

## Investment in the Digital Era: The Influence of Digital Social Influence and Behavioral Finance on Generation Z's Investment Decisions

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### ABSTRACT

Generation Z has grown up alongside digital technology, social media, and online investment applications, resulting in investment behaviors that differ from those of previous generations. This study aims to analyze the influence of Digital Social Influence and Behavioral Finance on Generation Z's Investment Decisions, with Financial Literacy as a moderating variable. Data were collected from 125 Gen Z respondents in Denpasar who possess a Single Investor Identification (SID) and have been actively investing in stocks for at least two years. A Likert scale questionnaire (1-10) was used, and the data were analyzed using Structural Equation Modeling with Partial Least Squares (SEM-PLS). The results show that Digital Social Influence significantly affects both Behavioral Finance and Investment Decisions. Additionally, Behavioral Finance has a positive influence on Investment Decisions. Furthermore, Financial Literacy strengthens the quality of investment decisions by mitigating excessive behavioral biases. These findings highlight the importance of enhancing financial literacy among the younger generation to foster critical thinking toward digital information and enable rational investment decision-making. For regulators and capital market participants, the results of this study can serve as a basis for formulating effective, digitally-based educational strategies tailored to the characteristics of Generation Z.

## INTRODUCTION

Stock investment has become increasingly popular among Generation Z, driven by advances in digital technology, easy access to online platforms, and growing financial literacy. This trend is influenced by social factors, herd behavior, and psychological biases such as overconfidence. While the potential for high returns exists, the accompanying risks demand thorough understanding. Indonesia's capital market has experienced significant growth, with 11.5 million investors recorded as of August 2023, 57.04% of whom are under the age of 30. However, despite Generation Z dominating the number of investors, the total assets they manage remain relatively low compared to older generations. This suggests that their investment decisions tend to be impulsive and often influenced by herding behavior. The strong influence of social media, online communities, and public figures amplifies digital social influence, which can drive investment decisions without adequate analysis. This situation creates vulnerabilities that irresponsible parties may exploit, as evidenced by various investment fraud cases. Low levels of financial literacy further increase Generation Z's susceptibility to the rapid flow of digital information. According to behavioral finance theory, biases such as loss aversion, confirmation bias, and regret aversion often affect financial decision-making. A research gap exists due to the limited number of studies that link digital social influence and behavioral finance to Generation Z's investment decisions, particularly with financial literacy as a moderating factor. Based on this phenomenon, this study aims to analyze the influence of digital social influence and behavioral finance on Generation Z's stock investment decisions, with financial literacy as a moderating variable. The results are expected to provide a more comprehensive understanding of Gen Z's decision-making patterns and support the development of financial education strategies for young investors.

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## LITERATURE REVIEW

### a. Resource-Based View (RBV)

The Resource-Based View (RBV) theory explains that a firm's competitive advantage depends on the utilization of internal resources that are unique and difficult to imitate. According to Barney (1991), this advantage can be assessed using the VRIO framework—Value, Rarity, Imitability, and Organization. Resources may be tangible (e.g., physical assets, technology) or intangible (e.g., reputation, expertise, organizational culture). In the context of this study, financial literacy is considered a valuable intellectual resource for Generation Z. It enables them to understand risks, process information effectively, and make more rational investment decisions, even amid the pressures of digital social influence.

### b. Behavioral Finance Theory

Behavioral finance examines how psychological, emotional, and cognitive factors influence financial decision-making. Investors are not always rational and are often subject to biases such as overconfidence, confirmation bias, herding, and loss aversion. This theory is relevant for explaining why markets are often inefficient and how individual and group behaviors can lead to phenomena such as market bubbles or panic selling. In this study, behavioral finance serves as the grand theory, as it effectively explains the investment behavior of Generation Z, which is shaped by both psychological and social factors.

### c. Stock Investment Decision

A stock investment decision refers to the process of allocating funds into stock instruments with the objective of generating returns. This process is influenced by both internal factors—such as financial literacy, experience, and psychological characteristics—and external factors, including social influence, economic conditions, and market volatility. According to Hani et al. (2020), the indicators used to measure investment decisions include: corporate self-image, financial information, reference information, company stock position, economic indicators, recommendations on the company, and investment objectives.

