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The Influence of Capital Market and Investment Literacy on Students' Interest in ESG-Based Investment in South Sulawesi, Indonesia

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Abstract

This study aims to examine how capital market knowledge and investment literacy influence university students' interest in ESG (Environmental, Social, and Governance)-based investments, with a particular focus on the mediating role of perceived ESG benefits. The research addresses the growing urgency of sustainable finance and the gap in ESG awareness among student investors in Indonesia. Using a descriptive quantitative approach, the study collected primary data through a structured online questionnaire distributed to 98 active members of the South Sulawesi Capital Market Study Group Forum (Forum Komunikasi Kelompok Studi Pasar Modal Sulawesi Selatan-FKSS). The data were analysed using Structural Equation Modeling (SEM) with SmartPLS to test both direct and mediating effects between constructs. The results show that both capital market knowledge and investment literacy have a significant positive effect on students' perceptions of ESG benefits and their interest in ESG-based investments. The perceived benefits of ESG investments act as a strong mediating variable, indicating that financial knowledge enhances students' willingness to engage in sustainable investing when they appreciate its long-term value. These findings suggest the need for enhanced ESG-related financial education in university curricula and greater standardisation in ESG reporting to build trust and understanding among young investors. Policymakers and regulators should collaborate with educational institutions to promote sustainable investment literacy among students. This study offers a novel contribution by focusing on student-level ESG investment behaviour in Indonesia, a demographic underexplored in ESG literature. It highlights the cognitive mechanisms through which financial literacy translates into sustainable investment interest, offering fresh insights into the promotion of responsible investing in emerging markets.

Keywords: Capital Market; ESG; Investment Literacy; Students; Sustainable Investment.

Abstrak

Penelitian ini bertujuan untuk mengkaji bagaimana pengetahuan pasar modal dan literasi investasi memengaruhi minat mahasiswa terhadap investasi berbasis ESG (Environmental, Social, and Governance), dengan fokus khusus pada peran mediasi dari persepsi terhadap manfaat ESG. Penelitian ini merespons kebutuhan mendesak akan keuangan berkelanjutan dan rendahnya literasi ESG di kalangan investor muda di Indonesia. Dengan pendekatan kuantitatif deskriptif, data primer dikumpulkan melalui kuesioner daring terstruktur yang dibagikan kepada 98 anggota aktif Forum Komunikasi Kelompok Studi Pasar Modal Sulawesi Selatan (FKSS). Data dianalisis menggunakan metode Structural Equation Modeling (SEM) dengan bantuan perangkat lunak SmartPLS untuk menguji pengaruh langsung maupun mediasi antarvariabel. Hasil penelitian menunjukkan bahwa pengetahuan pasar modal dan literasi investasi memiliki pengaruh positif yang signifikan terhadap persepsi manfaat ESG dan minat terhadap investasi berbasis ESG. Persepsi manfaat ESG terbukti menjadi variabel mediasi yang kuat, menunjukkan bahwa literasi keuangan meningkatkan minat berinvestasi berkelanjutan ketika mahasiswa memahami nilai jangka panjang dari ESG. Temuan ini merekomendasikan peningkatan pendidikan keuangan yang terintegrasi dengan ESG dalam kurikulum perguruan tinggi serta perlunya standardisasi pelaporan ESG untuk membangun kepercayaan dan pemahaman di kalangan investor muda. Pembuat kebijakan dan regulator disarankan untuk bekerja sama dengan institusi pendidikan dalam mempromosikan literasi investasi berkelanjutan. Penelitian ini memberikan kontribusi orisinal dengan menyoroti perilaku investasi ESG di tingkat mahasiswa di Indonesia, sebuah segmen yang masih jarang diteliti dalam literatur ESG. Penelitian ini juga mengungkap mekanisme kognitif yang menjembatani literasi keuangan dan minat

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terhadap investasi berkelanjutan, serta memberikan wawasan baru dalam penguatan investasi bertanggung jawab di pasar negara berkembang.

Kata Kunci: Pasar Modal; ESG; Literasi Investasi; Mahasiswa; Investasi Berkelanjutan.

INTRODUCTION

In recent years, Environmental, Social, and Governance (ESG)-based investment has experienced significant global momentum, driven by the urgent need for sustainability in modern financial practices. Increasingly, investors are integrating ESG factors to address systemic risks such as environmental degradation, social injustice, and governance failures (Mulialim & Madyan, 2023). Companies that demonstrate strong ESG performance have shown higher resilience during economic disruptions and are often viewed more favourably by long-term investors (Kölbel et al., 2020).

This trend is also apparent in Indonesia, where the capital market has witnessed a surge in retail investor participation. According to KSEI (2024), student investors represent a growing demographic, reflecting broader financial inclusivity among the younger generation. Simultaneously, the Indonesian government has encouraged sustainable investment through initiatives such as Green Sukuk and ESG-related disclosures regulated by the Financial Services Authority (OJK) (Castro, 2020). Despite this progress, however, the rise in participation has not been matched by an equivalent increase in ESG literacy among students (Bocchialini et al., 2024). This gap risks undermining the quality of future investment decisions and slowing progress toward long-term development goals.

Previous studies have shown that Environmental, Social, and Governance (ESG)-based investing contributes positively to long-term corporate performance and resilience during financial crises and regulatory pressures (Kölbel et al., 2020; Kräussl, 2023; Wei et al., 2024; Yoo et al., 2021). However, these studies are largely institution-oriented, focusing on macro-level investment behavior and portfolio management, with limited attention to how young and novice investors—particularly university students—understand or engage with ESG principles. Furthermore, several scholars have pointed out the practical challenges of ESG implementation, including high compliance costs in developing countries (Ruan & Liu, 2021) and inconsistencies in ESG ratings across agencies, which undermine confidence in ESG evaluations (Gubareva et al., 2023; Liu, 2022).

In addition, the low level of ESG literacy among students remains a central concern. A number of studies have emphasized the absence of ESG themes in university curricula (Kubátová & Kročil, 2020; Tia, 2023), resulting in an overreliance on conventional investment models and a limited understanding of ESG's long-term financial advantages (Song et al., 2022). Although financial inclusion is increasing among youth, as observed in the rise of student investors, this participation is not matched by corresponding awareness or understanding of sustainable investing principles (Bocchialini et al., 2024). This literacy gap represents a critical disconnect between market participation and informed investment decision-making.

In the Indonesian context, socio-cultural and institutional barriers further complicate ESG adoption. While national initiatives such as Green Sukuk and ESG disclosure requirements by the Financial Services Authority (OJK) signal a move toward sustainable finance (Castro, 2020), studies have found that weak institutional support, low public awareness, and regulatory ambiguity hinder effective ESG implementation (Luo, 2023; Rubbaniy et al., 2021). Moreover, most existing research in Indonesia remains quantitative in nature, often neglecting the social and psychological factors that shape student interest in ESG investing (Elidrisy, 2024; Indriani, 2024; Jia, 2024).

Taken together, these studies reveal a significant gap in the literature: little is known about how students' capital market and investment knowledge influence their interest in ESG investing—especially through the mediating role of perceived ESG benefits. Addressing this gap, the present study seeks to explore these relationships in the Indonesian context, offering new insights to support inclusive investment education and promote youth engagement in sustainable finance.

The main objective of this study is to examine how capital market knowledge and investment literacy influence university students' interest in ESG-based investments, with a particular focus on the mediating role of perceived ESG benefits. By addressing the gaps identified in previous literature—namely the lack of attention to student-level ESG literacy, the minimal integration of ESG education in academic settings, and the absence of contextual analysis in developing countries—this research aims to provide empirical evidence from the perspective of young retail investors in Indonesia. Specifically, the study seeks to explore whether greater financial understanding translates into increased appreciation for the ethical and financial advantages of ESG investing, and how this perception fosters active interest in sustainable investment practices. This contribution is expected to offer practical insights for developing targeted financial education strategies and informing policy efforts to strengthen sustainable investment engagement among youth.

Based on the research problem and literature gaps identified, this study proposes a set of hypotheses to explain the potential causal relationships among the key variables. The central argument is that capital market knowledge and investment literacy contribute significantly to shaping students' interest in ESG-based investment, both directly and indirectly through their perception of the benefits of ESG investing. It is hypothesized that students with a stronger understanding of financial markets are better positioned to recognize the long-term financial and ethical advantages of ESG, thereby increasing their likelihood to engage in sustainable investing. Supporting this claim, prior studies (Kanamura, 2022; Kräussl, 2023) suggest that financial knowledge enhances the ability to evaluate ESG attributes positively. Conversely, challenges such as compliance costs and inconsistent ESG ratings (Gubareva et al., 2023; Liu, 2022; Ruan & Liu, 2021) may distort these perceptions, underscoring the need to investigate mediating effects.

