

GREEN INVESTMENT TRANSFORMATION OF GENERATION Z IN THE INDONESIAN CAPITAL MARKET: INTERNAL–EXTERNAL STRATEGIC ANALYSIS THROUGH IFE, EFE, AND PESTEL TO SUPPORT THE SDGs

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Abstract

The transformation of the global business environment has shifted the role of capital markets from merely a means of raising funds to a strategic instrument for sustainable development. In Indonesia, the growth of young retail investors, the digitalization of investment services, and the increasing attention to ESG (Environmental, Social, and Governance) open up significant opportunities for the development of green investment . This study aims to analyze the strategic position of the Indonesian capital market in encouraging Generation Z-based green investment through a strategic management approach that integrates internal analysis, external PESTEL analysis, the IFE (Internal Factor Evaluation) matrix, the EFE (External Factor Evaluation) matrix, and its relationship to the Sustainable Development Goals (SDGs). The research employed a strategic case study method with secondary data sourced from regulators, stock exchanges, international institutions, and academic literature. Strategic factors were weighted through expert judgment . The results indicate that the main strengths of the Indonesian capital market lie in the growth of domestic investors, the demographic dividend, the digitalization of services, and the support of sustainable financial policies. Externally, the greatest opportunities come from global trends in ESG investing, the need for national green financing, and the development of fintech investment. An IFE score of 2.80 and an EFE score of 3.08 place the Indonesian capital market in **the Growth and Build position** , indicating a feasible expansionary strategy. Key research recommendations include developing green investment products, improving ESG literacy, standardizing issuer disclosures, and optimizing digital platforms to attract young investors. This research confirms that the Indonesian capital market has the potential to become a pillar of national sustainable financing while supporting United Nations SDG 13 (Climate Action), SDG 8 (Economic Growth), and SDG 9 (Innovation).

Keywords: green investment, Generation Z, Indonesian capital market, PESTEL, IFE, EFE, SDGs

1. INTRODUCTION

The transformation of the global business environment over the past two decades demonstrates that capital markets no longer function solely as a place to raise funds and a mechanism for trading securities, but have evolved into strategic institutions that play a role in driving sustainable economic change. Modern capital markets are required not only to create efficient capital allocation but also to serve as instruments capable of directing investment toward productive, low-carbon, inclusive, and socially responsible sectors. In this context, the concepts of green investment and sustainable finance have become important agendas in global economic governance, particularly following the strengthening of commitments to the Paris Agreement, the Sustainable Development Goals (SDGs), and increasing investor pressure for ESG (Environmental, Social, and Governance) transparency (OECD, 2023; UNCTAD, 2024). In various countries, including Indonesia, these changes are driving a redefinition of the role of capital markets. While previously investors primarily assessed companies based on profitability, growth, and capital structure, sustainability indicators are now increasingly becoming a key consideration in investment decisions. Global investors are increasingly focusing on carbon emissions, board governance, workforce diversity, sustainable supply chains, and

the integrity of non-financial reporting. Thus, capital markets are becoming a new arena for competition between financial performance and sustainability legitimacy. Companies that fail to adapt risk losing access to capital, experiencing valuation discounts, or facing greater reputational risk (Krueger et al., 2024).

Indonesia, as a developing country with the largest economy in Southeast Asia, holds a strategic position in this transformation. With a large population, a strong demographic bonus, a rapidly growing retail investor base, and a high need for development financing, the Indonesian capital market has the potential to become a key driver of the national sustainable finance agenda. In recent years, the Indonesia Stock Exchange has recorded significant growth in the number of domestic investors, particularly young retail investors. Simultaneously, the Financial Services Authority (OJK) has strengthened its policy direction through the Sustainable Finance Roadmap, the implementation of OJK regulations related to sustainability reporting, the development of ESG indices, green bonds, and investment instruments based on socio-environmental impact. This demonstrates that the Indonesian capital market is shifting from a conventional system to a more sustainable financial system.

One of the most prominent phenomena in this change is the increasing role of Generation Z as a new investor base. This generation was born and grew up in the era of the internet, social media, digital platforms, and the app-based economy. These characteristics make Generation Z more quickly accessible to financial information, more responsive to investment trends, and more open to new instruments than previous generations. In Indonesia, the increasing number of young investors demonstrates the increasingly democratization of capital market access. Opening digital securities accounts, investing in small amounts, the presence of mobile-based investment apps, and financial literacy campaigns through social media have lowered the barriers to entry inherent in traditional capital markets.

However, the growth in the number of young investors has not automatically translated into the quality of their investment decisions. Many Generation Z investors are still in the early stages of their financial cycle, possessing limited assets, limited investment experience, and a high reliance on informal sources of information. In practice, younger investors' investment decisions are often influenced by herding behavior, influencer recommendations, viral trends, digital communities, and the algorithmic features of investment platforms. This situation poses a new challenge: will the growth of young investors strengthen capital market depth, or will it increase sentiment-driven volatility?

In the context of green investment, this question becomes increasingly relevant. Various international surveys show that Generation Z has a higher level of concern for environmental issues, climate change, and social justice than previous generations. They tend to favor brands, institutions, and investment instruments perceived as having sustainable values. However, this normative preference does not necessarily translate into actual investment actions. Many young investors claim to support ESG, yet their portfolios remain dominated by speculative instruments, trend-driven stocks, or high-risk assets. This phenomenon indicates an attitude-action gap, the gap between believed values and actual economic behavior (Filippini et al., 2024).

Another equally important issue is the increasing risk of greenwashing in the capital market. As ESG becomes a new attractive factor for investors, some companies are encouraged to use sustainability narratives as a market communication tool without adequate fundamental changes. ESG disclosure can become mere symbolism, not substance. If this situation continues, investor confidence in green investment will decline. In the long term, the capital market risks losing credibility as a financing instrument for the green transition. Therefore, the quality of ESG reporting, verification of non-financial information, and investor literacy are strategic issues in developing a sustainable capital market (Torelli et al., 2020).

Amidst these dynamics, research on green investment among Generation Z in Indonesia is crucial. Most previous studies have addressed investment behavior, ESG disclosure, digital finance, or herding behavior separately. Few studies have examined the Indonesian capital market as a strategic ecosystem influenced simultaneously by internal and external factors. Yet, the success of national green investment is determined not only by investor preferences but also by the institutional strength of the stock exchange, regulatory quality, issuer readiness, digital infrastructure, macroeconomic conditions, public investment culture, global pressures, and developments in financial technology. In other words, this issue must be viewed through the perspective of strategic management and the dynamics of the business environment.

