EP-JOURNALS

JOURNAL OF MANAGEMENT RESEARCH AND REVIEW

Available on: https://jmrr.ep-journals.org/ E-ISSN: 3051-3588 P-ISSN: 3051-357X

Journal of Management Research and Review

Volume: 02 Issue: 01 January-2026

Does ESG Performance Affect Tax Avoidance? Moderating Role of ESG Committee

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Published Date: January 31, 2026 **Article DOI: 10.65150/EP-jmrr/V2E1/2026-06**

ABSTRACT: The relationship between ESG disclosures and corporate tax strategies has become increasingly important due to growing stakeholder expectations for firms to transparently report their environmental, social, and governance practices. This study investigates the effect of Environmental, Social, and Governance (ESG) performance on tax avoidance among publicly listed non-financial firms in Indonesia during the 2021–2024 period. Employing Moderated Regression Analysis (MRA), the study utilizes a panel dataset comprising 180 firms listed on the Indonesia Stock Exchange. A key contribution of this research is the inclusion of the ESG committee as a moderating variable to examine how ESG performance influences corporate tax avoidance. The findings reveal that ESG performance positively and significantly affects the Effective Tax Rate (ETR), indicating an inverse relationship with tax avoidance, both for overall ESG performance and for each pillar individually. Moreover, the ESG committee strengthens this effect by serving as a moderating factor, with the social pillar exhibiting the strongest impact in reducing tax avoidance. These results underscore the substantive role of ESG committees in translating ESG practices into more responsible tax behavior.

KEYWORDS: ESG, ESG Committee, Tax Avoidance, Sustainability.

INTRODUCTION

Tax revenue constitutes a fundamental component of government income, serving a crucial function in funding public administration and supporting overall economic growth. In Indonesia, more than 80 percent of total revenues within the State Budget framework are derived from taxation. However, according to Revenue Statistics in Asia and the Pacific 2024, Indonesia's tax ratio stands at 12.1 percent (OECD, 2024). This figure is substantially lower than the average tax ratio of countries in the Asia–Pacific region, which stands at 19.3 percent, and is also well below the average tax ratio of OECD member countries at 34 percent. Consistent with the OECD findings, a World Bank publication released on 2 March 2025 entitled Estimating Value Added Tax (VAT) and Corporate Income Tax (CIT) Gaps in Indonesia reports that during the period 2016–2021, the estimated gap in VAT and corporate income tax revenues amounted to approximately 6.4 percent of GDP. Drawing on the two institutional reports, taxpayer disclosure and compliance emerge as key determinants in the effective mobilization of tax revenues.

In the corporate context, tax compliance is largely shaped by managerial decision-making. The incentive to maximize profits often leads corporate management to seek reductions in tax liabilities, frequently through the adoption of tax avoidance strategies (Jiang, Hu, & Jiang, 2024; Hidayat & Zuhroh, 2023). Tax avoidance is generally defined as a legal strategy through which firms reduce their tax obligations by effectively leveraging available tax regulations, such as deductions, exemptions, and fiscal incentives, as well as by exploiting ambiguities within the tax regulatory framework (Andesto, 2022; Zhao et al., 2022; Chien et al., 2021). Although tax avoidance does not constitute an illegal or unlawful activity, it is not necessarily regarded as a desirable practice and is often viewed negatively due to the substantial fiscal losses it may impose on the state (Chien et al., 2021; Damayanty & Putri, 2021; Zhang et al., 2023). According to a report by the Tax Justice Network, Indonesia was estimated to have lost potential tax revenues amounting to USD 2.2 billion, or approximately IDR 32 trillion, in 2021 as a result of tax avoidance by multinational corporations.

Various frameworks have been developed to encourage corporate management to shift their orientation from a narrow focus on serving corporate and shareholder interests alone toward a more comprehensive and sustainable perspective, in which firms are also accountable to the interests of stakeholders. One of the frameworks or guidelines that has gained global prominence is ESG. Over recent years, the adoption of sustainabilityoriented practices has gained substantial momentum at both the global and national levels, particularly through the Environmental, Social, and Governance (ESG) framework. Business performance is no longer assessed solely on the basis of short-term financial outcomes, but increasingly on social value creation, environmental impact, and the effectiveness of internal governance structures. This development corresponds with growing demands from international investors, global financial institutions, and the wider public for greater corporate transparency and accountability in advancing sustainable development. The World Bank (2022) highlights that corporate sustainability plays a crucial role in fostering long-term economic stability, particularly in developing economies transitioning toward greener growth models. ESG is therefore regarded not merely as a reputational instrument, but as an essential element of effective corporate governance. In Indonesia, ESG have begun to gain a formal regulatory foundation through Financial Services Authority Regulation (POJK) No. 51/POJK.03/2017, requiring all financial institutions, issuers, and publicly listed companies to implement sustainable finance practices and to produce annual sustainability reports. In parallel, the Indonesia Stock Exchange has promoted sustainability reporting as part of its 2020–2025 sustainable capital market roadmap, embedding environmental and social responsibility into business policies.

