

# UNDERSTANDING HOW ESG ORIENTATION AND SUSTAINABILITY DISCLOSURE AFFECT INVESTOR DECISIONS THROUGH REPUTATION AND MARKET CONDITIONS

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## Abstract

The growing integration of sustainability considerations into corporate strategy has reshaped capital market dynamics, raising important questions about how responsible governance influences investor behavior. This study examines how sustainability oriented strategic posture and disclosure practices affect investor decision making through the mediating role of firm reputation and the moderating influence of market uncertainty. Drawing on signaling theory, the research proposes that sustainability related commitments function as credible signals that shape reputational evaluations and financial judgments. A quantitative cross-sectional design was employed, collecting survey data from senior managers in large textile manufacturing firms. Structural equation modeling using SmartPLS was applied to test direct, mediating, and moderating relationships. The findings reveal that sustainability orientation and disclosure significantly enhance firm reputation, which in turn positively influences investor decision making. Firm reputation mediates the relationships between sustainability practices and investment judgments. Moreover, market uncertainty strengthens the impact of reputation on investor decisions. The study highlights the central role of reputational capital in translating sustainability initiatives into tangible financial outcomes and contributes to a context sensitive understanding of signaling processes in sustainable finance.

## INTRODUCTION

Capital markets have undergone a visible transformation as sustainability concerns increasingly shape corporate and investor behavior. Climate risks, social inequality, and governance failures have heightened scrutiny of corporate conduct, pushing firms to integrate broader responsibility into their strategic agendas. Financial stakeholders now operate in an environment where long term value is closely

linked with environmental stewardship, social legitimacy, and transparent governance practices. This shift reflects a wider movement in global finance toward sustainable capitalism, where non-financial performance is considered alongside traditional metrics of profitability and growth (Li et al., 2024). In parallel, corporate communication practices have evolved. Firms are under pressure to disclose how they manage

environmental and social risks, not only to comply with regulatory expectations but also to maintain credibility in increasingly sensitive markets (Helfaya et al., 2023). Such disclosures are often interpreted as signals of managerial quality, ethical orientation, and future resilience. Investors, particularly institutional ones, have begun to incorporate sustainability signals into portfolio allocation and risk assessment frameworks (Lopez-de-Silanes et al., 2024). Consequently, sustainability has moved from a peripheral reporting issue to a central consideration in financial decision making and market evaluation.

Recent research suggests that sustainability related disclosures influence capital market reactions and investor perceptions. Evidence from emerging markets shows that environmental, social, and governance communication can generate positive market responses when perceived as credible and decision relevant (Itan et al., 2025). Systematic reviews further indicate that such disclosures are associated with improved market performance, lower information asymmetry, and enhanced stakeholder confidence (Li et al., 2024). Studies also demonstrate that responsible practices may reduce financing costs, particularly when they strengthen stakeholder trust and legitimacy (Maaloul et al., 2023). At the investor level, sustainability performance has been linked with more favorable portfolio allocation decisions (Hijazin et al., 2025). However, some findings reveal inconsistencies, suggesting that investor reactions vary depending on institutional context, index construction, and credibility perceptions (Adamska & Dąbrowski, 2025). These mixed outcomes point to the need for deeper investigation into the mechanisms through which sustainability signals translate into investment behavior.

Sustainable investment assets have expanded rapidly, with trillions of dollars now allocated under responsible investment principles. Regulatory initiatives in Europe and other regions have strengthened mandatory sustainability reporting, increasing comparability and transparency across firms (Helfaya et al.,

2023). In emerging markets, however, disclosure practices remain heterogeneous, often influenced by institutional quality and investor protection mechanisms (Itan et al., 2025). At the same time, financial markets are characterized by volatility driven by geopolitical tensions, inflationary pressures, and climate related risks. Such uncertainty amplifies investor sensitivity to credible information that reduces ambiguity regarding firm prospects. Sustainability communication can function as a strategic signal that reassures stakeholders about long term viability and ethical commitment (Khanchel et al., 2023). Yet, where reporting lacks consistency or standardization, skepticism may arise, limiting its influence on financial judgments. These conditions create a complex environment in which sustainability communication interacts with broader market dynamics, shaping how firms are evaluated and how investment choices are made.

Although prior studies have documented associations between sustainability disclosures and market outcomes, important gaps remain. First, much of the literature examines direct effects on financial performance or market reaction, often overlooking the reputational processes that may transmit sustainability signals to investors (Li et al., 2024). Corporate reputation represents a cumulative perception of credibility, reliability, and ethical conduct, yet its mediating role in translating sustainability practices into investor responses has not been sufficiently unpacked in recent empirical research. Second, existing findings show contextual variation across institutional settings and index designs, suggesting that investor interpretation of sustainability information is contingent rather than uniform (Adamska & Dąbrowski, 2025). While some studies indicate that responsible practices reduce financing costs through enhanced legitimacy (Maaloul et al., 2023), others highlight that investors may discount disclosures perceived as symbolic or strategically motivated (Ghosh et al., 2026). These inconsistencies signal theoretical fragmentation regarding how sustainability communication influences decision processes.