Based on this, this study uses internal and external analysis approaches to assess the readiness of the Indonesian capital market to encourage green investment based on young investors. Internal analysis is conducted by identifying the strengths and weaknesses of the Indonesian capital market system, while external analysis uses the PESTEL (Political, Economic, Social, Technological, Environmental, and Legal) framework to map strategic opportunities and threats from the macro environment. Furthermore, these factors are entered into the IFE (Internal Factor Evaluation) and EFE (External Factor Evaluation) matrices using expert judgment-based weighting, thus

obtaining strategic positions and more operational policy recommendations (David et al., 2020). This approach was chosen because the capital market is a complex institution that cannot be explained solely through individual behavioral variables. Changes in the number of young investors, the quality of ESG disclosure, digital platform innovation, and the stability of fiscal and monetary policies are all interrelated. Therefore, the combination of strategic management analysis and investment behavior studies is a significant contribution of this research. Academically, this research expands the study of green finance from the micro to the meso and macro levels. Practically, this research can serve as a reference for regulators, stock exchanges, issuers, and investment industry players in developing sustainable capital market growth strategies.

Furthermore, this research has strong relevance to the Sustainable Development Goals agenda, particularly United Nations SDG 13 (Climate Action). A capital market capable of channeling funds to green sectors, renewable energy, resource efficiency, and low-carbon businesses will be a crucial instrument in supporting emissions reduction targets and sustainable economic transitions. At the same time, this research also intersects with SDG 8 (Decent Work and Economic Growth) through expanding financial inclusion and deepening domestic capital markets, as well as SDG 9 (Industry, Innovation, and Infrastructure) through strengthening digital financial infrastructure. Against this backdrop, this study aims to analyze the strategic position of the Indonesian capital market in developing Generation Z-based green investment through a combination of internal analysis, PESTEL analysis, the IFE-EFE matrix, and the formulation of strategic recommendations. This study is expected to answer the crucial question: is the Indonesian capital market ready to become a driving force for sustainable investment for the next generation, and what strategies are most appropriate to accelerate this transformation. To structure the article, the next section will discuss a literature review on green investment, young investor behavior, strategic management, and sustainable capital markets. This will then present the research methodology, internal-external analysis results, the development of the IFE and EFE matrices, a discussion of strategic implications, and policy recommendations for strengthening the Indonesian capital market in the digital green economy era.

2. LITERATURE REVIEW

2.1 Green Investment as an Evolution of the Modern Investment Paradigm

Developments in global capital markets indicate that the concept of investment is undergoing fundamental changes. While in the classical paradigm, investment decisions were primarily based on the relationship between risk and return, in the modern paradigm, investors have begun to incorporate sustainability dimensions into portfolio evaluation. This shift has given rise to the concept of green investment , which involves investing in financial instruments, companies, or projects that support environmental protection, energy efficiency, a low-carbon economy, and socially responsible business practices and governance (OECD, 2023). Green investment has evolved from two major strands of thought. First, the growing awareness that climate change, environmental degradation, and social inequality represent long-term economic risks that can impact company value. Second, the growing belief that investment serves not only to generate financial returns but also to generate positive impacts on society. In this context, investors are increasingly paying attention to companies' ability to manage carbon emissions, energy efficiency, labor relations, board integrity, and transparency in non-financial reporting (UNCTAD, 2024).

In the capital market, green investment is realized through various instruments such as green bonds, green sukuk (Islamic bonds), ESG mutual funds, sustainability-linked bonds, and investments in shares of companies with strong sustainability practices. The presence of ESG indices on various stock exchanges demonstrates that the capital market has responded to investors' demand for sustainability-based instruments. In the Indonesian context, the development of the ESG index by the Indonesia Stock Exchange and the sustainable finance policy by the Financial Services Authority (OJK) indicate that green investment is no longer a normative concept but rather part of the national financial system architecture. However, the literature also shows that green investment still faces serious challenges. One key challenge is the gap between investor interest and concrete action. Many investors claim to support sustainability, but actual decisions are still dominated by considerations of short-term returns, liquidity, and perceived risk. Furthermore, the inconsistent quality of ESG information and the potential for greenwashing make it difficult for investors to distinguish truly sustainable companies from those simply using a green narrative (Filippini et al., 2024). Thus, green investment needs to be understood not merely as a moral preference, but as a strategic decision influenced by the quality of information, market structure, financial literacy, and the dynamics of the business environment.

2.2 Generation Z as New Investors in the Capital Market

Generation Z is generally defined as the group born between the mid-1990s and the early 2010s. This generation's primary characteristic is growing up with the internet, mobile devices, social media, and digital culture. Therefore, they are often referred to as the digital native generation. In a financial context, Generation Z behaves differently than previous generations. They are more open to financial technology innovations, have faster access to information, and are more responsive to digital investment trends (Pašiušienė et al., 2024). In Indonesia, the growth of young investors demonstrates a shift in the structure of the domestic capital market. Data from the research synopsis shows that young investors have become the dominant group in terms of numbers, although their asset value remains significantly lower than that of the older age group. This indicates that Generation Z is the foundation of future capital market growth.

Literature suggests several factors are driving Generation Z's investment participation. First, low barriers to entry, as opening a securities account can be done digitally and requires relatively little capital. Second, increased investment education through social media, webinars, and financial content. Third, the drive to achieve financial freedom more quickly than previous generations. Fourth, increased interest in investment instruments aligned with social and environmental values (Ahuja & Grover, 2023). However, Generation Z also faces structural challenges. Many young investors have limited experience, unstable incomes, and small asset bases. They are also more susceptible to impulsive decisions, fear of missing out (FOMO), and herding behavior influenced by social media and online communities. Within the business environment, these conditions suggest that the growth of young investors must be accompanied by strengthening literacy, consumer protection, and sound investment platform design.

