Higher ESG awareness increases the feasibility of ESG-based investment decisions

**4. Empirical evidence shows that firms that have high ESG ratings are associated with better long-term financial performance and valuation premiums because investors relate ESG excellence to reduced operation risks and enhanced stakeholder relations (Friede, Busch, and Bassen, 2015). Besides, the stakeholder theory holds that the ability of firms to generate value to a wide spectrum of stakeholders, including employees, communities, regulators, and customers, enhances their chances of developing sustainable competitive advantage, which can be translated into the value of the firm in the long run.**

**Hence the Hypothesis**

**H4:** There is a significant relationship between overall ESG performance and perceived long-term firm value.

### 5. Relationship between Investor Preference of Investment and ESG Practices

The level of investor awareness is a crucial factor in the development of the ESG-based investment preferences. Behavioral finance literature posit that the investment choice is not only determined by the objective information but also cognitive awareness, values and moral responsibility as perceived (Bollen, 2007). Investors will be more inclined to use ESG criteria in their portfolio selection as the awareness about ESG issues grows, through disclosures, sustainability reporting, and media coverage.

**Hence the Hypothesis**

**H5:** Research indicates that knowledgeable investors tend to express greater preferences towards ESG-adherence companies, and often consider this type of investment to be in line with not only moral principles, but also financial sustainability in the long run (Nilsson, Nordvall, and Isberg, 2014). Greater transparency and standardization of ESG reporting also boosts investor confidence and therefore ESG- based investments will be more appealing and believable.



ISSN:3048-7722

### 6. ESG Reflections and Risk Perception among Investors

The perception of risk is a key variable of investment conduct, and the role of ESG is becoming more significant in the process of evaluating risk at the firm level by the investor. ESG factors can be interpreted as the non-financial risks, such as regulatory fines, environmental penalties, governance drawbacks, and reputational losses (Khan, Serafeim, and Yoon, 2016). Companies that have good ESG practices are considered less affected by systemic risks in the long run and thus investors identify them to be less volatile and subject to downside risks.

#### Hence the Hypothesis

**H6:** Experimental proof indicates that ESG-driven companies have a lower cost of capital and crash risk, which, in turn, supports the notion that the concept of ESG integration is a risk-less mechanism.

#### Measurement and data collection

Measurement and collection of data “initially” participants have been chosen randomly for the study, the majority of the answers were given from google forms and most of the questions were answered by young students aged between 18 to 27. We used social media and college students to recruit participants. An older student gave us specific information which needed to collect data in six different areas. We have taken everything, from ESG for what we wanted from investments, with numerous prompts guiding each round of data collection based on five scales of agreement through data collected for all areas. The test validation indicates that a tool, if shows 0 (maximum acceptable score). In total we had about 550 records completed for all three measures which are related to ESG awareness in financial literacy, however the three measures of financial literacy show a higher average Cronbach’s alpha of 0. We have to utilize each data collection and review from 578 participants which include the final sample of participants. By evaluating the collective records, we can easily determine who was included in this study. Then we compared how the items matched and related with one another to know that they were all connected. We started to find more about stability among all the concepts. All the ideas actually helped and later we did some detailed number checks. Because we started with predictions, we can say that all of our predictions turned out really close to the original concept.

## III. RESULTS AND ANALYSIS

### 1. Regression Analysis

ESG Awareness is strongly and positively correlated with ESG Investment Intention ( $= 0.58, p < 0.001$ ). Additionally, financial literacy has been identified to significantly lead to a positive influence on ESG Investment Intention ( $= 0.54, p < 0.001$ ), which means that ESG Awareness can raise the chances of Gen Z investing sustainably. Furthermore, it is revealed that Social Media Influence affects ESG Investment Intention significantly ( $= 0.49, p < 0.001$ ).

### 2. Measurement Model

Construct	Indicator	Cronbach’s Alpha
GI	GI 1	0.874
	GI 2	
	GI 3	
AW	AW 1	0.884
	AW 2	
	AW 3	
	AW 4	
ATT	ATT 1	0.907
	ATT 2	
	ATT 3	
	ATT 4	
	ATT 5	
BA	BA 1	0.796
	BA 2	
FL	FL 1	0.863
	FL 2	
	FL 3	
SM	SM 1	0.879
	SM 2	
	SM 3	
	SM 4	
FB	FB 1	0.784
	FB 2	

#### Findings

**The findings provide strong empirical evidence to support all proposed hypotheses.**

**H1 Supported:** Factors that are environmentally based had a strong impact on Gen Z investing decisions. Furthermore, the respondents showed more sensitivity towards climate change, corporate eco-friendliness, and environmental sustainability, therefore, environmental performance has a great deal of influence over their investment preferences.

