The Effects of Environmental, Social, and Governance (ESG) and Financial Literacy on Investment Decisions in Capital Market Products in East Java

[1]Fairuz Rahmi Nabila, [2]Mariana, [3]Nur Quratun Aini Haron
[1]Faculty of Economics and Business, State University of Surabaya
[2]Faculty of Economics and Business, State University of Surabaya
[3]Universiti Teknologi MARA Malaysia

[1]fairuzrahmi.19093@mhs.unesa.ac.id, [2]mariana@unesa.ac.id

ABSTRACT

The purpose of this study is to examine the effects of Environmental, Social, and Governance (ESG) and financial literacy on investment decisions in capital market products in East Java. This research uses quantitative methods. The sampling technique used is probability sampling. Specifically, this study used a cluster random sampling method. The population in this study are college students at universities in East Java. Based on cluster random sampling in sample selection, this research is obtained by 214 respondents. Primary data collection is done by distributing online questionnaires (google forms). The data analysis technique used in this study is descriptive statistical analysis, validity and reliability test, classical assumption test, multiple linear regression test, t test, f test and coefficient of determination with support of SPSS Version 25 software program. The results of this study indicate that both Environmental, Social, and Governance (ESG) and financial literacy have positive and significant effects on investment decisions in capital market products in East Java.

Keywords : Capital Market Products; ESG; Financial Literacy, Investment Decision

I. INTRODUCTION

A fast-growing economy means people want an income other than a salary. Investing is therefore one way to achieve this. Investing is direct or indirect investment activity with the hope that over time the owner of capital will derive various benefits from the results of the investment (Salwah, 2020).

In order to live a decent and sufficient life, Indonesian society is currently involved in investing activities. People will prioritize their requirements and wishes to buy assets or other things as saves for the future until they reach retirement age when they are in their productive age or working till they have a family. Investment is the financial planning that involves sacrificing monies in order to buy something now in the hope of making money off of it later. (Irjayanti, 2017).

The existence of the capital market as a reputable investment platform aids investors in their capital allocation. For both local and foreign investors, the capital market has become an appealing investment destination. The more investors that invest in the stock market, the more trading activity there is (Parmitasari, 2017).

Indonesian capital market investors witnessed tremendous development during 2022. According to PT Kustodian Sentral Efek Indonesia (KSEI), the number of capital market investors is growing, aided by knowledge and simple access made possible by technology advancements. According to statistics from the Kustodian Sentral Efek Indonesia (KSEI), the number of capital market investors in 2022 remain 10.31 million. This amount climbed by 37.68% when compared to the 2021 period, when there were 7.49 million investors, and the 2020 period, when there were 3.88 million investors (dataindonesia.id, 2023).

According to the description, investment activities in Indonesia have increased year after year. The increased investment activity is tied to investor investment decisions. The choice or policy made to allocate capital to one or more assets in order to produce future profits is referred to as an investment decisions (Wulandari & Iramani, 2014).

The problem stems from the fact that many individuals still have a limited grasp of how to invest effectively, which leads to many of them being duped by investments that promise unrealistic rewards and have unclear investment management. These types of investments are known as illicit or fraudulent investments. As a result, the public needs a greater awareness of the sorts of financial instruments they will utilize in order to prevent being duped in the future. A sufficient understanding of an investment instrument can assist an investor in making educated investment selections, optimizing the degree of return (Mertha Dwei & Purbawangsa, 2018).

Assessing a company's performance is one of the pieces of information required by investors to make investment decisions. Knowing a company's performance and health might assist investors determine whether or not to invest (Sari et al., 2017). Nowadays, a company's success is evaluated not just on its financial performance but also on how well it contributes to environmental sustainability and the welfare of the local community. Investor interest in supporting environmentally friendly businesses is rising. ESG-based investments have grown in popularity in recent years, requiring investors to take environmental, social, and governance factors into account when evaluating a company's performance (Stiadi et al., 2023). Investors are also getting increasingly concerned about ESG disclosure. This is because their investment decisions heavily rely on efficient, credible, trustworthy, and relevant ESG data (Toti & Johan, 2022).

The Theory of Planned Behavior (TPB), which focuses on investing intentions, investigates stock market investors' perceptions of ESG. This theory focuses on investors' intents to invest in ESG-related issues when making investment decisions after taking into consideration investors' views toward ESG concerns and subjective standards. According to TPB, investors choose to invest in firms that provide ESG disclosure based on their viewpoints on environmental, social, and governance concerns as well as their own criteria (Sultana et al., 2018).