2.3 Theory of Investment Behavior and Herding Behavior

Investment decisions in classical finance theory are assumed to be rational, meaning investors always maximize utility based on perfect information. However, developments in behavioral finance have shown that in reality, investors often act irrationally due to the influence of emotions, heuristics, cognitive biases, and social pressures (Kumar et al., 2022). One of the most relevant biases in this study is herding behavior. Herding is the tendency of investors to follow the majority decision or imitate the actions of other investors without independent analysis. Herding typically increases when the market is uncertain, investors are inexperienced, or information is perceived as too complex. In the digital era, herding is further amplified by social media, investment influencers, community groups, copy trading, and trending product features in investment apps. For Generation Z, herding behavior becomes crucial because their investment information largely comes from the digital ecosystem. Decisions to purchase stocks or ESG instruments may be driven not by fundamental analysis, but by the perception that many others are doing the same. In the short term, herding can increase market participation. However, in the long term, herding risks creating volatility, price bubbles, and low-quality investment decisions. From the perspective of strategic capital market management, herding shows that market development is not enough to just increase the number of investors, but must also improve the quality of investment behavior through education and transparency.

2.4 ESG Disclosure and Signaling Theory

In capital markets, there is a classic problem of information asymmetry, namely the information gap between company management and investors. Companies fully understand their internal conditions, while investors only receive external information. To reduce this asymmetry, companies send signals to the market through financial reports, corporate actions, and non-financial disclosures. This framework is explained in Signaling Theory. In the modern context, ESG disclosure is one of the most important signals for investors. ESG disclosure includes information on environmental strategies, carbon emissions management, social policies, corporate governance, board independence, risk management, and supply chain sustainability. Investors use this disclosure to assess a company's long-term quality (Jafar et al., 2024).

The better the quality of ESG disclosure, the greater the company's chances of gaining market legitimacy, accessing cheaper capital, and attracting a broader investor base. Conversely, ambiguous, inconsistent, or difficult-to-verify disclosures will generate skepticism. Therefore, the quality of ESG disclosure is a crucial factor in encouraging green investment in the Indonesian capital market. For emerging markets like Indonesia, ESG disclosure also has another strategic dimension: enhancing the competitiveness of domestic companies in the eyes of global investors. Many international institutional funds now require ESG criteria before investing. Therefore, strengthening ESG disclosure is not merely an ethical issue, but a strategy for accessing international capital.

2.5 Greenwashing Skepticism as an Obstacle to Market Trust

As ESG becomes a major capital market trend, some companies may be encouraged to use sustainability narratives as a communication strategy without making substantive changes. This phenomenon is known as greenwashing . Greenwashing occurs when companies exaggerate green claims, highlight small programs while covering up significant negative impacts, or use sustainability language that is difficult to verify. Investors' response to this situation is the emergence of greenwashing skepticism , a critical attitude and doubt regarding companies' ESG claims (Nyilasy et al., 2020). This skepticism has two sides. On the one hand, skepticism helps investors become more selective and critical. On the other hand, if it is too high, skepticism can reduce interest in green investing in general. In the Indonesian context, this issue is relevant because the capital market is still developing ESG reporting standards, which are constantly being refined. If disclosure quality is not maintained, young investors could lose confidence in the entire green investment ecosystem. Therefore, regulators need to promote reporting standardization, independent assurance, and oversight of companies' ESG communications.

2.6 Digital Investment Platform and Market Structure Transformation

Advances in financial technology have transformed the investment industry. While access to the capital market was previously dominated by traditional brokers, investors can now purchase stocks, mutual funds, ETFs, and bonds through digital applications. Digital investment platforms act as market enablers , lowering transaction costs, accelerating customer onboarding, providing real-time data, and increasing financial inclusion (Rasheed et al., 2024). In Indonesia, the growth of investment apps is a major factor in the surge in the number of young investors. Features like small-dollar purchases, automated education, market notifications, instant analysis, and e-wallet integration make investing easier and more familiar to Generation Z. However, digital platforms also carry new risks. Overly gamified app designs can encourage overtrading, impulsive behavior, and a reliance on notifications. Furthermore, recommendation algorithms can reinforce herding behavior if they prioritize popularity over fundamental quality. Therefore, digital platforms should be viewed as strategic variables that can both strengthen and weaken the quality of investment decisions.

2.7 Strategic Analysis: PESTEL, IFE, and EFE

To understand the readiness of the Indonesian capital market to develop green investment, an investor behavior approach alone is not sufficient. A strategic management perspective is needed that can comprehensively assess internal and external factors. The PESTEL framework is used to analyze the external environment across six dimensions: political, economic, social, technological, environmental, and legal. This model is important because capital markets are heavily influenced by the stability of government policies, macroeconomic conditions, changes in investor social behavior, technological innovation, climate change pressures, and legal certainty (Yüksel, 2012). Meanwhile, the Internal Factor Evaluation (IFE) matrix is used to measure the internal strengths and weaknesses of capital market institutions, such as trading infrastructure, regulatory quality, number of domestic investors, product variety, market literacy, and issuer capacity. The External Factor Evaluation (EFE) matrix is used to measure opportunities and threats from the external environment, such as the demographic dividend, global ESG trends, global economic turmoil, interest rate changes, and regional competition (David et al., 2020). The use of IFE and EFE allows research to establish strategic priorities based on factor weights. Thus, policy recommendations are not merely normative, but more systematic and measurable.

2.8 Linkages to Sustainable Development Goals (SDGs)

The development of green investment in the Indonesian capital market is directly linked to the United Nations Sustainable Development Goals (SDGs). The primary focus of this research is SDG 13 (Climate Action), as green investment can direct funds toward low-carbon projects, renewable energy, energy efficiency, and environmentally friendly businesses. Furthermore, an inclusive and thriving capital market also supports SDG 8 (Decent Work and Economic Growth) by financing productive sectors and creating jobs. The digital transformation of investment platforms supports SDG 9 (Industry, Innovation, and Infrastructure), while improving the financial literacy of young investors is linked to SDG 4 (Quality Education).

Thus, strengthening green investment in the Indonesian capital market is not merely a financial issue, but part of a sustainable national development strategy.

2.9 Literature Synthesis and Research Gaps

Based on the literature review above, it appears that most previous research still separates investor behavior, ESG disclosure, fintech investment, and strategic capital market analysis. Few studies integrate Generation Z's green investment behavior with the structural readiness of the Indonesian capital market as a national institution. The main research gap lies in the absence of a model linking young investor growth, ESG disclosure quality, herding behavior risk, the role of digital platforms, and the strategic position of the Indonesian capital market using the PESTEL, IFE, and EFE approaches. Therefore, this study offers a novel contribution by combining behavioral finance and strategic management perspectives in the context of national green investment. The next section will explain the research methodology used to analyze the internal-external factors of the Indonesian capital market and the preparation of strategic recommendations based on expert judgment.

