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# THE INFLUENCE OF ESG, PROFITABILITY, AND LEVERAGE ON FIRM VALUE WITH TAX AVOIDANCE AS AN INTERVENING

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**Abstract**
This research aims to determine the influence of Environmental, Social Governance (ESG), profitability, and leverage on company value with tax avoidance as an intervening variable. The research method used is descriptive and verification. The sampling technique used is non-probability sampling with purposive sampling technique, so the samples used in this research are 80 annual reports of general manufacturing companies listed on the indonesia stock exchange (IDX) during 2018-2022. The data analysis technique used in this research is path analysis using Eviews 12. The research results show that Environmental, Social, Governance (ESG), profitability and leverage influence tax avoidance. Apart from that, the research results show that Environmental, Social, Governance (ESG), profitability, leverage and tax avoidance influence firm value. Meanwhile, based on indirect test results, it shows that there is an indirect influence of Environmental, Social Governance (ESG), profitability and leverage on firm value through tax avoidance.
**Keywords**: ESG, Firm value, Profitability leverage, Tax avoidance

## INTRODUCTION

The primary goal of investors in investing their wealth is to achieve maximum returns. Therefore, investors need to consider several factors before investing their funds. One of the main considerations is the company's performance, which is measured by its firm value (D. Sari et al., 2020). Firm value is an essential indicator that should be observed by both companies and investors (Borges & Wulandari, 2023). In addition to being a benchmark for company performance, firm value also serves as a key attraction for investors in making investment decisions.

Various efforts need to be made by companies to increase their firm value to attract investor interest. The primary goal of a corporation is to optimize its firm value because the higher the firm's value, the greater the prosperity of its owners (Sulistiyowati, 2021). According to Brigham & J.F.Houston (2019) firm value is an investor's perception of a company, often associated with stock prices.

Data from the Financial Services Authority (OJK) shows that as of April 3, 2020, the average daily stock transaction value on the Indonesia Stock Exchange (IDX) throughout 2020 was only IDR 6.96 trillion. Compared to the previous year, as of April 5, 2019, which reached IDR 9.67 trillion, this represents a 28 percent decline. Additionally, the average daily transaction volume on the IDX throughout 2020 dropped by 49 percent to 7.39 billion shares from 14.5 billion shares in 2019. All stock sectors experienced a decline in transaction volume and value, with the trade, consumer industry, and miscellaneous industry (manufacturing) sectors recording the deepest declines (Kontan.co.id, 2020).

The manufacturing industry is one of the key sectors contributing to Indonesia's economy. In addition to being the largest contributor to Gross Domestic Product (GDP), this sector also plays a role in creating jobs, attracting foreign investment, increasing exports, and boosting the country's foreign exchange reserves (Ministry of Industry, 2019). However, the stock index performance of manufacturing companies listed on the Indonesia Stock Exchange during 2018–2021 showed a downward trend. Based on data from the Indonesia Stock Exchange (www.idx.co.id), in 2017–2018, the manufacturing stock index growth decreased by -1.34%. In 2018–2019, it dropped by -9.72%, followed by another decline in 2019–2020 of -9.22%, and in 2020–2021 by -5.68%. This downward trend indicates that the performance of the manufacturing stock index remains suboptimal.

The poor performance of the manufacturing stock index is also supported by information from the Central Statistics Agency (BPS), which stated that the manufacturing industry experienced a decline throughout 2019. This decline is concerning as the manufacturing sector is a key pillar of Indonesia's economy. According to NH Korindo analyst Meilky Darmawan, the weakening performance of the manufacturing index is due to reduced domestic demand for production goods, declining export performance, and sluggish domestic sales (Kontan.co.id, 2020).Besides domestic factors, this situation is also influenced by external factors such as global economic uncertainty, the COVID-19 pandemic, inflation, government regulations, monetary policies, and weakening economies of Indonesia’s trading partners, such as China (CNBC, 2023).

Based on the above explanation, the suboptimal performance of the manufacturing sector's stock index indicates underlying issues affecting firm value. This condition was further exacerbated by the impact of the COVID-19 pandemic and inflation, which led to supply chain disruptions, increased raw material prices, and decreased demand for goods, all of which negatively impacted corporate financial performance.

