

# CHAPTER I

## INTRODUCTION

### 1.1 Research Background

Various global issues, such as environmental damage and social problems, are important issues that must be resolved because these issues negatively impact humans and the world we are living in. In this case, the United Nations has designed the Sustainable Development Goals (SDGs) to carry on the Millennium Development Goals (MDGs) in 2015 to address these issues. The SDGs contain 17 international objectives regarding environmental, infrastructure, economic, political, social, and health problems (Khorram-Manesh, 2023). The SDGs are expected to enhance global well-being and economic prosperity by 2030. Hence, it is essential for all sectors to actively engage in aligning their objectives with the 17 SDGs and implementing the SDGs' principles in their operational practices to ensure a sustainable world for the next generation.

The finance sector plays an essential role in achieving the SDGs (Roy, 2023). At the nexus of finance and the SDGs, sustainable finance has become a crucial notion and has been increasingly discussed by researchers since the launch of SDGs in 2015 (Kumar et al., 2021). Kumar et al. (2021) interpreted sustainable finance as the financial elements and practices, such as financing and investing, that could enhance sustainability. In terms of investment, sustainable investment is one of the core subjects in sustainable finance. Sustainable investment is an investment strategy that aims to gain financial return by considering the investment's environmental, social, and governance aspects (Boffo & Patalano, 2020). In other

words, before investing, besides choosing firms that have a good financial performance, people should also choose firms that positively impact the environment and society, and have good corporate governance. It is also termed as “ethical investing,” “sustainable investing,” “green investing,” and “socially responsible investing” (Yesuf & Aassouli, 2020).

Sustainable investment become crucial and is being discussed globally as it contributes in achieving SDGs by 2030. As the United Nations Principles of Responsible Investment (UNPRI) supports this investment strategy, many investors consider ESG factors in their investment decision-making (Chen et al., 2023). According to the Global Sustainable Investment Review 2022 by GSIA (2022), the amount of universal sustainable investment in 2022, excluding the US data, was US\$21,9 trillion, increased by 20% from 2020. That amount is 37,9%, or about one-third of the universal assets under management, indicating that sustainable investment has received global public attention.

As for contributing to the increase of sustainable investment and achieving the SDGs, the Indonesia Stock Exchange (IDX) has undertaken some efforts, such as joining the Sustainable Stock Exchanges (SSE) in 2019 and introducing indices focusing in ESG. Those indices are SRI-KEHATI, ESG Leaders (IDXESGL), ESG Sector Leaders IDX KEHATI, and ESG Quality 45 IDX KEHATI. Those indices can be a guideline for investors who wish to include ESG aspects in their investment decisions. Those indices intend to enhance the visibility of ESG performance among listed firms and encourage investors for including ESG aspects in their investment decisions (IDX, 2023). Furthermore, there are thirty-three ESG-based

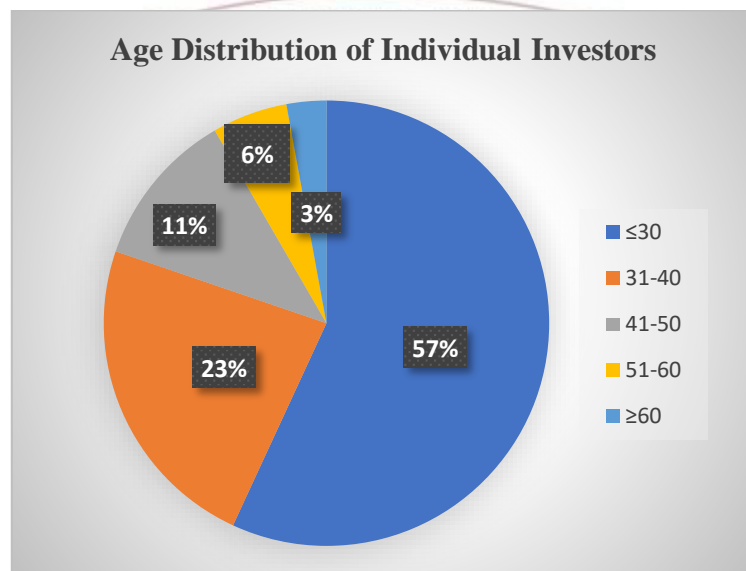
mutual funds in Indonesia to the end of June 2023 with a total assets under management of Rp5,99 trillion, from only one product with a total assets under management of Rp38 billion in 2014 (Handayani, 2023). The presence and swift growth of these types of investments signify an increased recognition of sustainable investments among investors in Indonesia (Na et al., 2023).