A number of earlier studies have explored how corporate ESG performance affects strategic decisions, particularly in relation to tax avoidance. However, it showed varying results. Research conducted in China demonstrates that companies with higher ESG performance are less likely to engage in tax avoidance (Jiang et al., 2024), Jordan (Haija et al., 2024), and the United Kingdom (Elgharabawy et al., 2025). Yoon et al. (2021) reported an inverse relationship between ESG performance and tax avoidance among Korean firms over the period 2011–2017. In Indonesia, Teja (2024) reported that ESG disclosure scores influence a company's deferred tax component. Therefore, increased transparency through ESG disclosure may reduce management's opportunities for aggressive tax avoidance tactics. Sian et al. (2024) found a negative relationship between environmental disclosure and tax avoidance in Malaysia. However, the literature also notes that if ESG is only applied as a formal image without embedding real values, the effect is weakened. Several studies report contrasting evidence indicating that corporates undertaking more pronounced tax minimization strategies are also actively involved in social and environmental activities. Such engagement is often interpreted as a risk management strategy, whereby managers strategically employ social and environmental performance to obscure their propensity for tax avoidance (Mao, 2019). This perspective is reinforced by findings suggesting that companies leverage their social and environmental performance to shield themselves from potential adverse consequences arising from aggressive tax avoidance practices (Alsaadi, 2020). Evidence showing that certain firms included in the S&P 500 achieve high ESG scores or ratings while reporting zero or even negative effective tax rates (ETRs) raises serious concerns, as such outcomes may undermine the social and sustainability objectives promoted by the ESG movement. These concerns have led several scholars writing in the Vanderbilt Law Review to recommend the incorporation of corporate tax avoidance behavior into ESG rating frameworks (Chaim & Parchomovsky, 2024). Within the Indonesian context, similar findings have emerged, with studies suggesting that sustainability reporting may serve as a “smokescreen” to obscure tax avoidance activities (Nasih et al., 2024). The range of empirical findings demonstrates the presence of an unresolved research gap that warrants further in-depth investigation. Given the heterogeneity and mixed evidence reported in prior research, The present study seeks to reassess the link between ESG performance and tax avoidance in Indonesia. The novelty of this study lies in examining the ESG committee’s role as a pivotal mechanism in corporate governance that may shape corporate policies and decision-making related to ESG performance and its association with tax avoidance behavior both in a composite measure and through every pillars. Furthermore, this study incorporates the ESG committee as a moderating factor, emphasizing its potential to either amplify or attenuate the relationship between ESG performance and corporate tax avoidance.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy theory asserts that organizations need to consistently align their operations with societal norms and expectations in order to obtain social approval and acceptance (Lukman, Marcello, & Andrian, 2024). This framework highlights the reciprocal relationship between firms and society, suggesting that a company’s continued existence is contingent upon the perception that its practices conform to prevailing social values. To obtain public support, companies are expected to demonstrate responsibility toward social and environmental issues, including transparency in the disclosure of their ESG performance as a means of building trust (Chairani & Zuraida, 2021). The theory primarily focuses on how firms adapt their behavior to conform to social expectations and institutional pressures (Dowling & Pfeffer, 1975). Within this framework, corporate engagement with ESG issues represents a strategic mechanism for attaining legitimacy. ESG performance thus serves as an indicator of a firm’s commitment to its social and environmental obligations and reflects the level of public confidence placed in the organization, rather than merely functioning as a quantitative score. Higher ESG performance is generally associated with stronger perceptions of corporate legitimacy, which may translate into strategic benefits such as enhanced reputation and improved financial outcomes. In contrast, a decline in credibility resulting from inadequate ESG practices may jeopardize a firm’s long-term sustainability (Duhoon & Singh, 2023). Accordingly, compliance with applicable rules and regulations becomes essential for sustaining operations and maintaining stakeholder and community support. This study underscores the role of ESG performance as a primary signal of corporate legitimacy in society, while also highlighting that greater environmental responsibility tends to foster stronger societal endorsement of the firm (Chairani & Zuraida, 2021; Ruan & Liu, 2021).

Agency Theory

Based on agency theory, as developed by Jensen and Meckling (1976), there is frequently a divergence between the objectives of firm owners (principals) and those of corporate managers (agents). Within this framework, moral hazard arises from information asymmetry, whereby agents acting on behalf of principals possess superior knowledge of the firm’s actual operations due to insufficient monitoring. In the context of sustainability, agency theory indicates that managerial decision making, driven by personal incentives, often favors short term financial performance at the expense of long-term sustainable outcomes desired by shareholders (Rezaee, 2016). One approach to enhancing transparency in corporate reporting is through the discretionary disclosure of non-financial metrics, such as ESG-related data. Such disclosures provide valuerelevant information that helps mitigate information asymmetry and alleviate agency conflicts. Accordingly, agency theory implies that traditional financial reporting alone is insufficient to fully address information gaps, thereby necessitating the inclusion of non-financial disclosures, particularly ESG information. Firms signal greater transparency to the public by issuing sustainability reports, which may contribute to firm value enhancement (Hamad et al., 2020). Corporate governance mechanisms, particularly managerial oversight, play a critical role in safeguarding shareholder interests. In this context, effective management practices can mitigate agency conflicts by overseeing managerial behavior and ensuring alignment with both short-term and long-term objectives concerning sustainability reporting performance (Tjahjadi et al., 2021).