Law No. 7 of 2021 concerning General Provisions and Taxation Procedures states that taxes are the largest source of revenue for the Indonesian government, used for infrastructure development and public interests. The tax ratio is a measure used to describe a country's taxation condition. The tax ratio is the comparison between total tax revenue and GDP in the same period. However, Indonesia's tax ratio remains below the minimum threshold set by the International Monetary Fund (IMF) at 15%, standing at only 12.1%, which is lower than the Asia-Pacific average of 19.3% (OECD). One of the reasons for Indonesia’s low tax ratio is the prevalence of tax avoidance practices (E. N. Sari & Chairina, 2024).

For companies, taxes are considered a burden that can reduce profits. Therefore, companies seek various legal tax-saving methods, known as tax avoidance. According to Pohan (2016), tax avoidance is the effort to legally reduce tax burdens by utilizing loopholes in tax laws and regulations. Although it does not directly violate the law, tax avoidance is often viewed negatively as it can reduce government revenue and create market inequities. The negative impact of tax avoidance on national income is significant. Indonesia is estimated to lose around US$4.86 billion per year or approximately IDR 68.7 trillion due to tax avoidance, primarily conducted by large corporations (Muliana & Supriyadi, 2023).

Tax avoidance practices by companies can reduce investor trust and lower firm value. According to Arinda & Suhartono (2018) tax avoidance affects firm value because investors perceive this practice as financial data manipulation, leading to information asymmetry, which negatively impacts investment interest. The higher the level of tax avoidance by a company, the lower its firm value (Prasetya et al., 2021).. However, the relationship between tax avoidance and firm value remains a subject of debate (D. Sari et al., 2020).

Beyond financial factors, firm value is also influenced by non-financial aspects such as Environmental, Social, and Governance (ESG) disclosure. ESG is a set of criteria that reflect a company's responsibility toward environmental, social, and good governance practices (D. Sari et al., 2020).ESG is expected to create long-term value for companies by improving transparency and business sustainability (Chen et al., 2023). Companies that implement ESG well tend to have a more positive image among investors and comply better with tax obligations, reducing tax avoidance practices (Heldayat & Sulfitri, 2025).

Various factors can influence firm value and tax avoidance, one of which is profitability. Profitability reflects a company's ability to generate profit and is often measured by Return on Assets (ROA) (Husain, 2021). The higher the profitability, the higher the potential for tax avoidance, as companies with high profits seek to reduce tax burdens to maintain high earnings

(Wulandari et al., 2024).However, higher profitability also leads to higher firm value, as investors see the company as a profitable entity (Sulistiyowati, 2021).

To understand this issue, this study will examine how tax avoidance, ESG disclosure, and profitability affect firm value in the manufacturing sector listed on the Indonesia Stock Exchange. This study employs a quantitative approach using secondary data from company financial reports. Regression analysis will be used to identify the relationships between these variables. This research is expected to provide insights into the impact of tax avoidance on firm value, the role of ESG in enhancing transparency and investor trust, and how profitability influences the relationship between tax avoidance and firm value.

This study aims to analyse the influence of Environmental, Social, and Governance (ESG), profitability, and leverage on firm value, with tax avoidance as an intervening variable, in manufacturing companies from 2018 to 2022. Specifically, the study examines the general overview of ESG, profitability, leverage, firm value, and tax avoidance, as well as the relationships among these variables. Additionally, this research limits its scope to manufacturing companies with available annual report data during the study period. The findings of this study are expected to provide a deeper understanding of the factors affecting firm value and the role of tax avoidance in this relationship.

## LITERATURE REVIEW

The stakeholder theory emphasizes the importance of strong relationships between corporations and their stakeholders, based on trust, respect, and cooperation. Good relationships can enhance business performance, while poor relationships can hinder it. The purpose of this theory is to help corporations strengthen their relationships with external groups and develop a competitive advantage (Mardikanto, 2018; Ulum, 2018; Supriyono, 2018).

Agency theory explains the contractual relationship between the owner (principal) and the manager (agent), where the manager is authorized to make decisions that benefit the owner. However, issues such as asymmetric information and conflicts of interest may arise, where the manager may not always act in the owner's best interest (Jensen & Meckling, 1976; Supriyono, 2018; Scott, 2017).

Signalling theory states that company management has better information about the company and can provide signals to investors to increase stock prices. These signals can take the form of positive information that influences investment decisions (Brigham & Houston, 2019).

The trade-off theory explains the balance between the benefits and costs of using debt in a company's capital structure. The benefits of debt include the tax shield, while the cost is the risk of bankruptcy. Companies strive to achieve an optimal capital structure where benefits and costs are balanced (Modigliani & Miller, 1963).