3. RESEARCH METHODOLOGY

3.1 Research Approach

This study uses a **descriptive-qualitative approach supported by simple quantitative strategic analysis**. This approach was chosen because the main objective of the study is not to test the causal relationship between variables through statistical surveys, but rather to assess the strategic position of the Indonesian capital market in developing green investment based on young investors, especially Generation Z. Thus, the study seeks to answer managerial-strategic questions: how is the internal readiness of the Indonesian capital market, what external pressures are faced, and what is the most appropriate strategy to accelerate the transformation towards a sustainable capital market.

In the context of policy and strategic management studies, a combination of simple qualitative and quantitative approaches is considered relevant because it combines the interpretation of phenomena with the prioritization of strategic factors (David et al., 2020). This approach is also appropriate when the research object is a complex national institution, such as a capital market, which is simultaneously influenced by economic, regulatory, technological, social, and global factors. Philosophically, this research falls within the **pragmatic paradigm**, which involves selecting methods based on their best ability to address the research problem. A pragmatic approach allows researchers to use secondary data, expert judgment, and strategic management tools in an integrated manner without being tied to a particular methodological tradition (Creswell & Creswell, 2018).

3.2 Types of Research

This research is a **strategic case study**, focusing on the Indonesian capital market as the primary unit of analysis. This case study was chosen because it allows for an in-depth exploration of a system with clearly defined boundaries: the national capital market ecosystem, comprising regulators, stock exchanges, issuers, investors, securities firms, investment managers, and digital platforms. The case study approach is particularly relevant when researchers seek to understand contemporary phenomena within a real-world context and cannot separate the phenomena from their environment (Yin, 2018). In this study, Generation Z's green investment cannot be separated from the Indonesian context, including the policies of the Financial Services Authority (OJK), the role of the Indonesia Stock Exchange (IDX), the national financial literacy rate, demographic structure, and the development of domestic financial technology.

3.3 Objects and Units of Analysis

The research object is **the Indonesian capital market in the context of green investment development**. The main units of analysis consist of:

1. Institutional infrastructure of the Indonesian capital market
2. Sustainable finance regulations and policies
3. The development of domestic investors, especially Generation Z
4. Readiness of green and ESG investment products
5. The role of digital investment platforms
6. Global and domestic external pressures on green finance

With this unit of analysis, the research does not focus on one company or one investment product, but rather assesses the Indonesian capital market ecosystem as a whole.

3.4 Data Sources and Types

The research uses **secondary data** from official, academic, and industry sources. This use of secondary data was chosen because this research aims to develop a macro-strategic analysis that requires cross-institutional and cross-time information.

Data sources include:

1. Indonesia Stock Exchange annual report
2. Sustainable Finance Roadmap and Financial Services Authority publications
3. Indonesian capital market statistics (number of investors, market capitalization, transaction volume)
4. Bank Indonesia publications regarding macroeconomic conditions
5. World Bank, OECD, and United Nations reports on sustainable finance
6. National and international journal articles related to green investment, ESG, Gen Z investors, and strategic management
7. Indonesian digital investment and fintech industry publication

The types of data used include numerical data (number of investors, transaction value, market capitalization, interest rates) as well as narrative data (policies, industry trends, regulations, previous research results).

3.5 Data Collection Techniques

Data collection was conducted through **documentation studies** and a **limited systematic literature review**. The documentation study was conducted by examining official reports from regulators, stock exchanges, and international institutions. Meanwhile, the literature review was used to obtain a theoretical basis for green investment, young investor behavior, ESG disclosure, and strategic analysis tools.

Data collection stages include:

1. Identify official documents and reliable sources
2. Selection of data relevant to green investment and the Indonesian capital market
3. Classification of data into internal and external categories
4. Synthesis of findings into key strategic factors
5. Logical validation through inter-source triangulation

Source triangulation was conducted to increase the reliability of findings, for example comparing retail investor data from the IDX with OJK publications or industry reports.

3.6 Internal Analysis Framework

An internal analysis is used to identify **the strengths** and **weaknesses** of the Indonesian capital market in developing green investment. The framework used combines the SWOT approach and the institutional capability perspective.

Internal factors analyzed include:

1. Growth in the number of domestic investors
2. Dominance of young investors and digital adoption
3. Trading infrastructure and exchange digitalization
4. The existence of ESG indexes and green products
5. Sustainable financial regulatory support
6. The level of capital market literacy in society
7. Market depth and liquidity
8. Quality of issuer ESG disclosure
9. Limited variety of green investment products
10. Concentration of investors in large urban areas

These factors are then entered into the IFE matrix.

3.7 External Analysis Framework: PESTEL

To comprehensively understand the dynamics of the business environment, this study uses the **PESTEL** (Political, Economic, Social, Technological, Environmental, and Legal) model. This model was chosen because the capital market is highly sensitive to changes in the macro environment.

a. Political

Analyzing the stability of government policies, green transition commitments, financial market reforms, and fiscal support for sustainable investment.

b. Economic

Covering economic growth, inflation, interest rates, exchange rates, people's income, and the purchasing power of young investors.

c. Social

Covering the demographic bonus, the rising middle class, financial literacy, investment culture, and Gen Z's preference for ESG.

d. Technological

Covering fintech growth, digital investment applications, AI recommendation systems, cybersecurity, and digital ESG data integration.

e. Environmental

Covering the pressures of climate change, the need for green financing, demands for net-zero emissions, and increasing public concern for the environment.

f. Legal

Covering capital market legal certainty, ESG reporting standards, investor protection, and global regulatory harmonization.

These factors are then processed in the EFE matrix.

3.8 IFE Matrix (Internal Factor Evaluation)

The IFE Matrix is used to assess the internal strength of the Indonesian capital market. Each internal factor is given:

1. **Weight** (0.00–1.00), reflects the relative level of importance
2. **Rating** (1–4), indicates internal response or condition
 - 1 = major weakness
 - 2 = minor weakness
 - 3 = minor power
 - 4 = main power

The weighted score is obtained by multiplying the weight x rating. The total IFE score indicates the internal position:

- < 2.5 = weak
- = 2.5 = average
- 2.5 = strong

In this study, weighting was done using **expert judgment**.

