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## ESG INTEGRATION AND TRUST IN ISLAMIC INVESTMENT DECISIONS

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### ABSTRACT

There is little empirical understanding of how the credibility of ESG disclosures is related with investor-level determinants that influence the decision-making, performance, and sustainability impacts of Islamic investors. The present study examines the effects of ESG (Environmental, Social, and Governance) integration, financial literacy, and religious commitment on the investor decision, investment performance, and investment sustainability in an Islamic finance framework. It brings to the fore the intermediating role of trust in ESG disclosure, a critical psychological mechanism in investment behavior that has hitherto not been sufficiently studied in Islamic markets. The study was conducted using a descriptive-quantitative and cross-sectional approach, where 350 individual investors of Shariah-compliant instruments from Indonesia were surveyed through purposive sampling and the data analysis was done using the Partial Least Square Structural Equation Modeling (PLS-SEM) method. Results reveal that ESG integration has a significant positive effect on both decision-making and performance. Financial literacy indirectly promotes trust in ESG disclosures, but has no direct effect on decision-making and performance. Trust was found to be a key mediator between ESG and literacy on one hand and behavioural and performance outcomes on the other. Religious commitment strengthens the impact of ESG and trust on performance and sustainability, and acts as a moderating factor that bridges the gap between ethical considerations and financial decisions. Relationships are stable, and robustness checks indicate low sensitivity; the findings urge regulators to enhance ESG disclosure quality and institutions to align their practices with Islamic moral values.

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## INTRODUCTION

The international financial market is becoming familiar with the importance of environmental, social, and governance issues (ESG) to be considered when making investment-related decisions, particularly when such alignment with the United Nations Sustainable Development Goals (SDGs) is possible. Policies on ESG based investment practices have been implemented by leading financial institutions and regulatory authorities, including the European Union through the European Green Deal, as a way of improving financial performance, social justice and protecting the integrity of the environment (Dai, 2024; Lemhishi & Mahaini, 2024). The shift in this trend represents the inauguration of a groundbreaking change of sustainability and ethics being not merely another consideration in financial governance but a strategic necessity. Though the ideology of ESG has currently prevailed in the traditional finance sector, its principles resonate with the ethical and value-centred nature of the behaviour of the Islamic system of investment, specifically the promotion of justice, transparency, and stewardship. ESG inclusion into investment analysis has enhanced the corporate transparency, accountability, and long-term robustness (Chasiotis et al., 2023; Spiegeleer et al., 2021).

The ESGs in the Indonesian environment have been published by the Otoritas Jasa Keuangan (OJK), and the Indonesia Stock Exchange (IDX), with Shariah-compliant financial products. Such schemes appeal to the economic policies of Islam, especially, the goals of Maqasid al-Shariah that advance social wellbeing, equity and ethical utilization of wealth (Purwianti et al., 2023; Saied et al., 2024). The incorporation of the ESG in Islamic investment therefore represents a logical match between sustainable finance and the ethical principles of the Islamic economics. The principles of ESG, including environmental safety (*ḥifẓ al-bī'ah*), integrity of governance (*amānah*), and social justice (*'adālah*) are deeply taught in the Islamic economics. However, the implementation of ESG in Shariah compliant investing systems is still at an infantile stage especially among the individual investors in the Muslim dominated nations like Indonesia. This background provides an appropriate avenue of focusing on the applicability, perceptionary, and behavioural implication to the ESG adoption in the area of Islamic finance.

Nevertheless, in spite of the ESG momentum, there is a paucity of empirical studies that examine its incorporation in the Islamic decision processes of investment, and more so in connection with personal factors like financial literacy, trust and religiosity. Previously researched studies often exclude these variables, or focus on analyzing such variables using traditional finance or institutional participants, instead of examining the interactions between ESG principles and investor psychology, Shariah-based ethical standards (Hasan et al., 2022; Jabeen & Kausar, 2021; Lee & Isa, 2024). This kind of omission can send away an increasing number of ethically-minded Muslim customers, and

limit the creation of inclusive financial ecosystems that can coordinate profitability with sustainability and spirituality. As a result, integrative research is needed to clarify how the Islamic investors manage ESG information and the way their literacy, trust in the disclosures, and religiosity influence the final decision-making process (Al-Nahari et al., 2022; Muttaqin et al., 2023). Trust in ESG disclosures in this sense is not an act but is rather a psychological process which reduces information asymmetry, especially in ESG where the issue of greenwashing and non-standardisation are very profound. Religious commitment is a demographic characteristic but a normative variable in that it relates ethical belief to financial behaviour particularly through Shariah-compliant investment. Despite considerable literature on these variables separately, their combination analysis as to their connection with ESG behaviour in Islamic financial situations is limited, and it is one of the relevant gaps in research.

The paper is sufficiently filling the given gap as it examines the interaction between ESG integration, financial literacy and religious commitment to influence investment decision-making, performance, and sustainability in the context of Indonesian Islamic finance. Moreover, the research adds the mediating variable of trust in ESG disclosures and the moderating factor of religious commitment to the investigation of the psychological and ethical mechanisms by which ESG considerations affect the investor behaviour. By adopting the approach of Partial Least Squares Structural Equation Modelling (PLS-SEM), the study will help to gain in-depth and detailed insights into the process of ESG principles internalisation among a specific group of Muslim investors and its various manifestations in the form of tangible investment returns (Mukhibad & Setiawan, 2023; Purwidiyanti et al., 2023).

In theory, this study is part of the growing body of literature in sustainable and Islamic finance since it advances a more integrative approach that encompasses the use of ESG, financial capacity, and religious beliefs in behavioural financial architectures. It spans several areas of research, such as the study of ESG, the idea of Islamic ethical finance as well as the study of the psychology of investors, thus being a much-needed gap in scientific literature and policy. The results offer strategic implications to Islamic financial institutions, regulators, and academic instructors who are interested in raising awareness of ESG, increase investor participation and build the reputation of financial products that conform to Shariah. The research contributes to the vision of profitable, principled, and socially responsible finance by linking the sustainability goals with the Islamic ethics (Rafikov & Akhmetova, 2020; Varlı & Övenç, 2020).

## LITERATURE REVIEW

### Theory of Planned Behavior (TPB)

The Theory of Planned Behavior (TPB) has been used in Islamic finance to assess the financial behaviours of individuals in the Muslim communities highlighting the interplay between the attitudes, subjective norms (SN), perceived behavioural control (PBC), and intention. Indicatively, in a study that investigated the choice of farmers between conventional and the Islamic financial system, the effectiveness of TPB was reported to explain the financial decision, as positive mindsets were likely to lead to the decisions related to the adoption of Islamic financial products (Ali & Shang, 2022). On the same note, a study of zakat adherence amongst business owners also focused on the role of TPB in clarifying intentional behaviours under religious requirements and indicated that intention has a direct effect on compliance behaviour (Sadallah et al., 2022). Besides, it has been also shown that moderating influence of religiosity can elevate the predictive powers of TPB in financial matters, thus making essential contributions to consumer behaviour and intentions to Islamic banks (Alzadjal et al., 2021). TPB has played a central role in the ESG and sustainable finance in identifying the determinants of sustainable consumption behaviour by Muslim consumers. It has been revealed that the understanding of consumer behaviour in relation to halal products can be significantly extended due to the inclusion of religiosity as the part of the TPB framework, contributing to the increased explanatory capacity of the latter (Fenitra et al., 2024). The beneficial impact of the knowledge on sustainable practices on the attitude and behaviours of individuals also inspire the need to add context-specific factors coherent with the cultural and religious backgrounds (Batool et al., 2022). Moreover, there are also the elements of environmental awareness and perceived self-efficacy to support proactive consumer behaviour towards green investments, which underline the importance of a subtle perception of how TPB can be tailored to include them (Ahmad et al., 2021).