Third, limited attention has been paid to the role of market level conditions in shaping the strength of these relationships. In volatile environments, investors may rely more heavily on non-financial signals to mitigate uncertainty. Yet empirical evidence integrating sustainability communication, reputational dynamics, and contextual market conditions within a unified framework remains scarce. Addressing this gap is necessary to clarify when and how sustainability efforts effectively influence investor decision making.

This knowledge of such dynamics has important scholarly and practical consequences. Theoretically, the elaborate explanation of how sustainability communication is connected to financial decision making can develop stakeholder and legitimacy approaches to corporate governance studies (Aluchna et al., 2022). It also fills in the capital market theory by incorporating non-financial data in investor behavior models (Lopez-de-Silanes et al., 2024). Regulators are intensifying disclosure requirements, in a policy-making move, to match corporate reporting to the goals of sustainable development. Open sustainability reporting fulfills sustainable development goals of responsible consumption and production and climate action. Regulatory calibration and reporting frameworks can be informed by empirical evidence of the effect of such reporting to influence investor behavior (Helfaya et al., 2023). To managers, it is essential to have information about the reputational implications of sustainability strategies. Companies are spending huge sums of money on responsible practices and reporting. The evidence of whether such efforts will lead to positive investment decisions, especially in the uncertain market situation, is the guidance to strategic resource allocation and policy of communication (Hijazin et al., 2025).

This paper contributes to the current body of literature by combining sustainability communication, reputational assessment and investor behavior into one analytical framework. It addresses the recent calls to more subtle analyses of sustainability disclosure implications

by investigating reputational mechanisms and contextual market conditions at the same time (Li et al., 2024). It does not rely on the mere direct effect models but provides a deeper insight into the impact of responsible practices on financial decision making. Theoretically, the study is based on the signaling theory and the stakeholder theory. Sustainability disclosures act as strategic signals that minimize the information asymmetry and form the perception of organizational legitimacy (Maaloul et al., 2023). Meanwhile, the stakeholder theory also reveals why, as the primary stakeholders, investors are likely to react to the plausible manifestations of ethical and environmental responsibility (Aluchna et al., 2022). The study helps to add to a more integrated explanation of investor behavior in the era of sustainable finance by connecting sustainability orientation and disclosure practices to reputational evaluations and consequent investment decisions in the context of different market conditions.

### Theoretical Foundation

Signaling theory is the basis of this study and it offers a logical reason on how organizations are sending information about quality and credibility in a scenario where there is information asymmetry. It was first described by Spence in the early 1970s in labor market economics where he described the way in which applicants to jobs send signals of competence to the employer in the context of incomplete information. The main assumption is in the fact that in the case when one party has some personal information about its quality or intentions, it can send credible signals to decrease uncertainty and affect the perceptions and choices of another party. Good signals are usually visible, expensive to copy and have the ability to make the distinction between good and bad quality actors. Signaling theory grew over time to include finance, strategic management and corporate governance, as well as labor economics. In the capital market settings, companies are considered to be signalers and investors as receivers who use disclosed information to assess risk and long-term opportunities. The focus of the modern

applications is the credibility, consistency and strategic relevancy of the disclosed information. With the growing use of non-financial information in valuation models in the market, signaling theory has undergone further development to consider sustainability related disclosures and the reputational implications. The recent literature emphasizes that environmental and social reporting has the potential to be a strategic indicator of managerial ability, ethical devotion, and sustainability when it is seen as meaningful, but not symbolic (Li et al., 2024; Itan et al., 2025).

Modern studies also indicate that the usefulness of such signals is also conditional on the credibility of the circumstances and institutional structures. As an example, differences in the design and reporting standards of ESG indexes affect the way investors process sustainability information, which supports the point that the strength of the signals is dependent on the clarity and legitimacy (Adamska and Dabrowski, 2025). On the same note, empirical findings suggest that responsible performance and disclosure may reduce cost of finance in cases where they improve perception of organizational reliability, which shows the mediating role of reputational judgment in signalling processes (Maaloul et al., 2023). These trends show how the signaling theory has advanced to include intangible resources like reputation and legitimacy as a product of plausible communication.