Based on the identified research gaps and objectives, this study proposes five hypotheses to be empirically tested. H1 posits that capital market knowledge has a positive effect on students' perception of the benefits of ESG investment, assuming that a stronger understanding of market mechanisms enhances their appreciation for ESG's long-term value. H2 suggests that capital market knowledge also directly influences students' interest in ESG-based investment, as financial literacy is believed to make students more receptive to sustainability-oriented instruments. Meanwhile, H3 hypothesizes that investment knowledge positively affects students' perception of ESG benefits, given that those who are more informed about investment principles may better grasp the ethical and financial advantages of ESG. Extending this reasoning, H4 states that investment knowledge has a positive effect on students' interest in ESG-based investment. Finally, H5 proposes that the perceived benefits of ESG investment directly contribute to increased interest in such investment instruments. These hypotheses are tested using Structural Equation Modeling (SEM) to assess both the direct and mediating effects of knowledge and perception on ESG investment interest among university students in Indonesia.

RESEARCH METHOD

The unit of analysis in this study is individual university students who are actively involved in Capital Market Study Groups (Kelompok Studi Pasar Modal/KSPM) in South Sulawesi, specifically those who are members of the South Sulawesi Capital Market Study Group Forum (Forum Kelompok Studi Pasar Modal Sulawesi Selatan/FKSS). This means that the analysis focuses on individuals rather than the KSPM organizations as institutions. These students are selected based on their active participation in investment-related activities such as stock trading or capital market simulations. The choice of this unit of analysis is based on the assumption that students engaged in KSPM activities tend to have greater knowledge and interest in capital markets compared to the general student population. Therefore, they constitute a relevant population for understanding ESG (Environmental, Social, and Governance)-based investment behavior, particularly among potential young investors.

This study adopts a descriptive quantitative approach using the Structural Equation Modeling (SEM) method. A quantitative approach is selected because the primary objective of the research is to statistically measure the relationships between variables and to test the proposed hypotheses, enabling generalization of findings based on representative empirical data. SEM is employed for its capability to simultaneously analyze causal relationships among independent, dependent, and mediating variables. SmartPLS software is chosen due to its advantages in handling non-normal data, its suitability for small to medium sample sizes, and its ability to test complex models with latent indicators. Moreover, SmartPLS offers flexibility in analyzing both direct and indirect (mediated) effects, aligning well with the study's objective to test the mediating role of perceived ESG benefits.

The data used in this research are primary data collected through an online questionnaire. No secondary data are employed. The respondents comprise 98 active FKSS student members who meet the inclusion criteria, namely, those directly involved in investment activities such as stock trading or capital market simulations. From a total of 238 members in the FKSS WhatsApp group across South Sulawesi, only 98 participants completed the questionnaire fully and met the inclusion criteria. Most respondents are in their first or second year of study, with relatively early-stage investment experience. Additional information on the types of capital market activities and investment experience of the respondents was gathered to enhance the relevance of the data for analyzing the relationships between the studied variables.

The data collection technique involved distributing a closed-ended questionnaire online using the Google Forms platform. The instrument employed a 5-point Likert scale ranging from 1 (strongly disagree) to 5 (strongly agree), consisting of 20 statements grouped into several key indicators: capital market knowledge, investment knowledge, perceived ESG benefits, and interest in ESG investments. Prior to the main distribution, a pre-test was conducted with a small number of respondents to ensure the clarity and content validity of the items. Based on the pre-test results, several revisions were made to improve unclear question wording. The final distribution took place from January to February 2025 via the FKSS WhatsApp group.

Data analysis was conducted using SEM with the latest version of the SmartPLS software. The analysis process began with data preprocessing, including data cleaning, coding, and formatting for compatibility with SmartPLS. Next, construct validity was tested, comprising convergent validity (assessed through outer loadings and Average Variance Extracted/AVE) and discriminant validity (evaluated using the Fornell-Larcker criterion and the Heterotrait-Monotrait Ratio/HTMT). Construct reliability was tested using Composite Reliability and Cronbach's Alpha values to ensure internal consistency among indicators. The structural model was then evaluated using path analysis to examine the relationships between latent variables, with significance tested through bootstrapping with 5,000 resamples. SmartPLS was preferred over AMOS or LISREL due to its superior performance in handling non-normal data, its flexibility for complex model testing, and its efficiency for limited sample sizes as in this study.

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This study employs a descriptive quantitative approach, aimed at illustrating and analyzing phenomena occurring within the population numerically (Nelwan et al., 2020). Through this approach, various variables influencing KSPM members—such as Capital Market Knowledge (X1), Investment Knowledge (X2), Perceived Benefits of ESG Investment (Y1), and Interest in ESG-Based Investment (Y2)—are measured and described. Additionally, this study explores the relationships between these variables to better understand the dynamics within the community. A summary of variables in this study is provided in Table 1.

Table 1. Operationalization variables

No	Variable	Definition	Indicators	Source	Measurement
1	Capital Market Knowledge (X1)	Capital market knowledge refers to an individual's understanding and information regarding the mechanisms of the capital market, the risks involved, and the potential benefits of investing in the capital market.	1. General capital market understanding 2. Investment risk 3. Expected return 4. Long-term funding sources 5. Investment opportunities for investors	(Mulyana et al., 2019; Sadad et al., 2022)	Likert Scale
2	Investment Knowledge (X2)	Investment knowledge refers to the understanding of various aspects related to investment, such as how to evaluate investment value, comprehend risks and returns associated with investment instruments, and recognize the importance of education and training in making sound investment decisions.	1. Importance of basic investment knowledge 2. Understanding of investment risk 3. Investment return 4. Capital market education 5. Basic knowledge of investment valuation	(Burhanudin et al., 2021; Raflis et al., 2024)	Likert Scale
3	Perceived Benefits of ESG Investment (Y1)	The perception benefits of ESG investment refers to an individual's view or assessment of the advantages gained from investing, both financially and non-financially.	1. Contribution to well-being 2. As an economic development instrument 3. Long-term benefits 4. Income stability 5. Long-term income potential	(Aditama & Nurkhin, 2020; Burhanudin et al., 2021; Fauzi et al., 2023)	Likert Scale

			exceeding inflation		
4	Interest in ESG-Based Investment (Y2)	Interest in ESG-based investment (Environmental, Social, and Governance) refers to an individual's attraction and willingness to invest in instruments that consider environmental, social, and good governance factors.	1. Willingness to learn investment 2. Time allocation to study investment 3. Interest in trying investment 4. Perception of promising returns 5. Involvement in investment practices	(Burhanudin et al., 2021; Laska Ortega & Sista Paramita, 2023; Wardani & Komara, 2021)	Likert Scale

Source: research concept development (2025)

The indicators for each variable were primarily sourced from previous studies but adapted to suit the specific context of this research. For example, indicators for Capital Market Knowledge and Investment Knowledge were selected based on key concepts from Mulyana et al. (2019), Sadad et al. (2022), Burhanudin et al. (2021), and Raflis et al. (2024), focusing on understanding capital markets, investment risks, and valuation. The Perceived Benefits of ESG Investment indicators were drawn from Aditama & Nurkhin (2020), Burhanudin et al. (2021), and Fauzi et al. (2023), emphasizing both financial and non-financial benefits of ESG investments. Lastly, Interest in ESG-Based Investment indicators were adapted from Burhanudin et al. (2021), Laska Ortega & Sista Paramita (2023), and Wardani & Komara (2021), reflecting the growing interest and willingness to engage in ESG investments. These indicators were chosen because they align with existing literature and address the specific focus of this study on ESG awareness and engagement.

Based on the data above, the conceptual framework in this study can be seen in Figure 1.