In addition, TPB offers an effective paradigm in explaining the motivations and obstacles investors face in the quest to consider ethical investment alternatives. It has been found out that the combination of TPB and socio-cultural variables can be used to elucidate the difference in investment behaviour among various groups, especially the way in which religious convictions can affect the process of making financial decisions (Kamal et al., 2024; Rifas et al., 2023). This is further supported by studies that expand the TPB model by incorporating other constructs to provide a more holistic concept of investment behaviour in the context of developing situations (Sulaiman et al., 2024). To conclude, the application of the Theory of Planned Behaviour in the areas of Islamic finance, ESG, and sustainable investment behaviour enables the multilicious investigation of investor confidence and decision-making. Including religiosity, cultural norms, and

understanding of the sustainable practice enhances predictive validity of TPB model and makes it inevitable in the quest of scholars and practitioners to negotiate the intricacies of the financial behaviour in these fields.

### **Financial Literacy and ESG Integration as Trust antecedents of ESG Disclosures.**

Supporting materials on the Environmental, Social, and Governance (ESG) integration in question highlight the essential role it plays in terms of its impact on the investor trust primarily concerning the ESG disclosures. Given the Theory of Planned Behavior (TPB), ESG integration can be viewed as part of the attitude of investors on ethical investment behaviors. According to empirical research, proper ESG implementation contributes to the belief in corporate transparency and ethical behavior and strengthens confidence in the disclosures of companies (Reber et al., 2021; Sun, 2024). As an illustration, Reber et al. (2021) have shown that ESG disclosure is inversely correlated with the risk involved and, thus, needs to be transparent to minimize the fear towards corporate integrity and increase investor confidence. Furthermore, the widespread adoption of ESG measures in the business activity has been associated with both better financial performance and stakeholder relationship, which leads to a climate where investors are more comfortable in evaluating the disclosures of the companies (Makhdalena et al., 2023; Zheng et al., 2023).

On the same note, there is financial literacy, the ability of an individual to understand and use financial information well, and it is also a key factor. It is based on the behavioral finance theory, which assumes that financially literate people can make rational decisions when faced with complicated financial information, such as ESG disclosed. High financial literacy will enable the investment to be more critical of ESG reports, and therefore enhance their confidence in these reports (Ahmed & Sharif, 2023; Kurniaputri & Fatwa, 2022; Nugraha et al., 2024). However, financial literacy and perceived trust in disclosures interact may vary in certain contingencies. As an example, Nugraha et al. (2024) have discovered that highly literate investors possibly demonstrate increased sceptical behaviour in situations where ESG statements are vague or do not align with reality. Such observations lead to the development of two hypotheses:

H<sub>1</sub>: ESG Integration has a meaningful positive impact on Trust in ESG Disclosures.

H<sub>2</sub>: There is a strong positive influence of Financial Literacy on Trust in ESG Disclosures.

### **ESG Integration and Financial Literacy in Shaping Investor Decision-Making**

The active environment of ESG integration is becoming recognized as a decisive factor in the process of decision making by investors. The Theory of Planned Behaviour (TPB) holds that attitudes, subjective norms, and perceived behavioural control have a joint influence on behaviour. ESG activities strengthen the good attitudes and the perceived social norms of the investors to responsible investment. There is empirical data

that the presence of powerful ESG practices improves corporate image and plays a vital role as indicators that investors use to assess the viability of an organization and its ethical position over the long term (Chasiotis et al., 2023; Morgenstern et al., 2022). Incorporating the ESG aspect in an investment strategy has been linked to a better financial fit and social responsibility that enables better investor interaction and strategizing (Davydov et al., 2024).

Financial literacy improves perceived behavioural control in the framework of the TPB by allowing investors to confidently assess information. Research has shown that increased financial literacy is associated with a healthier investment decision since financially literate people have a stronger ability to process complicated ESG data and utilize this in their investment decisions (Patrisia et al., 2023). However, according to certain studies, even highly educated investors can be misleading ESGs because of misjudging information due to overconfidence, or the sizable amount of information, leading to the heterogeneous results (Asutay et al., 2023). The value of these results supports the hypothesis development below:

H<sub>3</sub>: ESG integration makes an important, positive impact on investor decision making.

H<sub>4</sub>: There is a strong positive influence of financial literacy on decision-making by investors.

### **Trust in ESG Disclosures and Their Impact on Investor Decisions**

Confidence in ESG reports is also a critical aspect that may determine the decision of an investor, as it determines the extent to which the investor regards the quality of information regarding the ESG factors. This, based on signaling theory, means that investors have trust as a filter with which they break down ESG claims. This trust is improved with a higher rate of transparency as information asymmetry is reduced (Boulton, 2024; Makhdalena et al., 2023).

The role of trust in Islamic finance is still more fundamental, as a rational judgment as well as a moral duty in accordance with the Shariah values of transparency (*şidq*) and accountability (*amanah*). Trust works as a psychological assurance system between the integration of ESGs and investor behavior particularly in the scenario of ESG claims being prone to greenwashing. There also is some research that the role of ESG reporting as a mediator is even more vital (Reber et al., 2021) due to the lack of standardization in reporting. Therefore:

H<sub>5</sub>: The Trust in ESG Disclosures has a significant positive impact on Investor Decision-making.

### **The Driving Forces of Investment Outcomes Investor Decision-Making.**

The decision-making of investors is one of the critical financial outcome determinants, including those that directly pertain to financial performance and sustainability. The informed decision is based on the Rational Choice Theory, and represents utilitymaximising behaviour. As shown empirically, systematic ESG and market variable assessments and integrations lead to more positive performance on the part of investors (Hornuf & Yüksel, 2023; Weston & Nnadi, 2021). The yields of strategic investment plans are not only better but also comply with value requirements on a long-term basis. However, it may deviate in case it occurs as a result of influence of affective biases or peer pressure that may lead to distorted investor judgment as widely published in behavioural finance literature. Under decisions have always been known to drive performance outcomes as well as sustainability outcomes, it is important to understand how the decision making process influences the construction of effective investment strategies:

H<sub>6</sub>: The positive effect of the Investor Decision-Making on Investment Performance is significant.

H<sub>7</sub>: Investor Decision-Making positively influences Investment Sustainability.

### **Trust in ESG Disclosures and Long-Term Investment Sustainability**

Confidence in ESG disclosures has a strong effect on sustainability of long-term investments as it enhances confidence of the investor in the sustainable nature of a company towards environmental, social, and governance. Based on the stakeholder theory, companies with reputations of reliability have continued to be supported by investors and capital investors. High levels of trust in ESG disclosures allow making informed decisions that would focus on the long-term value-creating nature in contrast to the short-term profits (Makhdalena et al., 2023; Wang & Xu, 2023). However, anything based on empirical studies shows that sustainability performance is attributable to steady implementation of ESG but not quality disclosure (Semenova, 2021). Therefore,

H<sub>8</sub>: The Positive contribution of Trust in ESG Disclosures is substantive to Investment Sustainability.