Stakeholder Theory

Stakeholder theory is widely employed in studies examining the relationship between ESG performance and corporate tax avoidance strategies. Unlike earlier theoretical frameworks that primarily emphasize societal pressure (legitimacy theory) or shareholder interests (agency theory), stakeholder theory centers on the interests of a broad set of internal and external stakeholders. From this perspective, firms are accountable not only to investors and creditors but also to non-financial stakeholder groups that can influence corporate outcomes (Freeman, 1984). Consequently, management is expected to prioritize the cultivation of constructive relationships with stakeholders by engaging in socially responsible business practices (Alessa et al., 2024). Nevertheless, under stakeholder theory, the association between ESG engagement and tax avoidance may be either positive or negative, reflecting divergent views on whether tax avoidance is perceived as a responsible or irresponsible corporate behavior.

ESG (Environmental, Social and Governance)

ESG constitutes a framework for the comprehensive assessment and disclosure of corporate environmental responsibility, social responsibility, and governance practices grounded in the core principles underpinning sustainable development. It encompasses a set of criteria used to evaluate the non-financial impacts of firms and investment activities, while simultaneously identifying potential business and investment opportunities (Starks, 2021). Although ESG-related information has not yet been fully standardized, scholars argue that such disclosures enable firms to adapt to changing environmental and institutional conditions and may even serve as a component of corporate competitive strategy (Giannopoulos et al., 2022).

In Indonesia, the preparation of sustainability reports has become a statutory requirement, particularly for financial institutions, listed companies, and public corporations. This obligation is stipulated under Financial Services Authority Regulation No. 51/POJK.03/2017 concerning the Implementation of Sustainable Finance for Financial Institutions, Issuers, and Public Companies (POJK 51/2017). Despite this regulatory mandate, some public companies, issuers, and financial institutions have yet to comply with the requirement to submit sustainability reports. Under POJK 51/2017, entities that fail to implement sustainable finance practices, prepare sustainability reports, and/or publicly disclose such reports are liable to administrative penalties, including written warnings or formal reprimands. ESG performance, along with its constituent pillars, is evaluated using the Refinitiv Eikon ESG score, where higher scores reflect superior ESG performance (Ariff et al., 2024). This score provides an objective assessment of a firm’s performance across ten thematic areas such as resource utilization, emissions, workforce management, and CSR strategy based on over 400 company-reported indicators (Thomson Reuters Eikon, 2018).

Tax Avoidance

Tax avoidance refers to the use of legally permissible arrangements in structuring a taxpayer’s activities with the objective of minimizing tax obligations. It poses challenges to public finance by contributing to the erosion of government revenue. Ariff et al. (2023) contend that tax minimization represents a coherent corporate strategy grounded in economic decision-making and aimed at securing financial benefits. It constitutes a lawful approach through which taxpayers seek to minimize their taxable income by exploiting gaps or ambiguities within the tax regulatory framework, without breaching existing legal provisions (Duhoon & Singh, 2023). Despite its legality, tax avoidance may nonetheless generate adverse fiscal consequences for the state. Governments recognize that large corporations often engage in proactive tax planning practices to limit their overall tax burden (Dalam & Novriyanti, 2020).

The effective tax rate (ETR), defined as the ratio of income tax expense to pre-tax earnings, is widely used to proxy tax avoidance. This metric represents the share of a firm’s profits paid as taxes under statutory tax regulations. As an inverse indicator of tax avoidance behavior, a higher ETR reflects lower levels of avoidance, whereas a lower ETR signals greater engagement in aggressive tax planning (Luo et al., 2020; Amin et al., 2023).

ESG Committee

Establishing a dedicated ESG committee represents an effective mechanism for enhancing the decision-usefulness of ESG disclosures. ESG committee may be referred to by various designations, such as a sustainability committee, environmental committee, or public responsibility committee. Consistent with Financial Services Authority Circular Letter No. 16/SEOJK.04/2021 concerning the Form and Content of Annual Reports of Issuers or Public Companies, firms may establish a sustainability committee under the authority of the Board of Directors to facilitate cross-functional coordination. This committee may be chaired by the Chief Operating Officer or another designated executive. Its membership typically includes senior representatives responsible for corporate social responsibility, sustainable human resource development, workplace health and safety, environmental management, as well as the corporate secretary. Such a committee serves a critical governance function by overseeing the quality and credibility of ESG-related information reported by firms. Prior evidence suggests that the prevalence of an ESG committee strengthens the reliability of ESG disclosures, thereby improving their credibility and shaping creditors’ perceptions of risk in a favorable manner (Q. Zhang & Wong, 2022). Moreover, the ESG committee facilitates the alignment of ESG reporting with stakeholders’ decision-making needs by ensuring that disclosed information is both relevant and informative (Abdullah et al., 2024).