In the framework of the current study, signaling theory represents the intellectual basis of the assessment of the role of corporate sustainability orientation and transparency in the assessment of investors. Financial markets are characterized by the environment of uncertainty, where decision makers have to determine the performance in the future by the use of incomplete information. Ambiguity can be minimized through sustainability communication by communicating the desire to be a responsible governing body and risk management. When reputational capital is deepened by such communication, it will make the person appear more trustworthy and affect the investment decisions. This interpretation is consistent with the latest research that investors

are more likely to incorporate sustainability signals in the portfolio decisions, especially when the disclosures are credible and strategically important (Hijazin et al., 2025; Ghosh et al., 2026). This paper will anchor the signaling theory as the key explanatory framework by framing the process of sustainability communication as a signaling mechanism, which is integrated into the reputational processes. The theory does not only explain why firms report on sustainability, but also how the reports influence the cognition and actions of investors in the modern capital markets. So, by so doing it provides a solid conceptual basis on which to analyze the manner in which corporate communication strategies are converted into real financial implications in an era characterized by increased sustainability demands.

### Hypotheses Development

Increasing pressure on responsible corporate behaviour has transformed the perception of how companies establish themselves in the competitive markets. Sustainability is not considered as an aspect that is peripheral to strategy but is gradually becoming engrained in organizational values, risk management systems and long-term planning. In the signaling theory logic, strategic commitments whose imitation is hard and always indicated in the organization practices act as credible signals to the external stakeholders. By incorporating environmental, social and governance principles in their strategy, the firms send a message of a long-lasting commitment as opposed to token compliance. Recent data show that such underpinning commitments can be seen by investors and stakeholders as the quality of management and future-oriented governance (Li et al., 2024; Khanchel et al., 2023). Responsible strategic orientation has been found to increase the stakeholder confidence and legitimacy in both emerging and developed markets (Itan et al., 2025). Reputation is an intangible asset that portrays cumulative perceptions in terms of credibility and reliability and ethical behavior. According to the signaling theory, by making sustainability a strategic consideration, it

reinforces reputational judgments as it lessens the suspicion of self-serving actions. Companies showing uniformity between the declared promises and strategic moves are seen to be more credible, hence enhancing their reputational capital. Based on this argument and corroborating empirical evidence, it is postulated that ESG orientation has a positive impact on the reputation of firms (H1).

Transparency has taken the center stage concerning modern corporate responsibility especially with the growth of regulatory regimes that have required non-financial reporting. Formatted sustainability disclosure helps the stakeholders to evaluate the manner in which firms address the environmental and social risks which minimizes the information asymmetry. In the signaling point of view, disclosure is a visible and testable tool of communication in which firms express implicit quality and governance rules. Such communication has an element of credibility that is determined by the clarity, comparability and consistency over reporting periods. Empirical studies illustrate that the disclosure of sustainability contributes to the improvement of the perceived legitimacy and decreased uncertainty on corporate action (Helfaya et al., 2023; Li et al., 2024). Additional evidence on emerging market also indicates that comprehensive ESG communications create a positive market response to disclosures when they are taken to be substantive instead of symbolic (Itan et al., 2025). The reputation is not just formed by the internal commitments, but the openness of the firms in reporting the performance and accountability also shapes the reputation. When disclosures are consistent with strategic actions, they strengthen the trust of stakeholders and add to the reputational strength. The signaling theory reveals that transparent sustainability reporting would improve the reputational ratings by virtue of showing accountability and ethical governance. In this regard, the hypothesis assumes that sustainability disclosure has a positive impact on the reputation of the firm (H2).

Investor analysis is becoming more and more non-financial in nature and is also based on the

credibility of the corporate and long-term sustainability analysis. Reputation is a heuristic in capital markets with imperfect information, which reduces the complexities of assessments. According to the Signaling theory, reputational capital represents a set of cumulative signals of quality, integrity, and strategic consistency. Investors, when they consider a firm reputable, will assume that they have less risk exposure and good governance practices. Empirical evidence indicates that the perceived information asymmetry decreases when corporate reputation increases, increasing investor confidence and, consequently, the allocation decisions (Maaloul et al., 2023). In addition, recent researches affirm that investors incorporate perceptions of ethical responsibility and governance quality in decision making, especially when the perception is supported through a regular flow of communication (Hijazin et al., 2025; Ghosh et al., 2026). Reputation, therefore, is a plausible summary indicator of the overall quality of the organization. The reputational cue is important in the formation of expectations regarding future performance in uncertain markets, where investors have to interpret incomplete information. The hypothesis is that firm reputation has a positive impact on the investor decision making (H3).