In the study conducted by Triyani et al., (2021), it was found that ESG can provide signals or responses to investors. However, in the research conducted by Qodary & Tambun, (2021), the test results showed that Environmental, Social, and Governance (ESG) does not affect stock returns. This is because investors have not yet made Environmental, Social, and Governance (ESG) a basis for investment decision-making.

Investment decisions can be influenced by Environmental, Social, and Governance (ESG) factors. By considering ESG factors, ESG analysis helps investors make informed investment decisions that support responsible and sustainable economic development. Therefore, ESG becomes important for investors in the process of analysis and decision-making for investments.

Sahut & Pasquini-Descomps, (2015) stated that ESG information should be positively reflected in stock prices because investors can associate it with low residual risks and high returns. Thus, ESG information is likely to be considered in investment decisions if it is useful to investors who may perceive socially responsible companies as less risky and, in this case, provide a positive

evolution of their financial performance. Most previous research has successfully shown that ESG information influences investment decisions and concludes that investors have a positive attitude towards ESG information.

H1: Environmental, Social, and Governance (ESG) has an effect on investment decisions in capital market products.

Having a plan before making investment decisions helps eliminate doubts by allowing for rational decision-making and avoiding losses. To make investment decisions, the public needs good financial knowledge and literacy so that each decision they make leads to a clear and correct direction (Copur & Gutter, 2019). Financial literacy is the ability to understand how money works in today's society, how people manage it, and how they invest it (Utami & Sitanggang, 2021)

Financial literacy among Indonesians has increased, according to the Financial Services Authority's (OJK) 2022 National Survey on Financial Literacy and Inclusion (SNLIK). Indonesia's financial literacy index score increased from 38.03% in 2019 to 49.68% in 2022 (Financial Services Authority, 2022). Although the poll demonstrates an increase over prior years, the degree of financial literacy remains quite low. Due to Indonesia's poor financial literacy rate, stakeholders must make a significant effort to increase public awareness of financial institutions. Therefore, it is crucial to educate the public on how to use financial services efficiently in the fast-paced era of digital financial technology in order to stop people from falling for scams as a result of a lack of knowledge (Kusnandar, 2022).

The lack of financial literacy in Indonesia causes losses for the general population as a result of inflation, economic downturns, and both the growth of an economy that encourages excessive spending as people become more consumer-oriented, as well as economic downturns and inflation. Due to their lack of expertise in these areas, many people are unable to invest or access the capital or money markets (Mertha Dewi & Purbawangsa, 2018).

Individual well-being is linked to financial literacy in order to foresee financial problems. Individuals who are financially literate are better able to handle their personal finances, optimizing the amount of money, time, value, and profits that may be earned while maintaining their level of life. Making advantageous financial management decisions can be aided by strong financial literacy. This is supported by the research of Mertha Dewi & Purbawangsa, (2018) and Yasa et al., (2020), which show that Higher levels of financial literacy result in improved individual investment decision-making behavior because

financial literacy has a strong beneficial influence on investment behavior (Yundari & Artati, 2021). However, in Kusumawati, (2022) study, the study concluded that it is not relevant to the investment decisions of students in the city of Semarang. These results are due to the complexity of investment decisions in the capital market, which requires experience in buying and selling stocks.

Financial literacy is essential in the decision-making process for financial concerns, such as investments for one's level of living and successful future planning. A combine of awareness, knowledge, skills, attitudes, and behaviors are referred to as financial literacy, and they are needed to make wise financial decisions that eventually lead to individual financial well-being (Ariani et al., 2016).

In Aini et al., (2016) study, It was discovered that financial literacy influences investing choices favorably. Rikziana & Kartini (2017) in their research stated a same finding, showing that a person's investing decisions are influenced by their level of financial knowledge. The same was also made clear by Yasa et al., (2020), who discovered that financial literacy has an impact on a person's desire in investing. Risks in decision-making are reduced when financial decisions are based on planned and aligned knowledge. This demonstrates that an individual's ability to make wise investment selections increases with their level of financial literacy.

H2: Financial literacy has an effect on investment decisions in capital market products.

Along with the extensive knowledge and simple access made possible by technology improvements, the number of stock market investors is rising. Indonesia's investor dispersion demonstrates positive outcomes. In almost every region, growth has been reported (*dataindonesia.id*, 2023). Investors in Indonesia's stock market frequently congregate in East Java. The general public has a substantial amount of interest in stock market investments. 360,414 Single Investor Identifications, or SIDs, were registered by the Indonesia Stock Exchange's East Java Representative Office as an increase in stock market investors in East Java. Surabaya contributes the most SIDs out of the 360,414 total SIDs in East Java, with the next highest numbers coming from Malang, Sidoarjo, Kediri, Gresik, Madiun, Banyuwangi, Mojokerto, and Blitar. The East Java stock market is still expanding, especially among young millennial investors, despite the COVID-19 epidemic that has impacted the world, including Indonesia, for the past two years (Dinas KOMINFO Provinsi Jawa Timur, 2021).

