ISSN: 2338-8412 e-ISSN : 2716-4411

Ekombis Review – Jurnal Ilmiah Ekonomi dan Bisnis
Available online at : https://jurnal.unived.ac.id/index.php/er/index
DOI: https://doi.org/10.37676/ekombis.v14i3

Environmental, Social, and Governance (ESG) and Corporate Tax Avoidance: Evidence from Non-Financial Firms in Indonesia, Malaysia, and Singapore

Nabela Khoiriyah [1]; Habiburrochman [2]
[1,2] Faculty of Economics and Business, Universitas Airlangga, Indonesia
Email: [1] nabela.khoiriyah-2024@feb.unair.ac.id ;[2] habib@febunair.ac.id

How to Cite :
Khoiriyah, N., Habiburrochman. (2026). Environmental, Social, and Governance (ESG) and Corporate Tax Avoidance: Evidence from Non-Financial Firms in Indonesia, Malaysia, and Singapore. EKOMBIS REVIEW: Jurnal Ilmiah Ekonomi Dan Bisnis, 14(3). DOI: https://doi.org/10.37676/ekombis.v14i3

ARTICLE HISTORY
Received [26 December 2025]
Revised [05 July 2026]
Accepted [13 July 2026]

KEYWORDS
Tax Avoidance, ESG, Environment, Social, Governance.

ABSTRACT

This study aims to examine how Environmental, Social, and Governance (ESG) factors influence tax avoidance in non-financial companies across Indonesia, Malaysia, and Singapore from 2019 to 2023. ESG data and tax avoidance metrics, based on the Current Effective Tax Rate (CETR), were collected from Bloomberg. Regression analysis indicates that ESG has a significant negative impact on tax avoidance. Further tests revealed that only the governance component had a significant negative effect, while the environmental and social components were not significant. These results support the Legitimacy Theory, which suggests that sustainability commitments, especially governance, promote more ethical tax behavior.

INTRODUCTION

Global awareness of sustainability issues has grown significantly over the past two decades, prompting companies worldwide to incorporate Environmental, Social, and Governance (ESG) principles into their business strategies and reporting. ESG now serves as the main benchmark for evaluating a company's commitment to long-term sustainability and responsible governance. According to the Global Sustainable Investment Alliance (GSIA) report, total ESG-related investments reached USD 35.3 trillion in 2020, representing a 15% increase from 2018 and a 55% rise since 2016, indicating the growing adoption of sustainability principles globally (Okuyama et al., 2025). This trend signifies a shift from voluntary CSR practices to more measurable and formalized ESG disclosures. Bloomberg's ESG Disclosure Score is now a widely adopted measure to gauge companies' transparency and sustainability commitments. Greater ESG disclosure also responds to institutional pressures and the expectations of global investors, who demand accountability and responsible tax governance. Mitroulia et al. (2025) assert that increasing ESG awareness impacts how companies view their fiscal legitimacy and responsibility, making ESG a crucial factor in maintaining the reputation and sustainability of businesses in international markets.

The increasing adoption of ESG at the global level, shows that progress in the Asian region, especially Southeast Asia, still shows great variation between countries. Research by Ng et al. (2020) reveals that the proportion of ESG-based assets in Asia accounts for only around 4.2% of total global assets, far below Europe (52.6%) and Canada (37.8%). This shows that countries in the Asian region, including ASEAN, still face challenges in integrating sustainability principles into financial systems and corporate governance. These limitations are generally due to differences in the level of development of the financial sector and institutional effectiveness which are driving factors for transparency and sustainable financing (Ng et al., 2020).

At the subregional level, Ganda (2021) notes that ESG implementation in ASEAN emerging markets such as Indonesia, Malaysia, Thailand, the Philippines, and Singapore remains heterogeneous and is influenced by differences in national regulations and corporate governance capacity. Countries with more advanced financial infrastructure and sustainability policies such as Singapore show higher ESG disclosure scores than other ASEAN countries. On the other hand, the capital market, which is still in the growth stage, faces limitations in transparency and access to information. This condition shows that ASEAN has not yet achieved the harmonization of ESG standards and is still in the transition stage towards sustainability-oriented corporate governance. The region's varying commitment to ESG disclosure is an important basis for understanding how institutional and governance factors influence corporate behavior, including in the context of tax avoidance.

ASEAN still faces the challenge of harmonizing sustainability standards, but classic issues in fiscal governance such as tax avoidance are also significant challenges. Taxes are the main source of state revenue, but companies take advantage of legal loopholes to legally reduce the tax burden. Research by Maheresmi et al. (2023) shows that the average corporate tax rate in ASEAN fell from 25.1% in 2010 to 21.7% in 2020, illustrating fiscal competition that has the potential to weaken the tax base. The research also shows that tax avoidance rates in the ASEAN financial sector are still high, particularly in developing countries such as Indonesia, the Philippines, and Vietnam, where sustainable reporting practices do not yet reflect adequate fiscal transparency.