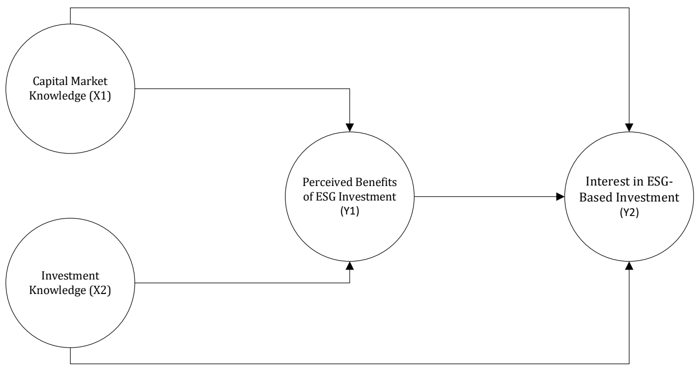

Figure 1. Conceptual Framework (2025)

Figure 1 illustrates a conceptual model that depicts the relationship between knowledge and interest in ESG (Environmental, Social, and Governance)-based investment. In this model, there are three main variables: *Capital Market Knowledge* (X1), *Investment Knowledge* (X2), and *Interest in ESG-Based Investment* (Y2), with one mediating variable, namely *Perceived Benefits of ESG Investment* (Y1). *Capital*

Market Knowledge (X1) and *Investment Knowledge* (X2) are assumed to have a direct influence on *Interest in ESG-Based Investment* (Y2), as well as an indirect influence through *Perceived Benefits of ESG Investment* (Y1). This suggests that the higher an individual's knowledge of capital markets and investment, the greater their perception of the benefits of ESG investment, which in turn increases their interest in ESG-based investment instruments. Thus, the perception of ESG benefits serves as a mediator that bridges the relationship between knowledge and investment interest in ESG, both from the perspective of capital market knowledge and general investment knowledge.

4. RESULTS AND ANALYSIS

Demographic Profile of Respondents

The research object comprises members of the Forum Komunikasi KSPM se-Sulawesi Selatan. Out of 238 members in the forum, 113 individuals responded to the online questionnaire distributed via the group. After screening based on predefined criteria, 98 questionnaires were deemed valid for analysis, while the remaining responses were classified as invalid.

The description of gender, age and department of the respondents taken from the questionnaire and can be seen in Table 2.

Table 2. Demographics of Respondents

No	Information	Frequency	Percentage
1	**Gender**		
	a. Female	54	55.10%
	b. Male	44	44.90%
	Sum	**98**	100.00%
2	**Age**		
	a. 18 - 22	76	78%
	b. 23 - 27	16	16%
	c. > 28	6	6%
	Sum	**98**	100%
3	**Department**		
	a. Management	49	50.00%
	b. Accounting	44	44.90%
	c. Islamic Banking	3	3.06%
	d. Islamic Economics	2	2.04%
	Sum	**98**	100.00%

Source: Processed Data (2025)

Out of the 98 completed questionnaires, the majority of respondents were female, accounting for 55%, while the remaining 45% were male. This indicates that the study was predominantly participated in by female respondents. Regarding age categories, most respondents fell within the 18–22 age range (76%), followed by the 23–27 age range (16%), while the least represented group was those aged over 28 (6%). In terms of academic majors, the majority of respondents were from Management (50%), followed by Accounting (44.90%), Islamic Banking (3%), and Islamic Economics (2%).

Descriptive Statistics of Research Variables

Capital Market Knowledge

Based on the survey results presented in Table 3, the average comprehension score of the 98 respondents regarding capital market knowledge was 4.16 on a Likert scale of 1 to 5. Among the five assessed indicators, the highest average score was observed in the "Investment opportunities for investors" category (4.59), followed by "Investment risk" (4.26) and "General capital market understanding" (4.21). In contrast, the "Expected return" indicator received the lowest score at 3.63. These findings indicate that while respondents generally have a good understanding of the capital market, there is a relative lack of confidence or knowledge concerning the expected return aspect.

Table 3. Capital Market Knowledge Perception Results

Knowledge Indicator	Average Score
General capital market understanding	4.21
Investment risk	4.26
Expected return	3.63
Long-term funding sources	4.11
Investment opportunities for investors	4.59
Overall Average	4.16

Source: Processed Data (2025)

Overall, most respondents have a good understanding of capital market functions, particularly regarding investment opportunities and risk management. However, there is a gap in understanding how to calculate and evaluate an investment's expected return. This highlights the need for enhanced education in this area to support better investment decision-making.

The majority of respondents answered "agree" and "strongly agree" for most indicators, indicating a positive view of the capital market. However, for the "expected return" indicator, several respondents expressed disagreement, suggesting limited comprehension of this concept among some participants.

These results indicate that while capital market literacy among students is relatively strong, a lack of technical understanding regarding expected return may hinder rational investment decision-making. Deepening financial literacy—especially in investment return evaluation—is essential to foster more informed and sustainable interest in ESG-based investments.

Investment Knowledge

A survey of 98 respondents assessing their investment knowledge perception revealed that the general understanding of basic investment knowledge and investment risk is quite good, with an average score of 4.29 (on a Likert scale of 1–5). The highest score was noted for the indicator "understanding of investment risk" (4.58), followed by "importance of basic investment knowledge" (4.54) and "capital market education" (4.37). Meanwhile, Basic knowledge of investment valuation" had the lowest score (3.95), highlighting an area where understanding may still be limited. As shown in Table 4, these findings suggest that while foundational knowledge and risk awareness are strong, valuation remains a topic that requires further emphasis.

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Table 4. Investment Knowledge Perception Results

Investment Knowledge Indicator	Average Score
Importance of basic investment knowledge	4.54
Understanding of investment risk	4.58
Investment return	4.00
Capital market education	4.37
Basic knowledge of investment valuation	3.95
Overall Average	**4.29**

Source: Processed Data (2025)

Most respondents understand the importance of investment literacy and risk management. However, knowledge of investment valuation techniques remains limited, indicating that technical skills for assessing returns need improvement.

The answer distribution shows that the majority of respondents agree on the importance of basic investment knowledge, with very few expressing disagreement. Marginal disagreement appeared in indicators related to "return" and "investment valuation," pointing to a need for stronger technical understanding.

These findings suggest that students with a solid grasp of basic investment principles are more receptive to ESG-based investment instruments. However, limitations in investment valuation comprehension may obstruct rational investment decisions. Therefore, enhancing financial literacy—particularly in investment valuation techniques—is essential to support a more substantial interest in ESG.

Perceived Benefits of ESG Investment

A survey involving 98 respondents assessed their perception of the benefits of ESG-based investments and found that participants generally view ESG investing positively, particularly in terms of its long-term advantages. The "Long-term benefits" indicator received the highest average score (4.30), followed by "Contribution to well-being" (4.13) and its role "As an economic development instrument" (4.11). On the other hand, "Income stability" recorded the lowest score (3.84), indicating relatively lower confidence in this aspect. The overall average score across all indicators was 4.08, reflecting a favorable perception of ESG investment benefits, as shown in Table 5.

Table 5. Perception of ESG Investment Benefits

Benefit Indicator	Average Score
Contribution to well-being	4.13
As an economic development instrument	4.11
Long-term benefits	4.30
Income stability	3.84
Long-term income potential exceeding inflation	4.00
Overall Average	**4.08**

Source: Processed Data (2025)

Overall, respondents show a highly positive perception of the long-term benefits of ESG-based investments, although there is some skepticism regarding the income stability provided by such instruments.

Most respondents agree that ESG-based investments offer long-term benefits and strongly accept their contributions to well-being and economic development. Nevertheless, some doubts remain regarding income stability, which may deter some individuals from investing.

This data suggests that positive perceptions of ESG investment benefits can encourage more students to invest sustainably. However, uncertainty surrounding income stability must be addressed through further education on risks and strategies for achieving more stable investment outcomes in the ESG context.

Interest in ESG-Based Investment

A survey of 98 respondents measured their level of interest in ESG-based investments and yielded an overall average score of 4.00 on a Likert scale of 1 to 5. The highest average was found in the "Interest in trying investment" indicator (4.06), followed closely by "Involvement in investment practices" (4.05) and "Willingness to learn investment" (4.01). In contrast, the lowest score was recorded for the "Perception of promising returns" indicator (3.90), indicating some reservations about the financial prospects of ESG investments. These findings are summarised in Table 6.

Table 6. Perception on Interest in ESG-Based Investment

Interest Indicator	Average Score
Willingness to learn investment	4.01
Time allocation to study investment	3.97
Interest in trying investment	4.06
Perception of promising returns	3.90
Involvement in investment practices	4.05
Overall Average	**4.00**

Source: Processed Data (2025)

The majority of respondents demonstrate strong interest in ESG-based investments, particularly in trying and actively engaging in investment practices. The desire to learn and allocate time to deepen investment knowledge is also quite evident.

The distribution of responses indicates that most respondents selected "agree" and "strongly agree," showing enthusiasm toward ESG-based investments. However, slight skepticism exists concerning the financial returns, indicating that confidence in the profitability of ESG investments needs to be strengthened.

Interest in ESG-based investing reflects significant potential to boost participation in sustainable investments. This strong interest should be supported with deeper education on ESG investment risks and potential returns to ensure continued engagement with a more mature understanding.

Measurement Model Evaluation (Outer Model)

Convergent Validity and Reliability

The validity and reliability of the model can be evaluated using the measurement model, also known as the outer model. In this study, the model was assessed through convergent validity, composite reliability, and the latent variable constructs within the path diagram. The outer loading values for each variable in the overall model (full model) are presented as output. The measurement model for validity and reliability, along with the path coefficients, is illustrated in Figure 2.

