Does Government Trust Matter? Green Signaling and Responsible Investing Intention in the Context of Danantara

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Abstract

This study examines Perceived Green Signaling and Trust in Government as mechanisms linking Environmental Concern and ESG Knowledge to Responsible Invest Intention, in the context of Danantara, Indonesia's sovereign wealth fund. Using PLS-SEM on 166 retail investors, results show Environmental Concern and ESG Knowledge positively affect Perceived Green Signaling, which strongly predicts Trust in Government but not Responsible Invest Intention directly. Trust in Government fully mediates this effect, extending signaling theory and informing government trust-building communication strategy.

Keywords: Green Signaling, ESG, Sovereign Wealth Fund

INTRODUCTION

Environmental, Social, and Governance (ESG) has become a crucial aspect that must be considered in both micro- and macro-level strategic policymaking. The implementation of ESG also influences the investment climate and capital markets by shaping investor confidence and attractiveness, enhancing market competitiveness, and supporting the sustainability of business and economic ecosystems. Indonesia has positioned ESG as a key strategy for strengthening its global competitiveness, as reflected in several regulations, including the 2025–2045 National Long-Term Development Plan (RPJPN) and newly introduced government policies. One of these policies is the launch of the Danantara Sovereign Wealth Fund (SWF). Danantara is intended to manage strategic investments that support national economic growth while incorporating ESG principles and sustainability considerations (source).

According to Risnawati and Kufepaksi (2025), abnormal stock returns occurred before, during, and after the launch of Danantara. The event also received extensive attention from both news media and social media. One week before the President officially launched Danantara, there were already 2,392 news articles and 10,732 social media mentions discussing the initiative (Nugraha, 2025). These stock market movements indicate that Danantara served as a strong signal that shaped public perceptions and feedback among receivers. One of the signals conveyed by Danantara is green signaling, reflected in its commitment to supporting sustainable projects and investments.

The signaling process begins when the signaler sends a signal to the receiver. The receiver then interprets the signal, forms a perception, and subsequently provides feedback to the signaler. In this study, the feedback captured from the green signal is its influence on retail investors' responsible investing intention. This feedback has implications for various stakeholders (source). Responsible investing refers to an investment strategy that considers ESG and sustainability factors, emphasizing not only

financial returns but also the well-being of people and the planet (source).

Previous studies have shown that signal interpretation is often asymmetric and may generate either positive or negative responses (Balboa, 2007; Jain et al., 2008; Michael, 2009). Such differences are influenced by the signaling environment, one important dimension of which is organizational behavior and type, identified by (Connelly et al., 2011) as a promising direction for future research. Building upon this perspective, this study argues that public perceptions and feedback toward Danantara may be influenced by trust in institutions, particularly trust in the government.

Signaling theory was first introduced by Spence (1973), who demonstrated that signaling costs could be used to distinguish prospective employees in the labor market. Extending this theoretical perspective, green signaling should likewise be effectively conveyed to potential retail investors, particularly those who are concerned with environmental issues and ESG practices. Existing studies linking investment and sovereign wealth funds were predominantly conducted before 2016. Furthermore, no previous research has examined how the green signaling generated by a sovereign wealth fund is influenced by trust in the government and how this relationship affects responsible investing intentions among the public or retail investors. Therefore, this study addresses both a theoretical gap in the signaling literature and an empirical gap based on a recent real-world case.

RESEARCH METHODOLOGY

This study employs a quantitative approach with an explanatory research design aimed at examining the causal relationships among variables through hypothesis testing. The proposed research model is analyzed using variance-based Structural Equation Modeling, namely Partial Least Squares Structural Equation Modeling (PLS-SEM), which was selected for its ability to simultaneously test structural models involving mediation and moderation constructs, particularly with relatively small sample sizes.

The target population of this study consists of individuals in Indonesia who have invested in the capital market, including stocks, mutual funds, bonds, and other investment instruments. The sample was obtained using a non-probability sampling technique, specifically convenience (accidental) sampling. An online questionnaire was distributed through Google Forms to respondents who were readily accessible to the researchers, without employing a probabilistic sampling frame. A screening question was included to ensure that respondents had previous experience investing in the capital market. A total of 166 valid and complete responses were collected and used for analysis (N = 166). This sample size satisfies the minimum requirement for PLS-SEM based on the "10-times rule," which recommends a sample size at least ten times the largest number of structural paths directed toward a single endogenous construct.

This study includes five latent variables: Environmental Concern (EC), ESG Knowledge (ESGK), Perceived Green Signaling (PGS), Trust in Government (TIG), and Responsible Investment Intention (RII). All constructs were measured reflectively using a five-point Likert scale (1 = strongly disagree, 5 = strongly agree).

