

# Locus of Control Mediates the Effect of Financial Behavior and Social Trust on Sharia-Compliant Investment Decisions

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## ABSTRACT

*This study aims to analyze the role of locus of control in mediating the effect of financial behavior and social trust on Sharia-compliant investment decisions among investors in East Java. This study uses a quantitative approach involving 532 respondents. Data are analyzed using Structural Equation Modeling (SEM). The results of this study show that locus of control significantly mediates the effect of financial behavior and social trust on Sharia-compliant investment decisions. Interestingly, financial behavior has a direct negative effect on investment decisions, but this effect changes to positive when mediated by locus of control. This study strengthens the integration of Social Cognitive Theory, Locus of Control Theory, and Theory of Planned Behavior in the context of Sharia finance, thus providing a comprehensive understanding of how internal beliefs influence investment actions. Practically, these findings suggest that financial literacy programs should include a psychological empowerment approach, especially strengthening people's beliefs about their control and ability to manage investments. The novelty of this study is the use of locus of control as an intervening variable in the study of sharia-compliant investment at the regional level.*

## ABSTRAK

*Penelitian ini bertujuan menganalisis peran locus of control dalam memediasi pengaruh financial behavior dan social trust terhadap keputusan investasi syariah pada investor di Jawa Timur. Pendekatan kuantitatif diterapkan dalam penelitian ini dengan melibatkan 532 responden. Data dianalisis menggunakan metode Structural Equation Modeling (SEM). Hasil penelitian menunjukkan bahwa locus of control secara signifikan memediasi pengaruh perilaku keuangan dan social trust terhadap keputusan investasi syariah. Menariknya, perilaku keuangan memiliki pengaruh negatif secara langsung terhadap keputusan investasi, namun efek ini berubah menjadi positif ketika dimediasi oleh locus of control. Penelitian ini menguatkan integrasi Social Cognitive Theory, Locus of Control Theory, dan Theory of Planned Behavior dalam konteks keuangan syariah, sehingga memberikan pemahaman yang komprehensif mengenai bagaimana keyakinan internal memengaruhi tindakan investasi. Secara praktis, temuan ini menyarankan bahwa program literasi keuangan harus mencakup*

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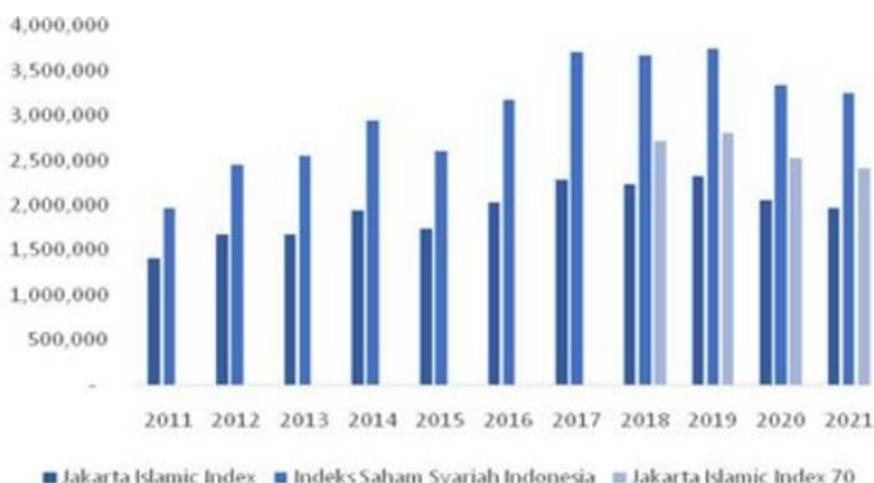
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pendekatan pemberdayaan psikologis, terutama penguatan keyakinan individu atas kendali dan kemampuannya dalam mengelola investasi. Kebaruan Penelitian ini adalah penggunaan locus of control sebagai variabel intervening dalam studi investasi syariah di tingkat regional.

## 1. INTRODUCTION

A recent study on Sharia-compliant investment in Indonesia, particularly in East Java Province, shows a significant increase over the past five years. Total assets reached IDR 45 trillion by the end of 2023, as reported by the Financial Services Authority (Otoritas Jasa Keuangan, 2024a). This growth is evident in the rise of market capitalization and the Sharia-compliant stock index, as documented by Filbery (2021). However, the level of community participation at the district/city level varies, raising questions about why some investors are reluctant to invest in Sharia-compliant products, even though these products align with local cultural values, both in

terms of competitive returns and principles (Yi et al., 2023). Several previous studies have identified the independent effect of financial behavior and social trust on investment decisions (Abideen et al., 2023; Patacchini & Rainone, 2017; Usriyono & Wahyudi, 2023). However, no research has yet examined in depth the role of locus of control as a mediating variable between the two variables to determine its potential to strengthen or hinder sharia-compliant investment decisions. Therefore, this study recommends uncovering the internal mechanisms of investors that have not been understood so far with the aim of providing a foundation for the progress of the Sharia-compliant financial industry in East Java.