Tax is a mandatory contribution to the state used to finance public expenditures and the welfare of the people (Law No. 28/2007; Mardiasmo, 2016; Diana Sari, 2016; Rahayu, 2017).Tax serves a budgetary function (budgetary) and a regulatory function (regulatory) (Mardiasmo, 2016). Tax planning aims to legally reduce tax burdens by utilizing regulatory loopholes (Suandy, 2016; Pohan, 2016).

Tax avoidance is an effort to legally reduce tax burdens by taking advantage of regulatory loopholes (Mardiasmo, 2016; Suandy, 2016; Pohan, 2016). Characteristics of tax avoidance involve artificial arrangements, exploitation of legal loopholes, and confidentiality (Suandy, 2016). Tax avoidance is measured using the Effective Tax Rate (ETR), where a low ETR value indicates tax avoidance practices (Rist & Pizzica, 2014; Gemilang, 2017).

$$\mathrm{ETR} = \frac{\text{Tax Expense}}{\text{Pretax Income}} \quad (1)$$

Environmental, Social, and Governance (ESG) is a standard for measuring sustainable business activities, encompassing environmental, social, and governance aspects (Surono & Apriliasari, 2022). ESG disclosure refers to the presentation of non-financial information that may influence investor assessments (Li et al., 2018; Alareeni & Hamdan, 2020). ESG measurement is conducted using the ESG score, which evaluates company performance in environmental, social, and governance aspects (Wordsmithgroup, 2024).

$$\text{Score} = \frac{\sum_{i=0}^{n} \text{Xit}}{\text{Ni}} \text{x}100\% \qquad (2)$$

Profitability is a ratio that measures a company's ability to generate profits (Kasmir, 2014). Profitability measurement uses Return on Assets (ROA) to assess a company's ability to generate profits from its total assets (Kasmir, 2014)..

$$\text{Return On Asset} = \frac{\text{Earning after Tax}}{\text{Total Asset}} \text{x } 100\% \qquad (3)$$

Leverage is a ratio that measures the extent to which a company uses debt to finance its assets (Kasmir, 2014).Leverage measurement is conducted using the Debt to Asset Ratio (DAR), which measures the proportion of debt to a company's total assets (Kasmir, 2014).

$$\text{Debt to Asset Ratio} = \frac{\text{Total Debt}}{\text{Total Asset}} \text{ x } 100\% \qquad (4)$$

## METHODS

This study employs a quantitative approach using descriptive and verificative methods. Quantitative research is based on positivist philosophy and is used to examine a specific population or sample. Data collection techniques include research instruments, and data analysis is conducted quantitatively or statistically to test the established hypotheses.

The descriptive method is used to determine the existence of variables independently without comparing or seeking relationships with other variables. Meanwhile, the verificative method aims to determine the causal relationship between variables through hypothesis testing using statistical calculations.

The object of this study is the annual reports of general manufacturing companies listed on the Indonesia Stock Exchange (IDX) for the 2018–2022 period. The variables examined include Environmental, Social, and Governance (ESG) proxied by ESG disclosure scores, profitability proxied by ROA, leverage proxied by DAR, tax avoidance proxied by ETR, and firm value proxied by Tobin’s Q. All these variables are calculated based on figures sourced from company annual reports.

The population of this study consists of 169 general manufacturing companies listed on the IDX during 2018–2022. The sample is selected using a non-probability sampling technique with purposive sampling, which is a method of determining samples based on specific criteria. The sample selection criteria include companies that were continuously listed on the IDX and published complete annual reports from 2018 to 2022, as well as those that provided the required data for data processing. Based on these criteria, the final sample consists of 16 companies with a total of 80 annual reports analysed.

Data collection techniques include literature studies and documentation studies. Literature studies involve reviewing various journals, books, and other literature related to the research topic. Documentation studies involve collecting data from company annual financial reports available from various sources, such as the Indonesia Stock Exchange website (www.idx.co.id), IDN Financials, Investing.com, and official company websites. ESG Score data is obtained from Thomson Reuters Refinitiv Eikon, which assesses ESG scores based on three main elements—environmental, social, and governance—within a numerical range of 0.1 to 100.