Hypothesis Development

Risk management theory offers a contrasting perspective, positing that firms may emphasize shareholder interests, particularly reputational considerations, by undertaking more ESG initiatives to reduce reputational exposure and bolster corporate image (Minor & Morgan, 2011). Within this framework, ESG activities and tax avoidance may function as alternative strategies guided by risk management objectives (Davis et al., 2016), suggesting a potential positive association. Supporting this notion, Abdelfattah and Aboud (2020) and Carroll and Joulfaian (2005) find a positive relationship between ESG engagement and tax avoidance, and Ariff et al. (2024) demonstrate a positive link between CSR reporting and tax aggressiveness. However, notwithstanding these findings, the majority of studies report a negative association between ESG performance and tax avoidance (Chouaibi et al., 2022).

H1: ESG performance is negatively correlated with tax avoidance H2: Environmental pillar is negatively correlated with tax avoidance H3: Social pillar is negatively correlated with tax avoidance H4: Governance pillar is negatively correlated with tax avoidance

From a theoretical standpoint, the linkage between ESG performance and tax avoidance can be interpreted through three principal frameworks. To begin with, legitimacy theory suggests that firms strive to secure and sustain societal approval by ensuring that their practices are consistent with prevailing social norms and values (Suchman, 1995). Excessive tax avoidance threatens such legitimacy, implying that ESG-oriented firms should be less inclined toward aggressive tax practices. Second, Agency theory underscores the potential misalignment between managerial actions and shareholder interests; in this setting, ESG committees can serve as monitoring mechanisms that constrain opportunistic managerial behavior in tax planning. Third, stakeholder theory, introduced by Freeman (1984) asserts that tax obligations form part of a firm's social responsibility to society, extending beyond mere legal compliance.

In Indonesia, the success of ESG implementation and tax transparency will hinge on firms' ability to internalize sustainability values within their business and financial practices. Within this context, ESG committees emerge as a relevant internal governance mechanism. With respect to tax avoidance, the presence of an ESG committee may function as both a moral and structural oversight mechanism, discouraging aggressive tax strategies that could undermine corporate legitimacy. Substantively, few studies indicate the effectiveness of ESG committees in promoting ESG practices, but others criticize their existence as a symbol to increase corporate legitimacy among stakeholders. ESG committees have been shown to enhance the effectiveness of ESG policy implementation and improve firms' responsiveness to market pressures (N. Lee et al., 2023). In emerging economies such as Indonesia, evidence from Suttipun and Dechthanabodin (2022) suggests that ESG committees play a critical role in mitigating greenwashing and promoting corporate accountability. Fuadah et al. (2022) further note that the presence of an ESG committee contributes to higher-quality sustainability reporting. Importantly, Abdullah et al. (2024) highlight that the effectiveness of an ESG committee depends on its specific focus: a dedicated and capable committee is more likely to champion ESG initiatives within the organization. On the other hand, a purely symbolic or unfocused committee might not have a meaningful effect or could obstruct ESG efficiency. These results are significant within the Indonesian framework, where ESG committees are occasionally established. Syahputri (2025) found that the effectiveness of ESG implementation against tax avoidance depends on the internal oversight structure and the level of management commitment to sustainability. Firms with specialized ESG committees usually show greater consistency in adopting ethical principles and financial openness. A well-functioning committee can reduce symbolic gestures like greenwashing or ESG-washing, as every sustainability choice must undergo an evaluation and approval process grounded in evidence and accountability. Consequently, the ESG committee acts not only as an administrative entity but also as a regulatory tool that upholds a balance between financial goals and social accountability.

H5: The ESG Committee strengthens the negative influence of ESG performance on tax avoidance.

H6: The ESG Committee strengthens the negative influence of Environmental pillar performance on tax avoidance.

H7: The ESG Committee strengthens the negative influence of Social pillar performance on tax avoidance.

H8: The ESG Committee strengthens the negative influence of Governance pillar performance on tax avoidance.

The contribution of this study lies in its comprehensive analytical framework, which examines the relationship between ESG performance and corporate tax avoidance both at the aggregate level and through a disaggregated evaluation of the environmental, social, and governance pillars. In contrast to previous research that largely emphasizes individual ESG dimensions or employs ESG solely as a control variable, this study systematically investigates the distinct effects of each ESG pillar on tax avoidance behavior. Additionally, the research incorporates the ESG committee as a moderating mechanism, elucidating its capacity to either amplify or attenuate the link between ESG performance and corporate tax avoidance. By integrating the ESG committee into the analytical model, the study offers deeper insights into how internal governance structures influence the efficacy of ESG implementation in mitigating opportunistic tax practices, thereby providing a more nuanced understanding of the interplay between sustainability governance and corporate tax behavior.

