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Assessing the Perception and Adoption of Sustainable Investment Among Indian Millennials and Generation Z

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Abstract

Sustainable investing, grounded in Environmental, Social, and Governance (ESG) principles, is gaining significant traction among younger investors worldwide. In India, Millennials and Generation Z comprise a vital demographic with increasing financial power and a growing consciousness of sustainability. This study investigates how various factors—return expectations, risk aversion, ESG awareness, influencer impact, and trust in ESG data—affect the adoption of sustainable investing practices. Data from 100 individual investors aged 18–40 were analyzed using Structural Equation Modeling (SEM). Financial literacy and accessibility to ESG products emerged as significant mediating variables. The findings offer insights for educators, asset managers, and policymakers to foster ESG investing in India.

Keywords : Sustainable Investment, ESG, Millennials, Generation Z, Investment Behaviour, Financial Literacy, India

Introduction

With escalating climate change concerns and a call for ethical governance, sustainable investment has evolved from a niche interest into a global movement. ESG investing enables individuals to generate financial returns while supporting environmental protection, social justice, and responsible corporate governance. In India, Millennials (aged 27–40) and Generation Z (aged 18–26) represent a dynamic and digitally native cohort that is poised to reshape investment trends. Understanding their perception and motivation to engage with sustainable investments is crucial for shaping future financial products, education systems, and public policy.

In recent decades, a significant shift has occurred in global investment behavior, driven by a growing awareness of environmental sustainability, ethical governance, and social responsibility. Sustainable investment, commonly understood through the lens of Environmental, Social, and Governance (ESG) criteria, has emerged as an integral strategy for aligning financial objectives with broader societal values. This investment philosophy encourages stakeholders to not only pursue financial returns but also to support practices that address pressing global challenges such as climate change, inequality, and corporate transparency.

India, as one of the fastest-growing economies and home to a burgeoning middle class, presents a dynamic context for examining this trend. Notably, two generational cohorts—Millennials (born



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between 1981 and 1996) and Generation Z (born between 1997 and 2012)—constitute a substantial proportion of India's population and labor force. These young investors, shaped by digital literacy, access to global information, and a heightened sense of social consciousness, are increasingly drawn to investment vehicles that reflect their ethical and environmental priorities.

However, despite their interest in ESG issues, the actual adoption of sustainable investment practices among Indian Millennials and Gen Z remains limited. The disconnect between intention and behavior can be attributed to several factors, including low financial literacy, lack of trust in ESG disclosures, limited product availability, and influence from social networks. These behavioral and structural barriers highlight the need for empirical research that captures the nuanced perceptions, motivations, and constraints experienced by young investors in emerging markets.

This study seeks to assess the perception and adoption of sustainable investment among Indian Millennials and Generation Z. It investigates key behavioral and structural determinants, including ESG awareness, return expectations, risk aversion, influencer impact, and financial literacy. By employing a Structural Equation Modeling (SEM) approach, this research aims to offer a holistic understanding of the factors that facilitate or hinder the integration of ESG principles in investment decisions. The findings are expected to provide policymakers, educators, and financial institutions with valuable insights for designing targeted strategies to promote sustainable investment in India.

Review of Literature

Behavioral finance theory argues that investor decisions are not purely rational but are influenced by cognitive biases, emotions, and social factors. Statman (2000) suggested that socially responsible investing stems from emotional and ethical motivations rather than financial calculations alone. Rennison et al. (2008) found that institutional encouragement and better disclosure increased sustainable investment. In the Indian context, Tripathi and Bhandari (2020) noted barriers such as limited ESG literacy and product availability. Emerging literature also emphasizes the role of digital platforms, influencers, and social media in shaping investment behavior, particularly among Gen Z. Despite the interest, a gap persists between awareness and actual adoption, especially due to factors like greenwashing fears, lack of trusted ESG ratings, and limited product offerings tailored to youth.

Sustainable investment, broadly defined as the incorporation of environmental, social, and governance (ESG) factors into investment analysis and decisions, has become an increasingly important domain of financial research and practice. According to the CFA Institute (2020), ESG integration represents a paradigm shift in how investors approach risk and long-term value creation. The United Nations Principles for Responsible Investment (UNPRI 2021) similarly emphasize the growing obligation of financial institutions to align with global sustainability goals through transparent, ethical, and socially responsible investments.



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Behavioral finance has increasingly informed research on investor decision-making, challenging the assumption of rationality prevalent in classical financial theory. Statman (2000) posits that socially responsible investors are motivated by a combination of financial returns and value alignment, suggesting that personal satisfaction from ethical investment decisions contributes to utility maximization. This reflects a deviation from the Efficient Market Hypothesis and supports the behavioral perspective that cognitive biases and emotional factors significantly influence investor behavior.

Furthermore, concepts such as loss aversion, mental accounting, overconfidence, and herding behavior have been identified as psychological patterns affecting investment strategies. Renneboog, Horst, and Zhang (2008) explored these dynamics in the context of socially responsible mutual funds, revealing that both institutional and individual investors exhibited preferences driven by moral and ethical considerations, independent of financial performance metrics.