3.9 EFE Matrix (External Factor Evaluation)

The EFE Matrix is used to assess the Indonesian capital market's ability to respond to external opportunities and threats. Its mechanism is the same as the IFE:

1. **Weight** = level of importance of external factors
2. **Rating** = effectiveness of the institution's response to the factor

The total EFE score is interpreted as:

- < 2.5 = weak response
- = 2.5 = moderate response
- 2.5 = strong response

IFE and EFE are then used to determine the strategic position of the Indonesian capital market.

3.10 Weighting Technique: Expert Judgment

Because some strategic variables are qualitative and multidimensional, this study used **expert judgment** in assigning weights. This approach is commonly used in strategic management when objective numerical data is not fully available (David et al., 2020).

Expert judgment in this study is based on rational perspectives and literature, assuming expert opinions representing three groups:

1. Academic in the field of capital markets and sustainability
2. Investment/securities industry practitioners
3. Financial policy regulator/observer

Weights are given based on the level of influence of factors on the future of green investment in Indonesia.

3.11 Strategy Analysis Techniques

Once the IFE and EFE scores are obtained, the next step is to map the strategic positions into a strategy matrix to generate recommendations. The approach used is **the SWOT/TOWS Matching Strategy**, which is as follows:

1. **SO Strategy** – leveraging strengths to seize opportunities
2. **WO Strategy** – improving weaknesses by taking advantage of opportunities
3. **ST Strategy** – using strengths to reduce threats
4. **WT Strategy** – defensive strategy to minimize weaknesses and threats

The results of this analysis are used to develop a roadmap for strengthening Generation Z-based green investment in the Indonesian capital market.

3.12 Linkages to SDGs

The research's strategic recommendations are evaluated in relation to United Nations SDG 13 (Climate Action), which addresses how capital markets can serve as a financing channel for the national green transition. Furthermore, the strategy is linked to SDGs 8 (Economic Growth) and 9 (Innovation and Infrastructure).

Thus, this research methodology not only produces institutional strategic mapping, but also implications for sustainable development.

3.13 Validity and Limitations of the Method

To ensure validity, the study utilized triangulation of data sources, logical consistency between factors, and support from academic literature. However, the study has limitations due to the subjective nature of expert judgment-based weighting. Therefore, the results of this study are better understood as a **strategic policy model** rather than an absolute statistical estimate. However, this approach is highly relevant for capital market policy studies that require rapid, realistic, and national context-based recommendations. The next section will present **the research results and discussion**, starting from **the internal analysis of the Indonesian capital market**, followed by the external PESTEL analysis, the preparation of the IFE-EFE matrix, and the formulation of a strategy for strengthening national green investment.

4. RESULTS AND DISCUSSION

4.1 Overview of the Position of the Indonesian Capital Market in the Green Investment Era

The Indonesian capital market has shown significant growth over the past decade, both in terms of the number of investors, product diversification, service digitalization, and institutional strengthening. The consistent growth of domestic investors, particularly among younger investors, signals that the Indonesian capital market is entering a new, more inclusive, retail-based phase. In the context of green investment, this presents a strategic opportunity, as the new investor base tends to be more open to sustainability issues, technology, and value-based investment models. On the other hand, global developments indicate that global capital flows are increasingly paying attention to ESG factors. International institutional investors are beginning to incorporate sustainability indicators into asset allocation decisions, while various countries are strengthening regulations on ESG reporting and green finance instruments. Therefore, the Indonesian capital market's position is inextricably linked to these global dynamics. If Indonesia can adapt, it has the potential to become a regional hub for green investment. Conversely, if it is slow to transform, the domestic market risks being left behind by regional countries like Singapore and Malaysia, which are more aggressively developing sustainable finance. Based on the research objectives, the discussion results are focused on four main stages of analysis, namely: (1) internal analysis of the Indonesian capital market, (2) external analysis through PESTEL, (3) preparation of IFE and EFE matrices, and (4) formulation of a strategy for strengthening green investment based on young investors.

4.2 Internal Analysis of the Indonesian Capital Market

The internal analysis aims to identify the main strengths and weaknesses of the Indonesian capital market in supporting the growth of green investment.

4.2.1 Strengths

a. High Growth of Domestic Investors

One of the greatest strengths of the Indonesian capital market is the increasing number of domestic investors in recent years. This growth strengthens the internal market base and reduces dependence on foreign capital. A large domestic investor base also enhances market stability during external turmoil. The dominance of young investors adds long-term potential as they will become future asset accumulators.

b. Digitalization of Investment Infrastructure

The Indonesian capital market has experienced accelerated digitalization through online account opening, mobile trading applications, e-KYC, digital payment integration, and online mutual fund distribution. Digitization lowers transaction costs, expands geographic access, and improves operational efficiency. This is highly relevant to the digital native nature of Generation Z.

c. Support for Sustainable Financial Regulation

The Financial Services Authority (OJK) has developed a sustainable finance roadmap and encouraged sustainability reporting for financial services institutions and issuers. This policy serves as a crucial foundation for building national green investment credibility.

d. Presence of ESG Products and Indexes

The Indonesia Stock Exchange has developed an ESG index as a market benchmark. This index's presence is significant because it signals to investors that sustainable instruments are beginning to gain a foothold in the national capital market architecture.

e. Demographic Bonus

Indonesia has a large young population with the potential to become long-term investors. If managed well, this demographic bonus can become a strong source of domestic liquidity and a foundation for green investment growth.

4.2.2 Weaknesses

a. Financial Literacy and ESG are Still Limited

Despite the growing number of investors, financial literacy and ESG understanding remain uneven. Many new investors enter the market based on trends, rather than a deep understanding of investment fundamentals or sustainability.

b. Relatively Low Market Depth

Compared to developed countries, Indonesia's capital market depth remains limited. Market capitalization to GDP, the variety of derivative instruments, and the participation of domestic institutions still need to be strengthened. This situation could limit the scale of national green investment.

c. The Quality of Issuer ESG Disclosure is Not Yet Uniform

Some issuers already have robust sustainability reports, but many companies are still at the minimum compliance level. Disclosure standards are not yet fully uniform, making it difficult for investors to compare between issuers.

d. Concentration of Investors in Big Cities

Investor growth remains predominantly in urban areas such as Jakarta, Bandung, Surabaya, and other major cities. This indicates that national capital market inclusion is not yet evenly distributed.

e. Dominance of Short-Term Orientation

Some retail investors still focus on short-term trading. This situation is less than ideal for green investing, which naturally requires a long-term perspective.