Improving sustainable investment growth as one of the strategies to achieve SDGs is not only the responsibility of the government, market regulators, and firms. Investors, particularly individual investors, have a critical aspect in sustainable financial growth (Mishra et al., 2023). Recently, individuals have become increasingly aware of the significance of sustainability because of growing environmental damage and social problems (Garg et al., 2022). They could reflect this awareness by considering sustainable investments in their portfolio. Global Sustainable Investment Alliance reported that 25%, or a quarter, of the global sustainable funds were owned by retail investors in 2020.



*Source: OJK, data processed by author*  
**Figure 1. 1 Growth of Investors in Indonesia**

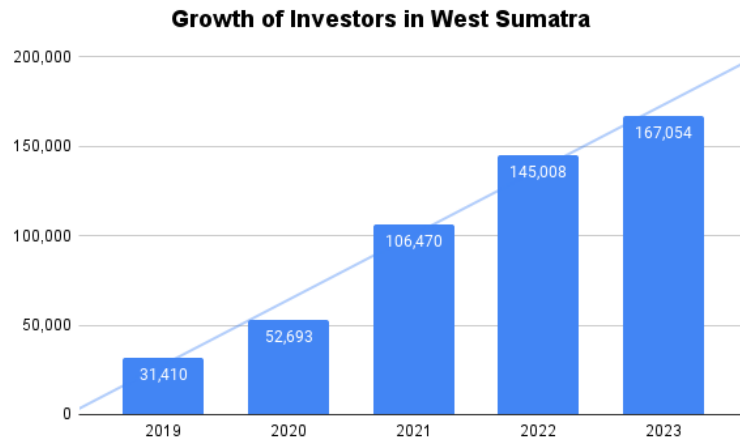
In Indonesia, the amount of investors continues to grow yearly indicating people's awareness of investing their money has increased considerably. Moreover, the individual investors are dominated by those aged less than or equal to 30 years. People of this age are classified as Generation Z and Millennials. Generation Z is those who were born between 1997 – 2013, while Millennials are those who were born between 1981 – 1996. They dominate 56,89% of individual investors.



Source: KSEI, data processed by author

**Figure 1. 2 Age Distribution of Individual Investors**

West Sumatra is one of the provinces with highly significant investor growth. As can be seen from the Figure below, the growth of investors in West Sumatra has continued to increase in the last five years. In 2020, investor growth reached 67,76% compared to the previous year and the most significant increase occurred in 2021, which amounted to a 102,06% increase. The younger generation aged 18 to 25 years are also dominating the total of West Sumatra's investors according to the West Sumatra Financial Service Authority.



Source: OJK, data processed by author  
**Figure 1. 3 Growth of Investors in West Sumatra**

Each generation naturally has different preferences in every aspect. As revealed by Karl Mannheim in the theory of generations, humans continue to evolve over time, influence each other, and form different characters in each generation. As an example, Generation Z is a generation that is very adaptive to technological development since when they were born, technological developments were very rapid. It is in contrast to Generation X who was born between 1965 – 1980 where at that time the technological developments were quite slow. In terms of investments, investors could be distinguished by their generation and each generation may have different investment strategies and behavior (Altaf & Jan, 2023). Altaf & Jan (2023) also argued that generations reflect an essential segment of investors whose investment decisions tend to be influenced by the same birth period, leading to similar investment trends.

Generation Z is the most environmentally conscious generation because they were raised with an education that emphasize the urgency of climate revival (Pradeep & Pradeep, 2023). They are also crucial stakeholders in developing a

sustainable future. They are predicted to make significant contributions to build a sustainable future and probably contribute significantly to the SDGs by 2030 when they will comprise the majority of the labor force in society (Yamane & Kaneko, 2021). IDN Research Institute (2022) also found that 79% of Generation Z in Indonesia view climate change as a substantial problem, 70% think they are accountable for climate change, and 66% would like to pay more for environmentally friendly products. Hence, it does not rule out the possibility that sustainable investment will grow significantly in Indonesia, especially in West Sumatra.

However, sustainable investment in Indonesia is still in its early stages to be known well by society as some ESG-based indices were only introduced two years ago (Na et al., 2023). The research examining investors' intention to engage in sustainable investment in Indonesia is limited. Therefore, it is still unclear how exactly Indonesian investors' intention towards sustainable investment is, especially for Generation Z as the generation that care the most about sustainability and the one who potentially increases the growth of sustainable investment in Indonesia as they dominate the composition of individual investors. Furthermore, sustainable investments play an important role in enhancing sustainability, thus, examining what are the factors that can influence Gen Z's intention to invest in sustainable investments is important as an attempt to increase investors' intention to invest in sustainable investment. Hence, this research attempts to examine factors that could influence Generation Z's intention toward sustainable investment.

Intention denotes the degree of individuals' eagerness and commitment to perform a particular action. People who have strong intentions toward a particular action are more inclined to undertake that action. It is also applicable to people's investment decisions. Mishra et al. (2023) found that investors who have positive intentions toward SRI are more inclined to allocate their investment in socially responsible investments.