Source: Filbery (2021)

Figure 1. Development of Capitalization of Sharia Stock Index

This study is based on Social Cognitive Theory (Bandura, 1986), Locus of Control Theory (Rotter, 1966), and the Theory of Planned Behavior (Ajzen, 1991). These theories complement each other in explaining individual behavior, such as Sharia-compliant investment decisions. Social Cognitive Theory (SCT) emphasizes the significance of the interaction among individuals, the social environment, and action in the formation of beliefs and behavior, including in the financial domain. In this study, social trust, a type of social influence, is examined as an environmental construct that influences individual financial behavior. Locus of control is a core cognitive element of SCT that determines the extent to which individuals perceive control

over their financial outcomes and subsequently make appropriate investment decisions.

Furthermore, the TPB emphasizes that the tendency to perform an action is shaped by attitudes toward the behavior, subjective norms, and perceived behavioral control. Locus of control is closely related to perceived behavioral control. This study examines the role of locus of control in mediating the influence of social trust and financial behavior on sharia-compliant investment decisions. These three theories constitute a consistent supporting theoretical framework that explains the role of internal and external determinants in sharia-compliant investment decision-making in East Java Province.

East Java Province was chosen as the first research location based on the fact that it is home to a Muslim population representing 95% of the country's total population and therefore qualifies as a suitable research topic for a study of Sharia-compliant investments (Central Intelligence Agency, 2022). Furthermore, financial literacy levels are uneven across districts/cities (Financial Services Authority, 2024b). This diversity provides a rich empirical environment to test the locus of control hypothesis in mediating the influence of financial behavior and social trust across various socioeconomic conditions.

Several previous studies have examined the direct influence of financial behavior and social trust on Sharia-compliant investment decisions (Alkahtani et al., 2023; Frisancho et al., 2023; Galil et al., 2023; Kottala & Sahu, 2024; Nave et al., 2023; and Sun & Gong, 2023). Research conducted by Kottala & Sahu, 2024; Nave et al., 2023; and Suhartono et al., 2023 examined the direct influence of financial behavior on investment decisions, but did not specifically examine the mediating variable of locus of control. Meanwhile, research conducted by Alkahtani et al., 2023; Frisancho et al., 2023; and Galil et al., 2023 emphasized the social and psychological aspects of investors without explicitly examining the theoretical implications of using locus of control theory.

Research conducted by Radiano et al. (2021) examined the relationship between locus of control and financial behavior. However, this study did not examine the relationship between these variables and Sharia-compliant investment decisions. Instead, most studies on locus of control focus on the general context of risk management, rather than the specific context of Sharia-compliant finance. Consequently, there is a research gap regarding the influence of financial behavior and social trust on Sharia-compliant investment decisions at the regional level, with locus of control as a mediating variable.

The phenomenon examined in this study is Indonesia, which is home to the world's largest Muslim population (Central Intelligence Agency, 2022). However, the Sharia-compliant financial industry in Indonesia still suffers from numerous shortcomings compared to the conventional industry, resulting in suboptimal Islamic market performance compared to other Muslim countries (Jayani, 2019; Financial Services Authority, 2023; PricewaterhouseCoopers, 2018). This study makes a theoretical contribution by developing a conceptual model that integrates Social Cognitive Theory, Locus of Control Theory, and Theory of Planned Behavior in the context of Sharia-

compliant finance. This study offers empirical evidence regarding the role of locus of control in mediating the influence of financial behavior and social trust on Sharia-compliant investment decisions, thus providing a foundation for strategies to increase public literacy and trust. The novelty of this study lies in the integration of locus of control as a mediating variable. Locus of control can reveal external variables, such as financial literacy, religious beliefs, and investment experience, and translate them into concrete choices in selecting Sharia-compliant investments. The purpose of this study is to determine the role of locus of control in mediating the influence of financial behavior and social trust on Sharia-compliant investment decision-making in East Java Province.

