The Role of Islamic Business Ethics and Financial Literacy in Investment Decision Making: A Mediation and Moderation Approach

Lusiana Afrianti[1], Zaenafi Ariani[2*], Nur Fitri Hidayanti[3], Ahmad Hulaimi[4], Ahadiah Agustina[5], Novi Yanti Sandra Dewi[6]
[1,2,3,4,5,6]Sharia Economic, Universitas Muhammadiyah Mataram, Indonesia
lusianaafrianti04@gmail.com

Abstract: This study uses a qualitative approach with the Library Research method and Integrative Review technique to analyze the relationship between Islamic business ethics, financial literacy, attitudes towards risk, and investment decisions. Articles used as secondary data were obtained from reputable databases such as Google Scholar, Scispace, DOAJ, and Scopus, with publication criteria between 2015–2024, in English or Indonesian, and relevant to the research topic. The literature selection process includes abstract screening, keywords, and full-text review. Thematic analysis was conducted deductively to identify patterns of relationships between variables. The results of the study indicate that the integration of Islamic business ethics and financial literacy plays an important role in supporting wise investment decisions. Islamic business ethics provides a moral framework that ensures investment decisions are in accordance with sharia principles, while financial literacy improves investors' ability to evaluate risks and optimize asset allocation. The combination of these two aspects creates a balance between economic growth and social sustainability, making it relevant to both sharia and conventional markets. This study emphasizes the importance of strengthening financial literacy and implementing moral values as a fundamental strategy in building sustainable investment decisions. Further research to improve sustainable investment decision making.

Keywords: Islamic Business Ethics, Financial Literacy, Investment Decisions, Attitudes to Risk, Social Sustainability.

Article History:
Received: 30-04-2025
Online : 19-05-2025

A. INTRODUCTION

Islamic business ethics is a set of moral principles derived from the Qur'an and Sunnah, which emphasize honesty, fairness, and responsibility in economic activity. These principles direct business actors to avoid harmful practices and ensure fairness in transactions (Investopedia, 2007). Meanwhile, Islamic financial literacy refers to an individual's understanding of financial concepts and products that comply with sharia principles, such as the prohibition of usury and investment in prohibited sectors (Investopedia, 2007). These two concepts play an important role in shaping investment behavior in accordance with Islamic values. Research by Dharma et al. (2024) shows that Islamic business ethics has a significant influence on investment decisions in Islamic financial instruments. Islamic business ethics also affect attitudes towards risk, which in turn affect investment decisions. Another study by Iqbal et al. (2023) found that Islamic business ethics plays a role in shaping individual attitudes towards risk, which has an impact on investment decisions. This suggests that Islamic ethical values can influence investment behavior through attitudes towards risk.

Islamic financial literacy has been shown to have a positive effect on investment decisions. Fauzi and Rafik (2024) found that Islamic financial literacy has a direct effect on investment decisions in Islamic financial products. Roemanasari et al. (2022) also showed that Islamic financial literacy affects investment intention, which is an early indicator of investment decisions. In addition, Iqbal et al. (2023) confirmed that financial literacy plays a role in shaping individual attitudes towards risk, which has an impact on investment decisions. Attitude towards risk is an important factor that mediates the relationship between Islamic business ethics and financial literacy with investment decisions. Dharma et al. (2024) found that attitude towards risk mediates the influence of Islamic business ethics and financial literacy on investment decisions. Research by Iqbal et al. (2023) also showed that attitude towards risk mediates the relationship between financial literacy and investment decisions. This suggests that individuals with good financial literacy and strong Islamic ethical values tend to have a positive attitude towards risk, which has an impact on their investment decisions.

Religious knowledge can moderate the relationship between Islamic business ethics and financial literacy with investment decisions. However, research by Dharma et al. (2024) showed that religious knowledge did not moderate the relationship significantly. The study by Fauzi and Rafik (2024) also found that religiosity does not moderate the effect of financial literacy on investment decisions, but has a direct effect. This suggests that while religious knowledge is important, its role as a moderator in this context still needs further investigation. Based on the above studies, it appears that Islamic business ethics and Islamic financial literacy affect investment decisions, with attitude towards risk as a mediator. However, the role of religious knowledge as a moderator is still unclear and shows inconsistent results. This gap indicates the need for further research to understand how religious knowledge affects the relationship between Islamic business ethics, financial literacy and investment decisions. Therefore, this study aims to analyze the effect of Islamic business ethics and financial literacy on investment decisions, considering the mediating role of attitude towards risk and moderation of religious knowledge.