Although strategic orientation and disclosure practices are good signals, the signaling theory implies that these factors might not directly affect investor behavior. Rather, stakeholders decipher such signals with evaluative processes that are followed by reputational judgments. Sustainability promises and reports help to create a larger story of corporate honesty and trustworthiness. As empirical evidence suggests, sustainability performance and reporting have the potential to reduce the cost of financing and increase the perceptions of stakeholders due to the improved reputation (Li et al., 2024; Maaloul et al., 2023). Nevertheless, the variation in investor responses in different settings indicate that the eventual motivator of the financial performance is not disclosure per se, but reputational capital created by plausible signals (Adamska, and Dabrowski, 2025). Sustainability

orientation becomes perceived as genuine and in line with transparent reporting and gives credence to reputational assessments, which subsequently influence investor confidence and allocation judgments. This mediating process is well aligned with the signaling theory which focuses on the role of signals in shaping outcomes by the process of perception formation. Based on it, it is postulated that the relationship between ESG orientation and investor decision making is mediated by firm reputation (H4), and the relationship between sustainability disclosure and investor decision making is mediated by firm reputation (H5).

Macroeconomic shocks, geopolitical tensions and regulatory changes are common characteristics of financial markets that are volatile. In this case, uncertainty makes one dependent on reliable signals that minimize ambiguity. According to the signaling theory, the reputation value will be amplified when the information asymmetry is increased because investors want to have credible

signals of stability and quality of management. Empirical evidence demonstrates that the importance of responsible governance and sustainability indicators increases in terms of affecting investment behavior in turbulent times (Hijazin et al., 2025). Reputational cues tend to be more sensitive to the investors in uncertain environments as the cues are the ones that will give them confidence in the competence of the managers and sustainability in the long-term. Therefore, it can be assumed that the relationship between reputational capital and investment decisions is likely to be strengthened depending on existing market conditions. In the conditions of high uncertainty, reputational signal is more significant in the calculations of investors. Hence the hypothesis is that the market uncertainty moderates the relationship between the firm reputation and the investment decision making of investors positively, where the relationship is stronger in case of increased uncertainty (H6).

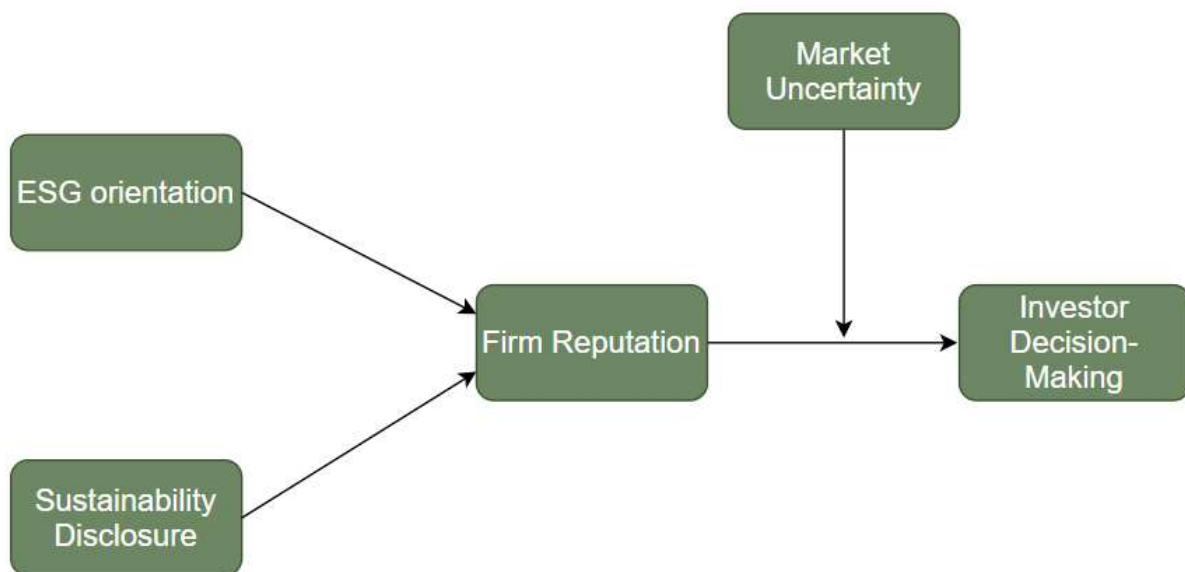


Figure 1: Research Model

### Methodology

The research design used in this study is a quantitative and cross-sectional study design to determine empirically the relationships between the proposed constructs at one point in time. The quantitative methodology is suitable since

the study aims to determine the theoretically formulated hypotheses using statistical estimates and objective measurements to guarantee replicability and generalizability (Ghanad, 2023). Cross sectional designs are quite appropriate when studying the relationships between