## 2. THEORETICAL FRAMEWORK AND HYPOTHESES

Social Cognitive Theory (Bandura, 1986) states that personal behavior is determined by the interaction of three factors: the person (e.g., self-efficacy, expectations), the social environment (e.g., the influence of others, norms), and the behavior itself (e.g., past history). The theory places great emphasis on social observation, self-efficacy (i.e., belief in oneself), and reinforcement. In the context of Sharia-compliant investment decisions, Social Cognitive Theory argues that social beliefs and financial behavior are shaped by a person's interactions with the social environment and his or her past experiences. For example, when someone observes that people in their social circle are skilled at investing according to Sharia principles and possess strong social trust, he or she will be encouraged to emulate that behavior. This finding also demonstrates that a person's locus of control, the perception that one's life is controlled by internal or external forces, can be shaped and developed by life experiences and social influences. Locus of Control (LoC) is a psychological attribute that measures the extent to which an individual believes that the outcomes of his or her actions are determined by internal (own abilities and efforts) or external (other people, luck, fate) sources (Rotter, 1966). Locus of control is a variable that mediates the influence of social trust and financial behavior on Sharia-compliant investment decision-making. This means that even individuals with excellent financial management skills and high levels of social trust may be susceptible to Sharia-compliant investment choices, depending largely on how they perceive their financial autonomy (internal LoC). If an individual perceives his or her investments as dependent on luck (external

LoC), he or she may still exhibit resistance to action even when external circumstances are favorable.

The Theory of Planned Behavior (TPB) (Ajzen, 1991) posits that the intention to perform a behavior is the primary predictor of actual behavior. This intention is influenced by three main components: attitude (attitude towards behavior), subjective norms (social norms/perceptions of other people's expectations), and perceived behavioral control (perception of the ability to perform the behavior). In the context of Sharia-compliant investment, a person's attitude can be influenced by his or her financial behavior, such as his or her propensity to take risks and propensity to save. Subjective norms are related to social trust, defined as confidence in various societal institutions, including Sharia-compliant financial institutions. Perceived behavioral control is closely related to locus of control. The higher the internal locus of control (LoC), the greater the sense of capability and confidence in making investment decisions.

### **The Relationship between Financial Behavior and Locus of Control**

Individuals with an internal locus of control tend to have more positive and purposeful financial behaviors because they believe their financial outcomes are determined by their own efforts and decisions. Conversely, individuals with an external locus of control tend to have less positive financial behaviors, such as being wasteful, not saving, or relying on others for help, because they feel their financial situation is determined by factors beyond their control, such as luck or the intervention of others. Locus of control plays a crucial role in shaping how individuals manage their finances responsibly (Riefler et al., 2023). The results research of conducted by Billah et al. (2024), Ghose et al. (2022), Rahmawati & Rukmana (2022), Rudiawarni et al. (2022), and Yudaruddin et al. (2023) show that financial behavior influences locus of control.

*Hypothesis 1 (H1): Financial behavior has an effect on locus of control*

### **The Relationship between Social Trust and Locus of Control**

A person's level of social trust can influence his or her perspective on control over life events. Individuals with high levels of social trust tend to have a higher internal locus of control because they perceive themselves as living in a trustworthy and stable social order, making them more confident that their actions will have the

desired impact. Conversely, low social trust leads individuals to have an external locus of control because they perceive the social world as unreliable, making life outcomes more influenced by others or fate than by themselves (Kumar et al., 2023). Thus, social trust can determine people's perceptions of how much they can control their own life. The results of research conducted by Alshami & Abdullah (2023), Bahloul et al. (2017), Lestari et al. (2023), Nita et al. (2023), and Setiawan et al. (2022) show that social trust affects locus of control.

*Hypothesis 2 (H2): Social trust has an effect on locus of control*

### **The Relationship between Financial Behavior and Sharia-Compliant Investment Decisions**

Good financial behaviors, such as disciplined saving, budgeting, and having long-term financial goals, positively contribute to an individual's tendency to make Sharia-compliant investment decisions. Individuals with healthy financial behaviors are more likely to recognize the importance of managing their finances based on personal values and principles, including Sharia principles such as halal (permissible), fairness, and the prohibition of usury. Therefore, the better a person's financial behavior, the more likely he or she is to choose Sharia-compliant investment instruments as part of responsible and ethical financial planning (Myers, 2023). The results of research conducted by Ghaemi Asl & Ben Jabeur (2024), Harakeh et al. (2023), Naeem et al. (2023), Soedarmono & Yusgiantoro (2023), and Zainudin & Mohamad, 2021) show that financial behavior significantly influences Sharia-compliant investment decision-making.

*Hypothesis 3 (H3): Financial behavior has an effect on Sharia-compliant investment decision*

### **The Relationship between Social Trust and Sharia-Compliant Investment Decisions**

High social trust is likely to increase public confidence and comfort in choosing Sharia-compliant investment products. If individuals have trust in Sharia-compliant financial institutions, regulators, and even a society dominated by Islamic values, they will believe that Sharia-compliant investments are safe, transparent, and value-based. On the other hand, low social trust can undermine the credibility of Sharia institutions and hinder investment decision-making, even if they fundamentally agree with Sharia values (Kumar et al., 2023). Therefore, social trust is a significant factor influencing individual confidence and interest in Sharia-compliant investments. The results of

research conducted by García Lara et al. (2022), Hasan et al. (2022), Kilic et al. (2022), Ooi et al. (2021), and Zhou et al. (2021) show that social trust influences Sharia-compliant investment decision-making.