An individual's investment intention is affected by many factors. Such factors namely financial literacy and knowledge (Adrianto, 2021), expected return and risk (Bauer & Menrad, 2020), personal values (Singh et al., 2021), and moral norms (Raut et al., 2020). Furthermore, in the theory of planned behavior by Ajzen (1991), there are three determinants that affect an individual's intention to conduct a behaviour, namely attitude, subjective norms and perceived behavioural control. Those factors have been used by previous studies to predict individual's investment intention, such as investment intention in stock market (Adil et al., 2022; Nugraha & Rahadi, 2021), intention to invest in renewable energy projects (Rahmani et al., 2023), and socially responsible equity funds investment intention (Mishra et al., 2023). Nevertheless, among those three variables, attitude was found as the most significant factors that influence individual's investment intention (Rahmani et al., 2023). The more favourable one's attitude towards an investment, the higher one's intention to invest. Hence, it is also essential for comprehending the factors that influence individual's attitude toward sustainable investment since it also affects their intention toward sustainable investment.

Attitude is an individual's evaluation of a certain behaviour, whether it is positive or negative. It reflects investors' perception of a behaviour (Mishra et al., 2023). Singh et al. (2021) stated that attitude is formed by personal values held by an individual. They found that personal principles, such as collectivism and environmental attitude, significantly affect attitudes toward socially responsible investments. Collectivism and biospheric values were also found influence the individual's intention toward socially responsible investment significantly (Garg et al., 2022).

Collectivism is a belief that society's concern is more crucial than the individual's concern. In cultures that embrace collectivism, individuals are urged to foster interdependence. They see themselves as closely connected to those around them, and their actions prioritize maintaining mutual trust rather than pursuing personal objectives (Thanki et al., 2022). As environmental, social and ethical issues have an impact to society's well-being, collectivistic people tend to care more about those issues (Garg et al., 2022; Singh et al., 2021). Previous research found that collectivistic individuals are likely to hold a favourable attitude towards environmental behaviour and therefore more inclined to participate in environmental-related activities (Halder et al., 2020; Xiang et al., 2019). Singh et al. (2021) also argued that collectivist people tend to be more concerned about social and environmental issues.

When it comes to attitude and intention on sustainable investment, collectivist individuals may have a positive attitude and higher intention on it since it prioritizes ESG factors. They will perceive that investing in sustainable



investment means that they are contributing to do something beneficial for society, thus, they intend to invest their money in sustainable investment to show their dedication to society (Garg et al., 2022). However, Garg et al. (2022) found collectivism has insignificant effect on attitude and attitude couldn't mediate the relationship between collectivism and socially responsible investment (SRI) intention. Yet, collectivism directly influences the SRI intention significantly. While Singh et al. (2021) found collectivism has a significant and positive effect on attitude toward SRI indicating that collectivist individuals tend to have a good perception of SRI. The research was conducted on Indian investors and no research has been found on how collectivism affects investors in Indonesia. As Indonesia is a country where the society embraces collectivism as well, it could lead to positive attitudes and greater intentions toward sustainable investment.

Environmental concern is individuals' awareness of environmental issues. Individual with high environmental concerns tend to think about how their decisions and actions could impact the environment. Hence, individuals with high environmental awareness might perceive that sustainable investment is a good idea to protect the environment and they may be interested in making sustainable investments because sustainable firms have the principle to operate their business in accordance with environmental principles. Raut et al. (2023) and Thanki et al. (2022) uncovered that a positive and significant correlation exists between environmental concern and both individuals' attitudes and socially responsible investment intentions. However, Affandi & Rahmawati (2023) found that environmental concern negatively influences the green *sukuk* investment intention

and Raut et al. (2020) found the correlation between environmental concern and SRI intention is insignificant.

Besides, perceived sustainable investment performance was found to have an effect on attitude and sustainable investment intention (Garg et al., 2022; Mishra et al., 2023; Raut et al., 2020). It indicates that an individual who believes that investing in sustainable investments will generate a higher return is more probable to perceive sustainable investing favourably and intend to invest in sustainable investment. The reason that could make investors perceive that sustainable investment will generate higher returns is because sustainable investment currently is gaining global attention and also firms that prioritize ESG factor tend to operate more effectively since they behave in a social and environmental manner (Garg et al., 2022). Perceived sustainable investment performance refers to individuals' subjective assessment on the financial performance of sustainable investments, whether it is positive or negative.