perceptions and behavior in organizational contexts and the data are gathered at the same time in order to estimate the structural relationship without time manipulation (Maier et al., 2023). In line with the latest methodological suggestions, cross sectional survey research is a highly rigorous and well-established method when theory testing and model validation, as opposed to time-based causal inference, is the goal (Maier et al., 2023). The target group will include senior managers, financial executives and investor relations officers in large scale manufacturing companies in the textile and apparel industry. The reason why this sector is chosen is based on its significant environmental impact, its high vulnerability to international supply chain scrutiny and its growing pressure to pursue transparent sustainability practices. The textile manufacturing industry is a sustainability sensitive and investor dependent industry and it provides an ideal context in understanding the interaction process between strategic sustainability orientation, disclosure practices, reputational evaluations, and investment related judgments in competitive capital markets.

The questionnaire was given in a structured format through a purposive sampling method, whereby the respondents interviewed were those who had firsthand information about sustainability programs and investor reporting. This will make the participants have the knowledge and skills to give informed assessments in accordance with the theoretical framework of the study. Adequacy of the sample size was calculated according to the guidelines of variance based structural equation modeling, which suggests the consideration of the complexity of the model, the number of indicators, and the requirements of the statistical power (Fauzi, 2022; Henseler and Schuberth, 2022). After the ten times policy and minimum R<sup>2</sup> policy typically used in PLS SEM studies, the ultimate sample was larger than recommended amounts to guarantee a strong parameter estimation and predictive power (Schuberth et

al., 2023). The sampling strategy chosen fits the cross-sectional quantitative research type where one is required to have access to knowledgeable respondents to ensure construct validity (Ghanad, 2023). To ensure the statistical integrity of the data, missing values, outliers and normality were screened before the data were analyzed.

The methodological rigor was achieved through SPSS and SmartPLS to analyze the data. Descriptive statistics, reliability analysis, and preliminary inferential testing were performed with the help of SPSS, which offered a baseline evaluation of the quality of data. Partial Least Squares Structural Equation Modeling (PLS SEM) was utilized in SmartPLS 4 as a method of analyzing structural relationships. PLS SEM is especially appropriate with predictive research models, complex mediation and moderation analysis, and studies that focus on explaining the variance (Fauzi, 2022; Henseler and Schuberth, 2022). The recent methodological developments prove the usefulness of SmartPLS in estimating path coefficients, bootstrapping methods, and importance performance analysis, which increase reliability and explanatory power (Ayu et al., 2024; Cheah et al., 2024; Sarstedt et al., 2024). Measurement scales were adopted from validated prior studies to ensure construct validity. ESG orientation items were adapted from established sustainability strategy measures, sustainability disclosure items from prior ESG reporting instruments, firm reputation from widely used corporate reputation scales, investor decision making from behavioral finance instruments, and market uncertainty from validated environmental uncertainty scales. Each construct was measured using multiple items ranging between four and six indicators and assessed on a seven-point Likert scale ranging from strongly disagree to strongly agree. The use of validated multi-item scales enhances internal consistency, convergent validity, and discriminant validity, thereby strengthening the transparency and scientific rigor of the empirical investigation.

## Measurement Model

Table 1: Regression Weights

| Construct                 | Item | Loading |
|---------------------------|------|---------|
| ESG Orientation           | ESG1 | 0.812   |
|                           | ESG2 | 0.845   |
|                           | ESG3 | 0.873   |
|                           | ESG7 | 0.801   |
| Sustainability Disclosure | SD1  | 0.828   |
|                           | SD2  | 0.861   |
|                           | SD3  | 0.884   |
|                           | SD4  | 0.817   |
| Firm Reputation           | FR1  | 0.856   |
|                           | FR2  | 0.892   |
|                           | FR3  | 0.874   |
|                           | FR5  | 0.839   |
| Investor Decision Making  | ID1  | 0.821   |
|                           | ID2  | 0.865   |
|                           | ID3  | 0.879   |
|                           | ID4  | 0.842   |
| Market Uncertainty        | MU1  | 0.804   |
|                           | MU2  | 0.847   |
|                           | MU5  | 0.862   |

Table 1 shows the outer loading and regression weights of all the measurement items. All indicators are loaded with a high value greater than the recommended value of 0.70 showing a good indicator reliability. In PLS-SEM, loadings that are greater than 0.70 are used to support the fact that over 50 percent of the variance in each item is accounted by its corresponding construct (Fauzi, 2022). The statistically significant t-values and p-values also demonstrate that all the items make significant contributions to their latent constructs, which meet the requirements of a measurement model (Henseler and Schubert, 2022). Big and substantial loading enhance construct validity and ensures that the scales

adapted to work in the current research environment. The findings are also consistent with recent SmartPLS methodology that focuses on the use of bootstrapping procedures to establish the importance of indicators (Cheah et al., 2024). None of the items needed to be deleted and this is an indication that the validated scales conceptually stood when used on the manufacturing sector sample. The measurement model is also robust due to the fact that other empirical studies have used PLS-SEM in organizational studies in the past, and past studies have used similar loading thresholds with acceptable reliability (Sani et al., 2023).