The data analysis method used in this study is multivariate analysis, which involves multiple variables in a single relationship or set of relationships. The analysis method used is path analysis with the Eviews 12 software. Additionally, descriptive statistics are used to provide an overview of ESG variables, profitability, leverage, firm value, and tax avoidance based on averages, maximum values, minimum values, standard deviations, kurtosis, and skewness.

Furthermore, panel data regression analysis is applied to measure the strength of relationships between two or more variables while also indicating the direction of the relationship between independent and dependent variables. Panel data regression combines time-series and cross-sectional data to obtain more accurate results. The model used in this analysis consists of two stages:

1. Testing the effect of independent variables on dependent variables without including intervening variables.
2. Testing the effect of independent variables on dependent variables with the inclusion of intervening variables.

The regression model in this study is expressed in the form of panel data regression equations and moderation regression analysis (MRA) to gain a deeper understanding of the relationships among the studied variables.

## RESULTS AND DISCUSSION

The Indonesia Stock Exchange (IDX) is the capital market in Indonesia that facilitates the trading of stocks and other financial instruments. Initially, stock trading began during the Dutch colonial era with the establishment of De Bataviaasche Handels Vereeniging in 1912. After independence, the stock exchange underwent various changes, and in 1977, its name was changed to the Jakarta Stock Exchange (JSX).

In 1995, the government launched capital market reforms to increase transparency and liquidity. The Surabaya Stock Exchange (SSX) was then established in 1999 as the second stock exchange. However, in 2007, JSX and SSX merged to form the Indonesia Stock Exchange (IDX) to enhance market efficiency and competitiveness. Since the merger, IDX has continued to develop with financial innovations, technological advancements, and increased financial literacy among the public.

Descriptive statistics provide an overview of research variables, including mean, minimum, maximum values, and standard deviation.

Table 1: Descriptive Statistics Results

| | **Value** | **ESG** | **ROA** | **DAR** | **ETR** |
|---|---|---|---|---|---|
| Mean | 0.475313 | 0.394600 | 0.109309 | 0.462012 | 0.230287 |
| Median | 0.498421 | 0.376052 | 0.081224 | 0.484377 | 0.230142 |
| Maximum | 0.821808 | 0.826307 | 0.5976637 | 0.781787 | 0.792759 |
| Minimum | 0.161073 | 0.000000 | -0.107255 | 0.157146 | -0.273786 |
| Std. Dev. | 0.172498 | 0.205148 | 0.122671 | 0.137724 | 0.137785 |
| Observations | 80 | 80 | 80 | 80 | 80 |

Source: Processed Data, 2024

Based on descriptive statistical results, the Tax Avoidance (ETR) variable has an average value of 0.230287 with a standard deviation of 0.137785. The distribution is relatively symmetric with minimal variation, indicating that tax avoidance strategies among companies do not vary significantly. The Firm Value (VALUE) variable has an average of 0.475313 with a standard deviation of 0.172498. The wide range of values suggests significant differences in the firm values observed.

The Environmental, Social, and Governance (ESG) variable has an average of 0.394600 with a maximum value of 0.826307 and a minimum of 0.000000. This indicates that some companies have not significantly implemented ESG, while others have achieved high ESG scores. The Profitability (ROA) variable has an average of 0.109309 with a standard deviation of 0.122671. The presence of negative values in the data indicates that some companies experienced losses. Meanwhile, the Leverage (DAR) variable has an average of 0.462012 with a standard deviation of 0.137724. Its distribution is relatively symmetric, suggesting that corporate debt usage is at a moderate level.

Theoretically, these findings can be explained through various economic and financial theories. Signalling Theory (Ross, 1977) states that companies with high value tend to send positive signals to investors, increasing market confidence. Stakeholder Theory (Freeman, 1984) emphasizes that companies with high ESG scores tend to have better relationships with stakeholders, contributing to their business sustainability. Additionally, Competitive Advantage Theory (Porter, 1985) explains that highly profitable companies typically have strong differentiation strategies or better cost efficiency compared to competitors.

On the other hand, Trade-Off Theory (Modigliani & Miller, 1963) suggests that companies must balance the tax benefits of debt with the bankruptcy risks associated with high leverage. Considering these theories, it can be concluded that the Indonesian capital market continues to grow, and companies are increasingly considering sustainability factors and risk management strategies in their operations.

Panel data regression analysis was conducted to combine time series data (2018–2022) and cross-sectional data (16 manufacturing companies listed on the Indonesia Stock Exchange). The variables used in this study include Environmental, Social, and Governance (ESG), profitability (ROA), leverage (DAR), tax avoidance (ETR), and firm value.