### **The Moderating Role of Religious Commitment**

The relationship between ESG integration and investor trust and portfolio-performance is moderated by religious commitment by enhancing moral reasoning in the process of financial decision-making. Due to the presence of such an extension of the religious identity of devout investors, which is anchored in the Norm Activation Model, according to which all individual norms are presented as the antecedents of prosocial behavior, the compliance with the ESG requirements can be perceived as a continuation of their religious affiliation. In Islamic finance, this meaning is reflected in a commitment

to the Maqasid al-Shariah i.e., justice ( 'adālah ), stewardship (khilāfah ) and transparency (amanah ). There is empirical evidence to suggest that religiosity can positively and negatively affect ethical investment behaviour depending on the contextual and cultural factors (Asutay et al., 2023; Hockerts et al., 2022). Therefore:

H<sub>9</sub>: Religious Commitment moderates the relationship between ESG Integration and Investor Decision-Making

H<sub>10</sub>: Religious Commitment moderates the relationship between Trust in ESG Disclosures and Investment Sustainability.

Detail Figure 1 presents the proposed research framework. The model posits that ESG Integration and Financial Literacy shape Trust in ESG Disclosures. ESG Integration and Trust subsequently influence Investor Decision-Making, which in turn drives Investment Performance and Investment Sustainability. To capture information-asymmetry mechanisms beyond intention, Trust is also specified to have direct effects on Performance and Sustainability. Religious Commitment is modeled as a contextual moderator, strengthening the paths from ESG Integration to Investor Decision-Making and from Trust to Investment Sustainability. Accordingly, the framework accommodates direct and indirect mechanisms: (i) ESG Integration and Financial Literacy affect outcomes indirectly through Trust and Investor Decision-Making (serial mediation), and (ii) Trust affects outcomes indirectly via Investor Decision-Making (simple mediation). All hypothesised links are labeled H1–H10 in Figure 1 to guide the empirical testing.

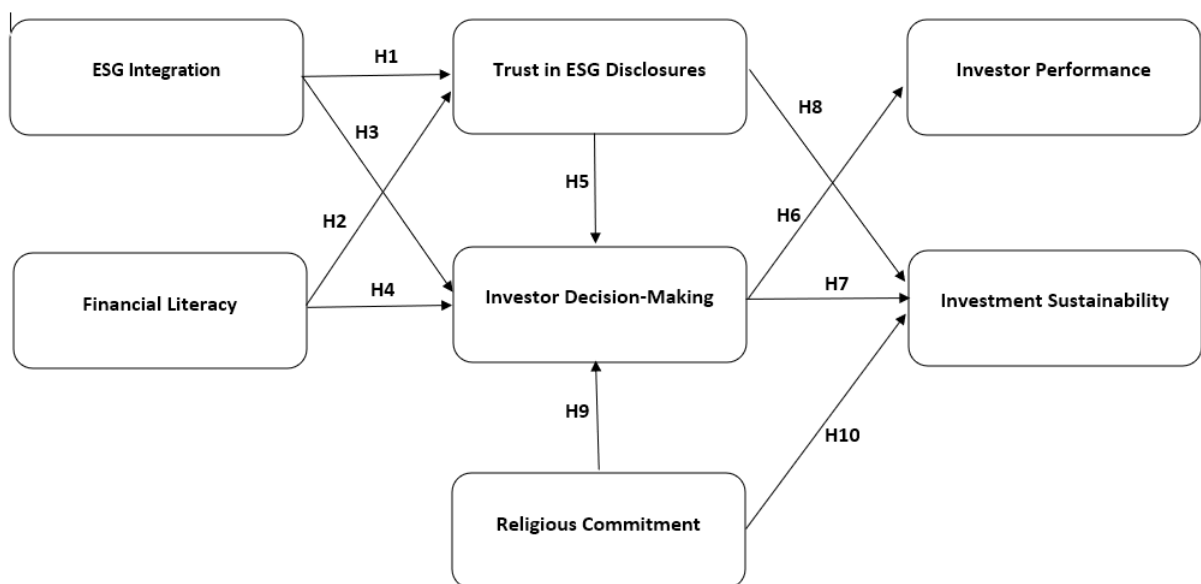


Figure 1. Research Framework

## **RESEARCH METHODS**

### **Research Design**

To conduct this investigation, the descriptive quantitative research design with the premise of cross-sectional methodological approach is used. The descriptive dimension ensures an analytical and factual description of the nature and association among the variables of interest i.e. ESG integration, financial literacy, trust in ESG disclosures, investor decision-making, investment performance, and investment sustainability. The cross-sectional method would allow the effective assessment of the structural relationship among these variables because data is collected simultaneously since the longitudinal tracking is not necessary. This is a suitable design to explain the patterns of behaviour of the Muslim investors in Indonesia using quantitative modelling.

### **Population and Sample**

The sample of this research paper will include individual investors who actively invest in Shariah-compliant investment in Indonesia, i.e. investing in an Islamic mutual fund, sukuk, or Shariah-compliant equities. These investors are a relevant population since they have the potential exposure towards environmental, social and governance (ESG) consideration of Islamic finance. In order to meet the criteria of relevancy, a purposive sampling strategy is used, including respondents that meet the following (inclusion) criteria: (1) are at least 18 years old; (2) have invested in Islamic financial instruments at least a year and a half; (3) have some basic understanding of the concept of sustainability or ESG. The twelve-month experience in the field of investments was taken because of the need to provide the respondents with sufficient exposure to ESG-related information and decision-making procedures. This criterion also helps to deal with the risk of response bias of novice investors, and increases the likelihood of observing consistent behavioural patterns in Islamic investment setting. The sample size will be 350, which is regarded as statistically satisfactory in the implementation of partial least squares structural equation modelling (PLS-SEM) with a number of latent constructs, mediation and moderation effects. The increased sample size enhances the dependability of the findings and their generalizability as well as effective path coefficient estimation.

### **Measurement of Variables**

The participants operationalised seven key constructs in this study using reflective indicators based on reliable, validated scales. ESG Integration (6 items), Financial Literacy (5 items), Trust in ESG Disclosures (5 items), and Investor Decision-Making (6 items) represent the cognitive and behavioral dimensions of ESG-oriented investment. Investment Performance (4 items) and Investment Sustainability (4 items) assess outcome-level perceptions, while Religious Commitment (4 items) captures Islamic values that may moderate ethical decision-making. All items are measured using a five-point

Likert scale. The complete list of indicators, measurement sources, and codes is presented in Table 1.