Environmental Concern was measured using four items (ENV1–ENV4), reflecting respondents' concern for environmental issues and their support for government policies promoting environmental sustainability. ESG Knowledge was measured using four items (KNO1–KNO4), capturing respondents' understanding of ESG concepts and their application within the Indonesian capital market. Perceived Green Signaling was measured using three valid items (GRS1, GRS3, and GRS4), reflecting respondents'

perceptions that the establishment of Danantara represents a signal of the government's commitment to sustainability. One indicator (GRS2) was removed from the model because its outer loading was below the recommended threshold. Trust in Government was measured using five items (TRU1–TRU5), representing respondents' trust in the government's consistency and commitment to supporting ESG initiatives. Responsible Investment Intention was measured using four items (INV1–INV4), reflecting respondents' intentions to engage in ESG-oriented or sustainable investment.

Primary data were collected using a structured online questionnaire administered through Google Forms. Before answering the measurement items, respondents were provided with a brief narrative describing Danantara as a research stimulus. They were then asked to confirm that they had read and understood the narrative before proceeding with the questionnaire, ensuring that respondents' perceptions were formed based on a consistent set of information.

The data were analyzed using the Partial Least Squares Structural Equation Modeling (PLS-SEM) approach with SmartPLS 4 software (Ringle, C. M., Wende, S., & Becker, J. M., 2024). The analysis was conducted in two stages.

First, the measurement model (outer model) was evaluated to assess the validity and reliability of the measurement instruments. This evaluation included tests of convergent validity (outer loadings and Average Variance Extracted [AVE]), internal consistency reliability (Cronbach's Alpha and Composite Reliability), and discriminant validity using the Heterotrait–Monotrait Ratio (HTMT) and the Fornell–Larcker criterion.

Second, the structural model (inner model) was evaluated to examine the causal relationships among the constructs. This stage included the assessment of the coefficient of determination (R^2), effect size (f^2), collinearity (Variance Inflation Factor [VIF]), and the significance of structural paths through a bootstrapping procedure with 5,000 subsamples at a 5% significance level (two-tailed). The moderating effect of Trust in Government was tested using the interaction-term (product indicator) approach, while the mediating effects of Perceived Green Signaling and Trust in Government were examined using the specific indirect effect procedure through bootstrapping.

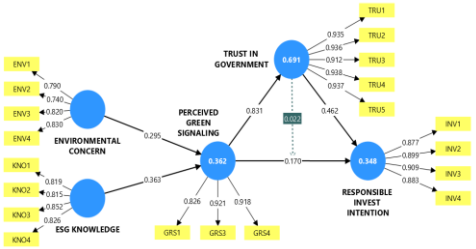
RESULTS AND DISCUSSION

This study involved 166 respondents, all of whom (100%) had prior investment experience in the Indonesian capital market. In terms of educational attainment, the majority of respondents held a Diploma or Bachelor's degree (78 respondents, 47%), followed by senior high school/vocational high school or equivalent qualifications (60 respondents, 36%), and a Master's degree (28 respondents, 17%).

Regarding employment status, most respondents were private-sector employees (92 respondents, 55%), followed by freelance or daily workers (36 respondents, 22%), civil servants/public employees (PNS/ASN/PPPK) (13 respondents, 8%), students (12 respondents, 7%), unemployed individuals (10 respondents, 6%), and employees of state-owned enterprises (BUMN) (3 respondents, 2%).

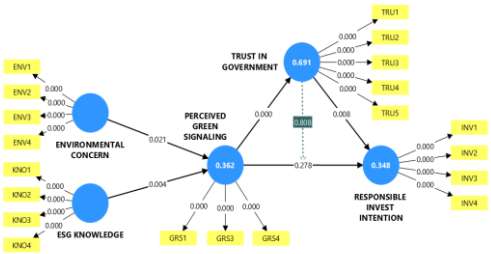
These characteristics indicate that the sample was predominantly composed of individuals of productive working age with relatively adequate educational backgrounds

and investment experience, making them well aligned with the target population of this study.



Picture 1. Outer Loading

The measurement model was evaluated to assess the validity and reliability of all reflective indicators included in the research model. As shown in the figure, all indicator outer loadings exceeded the recommended threshold of 0.70. One indicator (GRS2) was removed from the model during the initial stage of the analysis because its outer loading fell below the recommended threshold.



Picture 2. Probability Value

The results indicate that all constructs achieved an Average Variance Extracted (AVE) above the recommended threshold of 0.50 (ranging from 0.633 to 0.868), Composite Reliability (ρc) values above 0.70 (ranging from 0.873 to 0.970), and Cronbach's Alpha values above 0.70 (ranging from 0.808 to 0.962). These findings demonstrate that all constructs in the research model exhibit satisfactory convergent validity and internal consistency reliability.

Furthermore, discriminant validity was assessed using the Heterotrait–Monotrait Ratio (HTMT)**.** The results show that all HTMT values between constructs were below the recommended threshold of 0.90, with the highest value observed between Perceived Green Signaling and Trust in Government (HTMT = 0.898). These findings were further confirmed by the Fornell–Larcker criterion**,** in which the square root of the AVE for each construct exceeded its correlations with all other constructs. Therefore, although Perceived Green Signaling and Trust in Government are conceptually highly correlated, they remain empirically distinct constructs within the proposed research model.