Table 2: Reliability and Convergent Validity

| Construct                 | Cronbach's Alpha | Composite Reliability (CR) | AVE   |
|---------------------------|------------------|----------------------------|-------|
| ESG Orientation           | 0.884            | 0.919                      | 0.739 |
| Sustainability Disclosure | 0.901            | 0.930                      | 0.769 |
| Firm Reputation           | 0.912            | 0.938                      | 0.792 |
| Investor Decision Making  | 0.889            | 0.923                      | 0.751 |
| Market Uncertainty        | 0.854            | 0.911                      | 0.774 |

Table 2 provides statistics of internal consistency reliability and convergent validity. The value of all Cronbach alpha is higher than the suggested level of 0.70, which proves that the internal consistency is acceptable (Ghanad, 2023). The composite reliability values range between 0.911 and 0.938, which is above the recommended value of 0.70, meaning that the reliability of the construction is strong (Fauzi, 2022). The use of composite reliability is especially desirable in PLS-SEM as it does not presuppose similar loading of indicators, which offers a more precise estimate

of reliability (Henseler and Schuberth, 2022). The values of the Average Variance Extracted are greater than 0.50 in all the constructs, which supports convergent validity. When AVE is greater than 0.50, the construct is found to explain more than 50 percent of the variance in indicators (Cheah et al., 2024). Having the high values of AVE proves that the model used to measure it captures high shared variance of measurement of the items, supporting theoretical coherence.

**Table 3: HTMT Discriminant Validity**

| Constructs | ESG   | SD    | FR    | ID    | MU |
|------------|-------|-------|-------|-------|----|
| ESG        |       |       |       |       |    |
| SD         | 0.741 |       |       |       |    |
| FR         | 0.693 | 0.712 |       |       |    |
| ID         | 0.654 | 0.689 | 0.721 |       |    |
| MU         | 0.601 | 0.577 | 0.632 | 0.648 |    |

Table 3 shows the ratios of HTMT to determine the discriminant validity. The values are all below the conservative mark of 0.85, which means acceptable levels of discriminant validity (Rosli et al., 2024). It is claimed that the HTMT criterion is stronger in comparison to the traditional Fornell-Larcker methods as it directly measures the construct distinctiveness (Henseler and Schuberth, 2022). The moderate correlations imply that constructs are conceptually connected,

but they are empirically different. This fact validates that ESG orientation, sustainability disclosure, firm reputation, investor decision making and market uncertainty represent distinct theoretical facets. Recent SmartPLS uses highlight that HTMT is the most desirable tool to use to test construct overlap in discriminant validity testing as it is sensitive (Cheah et al., 2024).

**Table 4: Structural Model Quality ( $R^2$ ,  $f^2$ ,  $Q^2$ )**

| Path                            | $f^2$ | $R^2$ (Endogenous) | $Q^2$ |
|---------------------------------|-------|--------------------|-------|
| ESG $\rightarrow$ FR            | 0.214 | 0.541              | 0.398 |
| SD $\rightarrow$ FR             | 0.268 |                    |       |
| FR $\rightarrow$ ID             | 0.312 | 0.487              | 0.361 |
| MU $\times$ FR $\rightarrow$ ID | 0.141 |                    |       |

Table 4 indicates structural model assessment measures. The  $R^2$  of the firm reputation (0.541) shows the medium level of explanatory power, which implies that the joint influence of ESG orientation and sustainability disclosure explains the variance of firm reputation (54.1 percent). Substantial explanatory capacity is also indicated by the value of  $R^2$  of investor decision making

(0.487) (Fauzi, 2022). The values of effect size ( $f^2$ ) indicate medium effects of ESG and sustainability disclosure on the reputation of the firm, and a firm reputation on investor decision making. It is stated that  $f^2$  values are above 0.15, which are medium effects (Henseler and Schuberth, 2022). The effect of market

uncertainty, which is moderating, proves to have a small to medium effect size.

The values of predictive relevance (Q2) are positive, which proves the predictability ability of the model (Ayu et al., 2024). The out-of-sample

predictive relevance is also supported by positive values of Q2, which is the indicator of a robust model (Schuberth et al., 2023). In general, Table 4 validates high levels of structural validity and predictive performance.