Table 1. Measurement of Variables

| Variable                 | Code | Indicator Statement                                               | Source                                        | Scale      |
|--------------------------|------|-------------------------------------------------------------------|-----------------------------------------------|------------|
| ESG Integration          | ESG1 | I consider environmental factors in my investment decisions.      | (López-Cabarcos, 2025; Newton et al., 2023)   | Likert 1–5 |
|                          | ESG2 | I consider social factors when evaluating investment options.     |                                               |            |
|                          | ESG3 | I assess corporate governance practices before investing.         |                                               |            |
|                          | ESG4 | ESG factors influence long-term investment value.                 |                                               |            |
|                          | ESG5 | I support companies with strong ESG practices.                    |                                               |            |
|                          | ESG6 | I monitor the ESG performance of my investment portfolio.         |                                               |            |
| Financial Literacy       | FL1  | I understand basic financial concepts related to investing.       | (Dinç et al., 2021; Dwi & Basuki, 2022)       | Likert 1–5 |
|                          | FL2  | I can interpret financial statements and reports.                 |                                               |            |
|                          | FL3  | I know how to assess risk and return trade-offs.                  |                                               |            |
|                          | FL4  | I am confident in managing my own investment portfolio.           |                                               |            |
|                          | FL5  | I keep myself updated on financial and investment trends.         |                                               |            |
| Trust in ESG Disclosures | TR1  | I believe ESG disclosures from companies are trustworthy.         | (Makhdalena et al., 2023; Reber et al., 2021) | Likert 1–5 |
|                          | TR2  | I feel confident relying on ESG reports for investment decisions. |                                               |            |
|                          | TR3  | Companies report ESG data accurately.                             |                                               |            |
|                          | TR4  | I trust the transparency of companies' ESG claims.                |                                               |            |
|                          | TR5  | I believe ESG disclosures reflect actual corporate practices.     |                                               |            |
| Investor Decision-Making | IDM1 | I make investment decisions after thorough analysis.              | (Akyildirim et al., 2024)                     | Likert 1–5 |
|                          | IDM2 | I rely on multiple sources before choosing investments.           |                                               |            |
|                          | IDM3 | I regularly evaluate the performance of my investments.           |                                               |            |
|                          | IDM4 | I incorporate ESG information in my decision-making process.      |                                               |            |
|                          | IDM5 | I consider both financial and ethical factors when investing.     |                                               |            |
|                          | IDM6 | I have a clear strategy for managing my investments.              |                                               |            |

|                           |     |                                                            |                                                       |            |
|---------------------------|-----|------------------------------------------------------------|-------------------------------------------------------|------------|
| Investment Performance    | IP1 | My investments meet my expected financial returns.         | (Chasiotis et al., 2023)                              | Likert 1–5 |
|                           | IP2 | I am satisfied with the profitability of my investments.   |                                                       |            |
|                           | IP3 | I achieve consistent performance from my investments.      |                                                       |            |
|                           | IP4 | My portfolio performs well compared to market benchmarks.  |                                                       |            |
| Investment Sustainability | IS1 | I invest in companies with long-term sustainability goals. | (Dai, 2024; Veldman & Gaalman, 2020)                  | Likert 1–5 |
|                           | IS2 | My investments support environmental and social causes.    |                                                       |            |
|                           | IS3 | My investments contribute to sustainable outcomes.         |                                                       |            |
|                           | IS4 | I prioritize sustainable over short-term financial gains.  |                                                       |            |
| Religious Commitment      | RC1 | My investment decisions reflect my religious beliefs.      | (Firmansyah & Andanawari, 2020; Hussein et al., 2024) | Likert 1–5 |
|                           | RC2 | I avoid investments prohibited by my religion.             |                                                       |            |
|                           | RC3 | Ethical investing is part of my religious duty.            |                                                       |            |
|                           | RC4 | I consider religious teachings in financial matters.       |                                                       |            |

Source: Author's Calculation Results.

### Instrument and Scale

The structured questionnaire was used to collect data consisting of closed-ended statements measured based on a five-point Likert scale (1 (strongly disagree) to 5 (strongly agree)) allowing the respondent to answer the question stating the extent to which they agreed or disagreed with the question statement. Before the actual data collection process a pilot test with 30 to 50 respondents was done with the aim of evaluating the clarity, reliability and validity of the questionnaire items and the questionnaire was revised in cases where it was found to be inaccurate. Cronbachs Alpha score and Composite Reliability (CR) were used to test internal consistency of the constructs and Average Variance Extracted (AVE) was used to test convergent validity. In the assessment of discriminant validity, HeterotraitMonotrait ratio (HTMT) and/or FornellLarcker criterion were used (Hult et al., 2021).

### Data Analysis Technique

The analysis of the data was done using the Partial Least Squares Structural Equation Modelling (PLS-SEM) in SmartPLS 3.0 software to test the proposed hypotheses. The approach is appropriate in complex models and exploratory research where latent variables are investigated in a variety of ways and interaction terms. The analysis is two-fold in that it evaluates the outer as well as the inner models. Assessment of the outer model is done on basis of indicator loadings, internal consistency reliability, convergent validity and discriminant validity. The inner model is checked with the help of the

coefficient of determination ( $R^2$ ), predictive relevance ( $Q^2$ ), the effect size ( $f^2$ ) and the significance of path coefficients calculated via bootstrapping with 5,000 resamples (Hair et al., 2024).

The mediation analysis established the indirect links between ESG Integration and Financial Literacy on Investor Decision-Making through Trust in ESG Disclosures. Moderation analysis in contrast considered terms of interaction to provide the conditional effect of the Religious commitment on the chosen structural paths.

## RESULT

### Respondent Profile

Table 2 shows profiles of 350 Shariah compliant investors in Indonesia. The sample is mainly male (54.29%) with majority (40.00%) being aged within 25-34 years and most of the respondents are married (51.43%). The education level is rather high, and the share of diploma and bachelor degree holders belongs to 65.71 of the sample. The highest occupational group is represented by professionals (42.86%), and the second location is held by entrepreneurs (22.86%). Monthly earnings are between IDR 5million and IDR 10million, which constitute 31.43% of the respondents. Shariah compliant equities (42.86 instrument) and Islamic mutual funds (34.29 instrument) are the leading investment preferences with holdings of sukuk at 14.29. There is a general high level of ESG awareness with 77.14% of respondents suggesting a high awareness of 77.14% with a minimum level of 20.89. Geographically, the distribution of the respondents is throughout the country with majority living in Java (58.00%), then in Sumatra (18.00%), then in the smaller proportions in Kalimantan, Sulawesi, Bali-Nusa Tenggara, and Maluku- Papua. Generally, the sample represents a demographic of energetic, but comparatively educated Islamic investors scattered all throughout Indonesia.