### d. Financial Literacy

Financial literacy is the ability to understand basic financial concepts, engage in financial planning, assess risk, and make sound financial decisions. Its components include financial knowledge, skills, attitudes, and behaviors. Strong financial literacy helps investors avoid excessive social influence and behavioral biases. According to Hani et al. (2020), the indicators of financial literacy include: investment products, financial planning, financial well-being, company profiles, changes in stock prices, economic indicators, investment risk, and return.

### e. Digital Social Influence

Digital social influence refers to the social pressure or influence an individual receives from people around them—such as friends, family, communities, or public figures—which can shape their perceptions, attitudes, and behaviors in making investment decisions. In the digital era,

this influence is predominantly transmitted through social media and online platforms, where investment recommendations or trends spread rapidly and are often followed without in-depth analysis. In the context of investing, social influence can take various forms: informational (following advice due to lack of experience), normative (following trends for social acceptance), or emotional (being swayed by others' success stories or testimonials). This phenomenon is particularly strong among Generation Z, who are highly active in digital spaces, making their investment decisions especially susceptible to virtual social environments. According to Permana & Dewi (2020), the indicators of digital social influence include: subjective norm, social factors, and image.

## **METHODOLOGY**

This study employs a quantitative approach with an explanatory research design to examine the causal relationships between variables. Data were collected through a questionnaire using a 10-point Likert scale and analyzed using Structural Equation Modeling–Partial Least Squares (SEM-PLS).

The study population consists of Generation Z investors in Denpasar City. The sample was selected using purposive sampling based on the following criteria: (1) being a Generation Z investor, (2) actively investing in stocks for a minimum of two years, (3) regularly engaging in stock transactions, and (4) having social media accounts or following investment-related accounts. Based on the calculation of 25 indicators  $\times$  5, a minimum sample size of 125 respondents was determined.

The research variables include:

1. Digital Social Influence (subjective norm, social factors, image).
2. Behavioral Finance (overconfidence bias, confirmation bias, herding behavior, loss aversion, regret aversion, mental accounting, self-control bias).
3. Financial Literacy (investment product, financial planning, financial well-being, stock price changes, economic indicator, investment risk, return).
4. Investment Decision (corporate self-image, financial information, reference information, stock position, economic indicator, recommendation, investment objective).

Data analysis includes validity and reliability tests, as well as evaluation of the measurement model (outer model) and structural model (inner model). Hypothesis testing is conducted using bootstrapping with a 5% significance level.

## **RESEARCH RESULT AND DISCUSSION**

This study involved 125 Generation Z investors in Denpasar City. The respondents were predominantly male (74.4%), held a bachelor's degree (58.4%), were aged between 26 and 30 years old (56%), and the majority worked in the private sector (47.2%). These characteristics indicate that most respondents are in their productive age

with financial stability, access to investment information, and a basic understanding of financial management.

Generation Z is generally known for being closely connected to digital technology, social media, and fast access to information. These factors shape their financial decision-making characteristics, including investment behavior. The survey results also reflect that this productive young age group has a strong interest in investing, especially through digital instruments.

Digital Social Influence (DSI) overall average score is 5.90. Respondents tend to be influenced by the investment activities of close individuals (friends/family) shared on social media. However, the majority do not view investing as a means to enhance their digital social status. This indicates that the primary motivation for investing is financially oriented rather than driven by social recognition.

Behavioral Finance (BF) overall average score is 7.19. Respondents exhibit a high level of overconfidence, believing they can select profitable stocks without in-depth analysis. Conversely, herding behavior is relatively weak. This suggests that although psychological biases persist, some Generation Z investors strive to rely on their own judgment in making investment decisions.

Financial Literacy (FL) overall average score is 7.81. Most respondents report conducting fundamental analysis before purchasing stocks, such as reviewing the company's profile and condition. However, weaknesses are apparent in understanding the variety of investment products in the capital market. In other words, financial literacy is relatively good but still limited in mastery of more complex instruments.

Investment Decision (ID) overall average score is 7.96. Respondents consider macroeconomic factors such as inflation and interest rates before investing. However, there is still a tendency to pay less attention to long-term goals, resulting in some decisions being short-term oriented or impulsive.

SEM-PLS Analysis Results:

- a. Digital Social Influence has a significant positive effect on Behavioral Finance ( $p = 0.022$ ).
- b. Digital Social Influence has a significant positive effect on Investment Decision ( $p = 0.027$ ).
- c. Behavioral Finance has a significant positive effect on Investment Decision ( $p = 0.018$ ).
- d. Financial Literacy has a significant positive effect on Investment Decision ( $p = 0.001$ ).
- e. Moderating effect of Financial Literacy: Financial Literacy significantly moderates the relationship between Behavioral Finance and Investment Decision ( $p = 0.030$ ).