*Hypothesis 4 (H4): Social trust has an effect on Sharia-compliant investment decisions*

#### **The Relationship between Locus of Control and Sharia-compliant investment decisions**

Individuals with an internal locus of control are more proactive and confident when deciding on investments. They believe that investment outcomes depend on their knowledge, work, and decisions, so they tend to seek information and invest in Sharia-compliant investments based on their values and beliefs. On the other hand, individuals with an external locus of control are passive and lack confidence in making investment decisions, and are more susceptible to external forces such as the opinions or fate of others, making them less likely to choose Sharia-compliant investments. Therefore, locus of control plays a significant role in shaping one's beliefs and attitudes toward Sharia-compliant investment decisions (Sulistiyani et al., 2024). The results of research conducted by Berthold et al. (2023), Cheng et al. (2023), James & Menzies (2023), Lourie et al. (2023), and Yi et al. (2023) show that locus of control influences Sharia-compliant investment decisions.

*Hypothesis 5 (H5): Locus of control has an effect on Sharia-compliant investment decisions*

#### **The Relationship between Financial Behavior and Sharia-Compliant Investment Decisions through Locus of Control**

Good financial behavior will lead individuals to have a higher internal locus of control, which in turn strengthens Sharia-compliant investment decision-making (Riefler et al., 2023). Individuals who are accustomed to managing money orderly, planning budgets, and saving methodically feel they are in control of their finances and, therefore, will hold the belief that financial prosperity is the result of their own effort. This assumption enables them to become more proactive and assertive while choosing investment products that are compliant with Sharia guidelines. Therefore, locus of control acts as a mediator that enriches the interaction between financial behavior and Sharia-compliant investment choices (Sulistiyani et al., 2024). The results of research conducted by Alkahtani et al. (2023), Galil et al. (2023), Kottala & Sahu (2024), Nave et al. (2023), and Sun & Gong, 2023) show that financial behavior influences Sharia-

compliant investment decisions mediated by locus of control.

*Hypothesis 6 (H6): financial behavior has an effect on Sharia-compliant investment decisions mediated by locus of control*

#### **The Relationship between Social Trust and Sharia-Compliant Investment Decisions through Locus of Control**

People's trust in their social context, such as family, friends, banks, and market institutions, can increase their confidence in their ability to influence the outcomes of their financial decisions. Such social trust facilitates an internal locus of control, the perception that investment success is based on one's own efforts, not solely on external factors. When individuals experience high self-confidence due to a conducive social environment, they become more rational and confident in their decision-making, such as choosing Sharia-compliant investments. Thus, locus of control is a crucial bridge between social trust and Sharia-compliant investment decision-making. The results of research conducted by Falavigna & Ippoliti (2023), Frisancho et al. (2023), Kumar et al. (2023), Myers (2023), and Riefler et al. (2023) show that social trust influences Sharia-compliant investment decisions mediated by locus of control.

*Hypothesis 7 (H7): social trust has an effect on Sharia-compliant investment decisions mediated by locus of control*

### **3. RESEARCH METHOD**

This study uses a descriptive, associative, quantitative, and informal methodological approach. In a quantitative approach, this study examines a specific population or group by methodically collecting data using research instruments and analyzing the findings quantitatively or statistically to evaluate existing hypotheses (Ghozali, 2021). Using precisely collected sample data, descriptive research employs data collection techniques to explain or illustrate the object under study. The purpose of causal research is to measure the strength of the relationship between two or more variables and to show how the independent and dependent variables are related. In other words, causal research addresses issues related to cause-and-effect relationships (Ghozali, 2021).

Financial behavior (X1) is measured by overconfidence, risk perception, loss aversion, and herding (Yudaruddin et al., 2023). Social Trust (X2) is measured by the halal and legitimacy of the business, transparency and accountability, external supervision, such as the Sharia

Supervisory Agency, and the reputation of the institution and investment manager (Billah et al., 2024). Locus of Control (Z) is measured by readiness to take risks, self-confidence, responsibility, and initiative (Rahmawati & Rukmana, 2022). Sharia-compliant investment decisions are measured by reducing the level of risk when investing in Sharia, anticipating unstable conditions by starting to invest, understanding the concept of probability in investing, and the investment decision-making process (Al-Shami & Abdullah, 2023). All variables are measured using an ordinal scale with a Likert scale approach, ranging from 1 (strongly disagree) to 5 (strongly agree).