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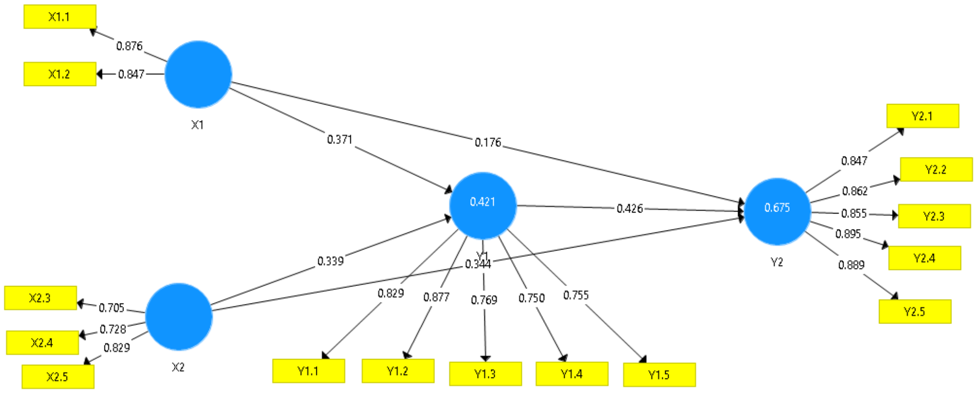

Figure 2. Output measurement model

The path analysis model presented illustrates the relationships between the latent variables X1 (capital Market Knowledge), X2 (Investment Knowledge), Y1 (Perceived Benefits of ESG Investment), and Y2 (Interest in ESG-Based Investment), along with their respective indicators. This model explains how exogenous variables (X1 and X2) influence the mediating variable (Y1) and, subsequently, the endogenous variable (Y2).

The latent variable X1 comprises five indicators (X1.1 to X1.5) with factor loadings ranging from 0.381 to 0.801, indicating that some indicators contribute more strongly than others in measuring X1. Similarly, the latent variable X2 consists of five indicators (X2.1 to X2.5), with factor loadings between 0.556 and 0.784, demonstrating a relatively strong relationship between the latent variable and its indicators.

In terms of the structural relationships, the influence of X1 on Y1 is represented by a path coefficient of 0.366, while X2 influences Y1 with a coefficient of 0.327. These results indicate that both exogenous variables (X1 and X2) positively affect Y1, albeit with varying degrees of influence. The mediating variable Y1 consists of five indicators (Y1.1 to Y1.5), with factor loadings ranging from 0.747 to 0.877, suggesting that these indicators effectively represent the construct.

Regarding its direct effect on Y2, Y1 exhibits a path coefficient of 0.461, signifying its substantial role in influencing Y2. Additionally, X1 directly impacts Y2 with a coefficient of 0.138, whereas X2 influences Y2 with a coefficient of 0.311. The endogenous variable Y2 comprises five indicators (Y2.1 to Y2.5), with factor loadings ranging from 0.847 to 0.896, indicating strong reliability in measuring the construct.

These findings highlight the interconnected relationships among the variables, emphasizing the mediating role of Y1 in linking the exogenous variables to the final endogenous outcome.

Testing structural model study results can be seen in Figure 3.

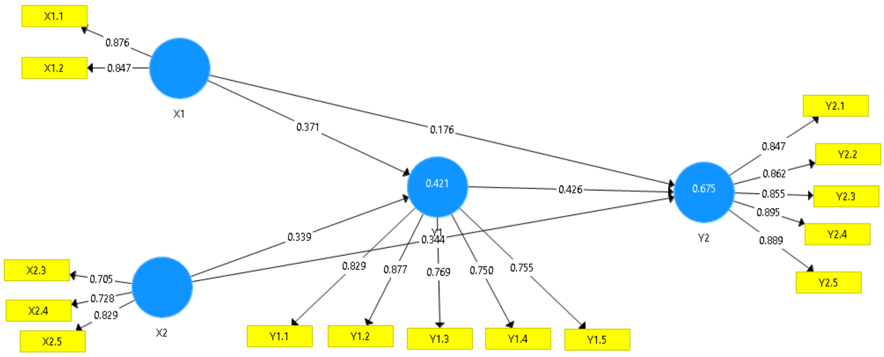

Figure 3. Structural model output

Model Refinement

The revised path analysis model illustrates the relationships between the latent variables Capital Market Knowledge (X1), Investment Knowledge (X2), Perceived Benefits of ESG Investment (Y1), Interest in ESG-Based Investment (Y2) after removing indicators with loading factor values below 0.70. The removed indicators are X1.3, X1.4, X1.5, X2.1, and X2.2. This refinement enhances the reliability and validity of the model by retaining only indicators that significantly contribute to their respective latent constructs. In brief, the removal of indicators with low loading factors aims to improve the quality of the model, ensuring that only strong and relevant indicators are used to measure the latent constructs. This enhances the consistency (reliability) and accuracy (validity) of the model, making the analysis results more reliable and easier to interpret.

For the latent variable X1, only two indicators remain: X1.1 and X1.2, with loading factor values of 0.876 and 0.847, respectively. These values indicate that both indicators have a strong contribution in measuring X1, while the other indicators were removed due to their lower reliability.

Similarly, for the latent variable X2, three indicators—X2.3, X2.4, and X2.5—are retained, with loading factor values of 0.705, 0.728, and 0.829, respectively. These indicators adequately represent the construct, while the others were excluded for not meeting the minimum reliability threshold.

In terms of the relationships between latent variables, X1 influences Y1 with a path coefficient of 0.371, while X2 has an effect on Y1 with a coefficient of 0.339. The latent variable Y1 retains five indicators (Y1.1 to Y1.5), with loading factor values ranging from 0.750 to 0.877, indicating their strong contribution in measuring Y1.

Furthermore, Y1 significantly impacts the endogenous variable Y2 with a path coefficient of 0.426. X1 maintains a direct relationship with Y2, albeit with a smaller influence (0.176), while X2 affects Y2 indirectly through Y1, with a mediated path coefficient of 0.344.

The endogenous variable Y2 retains five indicators (Y2.1 to Y2.5), with loading factor values ranging from 0.847 to 0.895, demonstrating their strong contribution in explaining the construct.

Overall, by eliminating indicators with loading factors below 0.70, the model has improved in robustness and reliability. The structural relationships remain intact, confirming that X1 and X2 influence Y1 and Y2, with Y1 serving as a mediating variable within the model.

Discriminant Validity

The following are the results of the cross loading table 7:

Table 7. Cross Loading

Convergent Validity Criteria	Cross Loadings X1	Cross Loadings X2	HTMT Ratio Y1	HTMT Ratio Y2
X1.1	0.876	0.512	0.544	0.595
X1.2	0.847	0.657	0.485	0.546
X2.3	0.289	0.705	0.403	0.488
X2.4	0.466	0.728	0.356	0.48
X2.5	0.717	0.829	0.549	0.631
Y1.1	0.527	0.398	0.829	0.57
Y1.2	0.517	0.446	0.877	0.681
Y1.3	0.479	0.612	0.769	0.644
Y1.4	0.428	0.427	0.75	0.507
Y1.5	0.425	0.442	0.755	0.491

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Y2.1	0.546	0.564	0.627	0.847
Y2.2	0.543	0.532	0.611	0.862
Y2.3	0.633	0.654	0.614	0.855
Y2.4	0.553	0.706	0.654	0.895
Y2.5	0.605	0.632	0.682	0.889

Source: SmartPLS 4.0 output (2025)

Based on the cross-loadings analysis, the discriminant validity in this model indicates that each indicator has the highest loading on its own construct compared to other constructs. For example, indicator X1.1 has the highest loading on construct X1, with a value of 0.876, which is greater than its loadings on X2 (0.512), Y1 (0.544), and Y2 (0.595). A similar pattern is observed for indicators X1.2, X1.3, X1.4, and X1.5, demonstrating that the indicators in construct X1 better represent their own construct than other constructs.

The same applies to construct X2, where indicators such as X2.3, X2.4, and X2.5 have the highest loadings on X2. For instance, X2.5 has a loading of 0.829 on X2, which is higher than its loadings on X1 (0.717), Y1 (0.549), and Y2 (0.631). This indicates that construct X2 possesses good discriminant validity. Similarly, in construct Y1, an indicator such as Y1.2 has a loading of 0.877 on Y1, which is higher than its loadings on X1 (0.517), X2 (0.446), and Y2 (0.681). Meanwhile, construct Y2 follows the same pattern, with an indicator like Y2.3 having a loading of 0.854 on Y2, greater than its loadings on X1 (0.633), X2 (0.654), and Y1 (0.614).