B. METHOD

This research uses a Library Research approach with Integrative Review technique, which aims to integrate and analyze findings from various related literatures. This approach was chosen because it allows for the systematic collection and analysis of secondary data, to provide an in-depth understanding of the relationship between Islamic business ethics, financial literacy, attitude towards risk, and investment decisions. The data sources used in this study are articles obtained from reputable databases such as Google Scholar, Scispace, DOAJ, and Scopus. Relevant articles were selected based on the inclusion criteria, i.e. publications within 2015-2024, using English or Indonesian, and discussing at least one of the research variables. Conversely, the exclusion criteria included articles that were not available in full-text or were not relevant to the research topic.

The literature search process was conducted using a combination of keywords such as "Islamic Business Ethics," "Financial Literacy," "Investment Decision," and "Risk Attitude." Each search result was screened using a two-stage literature selection procedure, namely abstract and keyword screening, followed by full-text review. Once the literature was collected, the data was analyzed thematically using a deductive approach, to identify patterns of inter-variable relationships. To ensure the validity and reliability of the analysis results, this study used the cross-check method between researchers to verify the results. In addition, the selected literature was classified based on the level of credibility of the sources and research methods used, so as to provide a strong theoretical foundation and support the analysis results consistently (Bowen, 2009).

C. RESULTS AND DISCUSSION

1. The influence of Islamic Business Ethics on Investment Decision Making

The influence of Islamic business ethics on investment decision making shows that the application of sharia principles not only forms a moral framework in business practices, but also guides investors in making decisions that consider aspects of risk, justice, and social responsibility. Empirically, Dharma et al. Dharma et al. (2024) revealed that financial literacy and Islamic business ethics contribute significantly to investment decisions in Islamic financial instruments, where risk attitudes and religious knowledge play a mediating and moderating role. These results are in line with the findings of Hamizar Hamizar (2023) who emphasized that social and ethical factors influence Islamic investment decision-making behavior, so investors tend to choose instruments that have a positive social impact.

Conceptually, the understanding of Islamic business ethics is reinforced by theoretical literature such as that presented by Kazmi (Kazmi, 2020) and Wahyudi (Wahyudi, 2024). Both sources explain that principles such as fairness, honesty, trustworthiness, and social responsibility are the foundations underlying sharia-compliant business practices. The prohibition of usury, gharar, and maysir is emphasized as an effort to ensure that all economic activities run in accordance with moral norms and Islamic values (Kazmi, 2020). Furthermore, Rahmawan et al. Rahmawan et al. (2024) showed that understanding of muamalah (economic interaction according to sharia) and heuristic attitudes have a significant positive influence on Islamic investment decisions. Qualitative approach conducted by Hidayat et al. Hidayat et al. (2023) through direct participation and in-depth interviews illustrated how social interaction and communication practices in the Islamic capital market reflect the application of Islamic values in the investment context, thus helping to reduce the uncertainty that may arise from market uncertainty.

The integration of ethical values in investment is also demonstrated through the application of Islamic finance principles in building trust and credibility of Islamic financial institutions. Elmalki and Mounira Elmalki & Mounira (2009) elaborate that islamic banks present concrete examples of ethical and socially responsible investments, which influence investor sentiment. Similarly, Harti Harti (2024) and Ghafoor Ghafoor (2023) documented a positive correlation between the application of Islamic finance principles and the practice of CSR (Corporate Social Responsibility) and sustainable investment, indicating that in-depth knowledge and understanding of Islamic business ethics can encourage investment behavior that not only prioritizes financial returns, but also social welfare.

In addition, research by Lestari et al. Lestari et al. (2014) on the determinants of investment decisions among Muslim entrepreneurs shows that ethical values internalized in Islam are an important determining factor in the investment decision-making process. These findings, when synergized with the results of previous studies, imply that Islamic business ethics as a whole has a significant impact in leading investors to make decisions that are not only financially rational, but also in line with the spiritual and social values embraced by the Muslim community. Overall, the synthesis of various studies indicates that Islamic business ethics provides a strong foundation for investment decision-making through strengthening value-based financial literacy, more prudent risk management, and close linkages with social responsibility. This emphasizes the importance of integrating moral values and Shariah principles in investment strategies to achieve a balance between economic growth and social sustainability.