4.3 External Analysis Using PESTEL

4.3.1 Political

The Indonesian government is increasingly actively promoting a green economy, energy transition, and sustainable financing. The net-zero emissions commitment creates significant opportunities for green investment. However, policy consistency across government periods remains a crucial factor.

4.3.2 Economic

Indonesia's economic growth has been relatively stable compared to many other developing countries. However, global inflationary pressures, exchange rate volatility, and changes in global interest rates can impact capital flows to the capital markets. When interest rates are high, investors tend to shift to fixed-income instruments.

4.3.3 Social

The demographic dividend and the growing middle class present key opportunities. Public awareness of investment is increasing, as is interest in environmental issues. However, a consumerist culture and low long-term investment habits remain challenges.

4.3.4 Technological

The growth of fintech and digital investment platforms is a major external force. AI technology, robo-advisory systems, and ESG data integration can improve investor decision-making. However, cybersecurity threats and digital mis-selling are also on the rise.

4.3.5 Environmental

Climate change increases the need for financing green projects. As a climate-vulnerable country, Indonesia requires significant funding for energy transition, waste management, and low-carbon development. This creates a natural demand for green finance.

4.3.6 Legal

Strengthening ESG reporting standards, investor protection, and harmonizing international regulations will significantly impact the competitiveness of Indonesia's capital market. Legal certainty boosts the confidence of both domestic and global investors.

4.4 IFE Matrix (Internal Factor Evaluation)

Table 1. IFE Matrix of the Indonesian Capital Market

Internal Factors	Weight Rating Score		
Domestic investor growth	0.12	4	0.48
Digitalization of investment	0.10	4	0.40
Regulatory support for sustainable finance	0.10	3	0.30
Demographic bonus of young investors	0.09	4	0.36
The presence of ESG index	0.08	3	0.24
Low ESG literacy	0.12	2	0.24
Limited market depth	0.13	2	0.26
ESG disclosure is not yet uniform	0.10	2	0.20
Concentration of urban investors	0.08	2	0.16
Investor short-term orientation	0.08	2	0.16

Total IFE Score = 2.80

Interpretation:

A score of 2.80 indicates that the Indonesian capital market is internally **quite strong**. This means that structural strengths outweigh weaknesses, but serious improvements are still needed, particularly in ESG literacy, market depth, and issuer quality.

4.5 EFE Matrix (External Factor Evaluation)

Table 2. EFE Matrix of the Indonesian Capital Market

External Factors	Weight Rating Score		
Global trends in ESG investing	0.14	4	0.56
National demographic bonus	0.10	4	0.40
Fintech growth	0.12	4	0.48
National green financing needs	0.13	4	0.52
Government policy support	0.10	3	0.30
Global market volatility	0.12	2	0.24
Global interest rate hike	0.10	2	0.20
Regional competition	0.09	2	0.18
Global greenwashing risks	0.10	2	0.20

Total EFE Score = 3.08

Interpretation:

A score of 3.08 indicates that the external environment provides **significant opportunities**, and the Indonesian capital market has sufficient capacity to respond to these opportunities.

4.6 Strategic Position

If the IFE (2.80) and EFE (3.08) scores are mapped onto a strategy matrix, the Indonesian capital market is in **the Growth and Build quadrant**. This means an aggressive and expansive strategy is feasible due to strong internal conditions and significant external opportunities.

4.7 Strategy Formulation (SWOT/TOWS)

SO Strategy (Strength–Opportunity)

1. Leveraging the demographic bonus to create millions of new digital-based green investors.
2. Developing ESG ETFs, green mutual funds, and retail green sukuk for young investors.
3. Using AI technology to personalize green investment education.

WO Strategy (Weakness–Opportunity)

1. Improving national ESG literacy through joint campaigns with regulators, universities, and industry.
2. Encourage standardization of ESG disclosure to make it easier for investors to compare issuers.
3. Expanding investment inclusion outside Java through digital platforms.

ST Strategy (Strength–Threat)

1. Using the domestic investor base to withstand foreign capital fluctuations.
2. Leveraging digitalization for transaction cost efficiency during volatile global markets.

WT Strategy (Weakness–Threat)

1. Suppressing speculative behavior through long-term investing education.
2. Reducing greenwashing through independent ESG audits and regulatory enforcement.

4.8 Linkages to SDG 13 (Climate Action)

Indonesia's capital market green investment strategy closely aligns with United Nations SDG 13. Funds invested in green bonds, renewable energy issuers, and low-carbon companies will support the national economic transition. In other words, the capital market can become a financing engine for climate action.

In addition, the rise of young investors is also broadening the awareness of the new generation that financial decisions can have a positive environmental impact.

4.9 Critical Discussion

Research findings indicate that Indonesia's primary challenge isn't a lack of opportunities, but rather the speed of strategy execution. Indonesia boasts a large market, numerous young investors, a high demand for green financing, and adequate initial regulatory support. However, without increased literacy, innovative products, and high-quality ESG disclosure, other countries could be more quickly capitalizing on these significant opportunities.

This means that future competition will not just be between stocks or companies, but between countries in creating the most trusted and efficient green capital market ecosystem.

5. LINKAGE TO SUSTAINABLE DEVELOPMENT GOALS (SDGS)

5.1 Capital Market as an Instrument for Sustainable Development

The development of modern capital markets demonstrates that the function of financial institutions is no longer limited to intermediating capital between those with surplus funds and those in need of financing. Within the sustainable economic paradigm, capital markets are viewed as a strategic instrument for driving structural transformation toward inclusive, green, and resilient growth. Therefore, the link between strengthening Indonesia's capital markets and the Sustainable Development Goals (SDGs) agenda is becoming increasingly relevant.

The United Nations Sustainable Development Goals (SDGs), launched in 2015, comprise 17 global development goals that emphasize a balance between economic growth, social well-being, and environmental sustainability. However, implementing all SDG targets requires significant financing. Many developing countries face fiscal constraints to finance the energy transition, green infrastructure development, education, health, and job creation. In this context, capital markets play a crucial role as a mechanism for mobilizing private funds to support the sustainable development agenda (UNDP, 2023). For Indonesia, the capital market is a strategic instrument because the need for national development financing continues to increase, while the government's fiscal space is limited. Therefore, strengthening green investment based on domestic investors, particularly Generation Z, can provide a sustainable alternative source of financing that is more resilient to global volatility.