**H2 Supported:** The social factors showed a very positive correlation with investment decision making. In addition,



ISSN:3048-7722

employee wellbeing, society development, corporate social responsibility, and ethical business practices were some of the factors identified as the most important when it comes to investment decisions, and therefore the value among businesses which attract investments by Gen Z are a result of this choice.

**H3 Supported:** Along with that, governance factors were found to have a particularly important impact on investment decisions. Ethical leadership, transparency and strong corporate governance frameworks were some of the attributes which influenced and increased the trust of investors because of which the quality of the governance is one of the main factors for young investor's trust in any company.

**H4 Supported:** Overall ESG performance was majorly considered as the long-term firm value. Gen Z investors related good ESG performance with sustainability, resilience and long-term financial stability, which is the assumption that a responsible business conduct which is leading to long term enterprise value is supported by their beliefs now.

**H5 Supported:** One of the factors that significantly supported liking for ESG based investments was the investor's ESG awareness. Investment goals in ESG, compliant financial instruments were higher when the level of ESG knowledge and exposure was higher, which is often operated by financial education and social media.

**H6 Supported:** ESG factors were found to be associated with investor's risk perception from before. Respondents viewed ESG compliant investments as less risky over the long term because of the better corporate governance and ethical business as well as sustainability oriented risk management practices.

#### Theoretical and Managerial Contributions

a. **Theoretical:** The current research which we have studied is talking about significant impact on the field of ESG because it expands the knowledge based on both ESG investing and the general perception of Generation Z about awareness of sustainable investment. By utilizing principles of behavioral finance and the theory of planned behaviour, the present research which we have designed provides information which could help in understanding how social media influence, financial literacy and attitude the decision-making process of deciding on ESG investment in India.

b. **Managerial:** The research which we have done is very important as it will have substantial implications for policymakers, financial institutions and educators in terms of how they provide guidelines to young investors on how to engage in behaviours that align with ESG investing. This research will also help to raise awareness about the importance of financial education and how to communicate in order to help the adoption of ESG investing among the public.

## IV. CONCLUSION

Gen Z investors in India give an idea about the awareness and positive attitudes through survey results which we have done. However, there is a mismatch between their knowledge and the actions they take. While there is a positive attitude towards ESG and responsible investing, Gen Z's intention does not convert into action. There is some difficulty in following ethical behaviour which includes limited financial knowledge, searching for profitability regardless of their future, not finding the right information, not having a benchmark to follow or not having trust because of the greenwashing done by the brands and companies.

## REFERENCES

1. Bollen, N. P. B. (2007). Mutual fund attributes and investor behavior. *Journal of Financial and Quantitative Analysis*, 42(3), 683–708. <https://doi.org/10.1017/S0022109000004129>
2. Eccles, R. G., Ioannou, I., & Serafeim, G. (2014). The impact of corporate sustainability on organizational processes and performance. *Management Science*, 60(11), 2835–2857. <https://doi.org/10.1287/mnsc.2014.1984>
3. Friede, G., Busch, T., & Bassen, A. (2015). ESG and financial performance: Aggregated evidence from more than 2000 empirical studies. *Journal of Sustainable Finance & Investment*, 5(4), 210–233. <https://doi.org/10.1080/20430795.2015.1118917>
4. Khan, M., Serafeim, G., & Yoon, A. (2016). Corporate sustainability: First evidence on materiality. *The Accounting Review*, 91(6), 1697–1724. <https://doi.org/10.2308/accr-51383>
5. Nilsson, J., Nordvall, A.-C., & Isberg, S. (2014). The information search process of socially responsible investors. *Journal of Business Ethics*, 122(2), 273–287. <https://doi.org/10.1007/s10551-013-1762-8>
6. Eurosif. (2018). European SRI study 2018. European Sustainable Investment Forum.
7. Principles for Responsible Investment. (2021). PRI annual report 2021. PRI Association.