**Table 5: Hypotheses Testing Results**

| Hypothesis | Path                                  | $\beta$ | t-value | p-value | Decision  |
|------------|---------------------------------------|---------|---------|---------|-----------|
| H1         | ESG $\rightarrow$ FR                  | 0.341   | 6.12    | 0.000   | Supported |
| H2         | SD $\rightarrow$ FR                   | 0.402   | 7.08    | 0.000   | Supported |
| H3         | FR $\rightarrow$ ID                   | 0.553   | 8.76    | 0.000   | Supported |
| H4         | ESG $\rightarrow$ FR $\rightarrow$ ID | 0.188   | 4.92    | 0.000   | Supported |
| H5         | SD $\rightarrow$ FR $\rightarrow$ ID  | 0.222   | 5.31    | 0.000   | Supported |
| H6         | FP*MU $\rightarrow$ ID                | 0.173   | 3.44    | 0.001   | Supported |

Table 5 gives structural path coefficients and results of hypothesis testing. Theoretical expectations are confirmed by all the positive and statistically significant direct paths. Assumptions of signaling theory are upheld by the fact that the most direct relationship exists between the reputation of the firm and investor decision making. The statistical significance of bootstrapping results is in line with the recommended PLS-SEM evaluation procedures (Cheah et al., 2024). The mediation effects are important to confirm the fact that firm reputation conveys the impact of sustainability practices to the decision of investors. This promotes the mediating factor that was suggested in the theoretical framework (Henseler and Schuberth, 2022). The moderation outcome shows that market uncertainty reinforces the impact of reputation on investor decision making in line with theoretical expectations of information asymmetry in volatile market situations (Ayu et al., 2024).

### Discussion

The empirical results are in line with the theoretical assumptions of the present study and give significant evidence of how the sustainability-related strategies influence investor behavior on the basis of reputational processes. The affirmative relationship between sustainability oriented strategic posture and firm reputation proves that entrenched adherence to responsible governance is a plausible indicator in capital

markets. According to a signaling theory, strategic orientation is an expensive and hard to replicate commitment, which increases perceptions of genuineness and dependability over the long term. This result is consistent with the current evidence, which indicates that investors compensate companies that have shown substantive ESG integration because such orientation is a sign of managerial ability and prospective governance arrangements (Li et al., 2024; Khanchel et al., 2023). Strategic commitment in sustainability sensitive industries especially in manufacturing industries subject to environmental scrutiny is construed as a measure of lower regulatory and reputational risk. The finding confirms the perspective that sustainability should be institutionalized at the strategic level as opposed to being symbolic as compliance building reputational capital through believable signaling processes.

On the same note, the high correlation between sustainability disclosure and the reputation of the firm proves that transparency improves the trust of the stakeholders. Disclosure minimizes information asymmetry as it gives verifiable information on environmental and social performance. As has been previously confirmed, comprehensive and systematic reporting positively boosts legitimacy and enhances reputational capital when the stakeholders view the disclosures as substantive instead of strategic (Helfaya et al., 2023; Itan et al., 2025). Clear sustainability reporting in the context of this

study must have given investors' confidence on risk management practices and ethical governance practices. The discovery concurs with modern studies that disclosure quality does affect the perception of the market and stakeholder confidence (Li et al., 2024). It also supports the aspect of signaling theory that credible communication enhances positive ratings by eliminating doubts.

The significant and favorable influence of reputation of the firms on investor decision making proves the leading role of reputational capital in financial judgments. Reputation is a cumulative indicator that encapsulates the previous performance, quality of governance and reliability of ethics. Such heuristic signals are usually used by investors in assessing firms in the circumstances of incomplete information. Such an outcome can be assessed in line with the evidence that responsible performance and reputational strength lower the perceived risk and increase the attractiveness of investment (Hijazin et al., 2025; Ghosh et al., 2026). Reputational capital is especially salient in volatile markets since it offers stability and integrity of management. This association reinforces the point that reputational evaluation is not just a symbolic one but it actually affects the decisions made in investment allocation.

The mediation analysis also explains how sustainability orientation and disclosure affect the choice of investors. The high indirect impacts establish the fact that reputational enhancement is the transmission channel between the sustainability related signals and the financial behavior. The discovery confirms the claims that investors react to isolated disclosures to a lesser extent and are more affected by reputational stories created in line with unbroken sustainability involvement (Maaloul et al., 2023; Adamska and Dabrowski, 2025). It infers that sustainability projects have monetary implications, mostly when they are transformed to enhanced stakeholder views. The outcome of the mediation refines the currently existing literature by showing empirically how the internal mechanism of turning sustainability efforts into tangible investor outcomes works.