2. The Role of Financial Literacy in Supporting Optimal Investment Decisions

The role of financial literacy in supporting optimal investment decisions has been identified as a key factor that improves investors' ability to analyze financial information, manage risk, and reduce the influence of behavioral biases such as overconfidence and FOMO (Fear of Missing Out). Financial literacy provides a basis for understanding basic financial concepts, including the management of savings, debt, insurance, and long-term financial planning, so that investors can make more rational and informed decisions Ahmad & Shah (2020), Pertiwi et al. (2024). With a high level of financial literacy, investors are not only likely to choose a portfolio that is balanced between risk and potential returns, but are also able to anticipate market fluctuations through a deep understanding of existing investment instruments (Abdi, 2024).

In addition to acting as a source of knowledge, financial literacy is also proven to function as a moderator variable in the relationship between behavioral biases and investment decision making. The study by Ahmad and Shah Ahmad & Shah (2020) shows that increasing financial literacy can reduce the influence of overconfidence, so that the quality of investment decisions increases significantly. Similar findings were revealed by Seraj et al. (Seraj et al., 2022), which states that individuals with good financial knowledge have a greater ability to make the right investment decisions despite being affected by overconfidence. In today's digital context, financial literacy also helps investors respond to emotional distress due to the FOMO phenomenon, as shown by Martaningrat and Kurniawan's research (Martaningrat & Kurniawan, 2024), where investors who have a deep financial understanding tend to be able to control their reactions to the influence of social media and temporary market trends.

Furthermore, increased financial literacy has been associated with an awareness of risk aspects as well as an understanding of market dynamics, allowing investors to allocate assets more efficiently. Findings of Pertiwi et al. Pertiwi et al. (2024) assert that adequate financial knowledge is a key determinant in investment behavior, as investors can process information more quickly and precisely. In this case, financial literacy not only improves individual decision making, but can also collectively improve the transparency and efficiency of financial markets (Dalimunthe et al., 2023). The increased ability to read market trends and evaluate potential gains versus risks, as evidenced in research by Abdi (Abdi, 2024), further emphasizes that the optimization of investment decisions is highly dependent on the level of financial literacy possessed by investors.

The complex interaction between financial literacy and other variables such as financial behavior, risk attitude, and financial satisfaction has also been highlighted in recent literature. Iqbal et al. Iqbal et al. (2023) found that financial literacy acts as a mediator in increasing financial satisfaction through appropriate investment decisions, while Mushafiq et al. Mushafiq et al. (2021) illustrated that the combination of financial literacy with risk understanding can significantly optimize investment choices. In addition, a holistic approach that integrates various aspects of financial literacy-from basic awareness to practical application in real market contexts-has been shown to be effective in minimizing the negative impact of cognitive bias Fitriaty (2023) and promoting more solid portfolio diversification (Shaheen et al., 2022). In general, the synthesis of these findings indicates that financial literacy is a fundamental pillar in supporting optimal investment decision-making. With a strong knowledge base, investors can more objectively assess risks and opportunities, reduce reliance on intuition alone, and improve asset allocation efficiency. Therefore, efforts to improve financial literacy through education and training need to be intensified as one of the important strategies to promote sustainable economic growth based on financial prudence.

3. Mediation and Moderation Analysis in the Relationship between Islamic Business Ethics, Financial Literacy, and Investment Decisions

In the context of analyzing the mediating and moderating relationships between Islamic business ethics, financial literacy, and investment decisions, there are several key elements that can be analyzed to understand how the factors that influence each other interact.

First, Islamic business ethics serves as a fundamental framework that influences investment decisions. In a study conducted by Hariawan and Sophisticated, it was explained that Islamic business ethics can play an important role in influencing the habits and behavior of investors in the Islamic capital market that upholds the values of honesty and transparency (Hariawan & Sophisticated, 2022). In addition, Nursyamsiah and Nopianti's research shows that the application of Islamic business ethics can increase customer satisfaction, which reflects the positive relationship between ethics and investment decisions (Nursyamsiah & Nopianti, 2021). The existence of ethics in the business context is very relevant because it increases investor confidence, which is important in making investment decisions.