The population of this study consists of Sharia-compliant stock investors domiciled in East Java Province. The sample population comprises investors who allocated their financial resources to Sharia-compliant stocks starting in 2024 and had a basic understanding of Sharia-compliant investment principles. The minimum sample size is determined using G\*Power (Sofyani, 2023). The minimum sample size required for this study was 153 respondents, as indicated by the calculation. The collected questionnaire data was then distributed to 764 participants, as the survey was conducted from December 2024 to April 2025. From the questionnaire distribution, it was found that the sample used was 532 samples that met the research criteria.

**Table 1. Questionnaire Distribution Results**

| Information    | Response  |         |
|----------------|-----------|---------|
|                | Frequency | %       |
| Sent           | 764       | 100 %   |
| Received       | 584       | 76.43 % |
| Un-appropriate | 52        | 6.8 %   |
| Respondent     |           |         |
| Usable         | 532       | 69.63 % |

Source: Own research data (2025)

### Data Analysis Methods

The data analysis technique used in this study is Structural Equation Modeling (SEM). The data in this study are managed using smart PLS software. Structural Equation Modeling (SEM) is a method used to address the weaknesses of the regression method (Ghozali, 2014; Hox & Bechger, 1998).

Structural equation modeling is a multivariate data analysis method for analyzing complex relationships between constructs and indicators. To estimate structural equation

models, researchers generally use two methods: covariance-based SEM (CB-SEM) and partial least squares SEM (PLS-SEM). CB-SEM is primarily used to confirm theories, while PLS is a causal-predictive approach to SEM that emphasizes prediction in estimating models whose structures are designed to provide causal explanations. PLS-SEM is also useful for confirming measurement models (Hair et al., 2021).

According to Sudaryono (2017), there are two reasons for using SEM. First, SEM can estimate relationships between variables that are multiple relationships. These relationships are formed in structural models (the relationship between dependent and independent constructs). Second, SEM can describe the relationship patterns between latent (unobserved) constructs and manifest variables (indicator variables). In hypothesis testing, the significance value can be determined.  $H_a$  is accepted and  $H_0$  is rejected if  $p < 0.05$ , whereas  $H_a$  is rejected and  $H_0$  is accepted if  $p > 0.05$  (Ghozali, 2021).

### 4. DATA ANALYSIS AND DISCUSSION

Table 2 presents a demographic overview of the research participants, selected based on their involvement in Sharia-compliant investment decision-making in East Java Province. This demographic information is intended to provide a contextual basis for the subsequent discussion, which will explore the influence of locus of control on financial behavior and social trust related to Sharia-compliant investment decisions. The majority of respondents were aged between 21 and 30 (56.6%), and had a bachelor's degree (73.4%). The majority of respondents reported having around 1–3 years of investment experience (54.3%), and the majority of respondents invested around IDR 3–4.99 million per year (26.3%).

The predominance of young respondents with undergraduate education and relatively early investment experience reflects the profile of Sharia-compliant retail investors in East Java. In this context, the concept of locus of control has the potential to act as a mediator, where an individual's belief in personal control over their financial outcomes (internal locus) can influence the transformation of financial behavior and social trust into Sharia-compliant investment decisions. Therefore, in this group of young, educated investors, strengthening the internal locus of control emerges as a crucial factor in improving the quality of Sharia-compliant investment decisions.

**Table 2. Characteristics of Respondents**

| Category | Value | Percentage (%) |
|----------|-------|----------------|
|----------|-------|----------------|

|                                 |                    |             |
|---------------------------------|--------------------|-------------|
| Age                             | 21 – 30 Years      | 56.6        |
|                                 | 31 – 40 Years      | 25.6        |
|                                 | 41 – 50 Years      | 17.8        |
| Last Education                  | Senior High School | 11.4        |
|                                 | Bachelor           | 73.4        |
|                                 | > Bachelor         | 15.2        |
| Length of investment experience | 1 - 3 Years        | 54.3        |
|                                 | 3 – 5 Years        | 38.9        |
|                                 | > 5 Years          | 6.8         |
| Funds invested in 1 year        | IDR 1-2.99 million | 9.5         |
|                                 | IDR 3-4.99 million | 26.3        |
|                                 | IDR 5-6.99 million | 22.8        |
|                                 | >IDR 7 million     | 14.9        |
|                                 | <b>Total</b>       | <b>100%</b> |

Source: Own research data (2025)

**Table 3. Descriptive Statistics Results**

| Information                              | N.  | Min. | Max. | Mean    | Std. Dev |
|--|-----|------|------|---------|----------|
| Financial behavior (X1)                  | 532 | 10   | 20   | 15.7951 | 2.10938  |
| Social trust (X2)                        | 532 | 10   | 20   | 15.7744 | 2.29998  |
| Locus of control (Z)                     | 532 | 12   | 20   | 16.1372 | 1.59978  |
| Sharia-compliant Investment Decision (Y) | 532 | 10   | 20   | 15.7744 | 2.29998  |

Source: Own research data (2025)