Table 2. Review Respondent attributes

| Attribute       | Category                  | Frequency (N) | Percentage (%) |
|-----------------|---------------------------|---------------|----------------|
| Gender          | Male                      | 190           | 54,29          |
|                 | Female                    | 160           | 45,71          |
| Age             | < 25 years                | 70            | 20             |
|                 | 25–34 years               | 140           | 40             |
|                 | 35–44 years               | 90            | 25,71          |
|                 | ≥ 45 years                | 50            | 14,29          |
|                 | Single                    | 160           | 45,71          |
| Marital Status  | Married                   | 180           | 51,43          |
|                 | Other                     | 10            | 2,86           |
| Education Level | High School               | 30            | 8,57           |
|                 | Diploma/Bachelor's Degree | 230           | 65,71          |

|                       |                               |     |       |
|-----------------------|-------------------------------|-----|-------|
| Occupation            | Master's Degree               | 70  | 20    |
|                       | Doctoral Degree               | 20  | 5,71  |
|                       | Student                       | 60  | 17,14 |
|                       | Professional (employee, etc.) | 150 | 42,86 |
|                       | Entrepreneur                  | 80  | 22,86 |
|                       | Civil Servant                 | 40  | 11,43 |
|                       | Others                        | 20  | 5,71  |
| Monthly Income        | < IDR 3 million               | 80  | 22,86 |
|                       | IDR 3–5 million               | 100 | 28,57 |
|                       | IDR 5–10 million              | 110 | 31,43 |
|                       | > IDR 10 million              | 60  | 17,14 |
| Type of Investment    | Islamic Mutual Funds          | 120 | 34,29 |
|                       | Shariah-Compliant Stocks      | 150 | 42,86 |
|                       | Sukuk (Islamic Bonds)         | 50  | 14,29 |
|                       | Others                        | 30  | 8,57  |
| ESG Awareness         | Not aware at all              | 10  | 2,86  |
|                       | Slightly aware                | 70  | 20    |
|                       | Moderately aware              | 150 | 42,86 |
|                       | Very aware                    | 90  | 25,71 |
|                       | Fully aware and active in ESG | 30  | 8,57  |
| Geographical Location | Java                          | 203 | 58.00 |
|                       | Sumatra                       | 63  | 18.00 |
|                       | Kalimantan                    | 25  | 7.14  |
|                       | Sulawesi                      | 21  | 6.00  |
|                       | Bali–Nusa Tenggara            | 21  | 6.00  |
|                       | Maluku–Papua                  | 17  | 4.86  |

Source: Author's Calculation Results.

### Measurement Model Results

Measurement model was tested in order to establish the reliability, validity of the latent constructs. Table 3 demonstrates that everyone had a high internal consistency. The Alpha of Cronbach was as much as 0.873 with Financial Literacy construct and 0.953 with ESG Integration, whereas the Composite Reliability (CR) is between 0.907 and 0.963, exceeding by far the recommended coefficient of 0.70 (Hair et al., 2019). This is confirmed by these findings, which affirm that the indicators are always representative of their constructs. Convergent validity was additionally confirmed with the help of the Average Variance Extracted (AVE) that ranged between 0.663 and 0.813, which is quite high, more than 50 in terms of explain the variance in the indicators. Speaking of the reliability of indicators, the majority of item loadings were above 0.70 which testifies to the strong contributions offered by individuals. A single indicator (FL1) showed slightly lower loading 0.688, but it was kept due to its theoretical interest and its aid in construct coverage. All in all, these findings support the application of the measurement model and prove the suitability of the constructs to be used in the further testing of the structural model.

Table 3. Analyses of the External Model

| Construct / Item          | Loadings | Alpha | CR    | AVE   |
|---------------------------|----------|-------|-------|-------|
| ESG Integration           |          | 0.953 | 0.963 | 0.811 |
| ESGI1                     | 0.932    |       |       |       |
| ESGI2                     | 0.909    |       |       |       |
| ESGI3                     | 0.917    |       |       |       |
| ESGI4                     | 0.877    |       |       |       |
| ESGI5                     | 0.851    |       |       |       |
| ESGI6                     | 0.914    |       |       |       |
| Financial Literacy        |          | 0.873 | 0.907 | 0.663 |
| FL1                       | 0.688    |       |       |       |
| FL2                       | 0.826    |       |       |       |
| FL3                       | 0.828    |       |       |       |
| FL4                       | 0.858    |       |       |       |
| FL5                       | 0.859    |       |       |       |
| Trust in ESG Disclosures  |          | 0.942 | 0.956 | 0.813 |
| ESGD1                     | 0.915    |       |       |       |
| ESGD2                     | 0.893    |       |       |       |
| ESGD3                     | 0.911    |       |       |       |
| ESGD4                     | 0.928    |       |       |       |
| ESGD5                     | 0.860    |       |       |       |
| Investor Decision-Making  |          | 0.935 | 0.949 | 0.758 |
| IDM1                      | 0.740    |       |       |       |
| IDM2                      | 0.795    |       |       |       |
| IDM3                      | 0.923    |       |       |       |
| IDM4                      | 0.920    |       |       |       |
| IDM5                      | 0.908    |       |       |       |
| IDM6                      | 0.920    |       |       |       |
| Religious Commitment      |          | 0.885 | 0.921 | 0.746 |
| RC1                       | 0.908    |       |       |       |
| RC2                       | 0.801    |       |       |       |
| RC3                       | 0.913    |       |       |       |
| RC4                       | 0.828    |       |       |       |
| Investment Performance    |          | 0.898 | 0.929 | 0.768 |
| IP1                       | 0.921    |       |       |       |
| IP2                       | 0.928    |       |       |       |
| IP3                       | 0.873    |       |       |       |
| IP4                       | 0.773    |       |       |       |
| Investment Sustainability |          | 0.916 | 0.938 | 0.753 |
| IS1                       | 0.799    |       |       |       |
| IS2                       | 0.925    |       |       |       |

|     |       |
|-----|-------|
| IS3 | 0.902 |
| IS4 | 0.925 |
| IS5 | 0.775 |

Source: Primary data processed with SmartPLS v3.0

The value of coefficient of determination ( $R^2$ ) was used in determining the explanatory power of a structural model as shown in Table 4.  $R^2$  values refer to the percentage of the variance in each of the endogenous constructs that is covered by the corresponding exogenous variables. The model is highly explanatory, and both  $R^2$  are between 0.561 and 0.933, which is way higher than 0.25 as the minimum value of explanatory ability and 0.50 as the maximum value of explanatory ability (Hair et al., 2019). The construct Investor Decision-Making has the highest  $R^2$  (0.933), meaning that the model is explained by a combination of ESG Integration, Financial Literacy, Trust in ESG Disclosures, and Religious commitment to an extreme extent (93.3). On the same note, Trust in ESG Disclosures ( $R^2 = 0.902$ ) and ESG Integration ( $R^2 = 0.900$ ) demonstrate a great explanatory power, which portrays the strong ability of the predictors to explain the latent variability. The Investment Performance ( $R^2 = 0.876$ ), Investment Sustainability ( $R^2 = 0.868$ ) and Religious Commitment ( $R^2 = 0.864$ ) also have a high explanatory power, implying that the structural model explains very well the behaviour of the investors, their ethical orientation, and performance results in the context of Shariah-compliant ESG investment.

Table 4. Determination Coefficient ( $R^2$ )

| Variable                  | ESG Integration | Investment Performance | Investment Sustainability | Investor Decision-Making | Religious Commitment | Trust in ESG Disclosures |
|---------------------------|-----------------|------------------------|---------------------------|--------------------------|----------------------|--------------------------|
| ESG Integration           | 0.900           |                        |                           |                          |                      |                          |
| Financial Literacy        | 0.710           |                        |                           |                          |                      |                          |
| Investment Performance    | 0.601           | 0.876                  |                           |                          |                      |                          |
| Investment Sustainability | 0.639           | 0.683                  | 0.868                     |                          |                      |                          |
| Investor Decision-Making  | 0.629           | 0.933                  | 0.624                     | 0.871                    |                      |                          |
| Religious Commitment      | 0.561           | 0.710                  | 0.821                     | 0.736                    | 0.864                |                          |
| Trust in ESG Disclosures  | 0.592           | 0.563                  | 0.604                     | 0.621                    | 0.643                | 0.902                    |

Source: Primary data processed with SmartPLS v3.0

The explanatory and predictive strengths of the model were also analysed through the effect size ( $f^2$ ), the coefficient of determination ( $R^2$ ) and predictive relevance ( $Q^2$ ) as

outlined in Table 5. The  $f^2$  is a statistic that estimates the contribution of each exogenous construct to the variance that is explained by an endogenous variable. Based on the recommendation by Sarstedt et al. (2022), 0.02, 0.15, and 0.35 represent the small, medium, and large effect sizes, respectively.