II. RESEARCH METHOD

A quantitative method was applied in the research design for this study. Primary data sources are used in this research. Primary data for this study was gathered by a survey utilizing a Google Forms questionnaire that was disseminated via the researcher's social media platforms.

The population in this study consists of college students who are also stock investors in the Indonesian capital market who invest in companies which listed in KEHATI/ESG index that located in East Java. This research is using probability sampling technique, specifically cluster random sampling method. By using this sampling technique, college students in East Java as well as stock investors from each selected cluster can be selected in a more narrow selection to be examined in a study, which are active students in universities in East Java; students as well as investors aged 18-25 years; actively conducts buying and selling of shares with a minimum of one transaction per year.

In order to collect data for this study, a questionnaire was used as the main data collection tool. The researcher distributes the questionnaire using social media sites in the form of a Google Form. The survey uses a 5-point Likert scale.

Data analysis techniques use the following test:

1. Descriptive Statistical Analysis

The data analysis technique used in this study is descriptive statistics. Descriptive statistics gives a description of data seen from the average (mean), standard deviation, variance, maximum, and minimum values. Descriptive statistics are usually used to describe the profile of sample data before using statistical analysis techniques that test hypotheses. Descriptive statistics also gives numerical measures that are very important for sample data.

2. Validity Test

The validity test is used to ensure that the questionnaire used in the study accurately measures the research variables. The validity test indicates whether the measuring instrument truly measures what it is intended to measure and determines the validity of the questionnaire being measured.

3. Reliability Test

The reliability test is an index test that indicates the extent to which a measurement instrument is trustworthy or reliable. A variable is considered reliable if the Cronbach's alpha value is > 0.6, indicating that the measuring instrument used is reliable or has sufficient reliability.

4. Classical Assumption Tests
   a. Normality Test

      If the Kolmogorov-Smirnov test yields a significance value above 0.05, then the data is

Commented [ip1]: The research about ESG, are the respondents invest in KEHATI index or any kind of index?

The research is about ESG so the investors at least have awareness about the ESG/KEHATI index in IDX rite? Its better that the respondents had invested in companies which listed in KEHATI/ESG index

normally distributed. However, if the significance value is less than 0.05, then the data is not normally distributed.

b. Multicollinearity Test
The multicollinearity test using SPSS is performed using regression analysis, with the reference being the Variance Inflation Factor (VIF) and the correlation coefficients. The criteria used are that if the tolerance value > 0.10, then there is no multicollinearity. On the other hand, if the VIF value > 10.00, then there is multicollinearity.

c. Heteroscedasticity Test
Heteroscedasticity can be detected using the Glejser test. If the variance of residuals remains constant from one observation to another, it is called homoscedasticity, while if it varies, it is called heteroscedasticity. A good regression model is one that exhibits homoscedasticity or no heteroscedasticity.

d. Autocorrelation Test
Autocorrelation is used to test whether there is a correlation between disturbances in a linear regression model between period t and period t-1, indicating that the current condition is influenced by the previous condition. To determine if a regression model contains autocorrelation, the Durbin Watson (DW) approach can be used.

5. Multiple Linear Regression Analysis
Regression is a method used to determine the relationship between one variable and other variables.

6. Hypothesis Testing
   a. F Test
   If the probability (F-significance) > (0.05), then there is no significant influence of the independent variables on the dependent variable. If the probability (F-significance) < (0.05), then there is a significant influence of the independent variables on the dependent variable.
   b. T Test
   The t-test is conducted to test whether there is a partial influence between the independent variable (X) and the dependent variable (Y) and to determine the significance of the influence. This can be observed by looking at the probability value.
   c. Coefficient of Determination
   The coefficient of determination is represented by R-Square. It is used to assess the model's ability to

explain the variation in the dependent variable. The R Square value lies between 0 and 1. If the R Square is getting closer to zero, it means that the ability of the dependent variable to explain the variation of the independent variable is very limited. If R Square is getting closer to 1, it means that the ability of the independent variables on the dependent variable is very appropriate.

III. RESULTS AND DISCUSSION

The object of this research is college students who are also investors in the capital market located in the East Java province. The research data is obtained from 214 samples filled out by respondents after checking them according to the criteria, which are students aged 18-25 years, currently enrolled in higher education institutions in East Java, and actively engaged in stock trading with a minimum of one transaction per year.