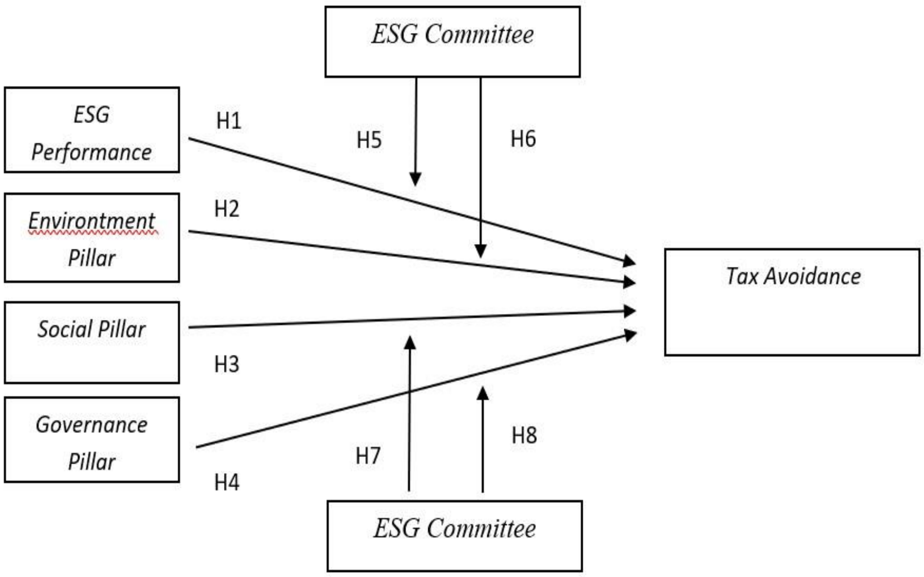

Figure 1: Conceptual Framework

MATERIALS AND METHODS

Data and Sample

This research adopts a quantitative explanatory design to analyze the causal effects of Environmental, Social, and Governance (ESG) performance and its individual pillars on corporate tax avoidance, while also evaluating the moderating role of the ESG committee. This research design is causal-comparative because it focuses on examining the influence and interaction between variables through inferential statistical analysis. This approach was selected as it enables researchers to examine the extent to which the implementation of policy principles does not impact corporate fiscal behavior objectively. The analysis was conducted using Moderated Regression Analysis (MRA) to assess whether the ESG committee is able to moderate the relationship between ESG performance and its pillar components such as Environment, Social, Governance on tax avoidance. The unit of analysis in this research consists of publicly listed companies on the IDX (Indonesia Stock Exchange) that consistently published both annual reports and sustainability reports throughout the 2021–2024 observation period to represent the current conditions after the implementation of Otoritas Jasa Keuangan (OJK) Regulation No. 51/POJK.03/2017 and SE-OJK No. 16/SEOJK.04/2021 concerning the implementation of sustainable finance that encourages the implementation of ESG in the Indonesian corporate sector. Firms operating in the financial sector are excluded from the sample due to their distinct regulatory frameworks compare to those of othe sectors, in accordance with previous studies (Francis & Wang, 2008; Velte, 2017). This study utilizes secondary data obtained from the Refinitiv Eikon database and company annual reports published through the official websites of issuers or the Indonesia Stock Exchange (IDX).

The data collected is panel data consisting of a combination of time series data and cross section data, thus enabling dynamic testing of relationships between variables between periods and between companies. The study population consisted of 45 companies other than the financial sector listed on the IDX during 2021–2024, with 180 samples selected for analysis. Data were processed using EViews software, starting with descriptive statistics, followed by panel data model selection, normality and hypothesis testing.

This study adopts the approach of Dyreng et al. (2008) and Du & Li (2023) by employing the effective tax rate (ETR) ratio as a proxy for corporate tax avoidance. ETR is widely used in prio literature and is well recognized as an appropriate measure of tax avoidance in contemporary academic research (Lanis & Richardson, 2012). Corporate tax avoidance is measured by dividing income tax expense by pre-tax income. A higher ETR indicates lower levels of tax avoidance, suggesting that firms pay a larger proportion of taxes relative to their earnings (Luo et al., 2020) Conversely, a lower ETR reflects a more aggressive tax planning strategy (Amin et al., 2023).

ESG performance and its individual pillars are measured using the Refinitiv Eikon ESG score, where higher scores represent ESG performance (Ariff et al., 2024). This score provides an objective assessment of corporate ESG performance ten key themes, including rsoure use, emissions, workforce and CSR strategy, based on more than 400 company-reported metrics (Thomson Reuters Eikon, 2018).

Table 1. Operation definition of variables

Variable	Definition	Measurement
Dependent variable Tax Avoidance	Efective Tax Rate (ETR) ratio	Income Tax Expenses divided by Pre-tax Profit
Independent variables ESG performance	Refinitiv Eikon	Aggregate ESG score
Environmental pillar	Refinitiv Eikon	Environmental score
Social pillar	Refinitiv Eikon	Social score
Governance pillar	Refinitiv Eikon	Governance score
Moderation variable ESG Committee	The existence of ESG comittee	Dummy variable, one is given if the company has sustainability committee, zero valued otherwise
Control variable		
ROA	Return on Asset	Net profit divided by Total Assets
Leverage	Leverage	Total debt divided by Total Assets
Size	Firm Size	Ln Total Assets

Source: Processed by Authors (2025)