Table 3 presents the descriptive statistics for the four main study variables: financial behavior (X1), social trust (X2), locus of control (Z), and investment decisions (Y). All variables are measured on a scale from 10 to 20. Each variable consists of 5 indicators, each using a Likert scale from 1 to 5, so that the total score ranges from 5 (minimum) to 25 (maximum). However, in this study, respondents' actual scores ranged from 10 to 20, indicating a tendency for responses to be in the medium-high category. This is consistent with the characteristics of respondents who are predominantly novice investors (aged 21-30 years) with 1-3 years of experience. The arithmetic mean of the four variables is in the range of 15.7-16.1, indicating that, in general, respondents' perceptions of each variable are in the medium to high category. The locus of control variable showed the highest mean value (16.14) and the lowest standard deviation (1.60), indicating a relatively positive and consistent perception among respondents. Conversely, social trust and investment decisions showed the highest standard deviation values (2.30), indicating a greater degree of variation in respondents' perceptions of these two variables.

Descriptive data indicate that, in general, respondents demonstrate commendable financial behavior, strong social trust, and prudent Sharia-compliant investment decision-making. Their perceptions of locus of control remain stable. The high mean locus of control and its consistency among respondents serve to strengthen the assumption that this variable can play a significant mediating role. This suggests that the stronger a person believes in self-control, the more significant and positive the influence of financial behavior and social trust on Sharia-compliant investment decisions.

In this study, validity, reliability, and multicollinearity tests are conducted to test the research instrument. The validity test results show that all variables have values above R table. The reliability test results show that all variables have values above 0.7. In the multicollinearity test, all variables have values between 1-10. Therefore, it can be concluded that the instrument used in this study is valid and reliable. High validity and reliability strengthen data integrity. Meanwhile, the absence of multicollinearity indicates that each independent variable makes a unique contribution to the dependent variable.

**Table 4. Hypothesis Test**

| Hypothesis          | Variable                              | Path  | P-value | Conclusion  |
|---------------------|---------------------------------------|-------|---------|-------------|
| Direct Effect<br>H1 | Financial behavior – Locus of control | 0.331 | 0.000   | Significant |

|                 |   |        |       |             |
|-----------------|---|--------|-------|-------------|
| H2              | Social trust – Locus of control                           | 0.192  | 0.000 | Significant |
| H3              | Financial behavior – Sharia-compliant investment decision | -0.334 | 0.000 | Significant |
| H4              | Social trust – Sharia-compliant investment decision       | 1.148  | 0.000 | Significant |
| H5              | Locus of control – Sharia-compliant investment decision   | 0.120  | 0.000 | Significant |
| Indirect Effect |   |        | 0.000 |             |
| H6              | Financial behavior – Sharia-compliant investment decision | 0.040  | 0.000 | Significant |
| H7              | Social trust – Sharia-compliant investment decision       | 0.120  | 0.001 | Significant |

Source: Own research data (2025)

Empirical evidence, as presented in Table 4, indicates that locus of control plays a significant role in mediating the influence of financial behavior and social trust on the selection of Sharia-compliant investment decisions. Significantly, financial behavior has a direct negative influence on investment decisions. However, this influence is offset by a positive indirect influence through locus of control. These findings suggest that an individual's belief in self-control, or locus of control, can influence financial behavior in Sharia-compliant investment decisions. Social trust also has significant direct and indirect effects, suggesting that social traits also play a significant role in influencing trust and decision-making in the context of Sharia-compliant investment.

Overall, based on the theories proposed by Ajzen (1991), Bandura (1986), and Rotter (1966), the results of this study confirm that Sharia-compliant investment decisions are influenced not only by rational or cognitive behavior, but also by psychological aspects influenced by perceptions of self-control and social conditions. However, what is interesting about Hypothesis 3 is the negative coefficient on the relationship between financial behavior and investment decisions. This indicates the possibility of a cautious or conservative preference in financial decision-making that can hinder individuals from investing, especially if not balanced with trust in the Sharia system.

### **The Effect of Financial Behavior on Locus of Control**

The finding shows that financial behavior has a positive effect on locus of control. Individuals with good financial behavior tend to feel in control of their financial decisions. This finding highlights that good financial management, such as discipline in saving, budgeting, and avoiding impulsive consumer behavior, contributes to the belief that a person is

able to determine his or her financial destiny. In the context of Sharia-compliant investments, this demonstrates that financial management skills are not only important from a technical perspective, but also from an internal belief in decision-making capacity. This serves as an important foundation for building an internal locus of control, which significantly influences the courage to act, including in selecting investment instruments based on Islamic values. The results of this study support those conducted by Billah et al. (2024), Chen et al. (2023), Ghose et al. (2022), Rahmawati & Rukmana (2022), and Yudaruddin et al. (2023), that social trust has an effect on locus of control.