The research model explains 75.4% of the variance in investment decisions, while the influence of Digital Social Influence (DSI) and Financial Literacy (FL) on Behavioral Finance (BF) accounts for only 25.9%. This indicates that financial literacy has a much stronger impact compared to other factors in shaping Generation Z's investment decisions. Influence of Digital Social Media, friends, family, and financial influencers have been proven to encourage

Generation Z to invest. This phenomenon aligns with the concept of herd mentality in behavioral finance. Digital investment platforms such as Ajaib, Bibit, and Stockbit have capitalized on this trend by combining promotion and education, aiming to ensure young investors not only follow trends but also learn fundamental investment principles. Influence on Generation Z Behavioral Finance is more susceptible to psychological biases such as confirmation bias (seeking information that supports their initial opinions) and FOMO (fear of missing out on trends). However, digital social influence can also serve as a positive educational channel if managed properly, for example through curated discussion forums or data-driven educational content. Influence of Behavioral Finance on Investment Decisions Biases such as overconfidence and loss aversion significantly affect Generation Z's decisions. They tend to be either overly confident or excessively fearful of losses, which can lead to suboptimal investment choices. International investment platforms like Robinhood have introduced risk warning features to curb impulsive behavior, which could serve as an inspiration for similar efforts in Indonesia. The Role of Financial Literacy as a Moderator has been proven crucial in mitigating the negative effects of psychological biases. Investors with high financial literacy tend to be more rational, capable of analyzing risks, and less prone to herding behavior or FOMO. Educational programs such as the Indonesia Stock Exchange's "Yuk Nabung Saham" demonstrate that practical and interactive literacy initiatives effectively improve the quality of investment decisions.

## **CONCLUSIONS AND RECOMMENDATIONS**

Based on the research findings, it can be concluded that digital social influence has a positive effect on stock investment decisions among Generation Z. Furthermore, digital social influence is also proven to affect behavioral finance, indicating that digital social interactions—whether through friends, family, or financial influencers—are able to shape individuals' financial behavior. Another finding shows that behavioral finance has a positive influence on investment decisions, although its effect is relatively small compared to other factors. Meanwhile, financial literacy emerges as the most dominant factor, not only directly affecting investment decisions but also moderating the relationship between behavioral finance and investment decisions. Therefore, it can be concluded that financial literacy is the key element that helps Generation Z make more rational investment decisions aligned with long-term goals.

Based on these results, several recommendations can be made. For financial institutions and digital investment platforms, it is advisable to utilize social media not only as a promotional tool but also as a credible, interactive, and engaging educational channel, for example through easily understandable financial literacy content and application features such as financial goal simulations and risk warning alerts. For regulators such as the OJK, IDX, and the government, strengthening supervision of digital financial content is necessary, including certification of financial influencers to prevent the spread of misleading information. Additionally, practical and technology-based financial

literacy programs should continue to be promoted through formal education and community activities to better prepare Generation Z in making financial decisions. Meanwhile, future researchers are recommended to include other variables that may influence investment decisions, such as macroeconomic factors, individual motivations, or investment experience. Further studies could also adopt longitudinal or qualitative approaches to capture the dynamics of Generation Z's investment behavior more deeply.

### **ADVANCED RESEARCH**

This study has several limitations that present opportunities for future research. First, the respondents were limited to Generation Z in Denpasar City who already have an interest and access to stock investments, so the results may not be fully generalizable to Generation Z populations in other regions or to different generations. Future research can expand the respondent scope by involving more regions, diverse economic backgrounds, and variations in investment instruments, such as mutual funds, bonds, or digital assets.

Second, this study employed a quantitative approach using online questionnaires, capturing only respondents' perceptions and not delving deeply into psychological or motivational factors. Therefore, subsequent studies could use mixed methods or qualitative approaches to better explain the dynamics of investor behavior in greater depth.

Third, the research variables were limited to digital social influence, behavioral finance, and financial literacy, whereas other factors such as macroeconomic conditions, family influence, investment experience, and personality traits also potentially affect investment decisions. Future researchers are encouraged to include these additional variables to develop a more comprehensive research model.

Finally, future studies may consider longitudinal designs to observe changes in Generation Z's investment behavior over time, especially when facing different market conditions, such as bullish, bearish periods, or economic crises.

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