Following the conventional financial theory, the most significant factor affecting investment decisions is the yearly return that can be obtained. It is proven by Bauer & Menrad (2020) who found return as the first and most influential factor in the process of investment decision-making. Hence, even though sustainable investing emphasizes the urgency of environmental, social, and governance factors, the return that can be derived from this kind of investment cannot be ignored. In other words, people will pay attention to the sustainable investment if it can match the performance of regular investments.

However, Lagerkvist et al. (2020) found that investors who prioritize sustainability did not pay too much attention to sustainable investment returns. Rossi et al. (2019) also revealed that the majority of investors are available to engage in socially responsible investing and are willing to accept the risks such as lower expected returns. On the other hand, the positive expectation toward sustainable investment financial performance could affect the intention of investors who are not primarily concerned with environmental, social, and governance issues to consider sustainable investment in their portfolio (Thanki et al., 2022).

The contradictory results from previous studies still raise the question of how exactly factors such as collectivism, environmental concerns, and perceived performance could affect people's intention to invest in sustainable investments, especially for Generation Z. Hence, given the above description, the title of this research is **“The Influence of Collectivism, Environmental Concern, and Perceived Performance on Sustainable Investment Intention with Attitude as the Mediation Variable (Case Study on Generation Z in West Sumatra)”**.

## 1.2 Research Question

Referring to the background outline given earlier, several research questions are outlined in the following way:

1. How does collectivism influence the attitude toward sustainable investments?
2. How does collectivism influence sustainable investment intentions?
3. How does environmental concern influence the attitude toward sustainable investments?
4. How does environmental concern influence sustainable investment intentions?

5. How does perceived sustainable investment performance influence the attitude toward sustainable investments?
6. How does perceived sustainable investment performance influence sustainable investment intentions?
7. How does attitude influence sustainable investment intentions?
8. How does attitude mediate the relationship between collectivism and sustainable investment intentions?
9. How does attitude mediate the relationship between environmental concern and sustainable investment intentions?
10. How does attitude mediate the relationship between perceived sustainable investment performance and sustainable investment intentions?

### **1.3 Research Objective**

Based on the research questions above, the objectives of the research are as follow:

1. To examine the influence of collectivism on attitude toward sustainable investments.
2. To examine the influence of collectivism on sustainable investment intentions.
3. To examine the influence of environmental concern on attitude toward sustainable investments.
4. To examine the influence of environmental concern on sustainable investment intentions.
5. To examine the influence of perceived sustainable investment performance on attitude toward sustainable investments.



6. To examine the influence of perceived sustainable investment performance on sustainable investment intentions.
7. To examine the influence of attitude on sustainable investment intentions.
8. To examine whether attitude toward sustainable investment mediates the relationship between collectivism and sustainable investment intentions.
9. To examine whether attitude toward sustainable investment mediates the relationship between environmental concern and sustainable investment intentions.
10. To examine whether attitude toward sustainable investment mediates the relationship between perceived sustainable investment performance and sustainable investment intentions.

#### **1.4 Research Contribution**

The following are the intended contributions of this research:

1. Theoretical Contribution

This research contributes to enrich the literature and knowledge about factors that affect the investors' attitude and intention on sustainable investments in Indonesia which is still lacking and the result of this research can further be used as a reference for the next research.

2. Practical Contribution

This research provides an insight for stakeholders, such as market regulators, government, and firms about things to be considered and action to be taken in order to improve investors' intention toward sustainable investment so that it could increase the growth of sustainable investment in Indonesia, especially in West

Sumatra. Furthermore, this research could enhance readers' interest in understanding how their investment decision could give an impact to the world.

### **1.5 Research Scope**

This research investigates the factors affecting sustainable investment intention. The factors being analyzed are limited only on collectivism, environmental concern, perceived of sustainable investment performance, and attitude as the mediator. The subject of this research is Generation Z in West Sumatra and the type of data is primary that will be collected by using a questionnaire.

### **1.6 Research Outline**

This research contains of five chapters and each chapters contains of subsections with the following systematization of writing:

#### **CHAPTER I INTRODUCTION**

This section comprises of six subsections namely research background, research question, objective of the research, contribution of the research, scope of the research and outline of the research

#### **CHAPTER II LITERATURE REVIEW**

This section comprises of the theory used and the explanation of each variable of this research. Furthermore, the hypothesis development, previous studies, and the research conceptual framework are contained in this chapter as well.

### **CHAPTER III RESEARCH METHOD**

This section comprises the elucidation of the method used in this research, the population and sample, the types and source of data, the measurement and operational definition of the research variables, and the data analysis techniques.

### **CHAPTER IV RESULT AND DISCUSSION**

This section comprises of the result of the data analysis, its discussion, the explanation about the research hypothesis whether they are accepted or rejected, and the comparison with the theory used and previous studies.

### **CHAPTER V CONCLUSION**

This chapter contains the summary of the research, the limitations of the research, and the recommendations for future research.