Second, financial literacy as a mediating variable plays an important role in bridging the relationship between Islamic business ethics and investment decisions. Puspitaningtyas emphasized that a good understanding of accounting and financial information helps investors make more informed decisions (Puspitaningtyas, 2018). This is in line with Suartha et al.'s research findings, which show that good investment decisions are strongly influenced by investors' financial literacy (Suartha et al., 2023). The existence of financial literacy also helps investors understand the returns and risks associated with Islamic products in the capital market, which further supports profitable investment decisions.

In addition, financial literacy moderation can have a significant impact on the relationship between business ethics and investment decisions. Research by Hakim and Rahmawati explains that other factors such as product quality and recommendations from buyers can also moderate purchasing decisions, which can also be applied in the investment context (Hakim & Rahmawati, 2023). When financial literacy levels are high, investors tend to be better at assessing the risks and benefits of investments, as well as more confident in making decisions that are in accordance with the principles of Islamic business ethics. Thus, the interaction between Islamic business ethics, financial literacy and investment decisions is multidimensional and mutually reinforcing. By understanding how each element is interconnected, stakeholders can formulate more effective strategies to enhance ethical and informed investment decisions in Islamic markets.

CONCLUSIONS AND SUGGESTIONS

This research shows that the integration of Islamic business ethics, financial literacy, and attitude towards risk plays an important role in making prudent investment decisions. Islamic business ethics provide the moral foundation that ensures Shariah-compliant investments, while financial literacy enhances investors' ability to evaluate risks, manage assets, and make optimal decisions. The interaction between these three elements creates a balance between economic growth, social sustainability and financial prudence, making it a relevant framework for both Islamic and conventional markets.

ACKNOWLEDGMENTS

The title for the thank you to the institution or the person who has contributed during the research and references is not numbered.

REFERENCES

Abdi, A. (2024). Influence of financial literacy on investment decisions of managers of small and medium enterprises in mogadishu, somalia. International Journal of Advanced.

Agustian, F. A., Poernomo, D., & Puspitaningtyas, Z. (2018). Pengaruh kompetensi dan komitmen organisasi terhadap kinerja pegawai. Majalah Ilmiah Dian Ilmu, 17(2).

Ahmad, M. and Shah, S. (2020). Overconfidence heuristic-driven bias in investment decision-making and performance: mediating effects of risk perception and moderating effects of financial literacy. Journal of Economic and Administrative Sciences, 38(1), 60-90. https://doi.org/10.1108/jeas-07-2020-0116

Applied Sciences, 11(4), 30-34. https://doi.org/10.21833/ijaas.2024.04.004

Dalimunthe, N., Ambarwati, D., & Mardiana, N. (2023). Do demographic and financial literacy affect investment decision?.. https://doi.org/10.4108/eai.13-9-2023.2341228

Dharma, Y., Puteh, A., Widodo, R., Alfaqih, L., & Yahya, A. (2024). The Influence of Financial Literacy and Islamic Business Ethics on Investment in Islamic Financial Instruments: The Mediating Role of Risk Attitude and the Moderating Role of Religious Knowledge. Journal of Ecohumanism, 3(8), 264–282. https://doi.org/10.62754/joe.v3i8.4729

Elmalki, A. and Mounira, B. (2009). Ethical investment and the social responsibilities of the Islamic banks. International Business Research, 2(2). https://doi.org/10.5539/ibr.v2n2p123

Fauzi, A., & Rafik, A. (2024). The Impact of Sharia Financial Literacy, Religiosity, and Perceived Quality on Investment Decisions on Sharia-Compliant Products. International Journal of Economics and Management Sciences, 1(2), 56–70. https://doi.org/10.61132/ijems.v1i2.56

Fitriaty, F. (2023). Exploring the factors shaping investment decisions. Dinasti International Journal of Economics Finance & Accounting, 4(3), 465-474. https://doi.org/10.38035/dijefa.v4i3.1958

Ghafoor, Z. (2023). Editorial: bridging the gap between islamic finance and sustainable, responsible, and impact investing. Journal of Islamic Business and Management (Jibm), 13(02), 156-158. https://doi.org/10.26501/jibm/2023.1302-001

Hamizar, A. (2023). Pengaruh faktor sosial dan etika dalam perilaku pengambilan keputusan investasi: studi kasus pada investasi keuangan syariah. EKSY, 5(01). https://doi.org/10.33477/eksy.v5i01.5478