Table 1. Demographic profile of the respondents

Items	Characteristics	Response (%)
Gender	Male	28.04%
	Female	71.96%
Age	18	0.39%
	19	10.32%
	20	12.17%
	21	18.26%
	22	35.86%
	23	14.00%
	24	5.74%
	25	3.26%
Education	Diploma 3	0.93%
	Diploma 4	8.41%
	Bachelor degree	90.19%
	Master degree	0.47%
Experience	< 1 year	42.52%
	> 1 year	57.48%
Frequency	< 3 times	59.81%
	> 3 times	40.19%
Domicile	Bangkalan	0.47%
	Blitar	0.47%
	Gresik	0.93%
	Jember	0.47%
	Madiun	0.47%
	Malang	40.19%
	Probolinggo	0.47%
	Sidoarjo	1.40%
	Surabaya	55.14%

Source: The data is processed by the author

The table above shows the characteristics of respondents based on gender, with the largest percentage being female respondents at 71.96%, while male respondents account for 28.04%. As for the characteristics of respondents based on age, the highest percentage is in the 22-year-old age group, comprising 35.86% of the respondents. On the other hand, the lowest age group is 18 years old, with a percentage of 0.39%, totaling 1 respondent. Among the respondents, the dominant educational level is a Bachelor's degree (S1) with 193 respondents, account for 90.19%. It is known that 57.48% of the respondents have been investing for more than a year, while 42.52% of the respondents have been investing for less than a year. Furthermore, 59.81% of the respondents have conducted transactions less than three times a year, while 40.19% have conducted transactions more than three times a year. In terms of domicile, the majority of the respondents in this survey were from Surabaya and

Malang, respectively, comprising 55.14% and 40.19% of the total respondents.

Table 2. Descriptive Statistics Analysis

Descriptive Statistics					
	N	Min.	Max.	Mean	Std. Deviation
ESG	214	44.00	70.00	62.5467	4.49884
Financial Literacy	214	30.00	50.00	44.1449	3.50754
Investment Decisions	214	34.00	50.00	44.5280	3.26694
Valid N (listwise)	214				

Source: SPSS 25 output (data is processed by the author)

Based on the table above, it can be concluded that the highest maximum value is found in the ESG variable at 70.00, while the lowest maximum value is in the Financial Literacy and Investment Decision variables at 50.00. The highest standard deviation is in the ESG variable at 4.49884, while the lowest standard deviation is in the Investment Decision variable at 3.26694.

Table 3. Validity Test

Variables	Items	r-count	r-table	Desc.
ESG (X1)	X1.1	0.533	0.138	Valid
	X1.2	0.619	0.138	Valid
	X1.3	0.546	0.138	Valid
	X1.4	0.584	0.138	Valid
	X1.5	0.515	0.138	Valid
	X1.6	0.573	0.138	Valid
	X1.7	0.521	0.138	Valid
	X1.8	0.585	0.138	Valid
	X1.9	0.526	0.138	Valid
	X1.10	0.538	0.138	Valid
	X1.11	0.533	0.138	Valid
	X1.12	0.566	0.138	Valid
	X1.13	0.496	0.138	Valid
	X1.14	0.517	0.138	Valid
Financial Literacy (X2)	X2.1	0.588	0.138	Valid
	X2.2	0.608	0.138	Valid
	X2.3	0.539	0.138	Valid
	X2.4	0.501	0.138	Valid
	X2.5	0.601	0.138	Valid
	X2.6	0.580	0.138	Valid
	X2.7	0.660	0.138	Valid
	X2.8	0.550	0.138	Valid
	X2.9	0.597	0.138	Valid
	X2.10	0.360	0.138	Valid
Investment Decisions (Y)	Y.1	0.533	0.138	Valid
	Y.2	0.538	0.138	Valid
	Y.3	0.503	0.138	Valid
	Y.4	0.541	0.138	Valid
	Y.5	0.580	0.138	Valid
	Y.6	0.629	0.138	Valid
	Y.7	0.512	0.138	Valid
	Y.8	0.546	0.138	Valid
	Y.9	0.556	0.138	Valid
	Y.10	0.441	0.138	Valid

Source: SPSS 25 output (data is processed by the author)

it can be seen that all statement items have positive correlation coefficient values and r count is greater than r-table. This means that the data obtained is valid and further data testing can be carried out.