Mukhtaruddin et al.'s (2025) study of 87 non-financial companies in five ASEAN countries (Indonesia, Malaysia, Thailand, Singapore, and the Philippines) during 2019–2023 found that ESG commitments reflected through ESG disclosures have a significant impact on tax avoidance, with stronger effects in countries with strict regulations such as Singapore and Thailand. Companies in ASEAN often use ESG disclosure activities as a tool for social legitimacy as well as a tax management strategy to maintain net profits. The cases of PT Adaro Energy in Indonesia and Philip Morris in Thailand demonstrate that large companies are still involved in transfer pricing across jurisdictions to lower their tax burdens (Mukhtaruddin et al., 2025). This indicates that tax avoidance in ASEAN results not only from regulatory weaknesses but also from a lack of integration between sustainability (ESG) policies and corporate tax governance.

The understanding of corporate behavior in this study rests on the main conceptual foundation, namely the theory of legitimacy. The theory of legitimacy by Dowling & Preffer (1975) emphasizes that companies seek social legitimacy through activities aligned with societal values. Okuyama et al. (2025) found that companies with high levels of ESG disclosure tend to adjust their tax behavior to maintain public trust and avoid reputational risks. Mitroulia et al. (2025) added that the increasing awareness of sustainability expands corporate responsibility from mere legal compliance to a moral obligation to act ethically and transparently, including in tax management. Legitimacy theory emphasizes the external need of companies to maintain public trust through sustainability behavior.

Research on the relationship between ESG and tax avoidance has been extensive, but results vary by country and industry sector. Yoon et al. (2021) found that the social dimension of

ESG reduced the tendency to engage in tax avoidance in Korea, whereas the environmental and governance dimensions were not significant. In contrast, Lee (2024) found a positive relationship between ESG disclosure and tax avoidance in manufacturing companies in China with strong governance. Jiang et al. (2024) stated that ESG Disclosure suppresses tax avoidance by increasing transparency, but the effect is stronger for companies with high agency costs. On the other hand, Elgharbawy and Aladwey (2025) in the UK found that the governance dimension actually increases tax avoidance, suggesting a difference in ethical orientation across developed countries. Thus, this study not only expands the empirical context of ESG and tax avoidance in the ASEAN region, but also strengthens the measurement approach by using Bloomberg's ESG Disclosure Score which emphasizes aspects of transparency and sustainability commitment.

The inconsistency of these findings suggests that the relationship between ESG Disclosure Score and tax avoidance is highly dependent on a country's institutional context, governance, and level of economic development. Most previous research has focused on developed countries or large East Asian economies, while empirical evidence in the ASEAN region is still limited. In addition, many studies use traditional general index-based ESG measurements rather than Bloomberg's ESG Disclosure Score, which emphasizes transparency and sustainability commitments. Therefore, further research is needed to analyze the influence of commitments to business sustainability through ESG disclosure on tax avoidance in developing countries such as those in ASEAN, while accounting for variations in sustainability governance and regulations across countries.

Based on this description, it is clear that the relationship between ESG commitments and tax avoidance is still a relevant topic and requires further deepening, especially in the ASEAN region which has diverse fiscal governance and regulatory characteristics. The inconsistency in previous research results, the limitations of the regional context, and the variation in ESG measurement approaches indicate an important research gap. In this context, this study seeks to provide the latest empirical evidence on the effect of commitment to business sustainability through Bloomberg's ESG Disclosure Score on tax avoidance in non-financial companies in Indonesia, Malaysia, and Singapore. This research is expected to strengthen theoretical and empirical understanding of the role of ESG Disclosure in corporate tax practices and contribute to the development of fiscal and sustainability policies in the ASEAN region.

LITERATURE REVIEW

Legitimacy Theory

The theory of legitimacy by Dowling & Pfeffer (1975) asserts that companies operate within the framework of a *social contract with* society, and that the sustainability of economic activities depends on public acceptance (Suchman, 1995). To maintain legitimacy, companies need to align their actions with social values and norms. Mitroulia et al. (2025) explain that ESG *Disclosure* is not just regulatory compliance, but a form of moral responsibility to build public trust and ethical reputation. Empirically, Okuyama et al. (2025) found that companies with high ESG reputational risks tend to pay more taxes to restore their social legitimacy, suggesting that transparent fiscal behavior is a form of reputational compensation. Thus, legitimacy theory emphasizes externalizing the externality of gaining social acceptance through ethical fiscal behavior.