Hariawan, H. and Canggih, C. (2022). Analisis faktor yang mempengaruhi keputusan investasi di pasar modal syariah: studi kasus di kota surabaya. Jurnal Ekonomi Syariah Teori Dan Terapan, 9(4), 495-511. https://doi.org/10.20473/vol9iss20224pp495-511

Harti, S. (2024). Catalyzing ethical business practices: exploring the role of islamic finance in contemporary markets. International Journal of Business Law and Education, 5(2). https://doi.org/10.56442/ijble.v5i2.663

Hidayat, M., Supriyanto, S., & Mazidah, N. (2023). Ethnomethodology approach in investment decision making in islamic capital market: an interaction and social practice of market participants. MJIFM, 3(2), 127-147. https://doi.org/10.31538/mjifm.v3i2.42

Iqbal, M. A., Saeed, A., & Rehman, S. U. (2023). Impact of Financial Literacy on Financial Satisfaction: Mediating Roles of Investment Decisions & Moderating Role of Risk Attitude. Journal of Finance and Economics, 11(2).

Iqbal, M., Ahmad, S., & Rehman, S. (2023). Impact of financial literacy on financial satisfaction: mediating roles of investment decisions & moderating role of risk attitude. Journal ofSocial Research Development, 4(2), 274-283. https://doi.org/10.53664/jsrd/04-02-2023-04-274-283

Kazmi, A. (2020). Islamic business ethics., 1-5. https://doi.org/10.1007/978-3-030-02006-4_86-1

Lestari, W., Salim, U., Sudarma, M., & AL-HABSYI, T. (2014). Determinants of investment decision among moslem entrepreneurs. Iamure International Journal of Business and Management, 8(1). https://doi.org/10.7718/iamure.ijbm.v8i1.733

Martaningrat, N. and Kurniawan, Y. (2024). The impact of financial influencers, social influencers, and fomo economy on the decision-making of investment on millennial generation and gen z of indonesia. Journal of Ecohumanism, 3(3), 1319-1335. https://doi.org/10.62754/joe.v3i3.3604

Mushafiq, M., Khalid, S., Sohail, M., & Sehar, T. (2021). Exploring the relationship between investment choices, cognitive abilities risk attitudes and financial literacy. Journal of Economic and Administrative Sciences, 39(4), 1122-1136. https://doi.org/10.1108/jeas-07-2021-0130

Nursyamsiah, I., & Nopianti, N. (2021). Pengaruh Etika Bisnis Islam dan Kualitas Produk Terhadap Kepuasan Konsumen Pada Usaha Rofi Collection Ciamis. Jurnal Ekonomi Rabbani, 1(1).

Pertiwi, D., Kusumawardhani, A., Pratama, J., & Paul, T. (2024). Investigating the impact: financial literacy, socio-economic status, and awareness on investment decisions with moderation factors. Petra International Journal of Business Studies, 7(1), 19-27. https://doi.org/10.9744/petraijbs.7.1.19-27

Rahmawan, F., Rahmani, N., & Silalahi, P. (2024). Pengaruh pemahaman muamalah dan sikap heuristik terhadap pengambilan keputusan investasi syariah pada mahasiswa universitas islam negeri sumatera utara (uinsu). El-Mal Jurnal Kajian Ekonomi & Bisnis Islam, 5(10). https://doi.org/10.47467/elmal.v5i10.5494

Roemanasari, F., Sabela, J., & Rusgianto, S. (2022). Islamic Financial Literacy and Financial Behavior on Investment Intention. Jurnal Ilmu Ekonomi Terapan, 7(2), 150–165. https://doi.org/10.20473/jiet.v7i2.40679

Seraj, A., Alzain, E., & Alshebami, A. (2022). The roles of financial literacy and overconfidence in investment decisions in saudi arabia. Frontiers in Psychology, 13. https://doi.org/10.3389/fpsyg.2022.1005075

Shaheen, F., Tariq, M., Zahoor, Q., & Mehmood, A. (2022). Role of financial literacy in investment decisions: exploring the individual investors' perspective through a qualitative approach. Journal of Business and Social Review in Emerging Economies, 8(4). https://doi.org/10.26710/jbsee.v8i4.2521

Wahyudi, M. (2024). The concept of business ethics in islamic perspective. Jurnal Pendidikan Ips, 14(2), 478-484. https://doi.org/10.37630/jpi.v14i2.2166

Fausett, L. (1994). *Fundamentals of Neural Network*. New York: Prentice Hall.