Overall, the cross-loadings results confirm that each indicator exhibits good discriminant validity, as its loading on its own construct is higher than on any other construct.

Structural Model Evaluation (Inner Model)

Structural Path Coefficients

In table 8, we can see the results of the direct and indirect relationship between research variables.

Table 8. Direct and Indirect Efects

Path	Original Sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T-Statistic (| O/STDEV |)	P Values
X1 -> Y1	0.371	0.375	0.11	3.365	0.001
X1 -> Y2	0.176	0.166	0.077	2.294	0.024
X2 -> Y1	0.339	0.337	0.1	3.402	0.001
X2 -> Y2	0.344	0.354	0.079	4.341	0.000
Y1 -> Y2	0.426	0.427	0.094	4.524	0.000
X1 -> Y1 -> Y2	0.158	0.162	0.064	2.458	0.016
X2 -> Y1 -> Y2	0.144	0.141	0.047	3.057	0.003

Note : Capital Market Knowledge (X1), Investment Knowledge (X2), Perceived Benefits of ESG Investment (Y1), Interest in ESG-Based Investment (Y2)

Source: SmartPLS 4.0 output (2025)

Based on Table 8, the relationships between variables in the structural model can be analyzed using the path coefficient values (Original Sample/O /O), T-statistic values, and P-values.

First, the relationship between X1 (Capital Market Knowledge) → Y1 (Perceived Benefits of ESG Investment) has a coefficient of 0.371, with a T-Statistic of 3.365 and a P-Value of 0.001. This indicates that the relationship is significant at the 1% significance level ($p < 0.01$), meaning that X1 (Capital Market Knowledge) has a positive and significant effect on Y1 (Perceived Benefits of ESG Investment). In other words, the higher the capital market knowledge, the greater the perceived benefits of ESG investment.

Second, the relationship between X1 (Capital Market Knowledge) → Y2 (Interest in ESG-Based Investment) has a coefficient of 0.176, with a T-Statistic of 2.294 and a P-Value of 0.024. Since the P-Value is below 0.05, this relationship is significant at the 5% level, indicating that X1 (Capital Market Knowledge) also has a positive effect on Y2 (Interest in ESG-Based Investment), although the influence is weaker compared to its relationship with Y1 (Perceived Benefits of ESG Investment). In other words, the higher the X1 (Capital Market Knowledge), the greater the Y2 (Interest in ESG-Based Investment).

Third, the relationship between X2 (Investment Knowledge) → Y1 (Perceived Benefits of ESG Investment) has a coefficient of 0.339, with a T-Statistic of 3.402 and a P-Value of 0.001. This indicates that X2 (Investment Knowledge) has a positive and significant effect on Y1 (Perceived Benefits of ESG Investment) at the 1% significance level, showing that X2 (Investment Knowledge) plays an important role in influencing Y1 (Perceived Benefits of ESG Investment). In other words, the higher the X2 (Investment Knowledge), the greater the Y1 (Perceived Benefits of ESG Investment).

Fourth, the relationship between X2 (Investment Knowledge) → Y2 (Interest in ESG-Based Investment) has a coefficient of 0.344, with a T-Statistic of 4.341 and a P-Value of 0.000. This relationship is highly significant at the 1% level, indicating that X2 (Investment Knowledge) has a strong positive influence on Y2 (Interest in ESG-Based Investment). In other words, the higher the X2 (Investment Knowledge), the greater the Y2 (Interest in ESG-Based Investment).

Finally, the relationship between Y1 (Perceived Benefits of ESG Investment) → Y2 (Interest in ESG-Based Investment) has a coefficient of 0.426, with a T-Statistic of 4.524 and a P-Value of 0.000. This indicates that Y1 (Perceived Benefits of ESG Investment) has a positive and significant effect on Y2 (Interest in ESG-Based Investment) at the 1% level, with a relatively high influence compared to the other relationships. In other words, the higher the Y1 (Perceived Benefits of ESG Investment), the greater the Y2 (Interest in ESG-Based Investment).

Based on Table 8, the mediating effect of Y1 (Perceived Benefits of ESG Investment) on the relationship between X1 (Capital Market Knowledge) and X2 (Investment Knowledge) toward Y2 (ESG-Based Investment) can be analyzed. First, the indirect effect of X1 (Capital Market Knowledge) → Y1 (Perceived Benefits of ESG Investment) → Y2 (ESG-Based Investment) has a coefficient of 0.158, with a T-Statistic of 2.458 and a P-Value of 0.016. Since the P-Value is less than 0.05, this effect is significant at the 5% level, meaning that relationship between X1 (Capital Market Knowledge) and Y2 (ESG-Based Investment) is stronger when mediated by Y1 (Perceived Benefits of ESG Investment).

Second, the indirect effect of X2 (Investment Knowledge) → Y1 (Perceived Benefits of ESG Investment) → Y2 (ESG-Based Investment) has a coefficient of 0.144, with a T-Statistic of 3.057 and a P-Value of 0.003. Since the P-Value is less than 0.01, this effect is significant at the 1% level, indicating that Y1 (Perceived Benefits of ESG Investment) also serves as a mediator in the relationship between X2 (Investment Knowledge) and Y2 (ESG-Based Investment). This suggests that the relationship between X2 (Investment Knowledge) and Y2 (ESG-Based Investment) is stronger when mediated by Y1 (Perceived Benefits of ESG Investment).

Hypothesis Testing

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Testing the significance of influence between individual constructs can be seen from the t-test in Table 8. Learn the path diagram, which shows the path coefficients and t-statistics in the study, as shown in Figure 4.

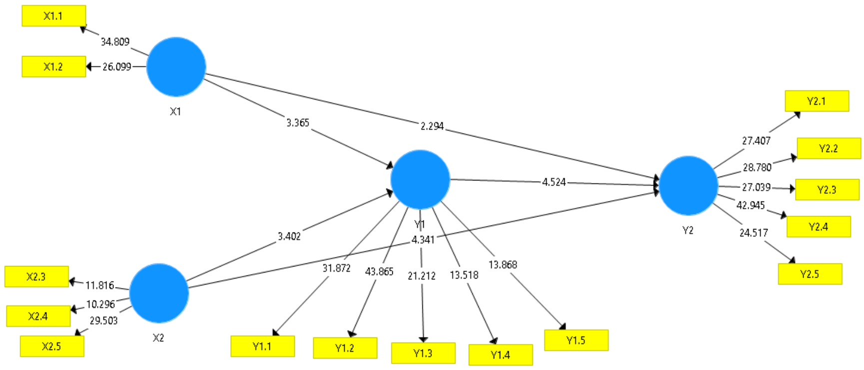

Figure 4. Hypothesis Testing

The significance of the influence between the latent constructs was assessed using path coefficient analysis and t-statistics derived from the structural equation model, as illustrated in Figure 4 and summarized in Table 8. Each hypothesis was evaluated based on the original sample estimates, standard errors, t-values, and p-values to determine whether the proposed relationships were statistically significant.

Hypothesis H1, which posits that *Capital Market Knowledge (X1) positively affects Perceived Benefits of ESG Investment (Y1)*, is supported with a path coefficient of 0.371 and a t-value of 3.365 ($p = 0.001$), indicating a strong and significant relationship. Hypothesis H2, stating that *Capital Market Knowledge (X1) positively influences Interest in ESG-Based Investment (Y2)*, is also supported ($\beta = 0.176$; $t = 2.294$; $p = 0.024$), although with a comparatively weaker effect.

Hypothesis H3, which asserts that *Investment Knowledge (X2) positively influences Perceived Benefits of ESG Investment (Y1)*, shows a significant effect ($\beta = 0.339$; $t = 3.402$; $p = 0.001$). Similarly, Hypothesis H4, that *Investment Knowledge (X2) has a positive effect on Interest in ESG-Based Investment (Y2)*, is strongly supported with a path coefficient of 0.344 and a t-value of 4.341 ($p < 0.001$).

Finally, Hypothesis H5, which proposes that *Perceived Benefits of ESG Investment (Y1) positively influence Interest in ESG-Based Investment (Y2)*, is confirmed with the highest path coefficient of 0.426 and a t-value of 4.524 ($p < 0.001$), highlighting its substantial role in shaping ESG investment interest. Furthermore, the analysis of indirect effects shows that Y1 significantly mediates the relationships between X1 and Y2 ($\beta = 0.158$; $t = 2.458$; $p = 0.016$) and between X2 and Y2 ($\beta = 0.144$; $t = 3.057$; $p = 0.003$), thus confirming the mediating role of perceived benefits in the model. These findings collectively validate all five hypotheses proposed in this study.