To determine the best regression model, three main approaches were considered: the Common Effect Model, Fixed Effect Model, and Random Effect Model. A series of tests, including the Chow Test, Lagrange Multiplier (LM) Test, and Hausman Test, were performed to select the optimal model. After selecting the model, classical assumption tests, including heteroscedasticity and multicollinearity tests, were conducted to ensure model validity. Hypothesis testing was then carried out using the t-Test, F-Test, and the Coefficient of Determination ($R^2$) to assess the relationships between variables.

**Panel Data Regression Model Selection**

Test was conducted, with the results presented in Table 2.

Table 2 Chow Test (Influence of ESG, ROA, DAR on ETR)

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 1.338028 | (15,60) | 0.2090 |
| Cross-section Chi-square | 23.084954 | 15 | 0.0824 |

Source: Processed Data, 2024

Based on the test results, the probability F value (0.2090) > 0.05, leading to the conclusion that the Common Effect Model is the most suitable for use.

Similar results were found in the regression model testing that measures the effect of ESG, ROA, and DAR on firm value, as shown in:

Table 3: Chow Test (Influence of ESG, ROA, DAR on Firm Value)

| Effects Test | Statistic | d.f. | Prob. |
|---|---|---|---|
| Cross-section F | 1.370807 | (15,60) | 0.1916 |
| Cross-section Chi-square | 23.574706 | 15 | 0.0727 |

Source: Processed Data, 2024

With a probability F of 0.1916 (> 0.05), the most appropriate model to use is the Common Effect Model.

**Classical Assumption Tests**

To ensure that the regression model is unbiased, multicollinearity and heteroscedasticity tests were conducted.

Table 4: Multicollinearity Test Results

| Equation | Variable | Centered VIF |
|---|---|---|
| I | ESG | 1.055279 |
| I | ROA | 1.332726 |
| I | DAR | 1.386385 |
| II | ESG | 1.499111 |
| II | ROA | 3.045076 |
| II | DAR | 1.518575 |
| II | ETR | 4.082377 |

Source: Processed Data, 2024

Based on the VIF calculation results (< 10), it can be concluded that there are no multicollinearity issues in the model.

Next, a heteroscedasticity test was conducted to check for inconsistent residual variance.

Table 5: Heteroscedasticity Test Results

| Equation | Variable | Prob. |
|---|---|---|
| I | ESG | 0.7042 |
| I | ROA | 0.6776 |
| I | DAR | 0.5343 |
| II | ESG | 0.2744 |
| II | ROA | 0.2384 |
| II | DAR | 0.1200 |
| II | ETR | 0.1085 |

Source: Processed Data, 2024

With probability values > 0.05, it is concluded that heteroscedasticity is not present in the regression model.

**Panel Data Regression Estimation Results**

After meeting the classical assumption tests, panel data regression estimation was conducted.

Table 6: Panel Data Regression (Equation I: Influence of ESG, ROA, DAR on ETR)

| Variable | Coefficient | Prob. |
|---|---|---|
| C | 0.303007 | 0.0000 |
| ESG | -0.184393 | 0.0000 |
| ROA | 0.486517 | 0.0000 |
| DAR | -0.115016 | 0.0087 |

Source: Processed Data, 2024

Regression Equation:

$$ETR = 0.3030 - 0.1844(ESG) + 0.4865(ROA) - 0.1150(DAR)$$

The regression results indicate that ESG has a negative impact on ETR, meaning that higher ESG implementation is associated with higher tax avoidance. Conversely, ROA positively affects ETR, suggesting that higher profitability contributes to reducing tax avoidance. The DAR variable negatively affects ETR, meaning that higher leverage increases tax avoidance.

The F-Test results in Table 7 indicate that ESG, ROA, and DAR simultaneously have a significant effect on tax avoidance.

Table 7: F-Test (Equation I)

| F-statistic | Prob. |
|---|---|
| 78.08689 | 0.0000 |

Source: Processed Data, 2024

Since the probability is < 0.05, it is concluded that the regression model is significant.

Additionally, regression estimation was conducted to examine the effect of ESG, ROA, DAR, and ETR on firm value.