The hypothesis testing results indicate that Environmental Concern has a positive and significant effect on Perceived Green Signaling (β = 0.295, *p* = .021), thereby supporting H1a. Likewise, ESG Knowledge has a positive and significant effect on Perceived Green Signaling (β = 0.363, *p* = .004), supporting H1b.

Perceived Green Signaling has a positive and highly significant effect on Trust in Government (β = 0.831, *p* < .001), thereby supporting H2a. However, the direct effect of Perceived Green Signaling on Responsible Investment Intention is not statistically significant (β = 0.170, *p* = .278), indicating that H2b is not supported.

Trust in Government has a positive and significant effect on Responsible Investment Intention (β = 0.462, *p* = .008), supporting H3. In contrast, the moderating effect of Trust in Government on the relationship between Perceived Green Signaling and Responsible Investment Intention is not statistically significant (β = 0.022, *p* = .808), indicating that H4 is not supported.

The mediation analysis shows that Perceived Green Signaling does not significantly mediate the relationship between Environmental Concern and Responsible Investment Intention (*p* = .343), and therefore H5 is not supported. Similarly, Perceived Green Signaling does not mediate the relationship between ESG Knowledge and Responsible Investment Intention (*p* = .372), indicating that H6 is not supported. Conversely, Trust in Government significantly mediates the relationship between Perceived Green Signaling and Responsible Investment Intention (β = 0.384, *p* = .010), thereby supporting H7. These findings confirm that the effect of Perceived Green Signaling on Responsible Investment Intention is fully mediated by Trust in Government, as the direct effect (H2b) is not statistically significant, whereas the indirect effect through Trust in Government (H7) is significant.

The finding that both Environmental Concern and ESG Knowledge positively influence Perceived Green Signaling reinforces the central argument of signaling theory, which posits that the effectiveness of a signal depends not only on the signal itself but also on the characteristics of the receiver (Connelly et al., 2011). Retail investors with greater environmental concern and a stronger understanding of ESG are more likely to perceive the establishment of Danantara as a signal of the government's commitment to sustainability than investors with lower levels of environmental concern or ESG knowledge. This finding is consistent with the original proposition of Spence (1973), who argued that the effectiveness of a signal also depends on the receiver's ability to interpret and decode the information being conveyed.

Trust in Government as the Primary Pathway Linking Green Signaling to Investment Intention

The most important finding of this study is the full mediating role of Trust in Government in the relationship between Perceived Green Signaling and Responsible Investment Intention. Although Perceived Green Signaling does not have a significant direct effect on responsible investment intention, it exerts a significant indirect effect through Trust in Government. This suggests that merely perceiving Danantara as a green signal is insufficient to encourage investors to engage in responsible investing. Instead, the signal influences behavioral intention only when investors trust the government's consistency and commitment to implementing its sustainability agenda. These findings support the arguments of Cho and Boster (2005) and Delmas & Burbano (2011), who emphasize that the credibility of the signaling institution determines the extent to which a signal is translated into action by its recipients.

The non-significant moderating effect of Trust in Government on the relationship between Perceived Green Signaling and Responsible Investment Intention (H4) provides additional insight into these findings. Specifically, Trust in Government is more appropriately conceptualized as a mediating mechanism rather than a moderating factor. In other words, trust in the government does not simply strengthen the influence of an existing green signal; instead, it serves as a necessary pathway through which the signal can ultimately influence responsible investment intention.

CONCLUSION

This study aimed to examine the roles of Perceived Green Signaling and Trust in Government in explaining the effects of Environmental Concern and ESG Knowledge on Responsible Investment Intention in the context of the launch of Danantara as Indonesia's sovereign wealth fund. Based on the PLS-SEM analysis of 166 respondents, the findings indicate that: (1) Environmental Concern and ESG Knowledge have positive effects on Perceived Green Signaling; (2) Perceived Green Signaling has a positive and very strong effect on Trust in Government but does not have a significant direct effect on Responsible Investment Intention; (3) Trust in Government has a positive effect on Responsible Investment Intention and fully mediates the relationship between Perceived Green Signaling and Responsible Investment Intention; and (4) Trust in Government does not moderate the relationship between Perceived Green Signaling and Responsible Investment Intention.

These findings highlight that the presence of a green signal from government policy, regardless of how strongly it is perceived by potential investors, requires trust in the signaling institution to effectively translate into responsible investment intentions. For Danantara and other sovereign wealth funds pursuing sustainability agendas,

strengthening Trust in Government should be regarded as a strategic prerequisite rather than merely a complementary component of green signaling communication strategies.

Future research is encouraged to employ probability sampling techniques to improve the representativeness of the findings, expand the sample to include a broader range of investor segments (including both institutional investors and experienced retail investors), and adopt longitudinal research designs to capture changes in Trust in Government and Responsible Investment Intention as the implementation of Danantara evolves over time.

RECOMMENDATION

Future research is encouraged to employ probability sampling techniques to improve the representativeness of the findings, expand the sample to include a broader range of investor segments (including both institutional investors and experienced retail investors), and adopt longitudinal research designs to capture changes in Trust in Government and Responsible Investment Intention as the implementation of Danantara evolves over time.

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