Discussion

Direct effects

The Influence of Capital Market Knowledge on Perception of ESG Benefits

The main findings of this study show that capital market knowledge (X1) has a positive and significant impact on the perception of the benefits of ESG investments (Y1) and interest in ESG-based investments (Y2) among students. The higher the capital market knowledge, the more positive their perception of the benefits of ESG investments, both in terms of financial returns and risk mitigation. This suggests that students with a better understanding of capital market mechanisms are better able to appreciate the contribution of ESG factors to financial performance and risk management.

Capital market knowledge plays an essential role in forming a positive perception of ESG, as students who understand the basic principles of investment are able to see the long-term benefits offered by ESG investments. A strong understanding of the market allows them to assess how ESG factors can be translated into positive financial performance. For example, students who are familiar with market regulations and investment instruments are more confident in evaluating the integration of ESG factors into financial analysis. This knowledge provides a stronger foundation for viewing ESG investments not only from a sustainability perspective but also in terms of profitability and risk reduction.

However, other factors need further clarification, such as the complexity of ESG analysis, the lack of standardization in ESG reporting, and skepticism regarding the financial returns of ESG investments. This study provides deeper insight into how capital market knowledge and ESG factors interact in shaping young investors' views. These findings are consistent with previous studies, such as those by Kräussl (2023) and Kanamura (2022), which suggest that understanding capital market mechanisms can increase appreciation for ESG investments. Capital market knowledge offers insight into the long-term potential of ESG investments. Nonetheless, this study adds a new dimension, highlighting the importance of clear reporting standards to facilitate young investors' understanding.

In comparison to other studies, such as (Ruan & Liu, 2021), which show that high compliance costs associated with ESG can create negative perceptions, and (Gubareva et al., 2023), which highlight inconsistencies in ESG ratings, this research emphasizes that while capital market knowledge is crucial, other systemic factors, such as ESG standardization, also need attention. Clear ESG reporting standards will help reduce confusion and strengthen investor trust in the available ESG information.

This research also underscores the importance of capital market literacy and opens up new perspectives on the need for transparency in ESG reporting. The social implications of these findings relate to the importance of increasing students' understanding of the relationship between financial performance and ESG factors. Ideologically, it leads to a deeper understanding of how investments can contribute to sustainable development goals, considering social and environmental impacts. A better understanding of ESG can help students and the younger generation make more responsible investment decisions.

However, it is important to note that although ESG has the potential to provide long-term benefits, issues such as market uncertainty and unclear ESG ratings can hinder the wider adoption of these investments. Therefore, further exploration of the social and ideological meaning of these findings can enrich our understanding of the challenges young investors face in adopting ESG-based investments.

Reflecting on the impact of these findings, it is evident that while capital market knowledge can strengthen the positive perception of ESG investments, challenges still need to be addressed. Without a deep understanding of ESG risks, students with a solid understanding of capital markets may misjudge the long-term benefits of ESG investments. These risks include uncertainty in ESG reporting and differences in ratings across ESG institutions, which can lead to misunderstandings about how ESG factors affect investment performance.

Based on the findings of this research, several policy recommendations can be made to enhance ESG literacy among students and young investors. Educational institutions should consider incorporating more content on sustainable investing into their curricula, including courses that cover the financial benefits of ESG investments, regulatory frameworks, and methods for evaluating ESG risks and opportunities. Universities could also collaborate with financial institutions to offer hands-on experiences for students through internships or workshops focused on ESG investing.

Regulators, such as the Financial Services Authority (OJK), should give more attention to the standardization of ESG reporting in Indonesia's capital market. The development of clear and consistent ESG reporting guidelines will help reduce confusion and strengthen investor trust in the ESG information provided. OJK can also collaborate with financial institutions to develop transparent and reliable ESG performance metrics that can be trusted by all parties. This standardization will provide clarity and increase the participation of young investors in sustainable investments, promoting a more transparent and responsible capital market.

The Influence of Capital Market Knowledge on Interest in ESG-Based Investments

This study reveals that capital market knowledge (X1) positively influences students' interest in ESG-based investments (Y2). Students with a solid understanding of capital market mechanisms tend to be more drawn to investment instruments that incorporate environmental, social, and governance (ESG) factors. This deeper knowledge enables them to evaluate the financial risks and opportunities associated with ESG investments, strengthening their interest in these sustainable investment options.

The connection between capital market knowledge and interest in ESG investments can be explained by several key factors. Students who possess a strong grasp of capital market principles are better equipped to assess the financial risks and returns of ESG investments. They recognize that ESG investments are not just a means of contributing to sustainability but also a viable financial option. Moreover, their understanding of market regulations and investment instruments allows them to see how ESG factors are integrated into financial analyses, boosting their confidence in these investment vehicles. This understanding gives students the tools they need to evaluate both the financial and societal benefits of ESG investments, making these options more attractive.

While previous studies, such as those by Kräussl (2023) and Kanamura (2022), highlight that understanding capital market mechanisms can improve the appreciation for ESG investments, this research builds on that by focusing specifically on the link between capital market knowledge and students' interest in ESG-based investments. Unlike prior studies that concentrated on general investor behavior, this research emphasizes the role of financial literacy in shaping the investment decisions of younger investors. To gain a broader perspective, further comparisons with studies by Gubareva et al. (2023) and (Zaccone & Pedrini, 2020), which address barriers like inconsistent ESG ratings and doubts about financial returns, would be valuable in understanding the broader dynamics influencing interest in ESG investments.

The findings suggest that capital market knowledge is not just a technical skill but a crucial factor in driving interest in ESG investments. This insight has significant implications, as enhancing financial literacy—especially regarding ESG—can help create a more informed and responsible investor base. A better understanding of how ESG factors influence market outcomes may encourage students to incorporate these considerations into their investment decisions. Socially, this shift could lead to greater investments in sustainable practices, resulting in positive environmental and social outcomes.

Ideologically, it marks a shift in investment priorities, where financial returns are balanced with societal well-being.

However, the study also highlights potential negative consequences. If young investors focus solely on the financial aspects of ESG investments without fully understanding the underlying risks—such as market volatility or inconsistent ESG ratings—this may lead to misconceptions about the long-term profitability of these investments. Additionally, there is the risk of "greenwashing," where investments are falsely marketed as ESG-friendly without meeting true sustainability standards. Therefore, it is essential for educational initiatives to emphasize not only the benefits but also the risks associated with ESG investments.

To leverage the positive impact of capital market knowledge on interest in ESG investments, several recommendations can be made. Educational institutions, particularly universities, should enhance their curricula by incorporating in-depth modules on sustainable finance, focusing on the financial performance, risks, and regulations related to ESG investments. These courses should aim to equip students with the necessary analytical skills to accurately evaluate ESG investments. Additionally, universities could collaborate with financial institutions to provide students with real-world exposure through internships or workshops on ESG investing, helping them gain practical experience. On the regulatory side, the Financial Services Authority (OJK) and other relevant bodies should prioritize the standardization of ESG reporting. Clear and consistent ESG disclosures would allow students and other investors to assess ESG investments more accurately, reduce confusion, and build trust in the market. Furthermore, regulators could work together with financial institutions to develop standardized ESG performance metrics, ensuring that ESG data is transparent, reliable, and accessible for all stakeholders.

The Influence of Investment Knowledge on the Perceived Benefits of ESG Investments

This study reveals that investment knowledge (X2) significantly and positively impacts students' perceptions of the benefits of ESG investments (Y1). Students with a higher level of investment knowledge tend to have a more positive view of both the financial and ethical advantages of ESG investments. This suggests that a deeper understanding of investment principles enables students to better appreciate how ESG factors contribute to long-term financial performance and risk mitigation. Investment knowledge also strengthens their belief that ESG investments are not only ethically sound but also financially viable.

Investment knowledge plays a crucial role in helping students understand how ESG factors can influence long-term investment outcomes. Individuals with a more in-depth knowledge of market mechanisms and investment principles are more capable of seeing the connection between financial performance and sustainability factors. They recognize that ESG factors can reduce risk and enhance the potential for sustainable returns. As a result, they value the dual benefits—both ethical and financial—that ESG investments offer. Additionally, a strong grasp of capital market fundamentals reinforces their confidence in ESG investments as both legitimate and profitable options.