Millennials and Generation Z are considered to be pivotal actors in the future of ESG investing. These generational cohorts are recognized for their heightened sensitivity to global social and environmental issues, as well as their comfort with digital tools and platforms. Tripathi and Bhandari (2020) examined Indian Millennials' engagement with ESG products and found a gap between stated values and investment behavior, attributable to limited ESG product availability and inadequate financial literacy. Although global studies suggest increasing interest among youth, empirical studies specific to the Indian context, especially involving Gen Z, remain limited.

Objectives of the Study

The study aims to assess the perception of sustainable investments among Indian Millennials and Gen Z. It seeks to identify key factors influencing motivation to adopt ESG investments and examine the role of ESG awareness, financial literacy, and influencer impact in shaping investment behavior. Furthermore, the study analyzes the relationship between return expectations, risk aversion, and sustainable investing, and develops a Structural Equation Model to explain the adoption of ESG investments.

Research Methodology

This study adopts a quantitative research design using a structured questionnaire administered to 100 individual investors aged 18–40. The sampling technique employed was convenience sampling, and data were collected via Google Forms. Variables include ESG awareness, return expectations, risk aversion, and influencer impact as independent variables; financial literacy and product accessibility as mediating variables; and sustainable investment adoption as the dependent variable. Descriptive statistics and reliability tests were conducted using JAMOVI, while Structural Equation Modeling (SEM) analysis was performed using SmartPLS/AMOS.



Data Analysis and Interpretation

Descriptive statistics revealed that the sample consisted of 55% males and 45% females, with 60% Millennials and 40% Gen Z. A significant majority had at least an undergraduate education, and 70% were familiar with online investment platforms. Reliability analysis showed Cronbach's Alpha values above 0.70 for all constructs, confirming internal consistency. The KMO value was 0.82 and Bartlett's test was significant ($p < 0.001$), validating the factor analysis. Exploratory Factor Analysis grouped items into six constructs with factor loadings above 0.6. The SEM analysis indicated that ESG awareness, return expectations, and influencer impact positively influenced sustainable investment adoption, while risk aversion had a weak negative effect. Financial literacy and accessibility emerged as significant mediators. The model fit was acceptable with indices such as CFI = 0.94, TLI = 0.91, and RMSEA = 0.05.



Findings and Discussion

The findings of the study contribute important insights into the behavioral and structural factors influencing sustainable investment decisions among Indian Millennials and Generation Z. Among the various constructs examined, ESG awareness emerged as one of the most influential predictors of sustainable investment adoption. Respondents who demonstrated higher awareness of ESG principles were significantly more likely to integrate sustainability criteria into their investment decision-making processes.

Return expectations also played a pivotal role. Investors were generally inclined to adopt sustainable investment strategies when they perceived the potential for favorable financial returns. This finding aligns with prior research suggesting that ethical or socially responsible behavior is not necessarily at odds with financial performance.

A particularly noteworthy result pertains to the role of influencer impact. Generation Z, in particular, was found to be highly receptive to social media influencers and digital financial advisors when forming investment attitudes. This contrasts with Millennials, who appeared to rely more on historical performance data and institutional trust. The



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generational divergence highlights the importance of customizing outreach strategies to resonate with different investor segments.

Financial literacy was identified as a key mediating factor, amplifying the positive effects of ESG awareness on sustainable investment adoption. This suggests that knowledge and confidence in financial matters can enable investors to more effectively interpret and act on ESG information. Similarly, accessibility to ESG-compliant investment products was found to be a crucial enabler of sustainable behavior. Conversely, barriers such as limited availability of ESG products, inadequate regulatory frameworks, and widespread concerns about greenwashing were cited as constraints.

The findings underscore the multidimensional nature of sustainable investment adoption. While awareness and attitude are essential precursors, they must be supported by enabling infrastructure, trustworthy information, and educational initiatives.

Conclusion

This study concludes that Indian Millennials and Generation Z exhibit a strong openness to sustainable investment, driven by increasing ESG awareness, favorable return expectations, and the influence of digital platforms. However, the actual adoption of ESG investment practices remains contingent upon several critical enablers, including financial literacy, product accessibility, and institutional trust.

The research highlights the urgent need for stakeholders—regulators, educators, and asset managers—to adopt a more holistic and targeted approach to foster sustainable investing. Regulatory bodies should prioritize the establishment of robust ESG disclosure frameworks to mitigate the risk of greenwashing and enhance investor trust. Educational institutions and financial literacy campaigns must integrate ESG concepts into their curricula and training modules. Meanwhile, financial institutions and fintech platforms should consider redesigning their products and marketing strategies to align with the values and communication preferences of younger investors.

By addressing these systemic barriers, India can unlock the transformative potential of its youth in advancing the sustainable finance agenda. Tailored interventions and strategic outreach will be essential to bridge the existing gap between ESG awareness and actual investment behavior, thereby promoting long-term value creation not only for investors but also for society and the environment.



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