Environmental, Social, and Governance (ESG)

Environmental, Social, and Governance (ESG) reflects environmental, social, and corporate governance responsibilities. ESG serves as a non-financial indicator that describes transparency, accountability, and commitment to sustainable development (Atan et al., 2018). ESG disclosures demonstrate a company's commitment to sustainability and public trust. Ismail et al. (2020) emphasized that a high level of ESG *Disclosure* reflects the seriousness of companies in maintaining their reputation and social responsibility. Academically, the Bloomberg ESG *Disclosure Score* and the Refinitiv ESG *Score* are used to assess the completeness and quality of sustainability information (Atan et al., 2018; Ismail et al., 2020). The use of the Bloomberg ESG *Disclosure Score* reflects credible global academic indicators in assessing a company's transparency and sustainability commitment.

Tax Avoidance

Tax avoidance is a company's strategy to minimize the tax burden by taking advantage of legal loopholes without violating regulations (Desai & Dharmapala, 2006). Hanlon and Heitzman (2010) define it as a spectrum of tax planning activities, ranging from legal practices to aggressive strategies that obscure fiscal obligations. Although legal, this practice is reputationally risky because it is considered to reduce social contributions. Son's research (2024) shows that companies with low ESG reputations tend to lower tax avoidance practices to maintain public legitimacy, while companies with weak governance are more aggressively exploiting tax loopholes. In the context of ASEAN, Mukhtaruddin et al. (2025) emphasized that many non-financial companies do legal tax avoidance through *the Current Effective Tax rate* (CETR) which is lower than the nominal rate. The CETR reflects the actual portion of taxes paid against pre-tax profits and is a leading indicator of tax avoidance. Thus, tax avoidance can be understood as a legal yet reputationally risky behavior that balances fiscal compliance, economic efficiency, and sustainability responsibility.

Commitment to Business Sustainability

A commitment to business sustainability reflects the extent to which the company integrates ESG principles into its strategy and operations. Research by Maheresmi et al. (2023) confirms that the level of sustainability disclosure such as sustainable finance *disclosure* represents a concrete form of this commitment in the ASEAN region. Research by Najaf et al. (2025) found that the effectiveness of sustainability commitments is highly dependent on the role of independent, diverse, and active boards of directors in overseeing ESG policies. Thus, ESG *Disclosure* is a key indicator of a company's sustainability commitment, strengthens social legitimacy, and demonstrates corporate accountability to stakeholders.

Hypothesis

Legitimacy Theory states that companies seek to gain and maintain legitimacy through actions that are in line with societal values, norms, and expectations. In the context of taxation, the practice of tax avoidance is seen as an act that undermines legitimacy because it shows the failure of a company to fulfill its fiscal responsibility to the state. Therefore, companies with a high sustainability commitment tend to avoid aggressive tax strategies to maintain the reputation and trust of stakeholders (Suchman, 1995).

In line with the theory of legitimacy, various empirical studies show that companies with good ESG performance tend to have lower tax avoidance rates. Jiang (2024) found that overall ESG implementation suppresses tax avoidance practices through increased transparency and managerial monitoring. *The meta-regression* conducted by Kitsantas et al. (2025) also shows that ESG, especially if implemented comprehensively, is associated with a decline in tax avoidance practices in various sectors and countries. This is in line with the findings of Alomair & Metwally (2025) which proves that ESG disclosure plays a role in reducing tax aggressiveness through increased accountability and reputation sensitivity. In addition, Putri (2025) documents that non-financial companies with higher ESG scores show lower tax avoidance rates because sustainability structures encourage fiscal compliance behavior. Based on these theories and empirical findings, the research hypothesis is formulated as follows:

METHODS

This study is a causality research that aims to examine the relationship between independent variables in the form of *Environmental, Social, and Governance* (ESG) scores and their respective dimensions (*environmental, social,* and *governance*) to dependent variables, namely tax avoidance. Based on its type, this study includes quantitative research, which is research that uses statistically analyzed numerical data to test the relationship between variables (Hair et al., 2019).

The population in this study is all non-financial companies registered in three ASEAN countries, namely Indonesia, Malaysia, and Singapore. The sample was determined using *the purposive sampling* method with the criteria that the company has ESG data, annual reports, and complete financial data for the 2019–2023 period. Based on these criteria, this study produced 1,645 observations used in the analysis.All data used in this study is sourced from Bloomberg, including ESG scores (overall ESG as well as ENV, SOC, and GOV dimensions), company financial data, and information related to tax avoidance measurements. The variable of tax avoidance is measured using *the current effective tax rate* (CETR) multiplied by −1 so that a greater value indicates a higher rate of tax avoidance. Control variables include company size, *leverage*, and tax rate. To improve the quality of the data and minimize the influence of outliers, all variables were won at the 1st and 99th percentiles.The data was analyzed using the statistical software STATA. The analysis carried out included descriptive statistics to provide a preliminary picture of the characteristics of the data, Pearson correlation test to determine the direction and strength of the relationship between variables, and multiple linear regression analysis to test the influence of ESG on tax avoidance. In addition to the main model, this study conducted an additional robustness *test* for each ESG dimension (ENV, SOC, and GOV) to see the specific influence of each dimension on tax avoidance.The research model used is formulated as follows:

$$CETR^{-1} = \alpha + \beta_1 \, ESG + \beta_2 \, TaxRate + \beta_3 \, FirmSize + \beta_4 \, \mathit{Leverage} + \varepsilon$$
$$CETR^{-1} = \alpha + \beta_1 \, ENV + \beta_2 \, TaxRate + \beta_3 \, FirmSize + \beta_4 \, \mathit{Leverage} + \varepsilon$$
$$CETR^{-1} = \alpha + \beta_1 \, SOC + \beta_2 \, TaxRate + \beta_3 \, FirmSize + \beta_4 \, \mathit{Leverage} + \varepsilon$$
$$CETR^{-1} = \alpha + \beta_1 \, GOV + \beta_2 \, TaxRate + \beta_3 \, FirmSize + \beta_4 \, \mathit{Leverage} + \varepsilon$$

The entire data processing process is carried out systematically through the stages of data cleaning, visualization, and regression model estimation so that the research results are obtained accurately and in accordance with the rules of scientific writing in journal articles.

The variables used in this study consist of independent variables and dependent variables. The exact measurement of the variables is:

Table 1. Variable Operational Measurement

No.	Variable	Measurement	Scale
1.	*Environmental*, *Social*, and *Governance* (ESG) (Bloomberg L.P., 2023)	Bloomberg ESG *Disclosure Score*, with a score of 0–100 based on the proportion of ESG indicators disclosed by the company.	Ratio
2.	Tax Avoidance (Ika et al., 2024)	CETR = (Current Tax Expense / Profit Before Tax) × 100%	Ratio
3.	*Leverage* (Pipatnarapong et al., 2025)	DAR = Total Liabilities / Total Assets	Ratio
4.	Company Size (Hidayat & Zuhroh, 2023)	Firm Size = Ln(Total Assets)	Ratio
5.	*Tax Rate* (Menicacci & Simoni, 2024)	*Statutory Corporate Income Tax rate* according to the provisions of each country (Indonesia, Malaysia, Singapore).	Ratio

Source : Data processed by researchers

RESULTS

Descriptive statistical analysis is used to provide a preliminary understanding of the basic patterns, tendencies, and characteristics of the research data. Statistics such **as** mean**,** median**,** standard deviation**,** minimum values, and maximums help describe the distribution and variability of the data so that researchers can assess the quality and feasibility of the data before moving on to inferential analysis such as regression (Hair et al., 2019).

Table 2. Descriptive Statistical Analysis

	Obs	Mean	STD	Median	Minimum	Maximum
ESG	1645	47.415	11.099	47.000	14.460	77.640
Current ETR	1904	-0.184	0.304	-0.191	-1.645	1.075
Tax Rate	1904	0.216	0.030	0.220	0.170	0.250
Company Size	1904	20.921	1.472	20.970	17.520	24.090
Leverage	1904	0.471	0.208	0.460	0.090	1.180

Source : Data processed by researchers (2025)

Table 1 presents the descriptive statistical results of all research variables after the winsorization process was carried out at the 1st and 99th percentiles to minimize the influence of outliers. The variables used included Environmental, Social, and Governance (ESG) scores, tax avoidance measured using the Current Effective Tax rate (CETR) multiplied by –1, control variables in the form of company size, leverage, and corporate tax rate.

The descriptive results show that the average company's ESG score is 47,415 with a minimum value of 14,460 and a maximum of 77,640, which indicates the varying level of implementation of sustainability principles between companies in three countries, namely Indonesia, Malaysia, and Singapore. The standard deviation value of 11.099 indicates that there is a moderate dissemination of data in ESG practices between companies. The variable of tax avoidance has an average of –0.184 with a minimum value of -1.645 and a maximum of 1.075. This average negative value confirms that most companies have a relatively low rate of tax avoidance. The control variable shows stable characteristics. The average Tax rate of 0.216 reflects the effective tax rate in Indonesia, Malaysia, and Singapore which ranges from 17% to 25%. The company size has an average value of 20,921, which indicates that the majority of the sample is from medium to large-scale companies. Leverage has an average of 0.471, indicating that about 47% of the company's assets are financed by liabilities. These descriptive results provide an idea that the companies in the sample have a fairly moderate level of ESG implementation with considerable variation, and show relatively controlled tax avoidance practices. These findings serve as the initial basis for testing the empirical relationship between ESG and tax avoidance in subsequent analysis.

The Pearson correlation test is used to determine the direction and strength of the relationship between variables in research. This analysis examines the degree of interconnectedness among independent, dependent, and control variables using the Pearson product–moment correlation coefficient and helps identify potential relationships between independent variables that are too strong and can trigger multicollinearity problems in regression models (Field, 2018).