Table 4. Reliability Test

Variables	Cronbach's Alpha	Description
ESG	0.819	Reliable
Financial Literacy	0.757	Reliable
Investment Decisions	0.725	Reliable

Source: SPSS 25 output (data is processed by the author)

The table shows that the Cronbach's Alpha value of all variables is greater than 0.60, so it can be concluded that the instruments from the questionnaire used to

explain the variables Environmental, Social, and Governance (ESG), financial literacy, and investment decisions are declared reliable.

Table 5. Normality Test

One-Sample Kolmogorov-Smirnov Test		
		Unstandardized Residual
N		214
Normal Parameters	Mean	.0000000
	Std. Deviation	1.48561769
	Absolute	.056
	Positive	.040
	Negative	-.056
Test Statistic		.056
Asymp. Sig. (2-tailed)		.200

Source: SPSS 25 output (data is processed by the author)

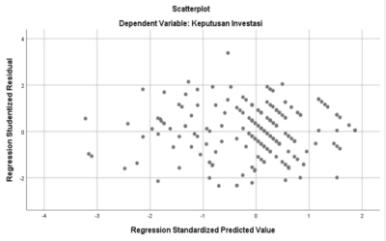
Based on the table above, it indicates that the normality test conducted shows that the data is normally distributed. This is evidenced by the Asymp Sig. (2-tailed) value of 0.200 > 0.05, which leads to the conclusion that the data is normally distributed.

Table 6. Multicollinearity Test

Model	Collinearity Statistics	
	Tolerance	VIF
ESG	.616	1.623
Financial Literacy	.616	1.623

Source: SPSS 25 output (data is processed by the author)

According to the table above, it can be observed that the VIF (Variance Inflation Factor) and tolerance values in this study are both > 0.10 and > 10. Therefore, it can be concluded that the regression model does not exhibit multicollinearity symptoms.



Source: SPSS 25 output (data is processed by the author)

Image. 1 Heteroscedasticity Test

Based on the figure above, the scatterplots graph shows that the data points are scattered randomly along the Y-axis. Therefore, it can be concluded that there is no heteroscedasticity in the regression model. Hence, the regression model is suitable for predicting the variables ESG, Financial Literacy, and Investment Decision.

Table 7. Autocorrelation Test

Model Summary	
Model	Durbin-Watson
1	1.8340

a. Predictors: (Constant), *Financial Literacy*, ESG

b. Dependent Variable: Investment Decisions

Source: SPSS 25 output (data is processed by the author)

In the table above, it can be observed that the Durbin-Watson (d) value of the regression model is 1.8340. The Durbin-Watson (d) value of 1.8340 is greater than the upper limit (dU) of 1.7887. Therefore, it can

be concluded that there is no issue or symptom of autocorrelation.

Table 8. Multiple Linear Regression Test

Coefficients[a]

Model		Unstandardized Coefficients B	Std. Error	t	Sig.
1	(Constant)	1.915	1.523	1.257	.210
	ESG	.330	.029	11.332	.000
	Financial Literacy	.499	.037	13.345	.000

Source: SPSS 25 output (data is processed by the author)

Based on the table above, the obtained regression model is as follows:

$$Y = \alpha + \beta 1X1 + \beta 2X2 + e$$
$$Y = 1.915 + 0.330X1 + 0.499X2 + e$$

Based on the equation above, the interpretation is as follows:

1. The obtained constant value is positive, 1.915 (β). In the equation above, when the ESG variable (X1) and Financial Literacy variable (X2) are considered constant at 0, the Investment Decision variable (Y) has a value of 1.915 units, assuming other variables are constant.
2. The regression coefficient of the ESG variable is 0.330, which is greater than 0, indicating a positive value. From the obtained result, it can be explained that the ESG variable has a positive impact on investment decisions. Therefore, increasing awareness about ESG is expected to lead to an increase in investment decisions in capital market products.
3. The regression coefficient of the financial literacy variable is 0.499, which is greater than 0, indicating a positive value. From the obtained result, it can be explained that the financial literacy variable has a positive impact on investment decisions. Therefore, enhancing financial literacy is expected to lead to an increase in investment decisions in capital market products.

Table 9. F Test

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1785.321	2	892.661	400.659	.000
	Residual	470.104	211	2.228		
	Total	2255.425	213			

a. Dependent Variable: Investment Decisions

Source: SPSS 25 output (data is processed by the author)

Based on table above, it shows that ESG, Financial Literacy, and Investment Decision have an F-value of 400.659 with a significance level of 0.000. Therefore, the F-value of 400.659 is greater than 0.000. Thus, it can be concluded that the ESG and Financial Literacy variables have a simultaneous effect on Investment Decision.