Specification of the Research Model

Model selection testing was conducted to determine the most appropriate panel data model for this study. The Chow test is the initial stage, comparing the Common Effect Model (CEM) with the Fixed Effect Model (FEM). The results of the Chow test imply that the study does not need to continue with the Haussman Test or the Lagrange Multiplier Test because the CEM has been selected as the best model. The regression model is as follows:

$$
\begin{aligned}
TAXAV_i = {} & \beta_0 + \beta_1 \mathrm{ESG}_i(\mathrm{ENV}_i \textit{ or } \mathrm{SOC}_i \textit{ or } \mathrm{GOV}_i) + \beta_2 \mathrm{ENV}_i + \beta_3 \mathrm{SOC}_i + \beta_4 \mathrm{GOV}_i + \beta_5 \mathrm{ROA}_i + \beta_6 \mathrm{LEV}_i \\
& + \beta_7 \mathrm{SIZE}_i + \beta_8 \mathrm{COMMIT}_i + \beta_9(\mathrm{ESG}_i\, x\, \mathrm{COMMIT}_i) + \beta_{10}(\mathrm{ENV}_i\, x\, \mathrm{COMMIT}_i) \\
& + \beta_{11}(\mathrm{SOC}_i\, x\, \mathrm{COMMIT}_i) + \beta_{12}(\mathrm{GOV}_i\, x\, \mathrm{COMMIT}_i) + \beta_{13}(\mathrm{ROA}_i\, x\, \mathrm{COMMIT}_i) \\
& + \beta_{14}(\mathrm{LEV}_i\, x\, \mathrm{COMMIT}_i) + \beta_{15}(\mathrm{SIZE}_i\, x\, \mathrm{COMMIT}_i) + \varepsilon_i
\end{aligned}
$$

Tax avoidance (TAXAV) in this research model uses the same proxy as in research conducted by Dyreng et al. (2008) and Du and Li (2023) using the effective tax rate (ETR). This measure has been widely used in prior studies and is broadly acknowledged as an proxy for capturing corporate tax avoidance in recent academic literature (Lanis & Richardson, 2012). ETR is measured by dividing income tax expense by pre-tax income. A higher ETR value than the applicable tax rates in a country indicates lower level of tax avoidance, whereas conversely, a lower ETR may indicate a company's efforts to avoid taxes through more aggressive tax planning (Luo et al., 2020; Amin et al., 2023).

(ESG) in the study refers to ESG performance, study was also conducted on the ESG pillars individually, namely Environment (ENV), Social (SOC), and Governance (GOV), and the existence of the ESG committee (COMMIT) is a moderating variable. Previous studies show that tax avoidance is shaped by a variety of firm-specific characteristics. In particular, financing decisions and operating performance are key determinants of corporate tax outcomes (Yoon et al., 2021). Companies often rely on debt financing to benefit from interest deductibility, thereby reducing taxable income (Fama, 1980). Moreover, firms with stronger profitability tend to face higher effective tax burdens, which may encourage more intensive tax planning efforts. To account for these effects, this study incorporates leverage, measured by the debt to asset ratio (DAR), return on assets (ROA), and firm size (SIZE) as control variables. Higher financial leverage (LEV) is associated with greater tax shield benefits arising from increased external borrowing. In contrast, Edwards et al. (2016) argue that more profitable firms are generally less inclined to engage in aggressive tax avoidance planning. Firm size is incorporated into the empirical specification to capture heterogeneity in corporate characteristics, as firms that are larger may demonstrate tax-related behavior that differs from that of smaller firms (Yoon et al., 2021).

RESULTS

Descriptive statistics summarize the caractheristics of the dataset, which consists of 180 firm-year observations drawn from companies listed in Indonesia Stock exchange during 2021 to 2024 period. Table 2 reports the descriptive statistics for all variables employed in this research. Effective Tax Rate (ETR) as a proxy for tax avoidance, which serves as an inverse measure of tax avoidance behavior. The ETR exhibits substantial dispersion, with values ranging from −3.422 to 4.7965. The mean ETR is 0.2486 (24.86%), exceeding Indonesia's statutory corporate income tax rate of 22%.

The ESG score, which ranges from 0 to 100, records an average value of 51.651, indicating a relatively balanced distribution. The minimum and maximum ESG scores, at 11.6000 and 87.8900 respectively, reflect considerable variation in sustainability performance across the sample. A comparable pattern is observed when the ESG dimensions are examined individually. The Environmental (ENV), Social (SOC), and Governance (GOV) pillars display mean values of 48.0638, 55.4108, and 49.0847, respectively, with wide ranges that highlight disparities in pillar-specific performance. The moderating variable in this study, the existence of an ESG Committee, shows an average value of 0.7778 or 77.78%, indicating that approximately 140 of the 180 observations have an ESG committee, likely in response to increasing regulatory pressure from the Financial Services Authority (OJK).

Table 2. Statistic descriptive

Variable	Obs	Minimum	Maximum	Mean	Std. Dev.
TAXAV_ETR	180	-3.42241	4.796523	0.248566	0.487942
ESG	180	11.6	87.89	51.651	17.27871
ENV	180	6.33	92.41	48.06383	21.65098
SOC	180	14.19	93.56	55.41089	17.93257
GOV	180	5.03	93.02	49.08472	22.00597
ROA	180	-0.27973	0.583356	0.07312	0.101724
LEV	180	0.081018	1.468109	0.467581	0.224391
SIZE	180	26.21603	33.78996	31.08854	1.320249
COMMIT	180	0	1	0.777778	0.416899

Source: Processed Data (2025)

ROA shows an average value of 0.0731 or 7.31%. The variable shows a wide dispersion, with a minimum value of -0.2797 and a maximum of 0.5833. indicating quite high variability in the financial performance of the sample companies. The average ROA value of around 0.0731 can be considered moderate for the context of public companies in Indonesia. The leverage variable shows an average value of 0.467581. The minimum value of 0.081018 indicates the presence of a company with a very conservative capital structure with low debt dependence, while the maximum value of 1.4681 indicates the presence of a company with very high leverage, even exceeding its total assets, which may indicate a very aggressive financing strategy. The standard deviation of 0.2243 or 22.43% indicates moderate variability in the sample companies' capital structure policies. Company size shows an average value of 31.0885. The variable shows substantial dispersion, with value ranging from 26.2160 to 33.7899 indicate a fairly wide range of company sizes in the research sample.