These findings are consistent with previous research showing a positive relationship between investment knowledge and positive perceptions of ESG investment benefits. For example, Kräussl (2023) suggests that investors who understand sustainability factors are more likely to anticipate better financial outcomes in the future, aligning with the results of this study. Similarly, Alareeni & Hamdan (2020) support this view, indicating that investors with a deeper understanding of ESG factors tend to view these investments positively in terms of financial performance. However, this research also highlights the challenges discussed by (Makhija, 2023) and (Tripathi & Kaur, 2020), who argue that despite an understanding of ESG concepts, some investors remain skeptical about the financial benefits of ESG investments. This suggests that while investment knowledge plays a key role, the complexity of ESG factors and doubts about financial returns can hinder broader adoption.

The findings emphasize the importance of more comprehensive financial education that includes not only basic capital market concepts but also the ESG factors involved. Increasing ESG literacy among students could strengthen their belief that ESG investments are both financially and ethically sound. Moreover, these findings carry significant social and ideological implications. If investment knowledge is not accompanied by a deeper understanding of the long-term risks and rewards of ESG investments, misconceptions or unrealistic expectations about their benefits may arise. Therefore, it is crucial to adopt a more holistic approach in educating students about ESG investments.

These findings lead to several important reflections. While improved investment knowledge may encourage students to embrace ESG investments, other factors, such as the complexity of ESG analysis, doubts about financial returns, and inconsistencies in ESG ratings, may still limit wider acceptance. For instance, although investment knowledge may lead individuals to recognize the potential benefits of ESG, inconsistencies in ESG reporting and non-standard metrics could create confusion. Therefore, it is essential for regulators and financial institutions to collaborate in creating clearer standards for ESG reporting to help reduce confusion among students and young investors.

Based on these findings, several policy actions can be recommended to enhance ESG literacy and facilitate the broader adoption of ESG investments. First, universities should integrate more comprehensive ESG education into their curricula by offering dedicated courses or modules that cover the financial aspects of ESG investments, regulatory frameworks, and practical methods for assessing ESG risks and opportunities. In addition, universities can collaborate with financial institutions to provide students with hands-on experiences through internships or workshops focused on sustainable finance. On the regulatory side, the Financial Services Authority (OJK) and other regulatory bodies should prioritize the development and implementation of standardized ESG reporting guidelines. Clear, consistent, and transparent ESG reports would enable students and other investors to assess ESG investments more accurately. Regulators could also collaborate with financial institutions to create and promote transparent and reliable ESG performance metrics. By standardizing ESG assessments and reports, regulators can help overcome the challenges that currently hinder students' engagement with ESG investments, fostering a more transparent and effective market for sustainable investments.

The Influence of Investment Knowledge on Interest in ESG-Based Investment

This study highlights that investment knowledge (X2) has a significant positive effect on students' interest in ESG-based investments (Y2). Students with a better understanding of investment principles tend to view ESG investments more favorably, recognizing both their financial and ethical advantages. With a stronger grasp of investment mechanisms—such as risk diversification, asset allocation, and long-term financial planning—these students are better equipped to appreciate the value of ESG investments, seeing them as integral to sound financial decision-making, not just ethical considerations.

The relationship observed in the study suggests that students with a solid foundation in investment principles are more likely to recognize the value of incorporating ESG factors into their investment strategies. These students can analyze how ESG factors can positively influence financial returns and contribute to broader societal outcomes. Furthermore, their investment knowledge enhances their critical thinking, allowing them to consider long-term sustainability and risk mitigation alongside financial returns.

This finding aligns with previous studies, such as those by (Keeley et al., 2022) and (Singh, 2021), which demonstrate that investors with strong financial knowledge are more likely to adopt ESG principles. Additionally, (Kapil, 2023) showed that informed investors are more inclined to choose sustainable investments. Our research extends this by emphasizing the role of education and a deep understanding of investment principles in shaping students' views on ESG investments.

The results suggest that ESG investments are not only ethical choices but also financially viable opportunities for those with investment knowledge. This challenges the traditional view that ESG investments are less profitable than conventional ones, highlighting that integrating ESG factors is both a sound financial strategy and a moral responsibility. As the financial landscape increasingly values sustainability, this research underscores the importance of financial literacy programs that incorporate ESG education.

However, the study also suggests potential risks. Students may develop unrealistic expectations about ESG investments if they do not fully understand the complexities, such as the risk of greenwashing or lower short-term returns. Without a comprehensive grasp of ESG challenges, such as inconsistencies in ESG ratings, students may overestimate the benefits of these investments. Additionally, if ESG investments are primarily pursued by the financially literate or affluent, it could exacerbate investment inequalities.

To maximize the positive impact of investment knowledge on students' interest in ESG investments, several recommendations can be made. First, universities should enhance their curricula by integrating comprehensive ESG modules that address both the ethical and financial aspects of ESG investing, providing students with a well-rounded understanding of sustainable investing. In addition, partnerships between universities and financial institutions can offer students practical experience through internships, workshops, and case studies on ESG investing. On the regulatory side, bodies like OJK should prioritize the development of clear, standardized ESG reporting frameworks to enable students and investors to assess both the financial and ethical dimensions of investments with ease and confidence. Furthermore, financial institutions and regulators should collaborate to create reliable and understandable ESG performance metrics, helping to address the confusion caused by inconsistent ESG ratings. Lastly, regulatory bodies like OJK should encourage the adoption of standardized ESG reporting guidelines across all market sectors, promoting transparency and trust in ESG investments. Collaborative efforts between regulators, educational institutions, and financial organizations will be crucial in enhancing ESG literacy and overcoming barriers to the broader adoption of sustainable investments.

The Influence of Perception of the Benefits of ESG Investment on Interest in ESG-Based Investment

This study reveals that students' perceptions of the benefits of ESG (Environmental, Social, and Governance) investments significantly influence their interest in investing in ESG-based instruments. Students who understand the positive benefits of ESG investments, such as risk reduction and long-term sustainability, tend to be more interested in investing in ESG instruments. These findings indicate that a positive view of ESG—both from a financial and ethical perspective—can encourage students to engage in sustainable investments.

The positive relationship between the perception of the benefits of ESG investment and interest in ESG investment can be understood through students' understanding of the financial and ethical advantages offered by these investments. Students who see ESG as a sustainable investment opportunity that can reduce risks are more likely to invest in ESG instruments. This understanding not only includes long-term benefits but also connects it with social and environmental responsibilities that align with their

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values. As socially and environmentally responsible investments become more popular, students are increasingly aware of the financial benefits they can gain from these investments.

These findings align with previous studies, such as Kräussl (2023), which indicates that investors who understand the benefits of ESG, such as risk mitigation and long-term sustainability, are more likely to invest in ESG instruments. Additionally, Makhija (2023) states that investors who believe in the financial potential of ESG factors are more likely to invest. However, there is a difference in the findings of Keeley et al. (2022), which noted significant barriers related to the lack of clarity in ESG evaluation standards, which can undermine investor confidence. This study also revealed that the lack of clarity in ESG evaluation can reduce the positive influence of ESG on investment interest. Nevertheless, this study provides a new perspective by focusing specifically on the educational context of students, which will impact the future sustainability of ESG investments.

The results of this research offer valuable insights into how students' perceptions of the benefits of ESG can shape their interest in sustainable investment. It shows that ESG investment is not only seen from a financial gain perspective but also as an ethical decision that supports sustainability. This study also highlights the importance of financial literacy and a deeper understanding of ESG in the context of higher education. Its impact is not limited to long-term financial benefits but also creates a broad social impact—raising students' awareness of the importance of social and environmental responsibility in the world of investment.

The impact of these findings could influence investment behavior among the younger generation, particularly students. If education about the benefits of ESG investments is not accompanied by a clear understanding of the associated risks and uncertainties, there is a possibility that students may have unrealistic expectations about the potential returns from these investments. Therefore, it is important to emphasize that while ESG investments offer long-term benefits, the risks associated with them must also be well understood. Clear information and consistent standards will help avoid misunderstandings and strengthen trust in ESG instruments.

Based on the findings of this study, several policy actions can be implemented to enhance interest in ESG-based investments. Universities should integrate more comprehensive material on ESG investment into their curricula, especially within finance and business programs. Introducing specialized courses that cover both the ethical and financial aspects of ESG investments will help equip students with the necessary knowledge and skills. Additionally, organizing workshops and internship programs focused on the analysis and strategies of ESG-based investments will provide students with valuable practical experience, which can further deepen their interest in this topic.

On the regulatory side, the Financial Services Authority (OJK) and other relevant regulators should prioritize the development and implementation of clear, standardized ESG reporting guidelines. By making ESG information more transparent and accessible, students and other investors will be able to evaluate ESG investments more accurately. Furthermore, the government and financial institutions should collaborate to create reliable and transparent ESG performance metrics, which will help reduce confusion and foster trust in the ESG investment market. These combined efforts will not only increase the understanding of ESG investments but also create a more robust and reliable market for sustainable investments.