Empirical evidence shows that Investor Decision-Making has a strong impact on Investment Performance ( $f^2=6.711$ ) and an intermediate impact on Investment Sustainability ( $f^2= 0.688$ ), and thus it supports its core position in influencing investment outcomes. Religious Commitment also shows a moderate level of impact on Investment Sustainability ( $f^2= 0.688$ ), indicating the role of moral standards on sustainable behaviour.

Conversely, the contribution of Financial Literacy to Investor Decision-Making is significantly lower ( $f^2 = 0.002$ ), which means that technical financial literacy might not be entirely adequate in this support without any ethical or normative support. The  $R^2$  values of the model are also strong, especially on Investment Performance (0.870), Trust in ESG Disclosures (0.808), and Investment Sustainability (0.684), thus contributes to high predictive relationships. Further, the  $Q^2$  values are greater than 0.35, which Investment Performance ( $Q^2 = 0.657$ ) and Trust in ESG Disclosures ( $Q^2 = 0.649$ ) suggests that they have a high predictive relevance and that the model is reliable.

Table 5. Effect Size ( $f^2$ ), Determination ( $R^2$ ), and Predictive Relevance ( $Q^2$ )

| Variable                  | $f^2$                  |                           |                          |                          | $R^2$ | $Q^2$ |
|---------------------------|------------------------|---------------------------|--------------------------|--------------------------|-------|-------|
|                           | Investment Performance | Investment Sustainability | Investor Decision-Making | Trust in ESG Disclosures |       |       |
| ESG Integration           |                        |                           | 0.101                    | 0.022                    |       |       |
| Financial Literacy        |                        |                           | 0.002                    | 2.386                    |       |       |
| Investment Performance    |                        |                           |                          |                          | 0.870 | 0.657 |
| Investment Sustainability |                        |                           |                          |                          | 0.684 | 0.502 |
| Investor Decision-Making  | 6.711                  | 0.000                     |                          |                          | 0.622 | 0.460 |
| Religious Commitment      |                        | 0.688                     | 0.300                    |                          |       |       |
| Trust in ESG Disclosures  |                        | 0.029                     | 0.019                    |                          | 0.808 | 0.649 |

Source: Primary data processed with SmartPLS v3.0

### Evaluation of the Internal Model

The outcome of the structural model, as shown in Figure 2, depicts the integrity of the latent constructs relationship by presenting the significance of the correlations among the latent constructs in terms of standardized path coefficients ( $\beta$ ). The integration

of ESG has a high impact on the decision-making of investors ( $\beta = -28.036$ ). It is a major predictor of trust in ESG reporting ( $\beta = 1.976$ ), highlighting its conventional importance in determining cognitive and moral ratings of investments. Similarly, the trust in ESG disclosures has a significant positive impact on investment performance ( $\beta = 1.862$ ) and sustainability of investments ( $\beta = 112.878$ ), which implies a mediating role in the process of ESG-based decision-making. These findings help to agree with the idea that investor trust in ESG disclosure makes a decisive impact on the process of turning ethical orientation into long-term performance.

The investment of religious beliefs also plays a significant role in the investment decision-making process ( $\beta = 12.342$ ), which implies that faith-based values may be considered as normative anchors in the financial behavior. Although the financial literacy also plays a large role ( $B = 4.325$ ), which is comparatively smaller. This implies that although technical knowledge can lead to an understanding of investment, it might not have a significant motivational effect compared to intrinsic ethical or religious orientations especially the Islamic finance where spiritual alignment may hold the first priority. Lastly, the investor decision-making has a direct influence on investment performance ( $\beta = 1.862$ ) and investment sustainability ( $\beta = 0.035$ ). Small sustainability coefficient suggests that the ethical results of the long run might need to exceed rational decision-making- maybe more profound in psychological or normative aspects.

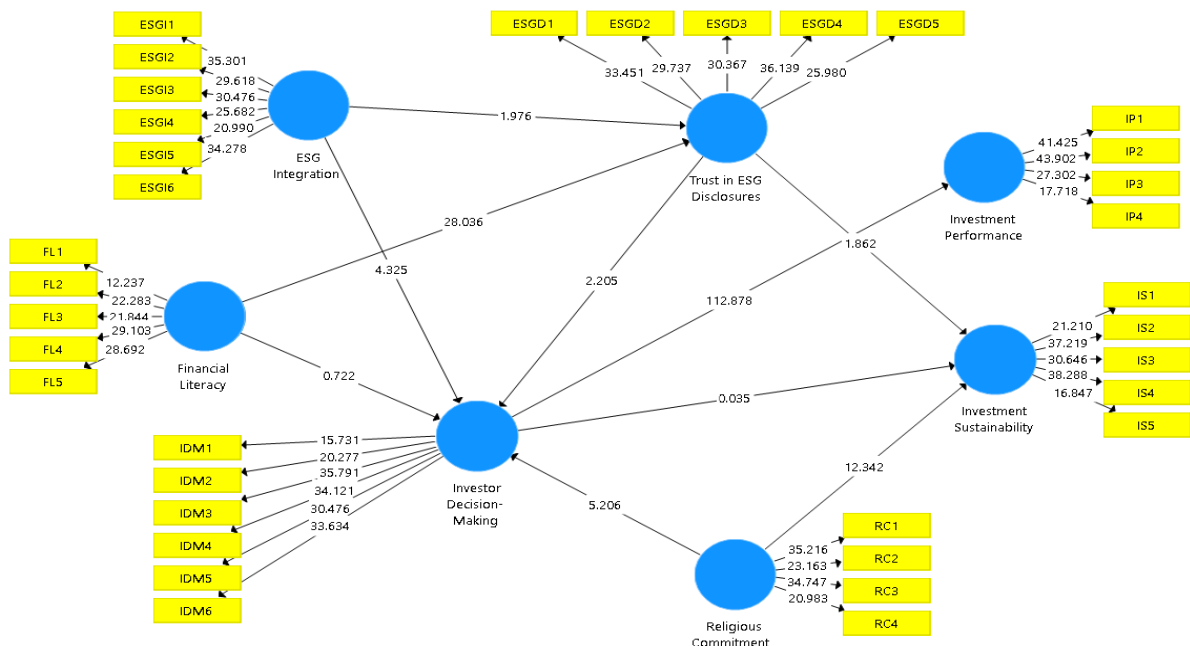


Figure 2. Bootstrapping analysis  
Source: Primary data processed with SmartPLS v3.0

Table 6 shows the bootstrap estimate of the hypothesised inter construct relationships which include path coefficients ( $\beta$ ), t-statistic and p-value. This analysis shows that a number of the linkages are statistically significant at the 5% value ( $p < 0.05$ ), thus confirming the strength of the model. ESG Integration has statistically significant impact on Investment Performance ( $\beta = 0.246$ ,  $t = 4.105$ ,  $p = 0.000$ ) and Investor Decision-making ( $0.264$ ,  $t = 4.090$ ,  $p = 0.000$ ), which supports the assumption of ESG awareness as an enhanced outcome aspect and behavioural aspect of investment. On the other hand, its influence on Investment Sustainability does not reach significance ( $\beta = -0.011$ ,  $p = 0.662$ ), giving us the indication that ESG awareness, alone, may not necessarily lead to practices that are sustainable unless another psychological or ethical force is in operation. The path to Trust in ESG Disclosures shows that there is an insignificant negative impact at a relatively low p-value (0.049) that needs further investigation on the topic of perceived credibility or greenwashing in ESG communications.