Table 10. T Test

Coefficients[a]				
Model		t B	Sig.	
1	(Constant)	1.915	1.257	.210
	ESG	.330	11.332	.000
	Financial Literacy	.499	13.345	.000

a. Dependent Variable: Investment Decisions

Source: SPSS 25 output (data is processed by the author)

From the table above, the conclusions of the t-test results are as follows:

1. The Environmental, Social, and Governance (ESG) variable (X1) is found to have a t-value of 11.332 and a Sig. value of 0.000 < 0.05. Therefore, it can be concluded that ESG has a positive and significant effect on the Investment Decision variable.
2. The Financial Literacy variable (X2) is found to have a Sig. value of 0.000 < 0.05 and a t-value of 13.345. Hence, it can be stated that Financial Literacy has a positive and significant effect on the Investment Decision variable.

Table 11. Coefficient of Determination

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.890[a]	.792	.790	1.49264

a. Predictors: (Constant), Financial Literacy, ESG

Source: SPSS 25 output (data is processed by the author)

The value used in the coefficient of determination is R Square, which is used to assess the model's ability to explain the dependent variable. The result is an R square value of 0.792 or 79.2% as shown in the table above, indicating that the Investment Decision can be explained by the Environmental, Social, and Governance (ESG) and Financial Literacy variables. The remaining 20.8% is influenced by other variables not explained in this study.

Based on the results of the hypothesis test conducted on 214 respondents, aiming to determine the influence of Environmental, Social, and Governance (ESG) and Financial Literacy on Investment Decision in the Capital Market Products in East Java among students who are also stock investors in East Java, the findings can be outlined as follows:

1. **The Effect of Environmental, Social, and Governance (ESG) on Investment Decision in the Capital Market Products in East Java.**

The hypothesis test findings show that the ESG variable has a positive and substantial impact on the choice to invest in capital market products. The H1 hypothesis in this study can be accepted based on the F-test and t-test findings for the ESG variable, where the significant value is greater than the alpha threshold of 0.05. These findings imply that students who invest in stocks on the East Java stock market are cognizant of ESG

information since it influences their choice of investments.

The respondents in this study were students as a stock investors aged 18-25 in East Java, indicating that investors consider environmental, social, and corporate governance issues when making investment decisions, and how their perception of a company's reputation influences their investment choices. As a result, it influences investment choices through influencing the pursuit of ESG knowledge and information as well as the support for investing in capital market products.

The research findings are consistent with previous studies conducted by Afeef & Jan Kakakhel, (2022); Khemir et al., (2019); Stiadi et al., (2023); Sultana et al., (2018) which show that ESG has a substantial impact on investing choices. This kind of investing has drawn attention globally since ESG data can offer insights into future performance (Verheyden et al., 2016). Investors are becoming increasingly cautious about environmental, social, and governance issues.

2. The Effect of Financial Literacy on Investment Decision in the Capital Market Products in East Java.

The hypothesis test findings show that the financial literacy variable has a positive and substantial impact on the choice to invest in capital market products. The H2 hypothesis in this study may be accepted based on the F-test and t-test findings for the financial literacy variable, where the significance value is more than the alpha threshold of 0.05. These findings imply that students who also invest in stocks on the East Javan stock market are confident in their ability to demonstrate financial literacy in terms of abilities, knowledge, and a sound belief system for making informed investment choices in capital market products.

The respondents in this study were students as a stock investors aged 18-25 in East Java, demonstrating that novice investors can quickly digest information that explains how prudent financial literacy eventually results in a better future. Even if many of them have little investing experience, young people with financial literacy knowledge and comprehension are more likely to adopt precise, efficient, and productive investment decision-making techniques. People who are financially literate weigh the advantages and hazards of their investments, carefully select investment products, take into account when returns will be achieved, and look for pertinent information on returns from a variety of sources. Additionally, these people may obtain more pertinent information about their assets thanks to increased access to financial

institutions, quick internet, and financial news.

The research findings align with previous studies conducted by Mertha Dewi & Purbawangsa, (2018); Raut, (2020); Utami & Sitanggang, (2021) that show that financial literacy has a major impact on investing choices. As it helps people to comprehend and assess pertinent information for investment selections, financial literacy has a favorable effect on investors' ability to make financial decisions. This justification emphasizes the significance of financial literacy for people, since it keeps them out of unwanted circumstances like engaging in dishonest or fraudulent investments.