### **The Effect of Social Trust on Locus of Control**

The results of this study indicate that social trust positively contributes to locus of control. Social trust, such as confidence in the integrity of Islamic financial institutions, transparency of fund management, and support from the investor community, creates a stable and reliable environment. In such an environment, individuals tend to feel that their efforts will yield consistent results. Therefore, when someone trusts the system, it is easier for them to cultivate the belief that success depends not only on luck but also on personal decisions and efforts. This strengthens the internal locus of control as a psychological foundation for making high-value financial decisions such as Sharia-compliant investments. The results of this study support research conducted by Billah et al. (2024), Chen et al. (2023), Ghose et al. (2022), Rahmawati & Rukmana (2022), and Yudaruddin et al. (2023) that social trust has an effect on locus of control.

### **The Effect of Financial Behavior on Sharia-Compliant Investment Decisions**

The results of this study show that financial behavior negatively influences Sharia-compliant investment decisions. Theoretically, sound

financial behavior can encourage rational investment decisions. However, the results of this study indicate the opposite: the better a person's financial behavior, the more negative his or her tendency to invest in Sharia-compliant instruments. This may be due to the conservative nature of individuals with sound financial behavior, who tend to be risk-averse. A lack of specific literacy about Sharia-compliant investment products leads them to perceive Sharia-compliant investments as uncertain, complex, or less secure than conventional products. Investors focus on short-term stability, rather than long-term growth, thus leading them to delay investing. This finding corrects the linear assumptions in the Theory of Planned Behavior (TPB) (Ajzen, 1991) and Social Cognitive Theory (Bandura, 1986), which state that positive financial behavior automatically drives the adoption of new products. When the product is perceived as domain-specific (Sharia-compliant) requiring additional competencies, the transferability of self-efficacy from the general financial domain to Sharia-compliant finance will not occur without the support of specific literacy.

According to Social Cognitive Theory (Bandura, 1986), disciplined financial behavior reflects the results of social learning processes and individual experience in managing financial risk. Individuals who focus too much on financial control can become overly conservative, hindering investment decision-making, especially if Sharia-compliant investments are not fully understood or are perceived as less secure than conventional instruments. Meanwhile, according to the Theory of Planned Behavior (TPB) (Ajzen, 1991), investment decisions are strongly influenced by attitudes, subjective norms, and perceived behavioral control. Individuals with good financial behavior tend to have positive attitudes.

Individuals with good financial behaviors tend to have positive attitudes toward money management, but have low perceived behavioral control over Sharia-compliant investments due to a lack of understanding, trust, or experience. This can lead to unrealized investment intentions. Theoretically, financial behavior drives investment decisions, but in reality, overcautious attitudes and low self-confidence in the context of Sharia-compliant investments can lead to risk aversion and decisions not to invest. These findings suggest the need for educational interventions that not only improve literacy but also build confidence in making value-based investment decisions. The results of this study contradict those conducted by Berthold et al.

(2023), Cheng et al. (2023), James & Menzies (2023), Lourie et al. (2023), and Yi et al. (2023) that financial behavior has a positive influence on Sharia-compliant investment decisions.

### **The Effect of Social Trust on Sharia-Compliant Investment Decisions**

The results of this study show that social trust has a positive effect on Sharia-compliant investment decisions. Trust in the system and actors in Sharia-compliant finance, such as the Sharia Supervisory Board, investment managers, and state regulations, provides a sense of psychological security for potential investors. When individuals perceive the system to be fair, transparent, and free from harmful practices, the incentive to make investment decisions is strengthened. From the perspective of a religious and communal society like East Java, trust in the social environment also creates a kind of behavioral norm that supports Sharia investment as a form of expression of religious values and financial morality. The results of this study align with the findings of studies conducted by Falavigna & Ippoliti (2023), Frisancho et al. (2023), Kumar et al. (2023), Myers (2023), and Riefler et al. (2023) that found that social trust influences Sharia-compliant investment decisions.

### **The Effect of Locus of Control on Sharia-Compliant Investment Decisions**

The results of this study show that locus of control has a positive effect on Sharia-compliant investment decisions. Individuals with internal locus of control believe that their financial success depends on themselves. This belief makes them more active in seeking information, evaluating investment options, and taking action. In the context of Sharia-compliant investment, this belief is very important because Sharia-compliant investment is not only about profit, but also about compliance with the principles of halal, justice, and social responsibility. Locus of control allows someone to not only understand these values but also translate them into concrete decisions. This indicates that building self-efficacy is not only a psychological issue, but a fundamental aspect of ethical financial participation. The results of this study align with the findings of research conducted by Al-shami & Abdullah (2023), Lestari et al. (2023), Nita et al. (2023), Rudiawarni et al. (2022), and Setiawan et al. (2022) that locus of control has an effect on Sharia-compliant investment decisions.