Financial Literacy has a significant predictive relationship with Trust in ESG Disclosures ( $\beta = 0.962$ ,  $t = 28.036$ ,  $p = 0.000$ ), at least, but not statistically significant relation with Investment Sustainability ( $0.125$ ,  $p = 0.044$ ). These results support the boost of financial knowledge in trust in information and orientation on sustainability, but does not necessarily change behavioural intent. The effects of Trust in ESG Disclosures are always statistically significant in predicting all the three outcomes and only through Investment Performance ( $bf = 0.933$ ,  $t = 112.878$ ) and not Sustainability ( $bf = 0.003$ ,  $p = 0.972$ ). It is worth noting that Religious Commitment has a strong positive impact on all dependent constructs hence strengthening its moral and motivational impact on Islamic investment capacity.

Table 6. Bootstrapping Effect Results

| Construct                                             | Original Sample (O) | T Statistics ( O/STDEV ) | P Values |
|-------------------------------------------------------|---------------------|--------------------------|----------|
| ESG Integration -> Investment Performance             | 0.246               | 4.105                    | 0.000*   |
| ESG Integration -> Investment Sustainability          | -0.011              | 0.437                    | 0.662    |
| ESG Integration -> Investor Decision-Making           | 0.264               | 4.090                    | 0.000*   |
| ESG Integration -> Trust in ESG Disclosures           | -0.091              | 1.976                    | 0.049*   |
| Financial literacy -> Investment Performance          | 0.105               | 1.312                    | 0.190    |
| Financial Literacy -> Investment Sustainability       | 0.125               | 2.018                    | 0.044*   |
| Financial literacy -> Investor Decision-Making        | 0.112               | 1.315                    | 0.189    |
| Financial Literacy -> Trust in ESG Disclosures        | 0.962               | 28.036                   | 0.000*   |
| Investor Decision-Making -> Investment Performance    | 0.933               | 112.878                  | 0.000*   |
| Investor Decision-Making -> Investment Sustainability | 0.003               | 0.035                    | 0.972    |
| Religious Commitment -> Investment Performance        | 0.475               | 5.153                    | 0.000*   |
| Religious Commitment -> Investment Sustainability     | 0.737               | 16.473                   | 0.000*   |

|                                                       |       |       |        |
|-------------------------------------------------------|-------|-------|--------|
| Religious Commitment -> Investor Decision-Making      | 0.509 | 5.206 | 0.000* |
| Trust in ESG Disclosures -> Investment Performance    | 0.183 | 2.198 | 0.028* |
| Trust in ESG Disclosures -> Investment Sustainability | 0.130 | 2.151 | 0.032* |
| Trust in ESG Disclosures -> Investor Decision-Making  | 0.197 | 2.205 | 0.028* |

Source: Primary data processed with SmartPLS v3.0

\* means significant at 5%

Table 7 specifies the exact indirect impacts that were evident in the structural model with specific reference to the mediation roles of Investor Decision-Making and Trust in ESG Disclosures. These findings show that Investor Decision-Making is a statistically significant mediating variable between ESG Integration and Investment Performance (  $\beta = 0.263$ ,  $t = 4.341$ ,  $p = 0.000$ ) implying the implementation of ESG principles leads to higher returns in investments as a result of influencing investor behaviour to be ethical. On the other hand, no meaningful mediation loops between the ESG Integration and Investment Sustainability can be found in a direct or mediation role position, through Trust and Decision-Making. It means that the achievement of sustainability might be depending on other processes than rational decision-making, like on the long-term orientation or on the institutional support.

There is a significant serial mediation effect of Financial Literacy in the relationship between Trust in ESG Disclosures and Investor Decision-Making (0.176,  $p = 0.024$ ) through Investment Performance. This highlights the monumental importance of trust as a psychological mediator in dealing with financial information into internalised actionable decisions. Conversely, the indirect impacts along Investment Sustainability dimension are significant and suggest that financial competence is not a sufficient predictor to instigate long-term sustainability behaviour. This mediating role is again supported by the indirect mediation of Trust on Investment Performance through Investor Decision-Making (0.183, 0.028) over the effect on Sustainability which is slight. Further, the Impact of the Religious Commitment on Investment Performance is high under the Decision-Making element with minimal influence on the sustainability, hence, indicating that this motivational effect reduces to short-term success in investing rather than long-term results in environmental or social performance.

Table 7. Specific indirect effects

| Construct                                                                                         | Original Sample (O) | T Statistics<br>( O/STDEV ) | P Values |
|---------------------------------------------------------------------------------------------------|---------------------|-----------------------------|----------|
| ESG Integration -> Investor Decision-Making -> Investment Performance                             | 0.263               | 4.341                       | 0.000*   |
| ESG Integration -> Trust in ESG Disclosures -> Investor Decision-Making -> Investment Performance | -0.017              | 1.803                       | 0.072    |
| ESG Integration -> Investor Decision-Making -> Investment Sustainability                          | 0.001               | 0.035                       | 0.972    |

|                                                                                                         |        |       |        |
|---------------------------------------------------------------------------------------------------------|--------|-------|--------|
| ESG Integration -> Trust in ESG Disclosures -> Investor Decision-Making -> Investment Sustainability    | 0.000  | 0,036 | 0.971  |
| ESG Integration -> Trust in ESG Disclosures -> Investment Sustainability                                | -0.012 | 1.305 | 0.192  |
| ESG Integration -> Trust in ESG Disclosures -> Investor Decision-Making                                 | -0.018 | 1.807 | 0.071  |
| Financial literacy -> Investor Decision-Making -> Investment Performance                                | -0.072 | 0.720 | 0.472  |
| Financial Literacy -> Trust in ESG Disclosures -> Investor Decision-Making -> Investment Performance    | 0.176  | 2.263 | 0.024* |
| Financial Literacy -> Investor Decision-Making -> Investment Sustainability                             | 0.000  | 0.020 | 0.984  |
| Financial Literacy -> Trust in ESG Disclosures -> Investor Decision-Making -> Investment Sustainability | 0.001  | 0.034 | 0.973  |
| Financial literacy -> Trust in ESG Disclosures -> Investment Sustainability                             | 0.124  | 1.854 | 0.064  |
| Financial Literacy -> Trust in ESG Disclosures -> Investor Decision-Making                              | 0.189  | 2.270 | 0.024* |
| Trust in ESG Disclosures -> Investor Decision-Making -> Investment Performance                          | 0.183  | 2.198 | 0.028* |
| Trust in ESG Disclosures -> Investor Decision-Making -> Investment Sustainability                       | 0.001  | 0,034 | 0.973  |
| Religious commitment -> Investor Decision-Making -> Investment Performance                              | 0.475  | 5.153 | 0.000* |
| Religious commitment -> Investor Decision-Making -> Investment Sustainability                           | 0.001  | 0.033 | 0.974  |

Source: Primary data processed with SmartPLS v3.0

\* means significant at 5%

## DISCUSSION

The studies in this paper are solid empirical data in which the application of Environmental, Social, and Governance (ESG) core in the context of an Islamic finance perspective in areas such as constructing individual investor decision-making as well as performance. In line with the theoretical framework, the results reveal that ESG integration plays a significant role in Investor Decision -Making and Investment performance, thus supporting the hypothesis of ESG values being similar to the Islamic ethical values, including Maqasid al-Shariah, which underline justice, transparency, and social responsibility. The congruence has been corroborated by the previous research (Chasiotis et al., 2023; Morgenstern et al., 2022), which hypothesizes that the concept of ESG is not installed as an outsourced entity but is modeled as the implementation of Shariah values.