5.2 Key Linkages to SDG 13: Climate Action

The SDG goal most relevant to this research is **SDG 13: Climate Action**. This goal emphasizes the need for concrete action to address climate change and its impacts. As an archipelagic nation with high vulnerability to flooding, sea level rise, extreme weather, and food security disruptions, Indonesia faces a significant urgency in financing climate adaptation and mitigation. Green investment through the capital market can be a key channel to support this target. When investors purchase stocks, bonds, sukuk, or mutual funds linked to companies specializing in renewable energy, energy efficiency, low-emission transportation, waste management, or environmentally friendly technologies, public funds are directly directed to activities that support the climate agenda. Thus, public investment decisions can become instruments for collective climate action.

In Indonesia, instruments such as green bonds and green sukuk demonstrate the capital market's potential as a source of funding for sustainable projects. Expanding the investment through the participation of young retail investors could have a greater impact. Generation Z has the potential to become "climate investors," investors who seek not only financial returns but also positive environmental impact. This is crucial because the transition to a low-carbon economy requires a consistent, long-term investor base. Furthermore, improving the quality of ESG disclosure in the capital market will help investors assess companies' tangible contributions to climate issues, such as carbon emission reduction, renewable energy use, and resource efficiency. Therefore, the link between green investment and SDG 13 is both direct and strategic.

5.3 Linkages to SDG 8: Decent Work and Economic Growth

In addition to SDG 13, this research also closely links to **SDG 8: Decent Work and Economic Growth**. This goal emphasizes the importance of sustainable, productive economic growth and the creation of decent work for the community. The capital market serves as a financing provider for companies seeking expansion, innovation, increased production capacity, or increased workforce. When public funds flow through the capital market to productive companies, a multiplier effect is created, resulting in increased national output, employment opportunities, and income. In the context of green investment, financing not only drives growth but also quality growth. For example, investment in the renewable energy sector can create new jobs in solar technology, electric vehicles, waste management, and green construction. Thus, the green capital market contributes to green job creation. Generation Z's participation as investors also broadens economic inclusion. Young investors who start building assets early have the potential for greater financial resilience in the future. This is crucial for long-term economic development by strengthening the productive middle class and expanding community asset ownership.

5.4 Linkages to SDG 9: Industry, Innovation and Infrastructure

This research also has strong relevance to **SDG 9: Industry, Innovation and Infrastructure**, particularly through the role of digital technology in capital market transformation. The emergence of digital investment platforms, e-KYC, robo-advisory systems, mobile trading systems, and electronic payment integration demonstrates that the Indonesian capital market is undergoing a modernization of its financial infrastructure. These technologies lower transaction costs, expand geographic access, and increase the efficiency of investment product distribution.

For Generation Z, technology is not just a tool, but a key environment for financial decision-making. Therefore, strengthening the capital market's digital infrastructure will determine the success of future investor expansion. When supported by robust cybersecurity systems, transparent ESG data, and robust educational features, technology will accelerate national green investment inclusion. On the other hand, capital markets can also finance innovative companies operating in green technology, clean energy, agritech, the circular economy, and digital sustainability solutions. Thus, the relationship between capital markets and SDG 9 is two-way: technology strengthens capital markets, and capital markets finance national innovation.

5.5 Linkage to SDG 4: Quality Education

Generation Z's involvement in investment is also related to **SDG 4: Quality Education**, particularly in the dimensions of financial literacy and sustainable economic education. Previous analysis has shown that one of the main weaknesses in the Indonesian capital market is unequal financial and ESG literacy. Many new investors enter the market through digital trends without adequate understanding of risk, diversification, or ESG quality. If this condition is not addressed, investor growth could be accompanied by speculative behavior and herding.

Therefore, capital market education must be part of the human development agenda. Investment literacy programs in schools, universities, digital communities, and investment platforms will help people make more rational and responsible decisions. Furthermore, green finance education can instill an understanding that invested money has social and environmental impacts. In other words, investment literacy is not just the ability to seek profit, but also the ability to understand the economic consequences of financial decisions.

5.6 Linkage to SDG 10: Reduced Inequalities

The development of inclusive digital capital markets also contributes to **SDG 10: Reduced Inequalities**. Before the digital era, access to capital markets tended to be limited to middle- and upper-income urban communities. Administrative barriers, large capital requirements, and limited information led to relatively low participation by the wider community. Today, digital investment allows people from various regions to open securities accounts online and start investing with small amounts. With the support of equitable literacy and internet access, the capital market can become a vehicle for broader distribution of economic opportunities. However, this research also shows that investor concentration remains dominant in large cities. Therefore, the capital market's contribution to reducing inequality still requires further strategies, particularly expanding inclusion to non-metropolitan areas and lower-middle-income groups.

5.7 Strategic Integration of SDGs and the Indonesian Capital Market

Based on the research results, the relationship between the Indonesian capital market and the SDGs can be summarized as follows:

SDG	Capital Market Contribution
SDG 13 Climate Action	Green project financing, renewable energy, low carbon transition
SDG 8 Economic Growth	Financing the productive sector, creating jobs
SDG 9 Innovation	Startup financing, fintech, green technology
SDG 4 Education	Financial literacy and investment education
SDG 10 Reduced Inequalities	Democratizing investment access through digital platforms

The table shows that capital markets are not socially neutral institutions, but can be engines of sustainable development if designed with appropriate policies.

5.8 SDG-Based Policy Implications

To make the capital market's contribution to the SDGs more tangible, several strategic policies need to be strengthened. First, regulators need to encourage the expansion of green investment instruments that are easily accessible to young retail investors. Second, ESG disclosure standards need to be tightened to ensure public funds flow to truly sustainable projects. Third, digital investment platforms need to be incentivized to provide educational features on SDGs and green investing. Fourth, the integration of financial literacy with sustainability literacy needs to be incorporated into higher education curricula and public communities. For Indonesia, successfully linking capital markets with the SDGs will provide two benefits simultaneously: strengthening national economic resilience and accelerating the achievement of sustainable development targets.

5.9 Critical Discussion

This research's findings confirm that the primary challenge lies not in a lack of potential, but in coordinated implementation. Indonesia boasts a significant number of young investors, a high demand for green financing, and strong digitalization momentum. However, without policy integration between financial regulators, the ministry of economics, the education sector, and the private sector, the capital market's contribution to the SDGs will be partial. This means that the future of the Indonesian capital market cannot be measured solely by the stock price index or the number of investors, but rather by the extent to which the capital market is able to mobilize capital towards national and global development goals.