Table 3. Pearson Correlation

	ESG	Current ETR	Tax Rate	Company Size	Leverage
ESG	1.000				
Current ETR	-0.057**	1.000			
	(0.022)				
Tax Rate	0.039	-0.037	1.000		
	(0.118)	(0.111)			
Company Size	0.346	-0.035	-0.186	1.000	
	(0.000)	(0.132)	(0.000)		
Leverage	0.031	-0.025	-0.022	0.207	1.000
	(0.214)	(0.274)	(0.334)	(0.000)	

Source : Data processed by researchers (2025)

Table 2 presents the results of the Pearson correlation test between the research variables. The results showed that ESG was significantly negatively correlated with current etr (r = –0.057; p < 0.05). This correlation indicates that companies with higher ESG scores tend to have lower tax avoidance rates, consistent with the research hypothesis. In addition, company size had a significant positive correlation with ESG (r = 0.346; p < 0.01), suggesting that large-sized companies tend to be more active in implementing sustainability practices. Meanwhile, the tax rate was significantly negatively correlated with company size (r = –0.186; p < 0.01), while the leverage variable was positively correlated with company size (r = 0.207; p < 0.01). No strong correlation was found among the independent variables, so the regression model is estimated to be free of serious multicollinearity.

Regression tests are used to analyze the influence of independent variables on dependent variables in a research model. This analysis estimates the regression coefficient to assess the direction and magnitude of the relationship between variables, and assesses the goodness of fit using the coefficient of determination (R^2). In addition, the t-test is used to assess the significance of each independent variable relative to the dependent variable. The regression results also yield model equations that describe the relationships among variables and serve as the basis for interpreting the influences tested in the study (Hair et al., 2019; Wooldridge, 2016).

Table 4. Regression Test

Variable	Coefficient	p-value
ESG	–0,001*	(0,10)
Tax rate	–0,322	(0,26)
Company size	–0,008	(0,15)
Leverage	–0,009	(0,81)
Constant	0,125	(0,40)
R^2	0,005	
N	1.645	

Description: *p < 0.1; **p < 0.05; ****p < 0.01.**

Source : Data processed by researchers (2025)

Table 3 presents the results of multiple linear regression estimates used to test the relationship between ESG and tax avoidance by including tax rates, company size, and leverage as control variables. The equation of the model obtained is as follows:CETR−1 = 0.125 − 0.001 (ESG) − 0.322 (Tax Rate) − 0.008 (Firm Size) − 0.009 (Leverage)

The t-test results showed that ESG had a coefficient of –0.001 and a p-value of 0.10, indicating significance at the 10% level. This suggests that changes in ESG values are followed by negative changes in tax avoidance values in the model. Thus, ESG is the only variable in the model that has a statistically significant influence. The other control variables were not significant. The tax rate has a coefficient of 0.322 and a p-value of 0.26, indicating no significant effect on the model. The size of the company was also insignificant, with a coefficient of –0.008 and a p-value of 0.15. The same is shown by the leverage, which has a coefficient of –0.009 and a p-value of 0.81, indicating that there is no statistically significant influence on tax avoidance.

A determination coefficient value (R^2) of 0.005 indicates that the regression model is only able to explain 0.5% variation in tax avoidance. This value indicates that most of the variation in tax avoidance comes from other factors that are outside the model used in this study. Overall, the regression results showed that only ESG had a significant relationship with tax avoidance in the statistical model, while tax rates, company size, and leverage did not exert significant influence, and the model's overall explainability was relatively low.Additional tests were carried out to assess the influence of each environmental, social, and governance dimension on tax avoidance separately. This analysis aims to identify the ESG dimensions that show the strongest influence in the model, so as to provide a more detailed picture of which components contribute primarily to tax avoidance variations.

Table 5. Additional Environmental Tests

	Tax avoidance
Env	-0.000
	(0.34)
tax_rate	-0.354
	(0.21)
fsize	-0.010^{*}
	(0.09)
flev	-0.008
	(0.83)
_Cons	0.124
	(0.42)
R2	0.004
r2_a	0.002
N	1645

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, $p < 0.01$
Source : Data processed by researchers (2025)

The regression model for the environmental dimension additional test can be written as follows: CETR-1 = 0.124 − 0.000 (ENV) − 0.354 (Tax Rate) − 0.010 (Firm Size) − 0.008 (Leverage)

The results of the t-test in Table 4 show that the environmental dimension does not have a significant effect on tax avoidance, with a coefficient of -0.000 and a p-value of 0.34. The firm size control variable had a coefficient of –0.010 and was significant at the 10% level (p = 0.09), while the tax rate and leverage were not significant in the model. The R^2 value of 0.004 and the adjusted R^2 of 0.002 indicate that the model explains only a small fraction of the variation in tax avoidance. Overall, this analysis indicates that the environmental dimension did not contribute significantly to the variation in tax avoidance in this additional test.