This tendency is supported by both international and national evidence. Institutional Investor analysis indicates that there is low trust in the corporate ESG disclosure, particularly in the face of rising worries about greenwashing hence volumes of disclosed information do not always come with credibility. The same regulatory warnings

indicate that lack of enough enforcement capacity can undermine deterrent activities against false sustainability statements and erode more investor confidence. Under a scenario when ESG reporting is still in its initial stages (as it is the case in Indonesia) investors tend to view ESG initiative as expensive and then see disclosures as being heterogeneous which makes them build distrust until further narrow standards and assurance frameworks are in place. It is expected that the introduction of national Sustainability Disclosure Standards (SPK), in line with IFRS S1/S2, should increase the comparability and credibility as a way of reducing the existing lack of trust.

Financial literacy has its subordinate influence. Even though it has a strong predictive relationship of trust on ESG disclosures, it does not predict Investor DecisionMaking or Investment Performance significantly. This finding supports the argument that knowledge does not have a sufficient ability to enable ethical investment practices. The Theory of Planned Behavior (TPB) shows that the desired behavior is not only an outcome of the perceived behavioral control (enhanced by literacy) but also living conditions and opinions (Ajzen, 1991; Ali and Shang, 2022). Therefore, financial literacy must be determined as a cognitive base, which can only be stimulated in the moral or religious context. Such conclusion corresponds to the prior evidence (Al-Nahari et al., 2022), which provides information that, besides the improvement of financial knowledge, policymakers and educators should support the use of ethical/religious framing as the means to put knowledge into practice.

A credibility in ESG reporting turns out to be the next mediator between the principles of ESG and the actions of investors. Trust is an essential component of ESG engagements, which underlines Investment Performance, Sustainability, and Decision-Making (Boulton, 2024; Reber et al., 2021). This result is in line with the opinion that transparency, continuity, and perceived moral alignment are critical competitive advantages through the establishment of investor trust. In Islamic finance, information is not the only constituent of trust, but also other values like amanah (trustworthiness) and *sidq* (truthfulness) are also included. In this regard, institutional level ESG issuers need to orient their argument and clue declarations on sustainability and Islamic moral ideas instead of highlighting generic ESG signifiers.

The results align with the previous studies stating that the outcome of sustainability relies on institutional and systemic backing of it, as opposed to personal choice. According to Semenova (2021), long-term success in sustainability reporting is an outcome of the effective and regular implementation of ESG, governance, and not the intention of investors. Equally, Wang and Xu (2023) reiterate that sound disclosure and accountability measures also propagate capital towards long-term sustainability. Additionally, Davydov, Eskner, and Peltomaki (2024) underline that the premises of long-term influence are firm-level environmental social responsibility practices, distinctions of

stakeholders, and policy motivators. In that regard, the absence of crucial interaction between Decision and Sustainability that can be identified in the case can be explained by the fact that sustainability should have coordinated standards, enforcement and stewardship.

The religious commitment has a prominent moderating factor which enhances the correlation between ESG, trust and investment results. More religious investors show greater association with ESG-compatible decisions and better performance in investments. The observation is also consistent with other researchers, who emphasize that the values related to religion influence the ethical decisions and support the results of behavior (Arli et al., 2022; Asutay et al., 2023). Religious commitment as a normative force in Islamic finance works like a belief system whereby ESG implementation is taken to a religious commitment. It is interesting to note that the moderating role of religiosity towards sustainability is rather small, possibly as it requires placing sustainability discourses within the context of Islamic terminology (e.g., khalifah, maslahah) to make it personally attractive to religious investors.

What is new about this study is that it is an integrative model that considers both ESG integration, trust, and financial literacy and religious commitment as part of the Theory of Planned Behavior. The study introduces Trust and Investor Decision-Making as a mediator and Religious commitment as a moderator, which can be read as expanding TPB to the field of Islamic finance the area that has so far received little empirical research in terms of the application of ESG. In addition, it is possible to use the Partial Least Squares Structural Equation Modelling (PLS-SEM) which allows conducting a strict analysis of this multidimensional construct, which adds a certain methodological value to the literature.

In practice, they can be used to guide Islamic financial institutions, the issuers of the products, and regulators. To create an interest in ESG activities, the stakeholders must surpass the awareness campaign to develop trust and religious affiliation. This is possible by using certified disclosure, Shariah-based ESG ratings and investor educational courses based on the Islamic ethics. Finally, the conclusions confirm once again that ESG in the context of Islamic finance is not a trigger and response system but rather an ethical and spiritual act of financial responsibility.

## CONCLUSION

The current research proves that implementation of Environmental, Social and Governance (ESG) variables have a significant impact on investment choices and results in the framework of the Islamic finance market. At the same time, the credibility of ESG disclosures is a mediating variable, as the relationship between ESG activities and financial performance relies on it. Although financial literacy may increase the effectiveness of

such confidence, it does not work directly towards the decision-making or performance and is instead under a duty to be complemented by ethical norms and perceived credibility so as to influence the outcome. The importance of religious commitment can be seen as a strong moderator as it can increase the influence of ESG integration and trust on the investment decisions and sustainability, which confirm the usefulness of extending the Theory of Planned Behaviour to a Shariah-compliant investment process.

The implications of these findings on the policymakers have been two-fold. To begin with, they require supporting the strengthening of the ESG disclosure regulations to enhance investor confidence. Second, the financial institutions are, invited to release the ESG information in accordance with the Islamic ethical considerations, and thus appeal to investors with religious beliefs. The study highlights the central role of the religious belief in influencing responsible investment behaviour to Muslim investors especially. Businesses should hence focus on substantive materiality in addition to transparency in eco-social practices to make it easier to engage investors and bring about long-term sustainability.

The study goes to appreciate limitations that are inherent to research design (cross-sectional) and use of self-reported measures. Longitudinal or experimental studies would be more suitable in future because this would allow discovery of causal mechanisms, as well as generalize the results to a different cultural and regulatory environment.

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#### **AUTHORS CONTRIBUTION**

**Denny Saputera** carried out the conceptualization process, the methodology and supervision.

**Robin Chen** did the software development, formal analysis, validation, and visualization. Resource provision and curation of data, investigation, project administration, revision and editing were completed by **Andhi Sukma**.

All authors read and approved the final manuscript.

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