### **The Effect of Financial Behavior on Sharia-Compliant Investment Decisions through Locus of Control**

The most interesting finding of this study is the mediating role of locus of control, which significantly transforms negative influences into positive ones. In terms of financial behavior, individuals initially reluctant to invest due to conservative or low-risk attitudes may be encouraged to invest if they believe that success stems from their efforts. Similarly, social trust, which initially forms only collective perceptions, will have a greater impact when internalized as a sense of personal control. Therefore, locus of control acts as a psychological link that transforms intentions into actions. The implication is that policy and educational approaches in the Sharia-compliant financial sector cannot focus solely on technical aspects such as financial literacy or product promotion. Systematic efforts are needed to foster individual self-confidence, reflective capacity, and proactive attitudes in financial decision-making. This can be achieved through positive psychology-based training, community mentoring, and the provision of empowering information. Locus of control is not merely a psychological variable, but a strategic key to bridging values, norms, and actions within the Sharia-compliant investment ecosystem. The results of this study support the findings of research conducted by Bahloul et al. (2017), Harakeh et al. (2023), Naeem et al. (2023), Soedarmono & Yusgiantoro (2023), and Zainudin & Mohamad (2021) that financial behavior influences Sharia investment decisions through locus of control.

### **The Effect of Social Trust on Sharia-Compliant Investment Decisions through Locus of Control**

The results of this study indicate that social trust positively influences Sharia-compliant investment decisions through the locus of control. People who have high trust in their social environment, such as society, financial institutions, the government, and fellow investors, are more likely to feel optimistic, confident, and certain that their actions will have a positive impact. This strengthens their internal locus of control, a belief that investment success depends on personal decisions and actions, rather than external factors such as fate or other people. Individuals with an internal locus of control are more proactive in managing their finances and investments, including Sharia-compliant investments. They do not wait for or rely on recommendations from others but instead evaluate and make decisions independently

based on their personal values and beliefs. When individuals believe they can control their investment outcomes, they are more likely to choose instruments that align with spiritual and ethical values, such as Sharia-compliant investments.

In a society with strong religious norms, social trust encompasses not only trust in others but also trust in Sharia-compliant financial institutions, religious scholars, and the Sharia-compliant economic system. This trust fosters the belief that the Sharia-compliant system is safe, ethical, and beneficial, thus encouraging individuals to control their financial decisions and choose Sharia-compliant investments. Social trust minimizes the fear of uncertainty (uncertainty avoidance). When individuals trust the financial system and social environment, they are more confident in making decisions because they believe the system will not harm them. This strengthens their sense of internal control and ultimately positively impacts investment decisions in Sharia-compliant instruments. The results of this study support the findings of studies conducted by García Lara et al. (2022), Ghaemi Asl & Ben Jabeur (2024), Kılıç et al. (2022), Ooi et al. (2021), and Zhou et al. (2021) that social trust influences Sharia-compliant investment decisions through locus of control.

### **5. CONCLUSION, IMPLICATION, SUGGESTION, AND LIMITATION**

The results of this study confirm that Sharia-compliant investment decisions are not solely determined by financial behavior or social trust, but also by an individual's internal psychological strength, known as locus of control. Locus of control has been shown to play a significant role as a mediator in shifting the influence of financial behavior from negative to positive on investment decisions, as well as strengthening the impact of social trust on investment decisions.

This study makes a significant contribution to the development of behavioral financial theory by integrating three key approaches: Social Cognitive Theory (Bandura, 1986), Locus of Control Theory (Rotter, 1966), and Theory of Planned Behavior (Ajzen, 1991). The finding that locus of control significantly mediates the relationship between financial behavior and social trust in Sharia-compliant investment decisions suggests that internal cognitive processes play a larger role than previously assumed in the literature. In other words, investment decisions are not solely the result of external factors or economic rationality but are

also strongly influenced by an individual's perception of personal control. This enriches the scientific discourse on the psychological determinants of Sharia-compliant financial decision-making.

In practice, this study recommends the need to strengthen the psychological capacity of investors through self-control-based training, increasing financial literacy based on Sharia values, and creating a conducive social environment to build collective trust and the courage to act independently. In other words, the success of Sharia-compliant investment at the individual level depends not only on how well a person understands financial products, but also on how strongly he or she feels able to make decisions consciously, ethically, and based on principles.

This study was limited to measuring financial behavior and social trust as independent variables, and locus of control as a moderating variable influencing Sharia-compliant investment decisions. Therefore, the influence of these independent variables on the dependent variable is relatively small. It is recommended that future research include additional independent variables to measure Sharia-compliant investment decisions, such as religious financial literacy, to make the research model more comprehensive and able to explain the factors influencing Sharia-compliant investment decisions more significantly and accurately.

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