Table 3. Model Estimated Results

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.070785	0.01305	-5.424086	0
ESG	0.109971	0.009418	11.08851	0
ENV	0.035675	0.003697	9.648613	0
SOC	0.039872	0.004688	8.504638	0
GOV	0.034933	0.002813	12.4178	0
ROA	0.024195	0.21486	0.112608	0.9105
LEV	0.029877	0.120375	0.249031	0.8038
SIZE	0.128385	0.061589	2.084545	0.0392
COMMIT	0.427536	0.054038	7.911783	0
ESG*COMMIT	0.108341	0.023673	4.576491	0
ENV*COMMIT	0.017939	0.007288	2.4698	0.0149
SOC*COMMIT	0.045209	0.010381	4.35508	0
G0V*COMMIT	0.025773	0.007156	3.601634	0.0005
LEV*COMMIT	1.030423	0.170443	6.045572	0
ROA*COMMIT	2.481193	0.662862	3.74315	0.0003
SIZE*COMMIT	0.113788	0.042816	2.657605	0.0089

Source: Processed Data (2025)

Table 4. Goodness of Fit of the Regression Model

Criteria	Value
R-squared	0.969212
Adjusted R-squared	0.954075
S.E. of regression	0.104566
Sum squared resid	1.312092
Log likelihood	187.5111
F-statistic	64.0284
Prob(F-statistic)	0
Durbin-Watson stat	1.88394

Table 3 shows that the ESG variable has a positive coefficient of 0.1099 with very high level of statistical significance. This positive coefficient indicates that an increase in ESG scores leads to a higher corporate Effective Tax Rate (ETR), which in turn implies a reduction in tax avoidance practices. All three ESG components demonstrate consistent and highly significant results. ENV has a coefficient of 0.0356, SOC shows a coefficient of 0.0398, and the GOV records a coefficient of 0.0349. Each component displays a consistently positive sign. The moderating variable, COMMIT, yields a highly significant positive coefficient of 0.4275. More importantly, all interaction terms between COMMIT and the ESG variables are statistically significant. The interaction ESG*COMMIT has a coefficient of 0.1083, E*COMMIT is 0.0179, S*COMMIT is 0.0452, and G*COMMIT is 0.0257. The control variables in the moderated model also reveal noteworthy results. SIZE becomes statistically significant with a coefficient of 0.1283, while ROA and LEV do not exhibit direct significant effects. However, the interaction terms between the control variables and COMMIT show strong statistical significance. Specifically, LEV×COMMIT has a coefficient of 1.0304, ROA*COMMIT is 2.4811, and SIZE*COMMIT is 0.1137.

Based on Table 4, the model's R-squared increases substantially to 0.9692, indicating that the moderated regression model explains nearly all the variation in corporate ETR. The adjusted R-squared remains very high at 0.9540, confirming that this improvement is not merely driven by the inclusion of additional variables. Furthermore, the F-statistic of 64.0284 with a probability value of 0.0000 demonstrates that, collectively, the model is highly significant. Table 5 reports the results of hypothesis tests, including the estimated regression coeffisients, the statistical significance of the variable, and corresponding p-values.

Table 5. Summary of Hypotesis Testing

Hypothesis	Coefficient	t-statistic	Prob.	Result
H1 (ESG -> Tax Avoidance)	0.103971	0.009418	0	Accepted
H2 (ENV -> Tax Avoidance)	0.035675	0.003697	0	Accepted
H3 (SOC -> Tax Avoidance)	0.039872	0.004688	0	Accepted
H4 (G0V -> Tax Avoidance)	0.034933	0.002813	0	Accepted
H5 (ESG*ESG Committee)	0.108341	0.023673	0	Accepted
H6 (ENV*ESG Committee)	0.017939	0.007288	0,0149	Accepted
H7 (SOC*ESG Committee)	0.045209	0.010381	0	Accepted
H8 (GOV*ESG Committee)	0.025773	0.007156	0,0005	Accepted

Source: Processed Data (2025)

DISCUSSION

The analysis results confirm that ESG performance and its sub-dimensions exhibit a negative association with corporate tax avoidance, thereby supporting the first through the fourth hypotheses. The empirical results for ESG performance and its individual pillars, tested independently, reveal consistent and statistically significant findings, indicating that improvements in each ESG dimension contribute to higher effective tax rates (ETR) or, equivalently, lower levels of tax avoidance. The significance of ESG performance and its three components suggests that overall ESG quality, as well as Environmental, Social, and Governance, play a critical role in shaping corporate tax behavior.