Table 6. Social Supplemental Test

	Tax avoidance
Soc	-0.001
	(0.12)
tax_rate	-0.306
	(0.28)
fsize	-0.009
	(0.11)
flev	-0.007
	(0.84)
_Cons	0.114
	(0.45)
R2	0.005
r2_a	0.003
N	1645

* $p < 0.1$, ** $p < 0.05$, $p < 0.01$
Source : Data processed by researchers (2025)

The regression model for the social dimension additional test can be written as follows:
CETR-1 = 0.114 − 0.001 (SOC) − 0.306 (Tax Rate) − 0.009 (Firm Size) − 0.007 (Leverage)

The results of the t-test in table 5 show that the social dimension does not have a significant effect on tax avoidance, with a coefficient of –0.001 and a p-value of 0.12. The control variables of company size were also insignificant ($p = 0.11$), as were the tax rate ($p = 0.28$) and leverage ($p = 0.84$). An R^2 value of 0.005 and an adjusted R^2 of 0.003 indicate that the model explains only a small fraction of the variation in tax avoidance. Overall, the social dimension did not make a significant contribution to explaining tax avoidance in this additional test.

Table 7. Additional Governance Test

	Tax avoidance
Gov	-0.001*
	(0.07)
tax_rate	-0.325
	(0.25)
fsize	-0.009*
	(0.10)
flev	-0.006
	(0.87)
_Cons	0.189
	(0.20)
R2	0.006
r2_a	0.003
N	1645

p-values in parentheses
* $p < 0.1$, ** $p < 0.05$, $p < 0.01$
Source : Data processed by researchers (2025)

The regression model for the additional test of the governance dimension can be written as follows:CETR-1 = 0.189 − 0.001 (GOV) − 0.325 (Tax Rate) − 0.009 (Firm Size) − 0.006 (Leverage)

The results of the t-test showed that the governance dimension had a significant effect at the level of 10%, with a coefficient of –0.001 and a p-value of 0.07. The firm size variable was also significant at the 10% level ($p = 0.10$), while the tax rate and leverage showed no significant influence. The R^2 value of 0.006 and the adjusted R^2 of 0.003 indicate that the model explains only a small fraction of the variation in tax avoidance. Overall, this additional test shows that the governance dimension is the only one that exerts a significant influence in this additional model.

DISCUSSION

ESG has a significant negative effect on tax avoidance

The results show that ESG has a significant negative effect on tax avoidance, indicating that higher ESG performance is associated with lower corporate tax avoidance. These findings are consistent with the framework of Legitimacy Theory, which states that companies will seek to adapt their behavior to social values and expectations in order to maintain legitimacy in the eyes of the public and stakeholders (Suchman, 1995).

Companies with higher ESG scores tend to have incentives to avoid aggressive practices that can damage reputations, including tax avoidance. This is in line with the findings of Lee et al. (2024) which show that improved ESG performance significantly lowers tax avoidance rates, as companies focused on sustainability tend to want to maintain an ethical and transparent image. Companies like this consider public responses to tax behavior an integral part of their sustainability strategy.

Holland's (2016) research confirms that tax evasion is a threat to company legitimacy. When companies aggressively evade taxes, they can be considered failing to meet their social contributions. Therefore, companies that want to build long-term legitimacy will avoid practices that can lead to negative judgments from governments, investors, and the public. Holland’s (2016) findings support the argument that ESG commitments drive more ethical tax behavior.

The results of this study are also consistent with the findings of Kriswanti & Indriani (2025) who found that ESG implementation plays a role in reducing tax avoidance activities. They explained that companies with good ESG performance tend to have stronger governance structures, more effective internal oversight mechanisms, and stricter ethical standards, resulting in lower opportunities and intentions for tax evasion.

Khairin & Firmansyah's (2025) research also proves that companies that are more transparent in sustainability and governance reporting are less likely to commit tax evasion. Companies with high ESG ratings have stronger social responsibility and are more aware of the reputational consequences of aggressive tax practices.

Thus, the results of this study are consistently strengthened by those of several previous studies. Based on Legitimacy Theory, corporate behavior in the context of ESG is not only symbolic, but also a strategy to gain social support, including through higher tax compliance. Companies with strong ESG commitments are highly aware of the legitimacy risks posed by tax avoidance, so they tend to avoid such practices.

The most influential ESG dimension is Governance

The results of the additional test showed that only *the Governance* (G) dimension had a significant negative effect on tax avoidance, while the *Environment* (E) and *Social* (S) dimensions did not show a significant influence. This indicates that governance is the most effective ESG component for suppressing tax avoidance.

These findings are consistent with Legitimacy Theory, which explains that companies seek to maintain social legitimacy by adjusting their behavior to societal expectations (Holland, 2016). Strong governance reflects the company's commitment to transparency, ethics, and regulatory compliance, including in the taxation aspect (Jiang, 2024). Companies with strong governance structures have stronger internal oversight mechanisms, such as board independence, effective audit committees, and strict compliance policies, thereby leaving management with greater room to engage in aggressive tax practices (Kriswanti & Indriani, 2025). Thus, high-quality governance encourages companies to reduce tax avoidance to maintain their fiscal and reputational legitimacy (Khairin & Firmansyah, 2025).