IV. CONCLUSION

Through the results of the conducted research, the following important conclusions can be drawn:

1. Environmental, Social, and Governance (ESG) has a substantial and favorable impact on investment choices in East Java's capital market products. Environmental, social, and governance (ESG) issues have gained in popularity in recent years. This highlights how investors' opinions of an issuer's reputation affect their investment decisions and how investors consider environmental, social, and governance aspects when making investment decisions.
2. Financial literacy significantly and positively influences investment decisions in capital market products in East Java. It is more probable that investors will select the appropriate form of stock investment on the capital market if they have a strong grasp of financial literacy.

With these results, it is expected that investors, especially college students, should consider both financial and non-financial information when making judgments about investments, particularly when it comes to the companies being studied. So it is intended that the information that is already accessible can be utilized as material for thought or analysis in relation to the return that will be produced. Additionally, while making investment decisions based on Environmental, Social, and Governance (ESG), information and references are reviewed to see how they may affect investment returns. High financial literacy investors are also expected to be able to use that knowledge and use it in their daily life when choosing to make wise financial decisions and investments.

Furthermore, by giving socialization and education on how to invest appropriately and correctly, OJK is anticipated to continually pique the interest of young investors, particularly college students, in making investments in the capital market. In order to improve the

financial literacy of investors and professionals in the financial industry about the idea of ESG and its importance in making investment decisions, OJK is also required to provide ESG training and education through webinars and educational programs.

Thus, Future researchers could also use responses from institutional investors in addition to those from student investors. The study's findings did not always support the hypothesis since there are other investment vehicles besides stocks where investment decision-making variables may be generated, such as bonds, mutual funds, and others. As well as utilizing other elements that are believed to affect stock investment choices.

V. REFERENCES

Afeef, M., & Jan Kakakhel, S. (2022). ESG Factors and their Influence on the Investment Behavior of Individual Investor: A Case from Pakistan. In International Journal of Business and Management Sciences (Vol. 3, Issue 3). www.ijbms.orghttp://www.ijbms.org

Aini, N., Syafitri, L., & Wijaya, T. (2016). Pengaruh Literasi Keuangan dan Faktor Demografi Terhadap Keputusan Investasi di Pasar Modal (Studi Kasus Karyawan PT. Semen Baturaja (PERSERO) Tbk). Jurnal Ilmu Manajemen.

Ariani, S., Rahmah, P. A. A. A. A., Putri, Y. R., Rohmah, M., Budiningrum, A., & Lutfi. (2016). Pengaruh Literasi Keuangan, *Locus of Control*, dan Etnis terhadap Pengambilan Keputusan Investasi. *Journal of Business and Banking*. https://journal.perbanas.ac.id/index.php/jbb/article/view/706

Copur, Z., & Gutter, M. S. (2019). Economic, Sociological, and Psychological Factors of the Saving Behavior: Turkey Case. Journal of Family and Economic Issues. https://doi.org/https://doi.org/10.1007/s10834-018- 09606-y

Dinas KOMINFO Provinsi Jawa Timur. (2021). BEI : Pertumbuhan Investor Pasar Modal Capai 62 Persen. Dinas KOMINFO Provinsi Jawa Timur. https://kominfo.jatimprov.go.id/read/umum/bei-pertumbuhan-investor-pasar-modal-capai-62-persen

Irjayanti, D. (2017). Pengaruh Literasi Keuangan, *Representativeness*, *Familiarity*, dan Persepsi Risiko Terhadap Pengambilan Keputusan Investasi Pada Investor Surabaya dan Sidoarjo. Jurnal Ilmu Manajemen.

Khemir, S., Baccouche, C., & Ayadi, S. D. (2019). The Influence of ESG Information on Investment Allocation Decisions: An Experimental Study in An Emerging Country. Journal of Applied Accounting Research, 20(4), 458–480. https://doi.org/10.1108/JAAR-12-2017-0141

Kusnandar, V. B. (2022). Tingkat

Literasi Keuangan Masyarakat Indonesia Masih Rendah. https://databoks.katadata.co.dd/datapublish/2022/09/26/Tingkat-Literasi-Keuangan-Masyarakat-Indonesia-Masih-Rendah.