5.10 Conclusion of the SDGs Section

Overall, this study shows that the development of Generation Z-based green investment in the Indonesian capital market has the strongest linkage to SDG 13 (Climate Action), as well as significant support for SDG 8, SDG 9, SDG 4, and SDG 10. Thus, the Indonesian capital market has great potential to become a pillar of sustainable development financing. If internal and external strategies are implemented consistently, the capital market will not only become a place for securities transactions, but also an institution for transforming the national economy towards a green, inclusive, and globally competitive future.

6. CONCLUSION

This study aims to analyze the strategic position of the Indonesian capital market in developing Generation Z-based green investment through a strategic management approach that integrates internal analysis, external PESTEL analysis, the IFE-EFE matrix, and its relevance to the Sustainable Development Goals (SDGs) agenda. Based on the entire series of discussions, it can be concluded that the Indonesian capital market is in a crucial transformation phase. The national capital market no longer functions solely as a mechanism for raising funds and trading securities, but has evolved into a strategic instrument in promoting a sustainable economy, financial inclusion, and financing the green transition.

The research's key findings indicate that, internally, the Indonesian capital market possesses several significant strengths. First, the high growth in the number of domestic investors, particularly among younger age groups, indicates a stronger base for market participation and greater resilience to foreign capital volatility. Second, the accelerated digitalization of investment services has lowered entry barriers for the public and expanded geographic access to the capital market. Third, the support of sustainable finance regulations from the Financial Services Authority and the development of an ESG index by the Indonesia Stock Exchange signal institutional readiness for a sustainable capital market. Fourth, Indonesia's demographic dividend offers significant potential for the formation of a long-term investor base from Generation Z and subsequent generations.

However, this study also identified several internal weaknesses that need to be addressed immediately. Financial literacy and ESG understanding remain uneven, resulting in investor growth not always being accompanied by high-quality investment decisions. The depth of Indonesia's capital market also needs to be strengthened, particularly through instrument diversification and increased participation by domestic institutional investors. Furthermore, the quality of issuers' ESG disclosures is not yet fully uniform, limiting investors' ability to compare sustainability across companies. Investor concentration in large urban areas and the dominance of short-term investment orientation also pose structural challenges.

Externally, the PESTEL analysis shows that the business environment offers significant opportunities for the development of green investment in Indonesia. Politically, the government's commitment to the energy transition and green economy is a crucial foundation. Economically, relatively stable national growth provides room for capital market expansion. Socially, the demographic dividend and the growing middle class are sources of new investors. Technologically, the growth of fintech and digital investment platforms is accelerating market inclusion. Environmentally, the need to finance climate change is creating significant demand for green finance. Legally, the development of ESG standards and strengthening investor protection will bolster market confidence. However, the external environment also poses threats that must be anticipated. Global market volatility, changes in international interest rates, regional competition from Singapore and Malaysia, and the risk of global greenwashing could hamper the competitiveness of Indonesia's capital market if policy responses are slow. Therefore, growth momentum must be accompanied by rapid institutional reform and market innovation.

Based on the IFE matrix calculation, with a score of 2.80 and an EFE matrix with a score of 3.08, the Indonesian capital market is in the **Growth and Build position**. This means that internal conditions are quite strong and the external environment offers significant opportunities. With this position, the most relevant strategies are expansionary and capacity-building. Indonesia is not in a defensive position, but rather in a strategic momentum to grow as a regional green investment hub.

From a practical perspective, this study recommends several key steps. First, accelerate the development of green investment products that are easily accessible to young retail investors, such as green ETFs, green mutual funds, green retail sukuk, and impact investment instruments. Second, improve the quality and standardization of issuer ESG disclosures so that investors obtain credible and comparable information. Third, expand sustainable financial literacy through collaboration between regulators, universities, the securities industry, and digital platforms. Fourth, utilize digital technology and artificial intelligence to personalize investor education, mitigate herding behavior, and improve the quality of investment decisions. Fifth, expand capital market inclusion beyond metropolitan areas to ensure more equitable investor growth nationwide.

This research also confirms that Generation Z holds a central position in the future of Indonesia's capital market. This generation is not just a new group of investors, but agents of market transformation. They bring a digital character, sensitivity to socio-environmental issues, and the potential for long-term asset accumulation. If guided through a healthy ecosystem, Generation Z can become a key driver of national green investment. However, if left in an environment dominated by speculation, misinformation, and herding behavior, this potential can turn into a new source of volatility. Therefore, the quality of the capital market ecosystem design will determine the direction of the younger generation's contribution to the national economy.

In the context of sustainable development, this study demonstrates the strongest link to United Nations SDG 13 (Climate Action). A capital market capable of channeling funds to clean energy, resource efficiency, and low-carbon businesses will be a crucial instrument in supporting Indonesia's emissions reduction targets. Furthermore, strengthening the capital market also supports SDG 8 (Decent Work and Economic Growth) through financing the productive sector, SDG 9 (Industry, Innovation, and Infrastructure) through support for innovation and digitalization, SDG 4 (Quality Education) through financial literacy, and SDG 10 (Reduced Inequalities) through democratizing access to investment.

Academically, this research contributes by combining behavioral finance, strategic management, and sustainable finance perspectives within a single analytical framework. Most previous studies have addressed investor behavior, ESG disclosure, or fintech separately. This research demonstrates that the development of green investment in the Indonesian capital market must be understood as the result of an interaction between internal institutional forces, external macroeconomic pressures, changes in young investor behavior, and the global sustainable development agenda.

However, this study has limitations because the IFE and EFE weightings used expert judgment, thus containing an element of subjectivity. Therefore, further research is recommended using quantitative approaches such as the AHP, the Delphi Method, or multi-stakeholder surveys to improve the precision of strategic weightings. Future research could also focus on specific subsectors, such as green bonds, regional Gen Z investors, or a comparison of

ASEAN capital markets. In closing, it can be emphasized that the future of the Indonesian capital market is determined not only by index growth, transaction volume, or market capitalization, but also by its ability to act as a capital allocation engine for green, inclusive, and globally competitive national development. Indonesia possesses demographic capital, digital momentum, and significant development needs. If managed strategically, the Indonesian capital market has the potential to become a key pillar of Asia's sustainable economy in the future.

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