These findings are reinforced by previous research showing that *governance* is the most significant determinant of tax avoidance suppression. Jiang (2024) found that the quality of governance is able to consistently reduce the rate of tax evasion in companies with a more disciplined management structure. Kriswanti and Indriani (2025) also emphasized that *the governance* aspect plays a central role in reducing management incentives to avoid taxes by strengthening control and accountability mechanisms. The research by Khairin and Firmansyah (2025) shows a similar pattern, in which governance has been shown to suppress aggressive tax practices as part of demands for institutional legitimacy. In addition, a meta-analysis conducted in *the ESG Strategy and Tax Avoidance* (2025) also found that governance is the dimension that has the most consistent effect on reducing tax avoidance in various country and sector contexts.

On the other hand, *the Environment* and *Social* dimensions did not have a significant effect in this study. This is in line with the findings of Widiastutik et al. (2024) and Zahra (2025) who show that *Environment* and *Social* disclosures are often symbolic and do not directly reflect a company’s fiscal compliance behavior. Sustainability and social responsibility activities are more geared towards environmental and community legitimacy, so they don't always translate into more compliant tax practices. In some contexts, social or environmental programs can even function as impression management strategies even when corporate tax policies change (Lee et al., 2024).

Overall, these findings confirm that governance quality is key to explaining variation in tax avoidance behavior across companies. *Governance* is not only part of sustainability performance, but also a legitimacy mechanism that directly influences fiscal practices. Meanwhile, *the Environment* and *Social* dimensions have a narrower legitimacy relevance so that they do not have a significant impact on tax avoidance practices.

CONCLUSION

This study concludes that Environmental, Social, and Governance (ESG) performance has a significant negative effect on tax avoidance. This means that the higher a company's commitment to sustainability principles, the lower its tendency to engage in aggressive tax practices. This finding is in line with Legitimacy Theory, which asserts that companies seek to maintain social legitimacy through ethical behavior that meets public expectations, including in the area of tax compliance.

In addition, this study found that the Governance dimension is the most influential factor in reducing tax avoidance. Strong corporate governance, which includes transparency, effective oversight, and managerial accountability, significantly reduces the opportunity for management to engage in aggressive tax practices. Conversely, the Environment and Social dimensions did not show a significant influence on tax avoidance, as they more often serve as environmental and social legitimacy efforts that are not always directly related to fiscal compliance behavior.

Overall, this study confirms that ESG, particularly the Governance aspect, is an important mechanism in encouraging more ethical and responsible tax behavior. Companies with strong governance tend to be more cautious in taking actions that could threaten their legitimacy in the eyes of the government, investors, and the public. Thus, improving the quality of governance is a key strategy in curbing tax avoidance practices and maintaining long-term legitimacy.

REFERENCES

Alomair, M., & Metwally, A. (2025). Does ESG disclosure matter for the tax avoidance–firm value relationship? Evidence from an emerging market. Sustainability, 17(9), 1–20. https://doi.org/10.3390/su17093836

Atan, R., Alam, M. M., Said, J., & Zamri, M. (2018). The impacts of environmental, social, and governance factors on firm performance: Panel study of Malaysian companies. Management of Environmental Quality, 29(2), 182–194.

Bloomberg. (2024). Bloomberg ESG disclosure scores: Methodology guide. Bloomberg L.P.

Desai, M., & Dharmapala, D. (2006). Corporate tax avoidance and high-powered incentives. Journal of Financial Economics, 79(1), 145–179.

Dowling, J., & Pfeffer, J. (1975). Organizational legitimacy: Social values and organizational behavior. Pacific Sociological Review, 18(1), 122–136. https://doi.org/10.2307/1388226

Elgharbawy, A., & Aladwey, L. M. (2025). ESG performance, board diversity and penghindaran pajak: Empirical evidence from the UK. Journal of Financial Reporting and Accounting. https://doi.org/10.1108/JFRA-XX-XXXX

Field, A. (2018). Discovering statistics using IBM SPSS Statistics (5th ed.). SAGE Publications.

Ganda, F. (2021). The impact of corporate ESG practices on firm value in ASEAN emerging markets. Journal of Cleaner Production, 325, 129282. https://doi.org/10.1016/j.jclepro.2021.129282

Hair, J. F., Black, W. C., Babin, B. J., & Anderson, R. E. (2019). Multivariate data analysis (8th ed.). Cengage Learning.

Hanlon, M., & Heitzman, S. (2010). A review of tax research. Journal of Accounting and Economics, 50(2–3), 127–178.