Indirect effect

The Influence of Capital Market Knowledge on the Perception of the Benefits of ESG Investment Mediated by Interest in ESG-Based Investment

This study shows that capital market knowledge (X1) has a significant positive influence on students' interest in ESG-based investments (Y2), with the perception of the benefits of ESG investments (Y1) serving as a mediator. The main finding of this study is that the better students understand the capital market, the greater their understanding of the benefits of ESG investments, which in turn increases their interest in sustainable investment instruments.

The positive relationship between capital market knowledge and interest in ESG investments can be explained by the fact that individuals who understand the capital market are better equipped to evaluate the potential long-term benefits of ESG investments. This understanding allows them to see ESG investments not only as financial opportunities but also as a means of reducing risk. Therefore, a better understanding of how the capital market operates and the contribution of ESG factors to long-term profitability can encourage students to invest in sustainable instruments.

These findings align with previous research, such as that by Makhija (2023), which found that investors who have a positive perception of the benefits of ESG are more likely to increase their interest in ESG investments. Similarly, Kräussl (2023) emphasized that understanding a company's sustainability performance can shape investor expectations for future returns, ultimately increasing interest in ESG investments. However, the research also noted skepticism about the financial performance of ESG investments or the complexity of investing in this sector, which can hinder investor engagement (Ruan & Liu, 2021; Gubareva et al., 2023). Nevertheless, this study emphasizes that a stronger perception of the benefits of ESG—while not always directly increasing interest—plays a crucial role in increasing student engagement.

The implication of these findings is that improving capital market literacy and understanding of ESG benefits can encourage students to become more interested in sustainable investments. This also reflects how the connection between capital market knowledge and understanding of ESG benefits contributes to a more positive mindset about ESG investments. More broadly, this suggests that enhancing understanding of ESG factors can help shape a more sustainable economic future and reinforce sustainability values in society.

The impact of these findings suggests that better education about the capital market and ESG investments can accelerate the adoption of sustainable investments among the younger generation. However, there is also the potential for negative effects if students only understand the potential benefits without grasping the risks associated with ESG investments, such as uncertainty in ESG performance measurement or the presence of greenwashing. Therefore, it is crucial to educate students about the risks and challenges that may arise in ESG investments.

Based on these findings, several policies can be implemented to increase student interest in ESG investments. Universities should integrate comprehensive education on ESG and the capital market into their curricula. This could include introducing specialized courses or workshops that combine the financial and ethical aspects of sustainable investing, thereby enhancing students' understanding of ESG investments. In terms of regulatory actions, the Financial Services Authority (OJK) should focus on developing a more standardized and transparent ESG reporting framework within Indonesia's capital market. This would make it easier for young investors to access and understand reliable ESG information. Additionally, regulators should collaborate with financial institutions to create clear and comparable ESG performance metrics across platforms, which would reduce confusion and build investor confidence in ESG investments.

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The Influence of Investment Knowledge on the Perception of the Benefits of ESG Investment Mediated by ESG-Based Investor Interest

This study found that investment knowledge (X2) significantly influences the perception of the benefits of ESG investments (Y1) and interest in ESG investments (Y2). Specifically, individuals with better investment knowledge tend to have a more positive perception of the benefits of ESG investments, which in turn increases their interest in investing in ESG-based financial products. The findings suggest that investment knowledge strengthens an individual's ability to recognize the sustainability and ethical advantages of ESG investments, making them more willing to engage in sustainable financial products.

The positive relationship between investment knowledge and interest in ESG investments can be explained by the fact that individuals with a deeper understanding of investment principles are better able to assess the financial and ethical benefits of ESG investments. Their ability to evaluate risk reduction, sustainability, and the positive social and environmental impact of these investments helps them appreciate the full value of ESG products. Moreover, this knowledge enables them to overcome barriers such as skepticism about the financial returns of ESG investments by providing a clearer understanding of the long-term benefits associated with sustainable investing.

This study aligns with previous research, including that of Makhija (2023) and Kräussl (2023), which showed that higher investment knowledge increases positive perceptions of ESG investments. However, this research deepens the discussion by integrating the concept of the benefits of ESG investments as a mediator. Both Makhija and Kräussl emphasize the role of knowledge in shaping investor expectations of future returns, but this study adds value by explicitly mapping how knowledge can enhance interest in ESG investments. It also supports the findings of (Raut, 2020) and (Duan, 2023), which suggest that skepticism about the financial returns of ESG investments can be a barrier to participation in the market. However, this study proposes that clearer understanding and better education can address this skepticism, emphasizing the importance of investor education.

The findings indicate a strong relationship between investment knowledge and interest in ESG investments, but the broader social and ideological implications of this relationship need to be further explored. This study shows that as individuals acquire more investment knowledge, they not only improve their financial literacy but also contribute to a more sustainable economic system by investing ethically. However, there is potential for misunderstanding the true benefits of ESG investments if investors focus solely on short-term gains without understanding the broader social impact. Therefore, financial literacy and accurate communication about ESG principles play a critical role in shaping sustainable investment behavior.

Although this study emphasizes the positive impact of investment knowledge, it also raises concerns about potential negative effects. For example, overemphasis on the financial returns of ESG investments without considering their ethical and social aspects could lead to the risk of "greenwashing" or misrepresentation. Additionally, investors with limited knowledge might be inclined to overestimate the potential returns of ESG investments, which could lead to unrealistic expectations. Therefore, it is crucial to ensure that education about ESG investments includes both financial performance and ethical dimensions to provide a more balanced understanding.

Based on these findings, several recommendations can be implemented to enhance the understanding and adoption of ESG investments. For universities and financial institutions, it is crucial to include comprehensive courses on sustainable finance and ESG investments within their curricula. These courses should not only focus on the financial aspects but also delve into the ethical and environmental implications of ESG investments. Encouraging collaboration between universities and financial institutions would also be beneficial, enabling the organization of workshops, internships, and practical applications that can provide students with hands-on experience in ESG investing. As for regulators, particularly the Financial Services Authority (OJK), it is essential to prioritize the development of a standardized, consistent, and transparent ESG reporting framework across institutions. This would facilitate easier evaluation of ESG metrics by investors. Additionally, OJK should propose clearer guidelines regarding ESG investment performance, which would bolster investor confidence and lower the barriers for young or novice investors. To further support informed decision-making, OJK is encouraged to promote greater consistency in ESG assessments to minimize confusion and ensure investors can make more educated choices.

CONCLUSION

This study reveals that both capital market knowledge (X1) and investment knowledge (X2) significantly influence students' perceptions of the benefits of ESG investments (Y1) and their interest in ESG-based investments (Y2). Students who possess a stronger understanding of capital markets and investment principles tend to perceive ESG investments more positively, recognizing both their financial and ethical advantages. This favorable perception, in turn, increases their interest in engaging with sustainable financial instruments. Importantly, the perception of ESG benefits serves as a mediating factor that connects financial knowledge with investment interest. These findings highlight the crucial role of financial literacy—particularly in capital markets and investment practices—in fostering student engagement with ESG opportunities.

This research contributes to the growing literature on ESG investing by examining the links between financial knowledge and student attitudes toward ESG investments—an area that remains underexplored, especially within the context of higher education. The findings suggest that enhancing financial understanding not only shapes how students assess the benefits of ESG investments but also boosts their willingness to participate in them. By emphasizing the role of financial education in developing a sustainable investment mindset, this study offers fresh insights into how knowledge can support ethical and sustainable finance practices. It addresses a significant gap in the literature by showing how cognitive factors—specifically capital market and investment knowledge—influence students' interest in ESG investments.

Despite these contributions, the study has several limitations. It focuses solely on students, which may restrict the generalizability of the findings to broader populations such as working professionals or seasoned investors. In addition, the study does not consider other potentially influential variables, such as personal values, cultural influences, or institutional encouragement, all of which may shape ESG investment behavior. Future research could broaden the analysis by incorporating these factors to provide a more comprehensive understanding of what drives ESG investment interest. Moreover, as this study employs a cross-sectional design, it only captures students' perceptions at a single point in time. Longitudinal studies are needed to explore how these perceptions and interests evolve, particularly in response to financial education interventions.

Future research could also investigate how factors such as socio-economic background, personal ethical commitments, or prior exposure to sustainable finance programs affect students' interest in ESG investments. Comparative studies involving professionals or experienced investors could reveal whether financial knowledge exerts a similar influence across different levels of investment experience. Additionally, tracking students over time—especially before and after receiving education in sustainable finance—would provide valuable insight into the long-term impact of financial literacy on sustainable investment behaviors.

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