Kusumawati, H. A. (2022). Pengaruh Literasi Keuangan, *Overconfidence* dan *Risk Tolerance* Terhadap Keputusan Investasi Mahasiswa Di Kota Semarang. https://repository.usm.ac.id/files/

Mertha Dewi, I., & Purbawangsa, I. B. A. (2018). Pengaruh Literasi Keuangan, Pendapatan Serta Masa Bekerja Terhadap Perilaku Keputusan Investasi. E-Jurnal Ekonomi Dan Bisnis Universitas Udayana, 7, 1867. https://doi.org/10.24843/eeb.2018.v07.i07.p04

Parmitasari, R. D. A. (2017). Gender dan Kepuasan Keuangan Investor Pasar Modal di Sulawesi Selatan. Patria Artha Manajemen Journal. https://doi.org/10.33857/pamj.v1i2.64

Qodary, H. F., & Tambun, S. (2021). Pengaruh *Environmental, Social, Governance* (ESG) dan *Retention Ratio* Terhadap *Return* Saham Dengan Nilai Perusahaan Sebagai Variabel *Moderating*. Juremi: Jurnal Riset Ekonomi.

Raut, R. K. (2020). Past Behaviour, Financial Literacy And Investment Decision-Making Process Of Individual Investors. International Journal of Emerging Markets, 15(6), 1243–1263. https://doi.org/10.1108/IJOEM-07-2018-0379

Sahut, J.-M., & Pasquini-Descomps, H. (2015). ESG Impact on Market Performance of Firms: International Evidence. Management International, Vol. 19.

Salwah, S. (2020). Pengaruh Literasi Keuangan, *Overconfidence*, dan *Risk Tolerance* Terhadap Keputusan Investasi Produk Pasar Modal Di Kota Makassar.

Sari, T. W., Hidayat, R. R., & Sulasmiyati, S. (2017). *The Influence of Return on Investment (ROI), Return on Equity (ROE), Earnings Per Share (EPS) and Market Value Added (MVA) on Stock Return*. Jurnal Universitas Brawijaya, 46(1), 172–180. http://administrasibisnis.studentjournal.ub.ac.id/index.php/jab/article/view/1796

Sepanjang 2022, Jumlah Investor Pasar Modal Tembus 10,31 Juta. (2023). dataindonesia.Id. https://dataindonesia.id/pasar-saham/detail/sepanjang-2022-jumlah-investor-pasar-modal-tembus-1031-juta

Stiadi, D., Yusniar, M. W., & Abidin, M. Z. (2023). Moderasi ESG *Risk* pada Keputusan Investasi Terhadap Return Saham. *12*(1).

Sugiyono. (2013). Metode Penelitian Kuantitatif.

Sultana, S., Zulkifli, N., & Zainal, D. (2018). Environmental, Social And Governance (ESG) and Investment Decision in Bangladesh. Sustainability (Switzerland), 10(6). https://doi.org/10.3390/su10061831

Toti, G. K., & Johan, S. (2022). The Effect of Enviromental, Social, Governance (ESG) Disclosure on Company's Profitability & Value in The Sri-Kehati Index 2015-2020. Journal of Entrepreneurship, Management and Industry (JEMI), 5(2), 81–92. https://doi.org/10.36782/jemi.v5i2.2271

Triyani, A., Setyahuni, S. W., & Makwuna, F. D. (2021). Pengaruh Kinerja Non Keuangan (*Environmental, Social, Governance*) terhadap Resiko Investasi Perusahaan. Jurnal Akuntansi Dan Bisnis : Jurnal Program Studi Akuntansi, 7(2), 155–165. https://doi.org/10.31289/jab.v7i2.5602

Utami, N., & Sitanggang, M. L. (2021). *The Analysis of Financial Literacy and Its Impact on Investment Decisions: A Study on Generation Z in Jakarta*. In Inovbiz: Jurnal Inovasi Bisnis (Vol. 9). www.ejournal.polbeng.ac.id/index.php/IBP

Verheyden, T., Eccles, R. G., & Feiner, A. (2016). ESG For All? The Impact of ESG Screening on Return, Risk, and Diversification. Journal of Applied Corporate Finance. https://doi.org/10.1111/jacf.12174

Wulandari, D. A., & Iramani, R. (2014). Studi *Experienced Regret, Risk Tolerance, Overconfidance* dan *Risk Perception* Pada Pengambilan Keputusan Investasi Dosen Ekonomi. Journal of Business and Banking, 4(1).

Yasa, W., Upadana, A., & Trisna Herawati, N. (2020). Pengaruh Literasi Keuangan dan Perilaku Keuangan terhadap Keputusan Investasi Mahasiswa. Jurnal Ilmiah Akuntansi Dan Humanika, 10(2).

Yundari, T., & Artati, D. (2021). Analisis Pengaruh Literasi Keuangan, Perilaku Keuangan dan Pendapatan Terhadap Keputusan Investasi. Jurnal Ilmiah Mahasiswa Manajemen, Bisnis Dan Akuntansi (JIMMBA), 3(3), 609–622. https://doi.org/10.32639/jimmba.v3i3.896