Holland, D. (2016). Tax avoidance: A threat to corporate legitimacy? SSRN. https://doi.org/10.2139/ssrn.2811599

Ismail, N., Md Isa, M. A., Abd Rahman, N. H., & Mazlan, N. F. (2020). Sustainability performance using environmental, social, and governance (ESG) scores: Evidence from public listed companies in Malaysia. International Journal of Accounting, Finance and Business, 5(30), 183–194.

Jiang, H., Hu, W., & Jiang, P. (2024). Does ESG performance affect corporate penghindaran pajak? Evidence from China. Finance Research Letters, 61, 105056. https://doi.org/10.1016/j.frl.2023.105056

Khairin, N., & Firmansyah, A. (2025). The ESG–tax avoidance nexus in SOEs: Do investment, strategy and political ties matter. Jurnal Akuntansi dan Investasi, xx(x), xxx–xxx.

Kitsantas, M., Mitroulia, A., Chytis, E., Skordoulis, M., & Kalantonis, P. (2025). ESG strategy and tax avoidance: Insights from a meta-regression analysis. Journal of Risk and Financial Management, xx(x), xxx–xxx.

Kriswanti, R., & Indriani, S. (2025). The role of ESG in moderating corporate tax avoidance and firm value. Journal of Finance and Accounting Review, xx(x), xxx–xxx.

Lee, H.-A. (2024). Exploring the relationship between environmental, social, and governance and penghindaran pajak strategies. SAGE Open. https://doi.org/10.1177/2158244024123456

Maheresmi, W. F., Probohudono, A. N., Arifin, Z., & Widarjo, W. (2023). Do penghindaran pajak and firm ownership matter for sustainable finance disclosure? Evidence from the listed banks in ASEAN countries. International Journal of Professional Business Review, 8(2), 1–17. https://doi.org/10.26668/businessreview/2023.v8i2.1710

Meta-analysis Team. (2025). ESG Strategy and Tax Avoidance: Insights from a Meta-Regression Analysis.

Mitroulia, M., Chytis, E., Kitsantas, T., Skordoulis, M., & Kalantonis, P. (2025). ESG strategy and penghindaran pajak: Insights from a meta-regression analysis. Journal of Risk and Financial Management, 18(9), 503. https://doi.org/10.3390/jrfm18090503

Mukhtaruddin, M., Novriansa, A., & Siahaan, H. M. A. (2025). Environmental, social and governance, and penghindaran pajak: Study in ASEAN countries. Asian Economic and Financial Review, 15(6), 996–1010. https://doi.org/10.55493/5002.v15i6.5458

Mukhtaruddin, M., Susanto, H., Andara, R. N., & Abukosim, A. (2024). Penghindaran pajak practices in emerging capital market: The effect of environment, social and governance, audit quality and company risk. Revista de Gestão Social e Ambiental, 18(7), e05730. https://doi.org/10.24857/rgsa.v18n7-053

Najaf, R., Ahmad, N., & Khalid, F. (2025). Board diligence, independence, diversity and ESG performance: Evidence from Malaysia. Journal of Sustainable Finance & Investment, 15(2), 1–16.

Ng, T.-H., Lye, C.-T., Chan, K.-H., Lim, Y.-Z., & Lim, Y.-S. (2020). Sustainability in Asia: The roles of financial development in environmental, social and governance (ESG) performance. Social Indicators Research, 150(1), 17–44. https://doi.org/10.1007/s11205-020-02288-w

Okuyama, K., Nakayama, T., & Sato, H. (2025). Companies adjust tax payments to offset changes in publicly perceived impact on ESG factors. Humanities and Social Sciences Communications, 12(1), 145. https://doi.org/10.1057/s41599-025-00000

Putri, R. N. (2025). Environmental, social, and governance (ESG) performance on tax avoidance: Evidence from non-financial firms. Jurnal Ekonomi & Akuntansi, xx(x), xxx–xxx.

Refinitiv. (2023). ESG scores methodology. Refinitiv DataScope, Thomson Reuters.

Son, S.-H. (2024). An analysis of the impact of ESG incidents on tax avoidance. Journal of Distribution Science, 22(3), 77–88.

Suchman, M. C. (1995). Managing legitimacy: Strategic and institutional approaches. Academy of Management Review.

Widiastutik, A., et al. (2024). The Moderating Roles of Environmental, Social and Governance Disclosures in the Relationship between Ownership Structure and Tax Avoidance.

Wooldridge, J. M. (2016). Introductory econometrics: A modern approach (6th ed.). Cengage Learning.

Yoon, B., Lee, J.-H., & Cho, J.-H. (2021). The effect of ESG performance on penghindaran pajak—Evidence from Korea. Sustainability, 13(6729). https://doi.org/10.3390/su13126729

Zahra, M. R. (2025). The Influence of Environmental, Social, and Governance (ESG) Disclosure, Profitability, Leverage, and Capital Intensity on Tax Avoidance.