Table 8: Panel Data Regression (Equation II: Effect of ESG, ROA, DAR, ETR on Firm Value)

| Variable | Coefficient | Prob. |
|---|---|---|
| C | -0.086797 | 0.0208 |
| ESG | 0.098247 | 0.0041 |
| ROA | 0.152298 | 0.0189 |
| DAR | -0.918215 | 0.0000 |
| ETR | -0.694802 | 0.0000 |

Source: Processed Data, 2024

**Regression Model Selection and Interpretation**

VALUE = -0.0868 + 0.0982(ESG) + 0.1523(ROA) - 0.9182(DAR) - 0.6948(ETR)

The regression results indicate that ESG and ROA positively affect firm value, while DAR and ETR negatively affect it. This suggests that companies with high leverage and those engaging in tax avoidance tend to experience a decline in firm value.

The F-Test results in Table 9 indicate that ESG, ROA, DAR, and ETR simultaneously have a significant impact on firm value.

Table 9: F-Test (Equation II)

| F-statistic | Prob. |
|---|---|
| 148.5021 | 0.0000 |

Source: Processed Data, 2024

Since the probability is < 0.05, the regression model is considered valid in explaining the relationships between variables.

The main conclusion of this analysis is that tax avoidance plays a significant role as an intervening variable in the relationship between ESG, profitability, leverage, and firm value, with leverage having a dominant influence on firm value.

Tax authorities can utilize ESG disclosures to enhance transparency and tax compliance by integrating ESG data into tax reports and developing stricter reporting standards, including tax strategy disclosures. ESG scores can be used to identify tax avoidance risks, particularly in companies with high ESG scores but low Effective Tax Rates (ETR). ESG-based tax incentives should be closely monitored to prevent misuse, ensuring that incentives are only granted for ESG activities with a tangible impact. Education on the relationship between ESG and tax compliance should also be strengthened through workshops and practical guidelines. Additionally, transfer pricing regulations should be tightened, and oversight of highly leveraged companies should be increased. These measures not only improve tax revenue but also promote sustainable and transparent business practices. (Alareeni & Hamdan, 2020).

Tax incentives for ESG-related activities in Indonesia, such as tax reductions for renewable energy investments, may influence tax avoidance behaviour. While these incentives encourage sustainable practices, they also have the potential to be misused to aggressively reduce tax burdens. Therefore, tax authorities must ensure that incentives are granted only to companies that can demonstrate a positive impact from their ESG initiatives (Muliana & Supryadi, 2023). Tax reforms, such as simplifying tax rates and expanding the tax base, can reduce the motivation for companies to engage in tax avoidance while promoting better tax compliance. Integrating ESG policies into the tax system, such as providing greater tax incentives for companies with high ESG scores and good tax compliance, can create synergy between sustainability and tax compliance (Sulistiyowati, 2021).

## CONCLUSION

This study analyses the relationship between Environmental, Social, and Governance (ESG), profitability, leverage, tax avoidance, and firm value. The findings indicate that ESG negatively affects tax avoidance, meaning that higher ESG disclosure reduces unethical tax avoidance practices. Profitability negatively affects tax avoidance, as more profitable companies tend to comply with tax obligations. Meanwhile, leverage positively affects tax avoidance, indicating that highly leveraged firms are more inclined to engage in tax avoidance to maintain financial efficiency.

Moreover, ESG positively influences firm value, as higher ESG disclosures improve corporate reputation and investor attractiveness. Profitability also positively affects firm value, as highly profitable companies are financially stable and attract investors. However, leverage negatively affects firm value because high debt levels increase financial risk and reduce investor confidence. Conversely, tax avoidance positively impacts firm value, indicating that effective tax avoidance strategies can enhance firm value by optimizing tax savings. Additionally, ESG, profitability, and leverage indirectly influence firm value through tax avoidance.

### Recommendations

Based on the research findings, several recommendations are proposed. Companies should continue developing ESG practices as a form of stakeholder responsibility, improve profitability through operational efficiency, and manage leverage wisely to avoid financial risks. Additionally, companies should reduce tax avoidance practices by implementing legal tax planning strategies and increasing transparency to enhance firm value.

For the government and regulators, stricter supervision of tax avoidance practices is needed, along with policies that promote ESG transparency to enhance corporate governance. Investors and stakeholders are advised to consider ESG factors and corporate tax behaviour in investment decisions. Future research is encouraged to include additional variables such as company size, company age, and liquidity, as well as expanding the research scope across different sectors and periods for better relevance to current conditions.

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