Higher ETR values are associated with reduced levels of corporate tax avoidance (Luo et al., 2020), whereas lower ETR values associated with more aggressive corporate tax planning behavior (Amin et al., 2023). A positive relationship is observed between ESG performance and effective tax rate, indicating that firms with superior ESG engagement demonstrate lower levels of tax avoidance and consequently bear a higher corporate tax burden relative to their income. The empirical results reveal that ESG scores are positively and significantly related to ETR, thereby corroborating the conclusions of prior research by Elgharabawy et al. (2025), Jiang et al. (2024), Haija et al. (2024), Teja (2024), and Yoon et al. (2021), which report similar conclusions. However, other studies, including Ariff et al. (2024), Carroll and Joulfaian (2005), and Davis et al. (2016), demonstrate that higher levels of ESG performance are positively related to firms' tax avoidance behavior.

Hypotheses five through eight are formulated to test the moderating role of the ESG committee in the associaton between ESG performance, its constituent pillars, and corporate tax avoidance. The results of regression model indicate that the fifth through the eighth hypothesis are supported, implying that the ESG committee plays a significant moderating role by reinforcing the effect of ESG performance on firms' tax avoidance behavior. The results suggest that firms exhibiting strong ESG performance and maintaining an ESG committee exhibit higher ETR levels than firms with similarly high ESG scores but without an ESG committee. The moderating effect is further confirmed at the level of individual ESG components, with statistically significant results, suggesting that the ESG committee serves as a moderator in the relationship between the individual ESG pillars and tax avoidance. Moreover, beyond its interaction effects, the ESG committee shows a highly significant direct influence. The presence of an ESG committee independently increases the effective tax rate (ETR), thereby reducing tax avoidance, irrespective of the firm's level of ESG performance. The evidence indicates that the ESG committee extends beyond a moderating role and contributes meaningfully to the formulation of corporate tax policies. As a governance instrument, the ESG committee helps translate sustainability commitments into operational practices, particularly by encouraging more cautious and accountable approaches to tax planning.

The observed moderating effect of the ESG committee supports the implications of agency theory, which emphasizes that robust governance structures can mitigate agency conflicts by aligning managerial actions with the interests of broader stakeholder constituencies, including with respect to tax compliance. From a practical perspective, these results indicate that investment in ESG governance infrastructure, particularly the establishment of a dedicated ESG committee is not merely an administrative formality but has a tangible influence on corporate behavior. For regulators, these findings may serve as a basis for recommending or even mandating the formation of ESG committees, especially for publicly listed firms with significant social and economic impacts. Several limitations of this study should be acknowledged, as they also suggest avenues for futher investigation. In particular, the sample focuses exclusively on non-financial publicly listed firms in Indonesia, potentially restricting the generalizability of the findinns across sectors and countries. Second, detailed information on the composition and size of ESG committees is largely unavailable, as most firms do not disclose such data. Consequently, the ESG committee variable is proxied using a dummy indicator, which, while simplified, remains an appropriate and commonly used approach. Third, tax avoidance is measured solely using the effective tax rate (ETR), which may not fully capture the multifaceted nature of corporate tax avoidance behavior.

CONCLUSION

This study concludes that corporate ESG performance both in composite and across individual pillars which consisting of Environmental, Social, and Governance are meaningfully associated with corporate tax behavior in Indonesian listed firms during 2021-2024, with the ESG committee acting as an important governance mechanism that conditions this relationship. Consistent with legitimacy and stakeholder perspectives, firms demonstrating stronger sustainability commitment tend to align their strategic decisions with broader social and regulatory expectations, including more responsible tax conduct, and this alignment is more effectively realized when supported by dedicated internal governance structures. Establishing an ESG committee contributes to greater integration of sustainability objectives into corporate policymaking, indicating that ESG outcomes are not merely symbolic but depend on institutionalized oversight within the firm. Accordingly, the findings affirm that the link between sustainability performance and tax practices is contingent on governance quality, highlighting the need for integrated ESG governance to strengthen corporate accountability. These insights underscore the relevance of embedding ESG oversight within corporate structures and provide a rationale for regulators and policymakers to promote formal ESG governance arrangements as part of broader efforts to improve corporate transparency, legitimacy, and fiscal responsibility in Indonesia.

Future research is encouraged to expand the scope of analysis by employing larger datasets that encompass both emerging and developed economies. In addition, content analysis may be utilized to obtain more detailed information on ESG committee attributes, including committee size, meeting frequency, and members' professional backgrounds. Subsequent studies could also consider alternative proxies for tax avoidance—such as cash ETR, long-term cash ETR, long-term ETR, GAAP ETR, and book–tax differences—to offer a more comprehensive assessment of corporate tax avoidance behavior.

PLAGIARISM STATEMENT

The authors declare that this manuscript is original, has not been published previously, and is not under consideration for publication elsewhere. All sources used in this study have been properly cited in accordance with academic standards.

CONFLICT OF INTEREST

The authors declare that there is no conflict of interest associated with this research and the publication of this article.

FUNDING STATEMENT

This research received no external funding.

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