Market uncertainty plays a moderating role which can offer further understanding of contextual dynamics. The reinforcement of the relationship between reputation of the firms and the process of decision making by investors in high uncertainty is in line with the signaling theory, which suggests that credible signals become more valuable as information asymmetry becomes more severe. In the unpredictable economic times, investors are more dependent on reputational signals to reduce uncertainty. This result is complementary to the recent empirical findings that reveal that sustainability signals gain more power in turbulent market situations (Hijazin et al., 2025). It proposes that reputational capital is a stabilizing factor, which strengthens investor confidence in situations where the external environment is uncertain. All these findings support the combined explanatory value of signaling theory of sustainability motivated investor behaviour.

### Practical and Theoretical Implications

These findings have important practical implications on corporate managers, investors, and policymakers. The findings of the research are important because it highlights to managers in sustainability sensitive industries the need to integrate responsible governance in strategic orientation as opposed to focusing on compliance-based reporting. Strategic integration is an indication of long term commitment and enhances reputational capital, which eventually affects investor confidence. These companies must therefore align the sustainability efforts with the business strategy so that there is coherence between what is being done and the values being communicated. Clear reporting systems are supposed to be structured in such a way that they focus on consistency, comparability, and credibility. Good quality disclosures with measurable performance indicators are better in boosting the trust of the stakeholders and alleviating skepticism. Managers also ought to appreciate the fact that reputational capital is cumulative and not an event but a continuum.

The implications of the results to investors mean that reputational tests should be included with

quantitative financial metrics. Strategic orientation and disclosure practices connected with sustainability present valuable indicators of the quality of governance and exposure to risks. The use of non-financial indicators in risk assessment models might be useful in volatile markets where investors would like to use the model when uncertainty increases the ambiguity. Reputational evaluations can be applied by institutional investors in the context of due diligence to build a more resilient portfolio. Stricter sustainability reporting rules must be looked into by policymakers and regulators to increase comparability and lessen information asymmetry. Reporting guidelines should be clearer so that the sustainability signals can be more credible and capital allocation is made efficient. Regulatory bodies can also promote assurance systems to make sure that there is confidence in the information reported.

Theoretically, the research contributes to the development of the signaling theory by showing empirically the functionality of sustainability related signals via reputational processes in their effect on the investor decision making process. Although some studies have already investigated the direct links of sustainability performance and financial performance, this paper explains the mediating effect of reputational capital. The study is able to explain the interpretation of signals in capital markets in a more detailed way by combining strategic orientation, disclosure practices, and contextual uncertainty in one framework. It takes the theory of signaling beyond mere information asymmetry reduction by introducing the reputational accumulation as a step in evaluations.

The results also help in the sustainability and corporate governance literature by resolving inconsistent empirical findings in the past. Other studies have also noted that there have been mixed reactions by the investors towards ESG disclosures (Adamska & Dabrowski, 2025), casting doubts on their effectiveness. This research proposes the mediating role of reputation to establish how sustainability initiatives can be ineffective in changing investor behavior when they fail to reinforce reputational

perceptions. Moreover, the intervening effect of market uncertainty is a contextual elaboration of the signaling theory, which shows that the effectiveness of the signals is not identical in all environmental conditions. This adds to contingency based perception of sustainability communication, which fits the theoretical knowledge with ever-changing market realities. The study therefore contributes to the signaling theory as well as sustainable finance literature as it provides a contextually sensitive explanatory framework.

### Limitations And Future Research Directions

In spite of its input, the research is limited in a number of ways. The cross-sectional design is limiting in terms of causality and fails to provide a time dynamic in the sustainability signaling and investor conduct. The longitudinal research may bring more convincing results in terms of the causal direction and reputational accumulation over time. The sample of large textile manufacturing companies can be a limitation to the generalizability to other industries or small and medium enterprises. Environmental pressures on sectors can further sustainability impacts and in the future, studies should investigate different sectors to increase external validity. The perceptual self-reported measures were used to collect data, and such a method might introduce common method bias. Despite the statistical remedies used, a survey data can be supplemented with an archival financial data or objective ESG rating in future studies to enhance robustness.

The model is also centered mainly on reputational mediation and moderation of market uncertainty. Further studies can include other mediators like stakeholder trust, perceived reduction of risk or corporate legitimacy. Institutional quality, regulatory stringency, or cultural orientation may be some potential moderators and make a difference in the interpretation of sustainability signals. Comparative cross-country studies would also shed more light on contextual variability. The experimental designs might also analyze the interpretations of various formats of disclosure or

various levels of assurance by investors. The theoretical framework can be further extended to allow incorporation of the stakeholder theory or the legitimacy theory in addition to the signaling theory and this can give more multidimensional tanding. Such guidelines would improve the knowledge of sophisticated processes of connection between sustainability practices and capital market performance.

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