



How ESG Disclosure Affects Firm Value: The Mediating Role of Tax Avoidance

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Abstract: This study aims to examine the effect of environmental, social, and governance (ESG) disclosure on firm value with tax avoidance as a mediating variable in food and beverage sub-sector companies listed on the Indonesia Stock Exchange. This study uses a quantitative approach with a *Random Effect Model* (REM) panel data regression method on 84 observations collected during the 2022-2024 period. The results show that ESG disclosure has a significant negative effect on tax avoidance, indicating that increased transparency and sustainability responsibility can reduce corporate tax avoidance practices. Additionally, ESG disclosure has a significant positive effect on firm value, while tax avoidance has a significant negative effect on firm value. Furthermore, tax avoidance was found to partially mediate the relationship between ESG disclosure and firm value, confirming that taxation policy is one of the key mechanisms in the process of creating firm value. These findings confirm that ESG disclosure not only serves as an instrument of legitimacy, but also as an effective corporate strategy in increasing firm value through risk management, transparency enhancement, and strengthening stakeholder trust. Practically, the results of this study have implications for company management to integrate ESG strategies with ethical tax policies, as well as for investors to make the quality of ESG disclosure and the level of tax compliance key indicators in assessing the prospects and sustainability of firm value in the future.

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INTRODUCTION

The era of global business transformation is increasingly complex and requires companies to focus not only on profits but also on their impact on the environment, society, and transparent governance. This paradigm shift emphasizes the importance of a stakeholder-oriented approach, rather than just a shareholder-oriented one. The concept of Environmental, Social, and Governance (ESG) has emerged as a standard for comprehensively assessing a company's non-financial performance, which can influence

market perceptions of a company's value (Ellili, 2023). In this study, ESG disclosure is positioned not merely as an outcome of corporate sustainability performance, but as a strategic disclosure practice through which firms communicate environmental, social, and governance commitments to stakeholders. Therefore, the focus of this study is on the extent to which ESG disclosure functions as a transparency and governance mechanism that may influence firm value directly and indirectly.

Global attention to ESG began to gain traction with the introduction of the United Nations Principles for Responsible Investment (UN PRI) in 2006, which encouraged global investors to incorporate sustainability elements into their investment decisions. In Indonesia, the SEOJK 16/SEOJK.04/2021 regulation further strengthens ESG disclosure, making it not only a measure of ethics, but also an important strategic indicator in creating sustainable firm value (Financial Services Authority (OJK), 2021). The Indonesian regulatory environment is particularly important because sustainability disclosure is increasingly connected to corporate accountability, investor confidence, taxation transparency, and public legitimacy. Regulation intensifies the relationship between ESG disclosure, tax avoidance, and firm value because firms operating under stronger disclosure requirements face greater scrutiny from regulators, investors, consumers, and other stakeholders. This disclosure is becoming increasingly relevant, particularly in the food and beverage sub-sector, which is closely linked to ESG issues such as waste management, worker welfare, and supply chain governance. In highly regulated industries such as food and beverages, compliance with sustainability, product safety, environmental, labor, and governance standards can shape market perception; therefore, any inconsistency between ESG disclosure and aggressive tax behavior may create reputational risk and affect firm value.

Freeman's stakeholder theory (1984) forms the basis of this study. This theory states that companies have responsibilities to various stakeholders, including the community, government, and the environment. ESG is a means for companies to meet stakeholder expectations and maintain their legitimacy. Research by Kandpal et al. (2024) reveals that companies must strike a balance between meeting stakeholder needs, which can be achieved through transparency and consistent social responsibility, as reflected in ESG disclosure. From this theoretical perspective, ESG disclosure can reduce information asymmetry and signal managerial commitment to accountability. However, when firms simultaneously engage in tax avoidance, stakeholders may perceive a gap between sustainability claims and actual corporate responsibility, thereby affecting the credibility of ESG disclosure and, ultimately, firm value.

However, despite the strong push to implement ESG principles, the impact of ESG disclosure on firm value is not always consistent. Some studies show a positive effect, particularly through the social and governance dimensions (Aydoğmuş et al., 2022). Meanwhile, other studies show different results, such as those found by Angir and Weli (2024), which indicate a negative effect on firm value. These differing results indicate that the relationship between ESG and firm value is contextual, influenced by industry sector, ESG reporting quality, and market perception. This reinforces the argument that ESG disclosure needs to be viewed more comprehensively, not only in terms of its direct impact, but also through other variables that may mediate the relationship. One variable that may act as a mediator in the relationship between ESG disclosure and firm value is tax avoidance. The mediating role of tax avoidance can be explained through two possible mechanisms. First, firms with stronger ESG disclosure are expected to be more transparent and accountable, which may reduce the tendency to engage in aggressive tax avoidance because such practices may conflict with stakeholder expectations. Second, tax avoidance may affect firm value by influencing cash flow efficiency, reputational risk, regulatory risk, and investor trust. Thus, ESG disclosure may shape firm value not only through sustainability-related perceptions, but also through the extent to which firms manage their tax behavior responsibly.

Tax avoidance is often used by companies to optimize their fiscal obligations, even though this practice has the potential to affect the company's reputation and value. Studies show that tax avoidance can have a negative effect on firm value (Guedrib & Marouani, 2023). Tax avoidance practices are often used by management as a strategy to improve financial efficiency and maintain profitability. However, this practice also risks damaging the company's reputation and creating distrust in the eyes of the public. Several studies, such as those conducted by Elamer et al. (2024) and Khelil and Khelif (2023), show that tax avoidance can negatively affect firm value, although not always statistically significant. Meanwhile, other

studies show that this practice can increase firm value in the short term (Shubita, 2024). However, it can have adverse long-term effects if not accompanied by good governance. Therefore, it is important to examine the role of tax avoidance in the relationship between ESG disclosure and firm value to understand the dynamics of sustainability strategies adopted by companies. Thus, tax avoidance has the potential to be a mediating variable between ESG disclosure and firm value, especially in highly regulated industries, such as food and beverages. In this context, tax avoidance is not only viewed as a fiscal strategy, but also as a governance-related behavior that may strengthen or weaken the credibility of ESG disclosure. Companies that disclose ESG information extensively but engage in aggressive tax avoidance may be perceived as inconsistent in fulfilling their social responsibility, while companies with more responsible tax behavior may receive stronger market appreciation.

This study aims to examine the relationship between ESG disclosure and firm value through tax avoidance as a mediating variable, specifically in food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period 2022–2024. This research is expected to fill the existing research gap by deepening the understanding of the role of tax avoidance in mediating the influence of ESG on firm value, as well as providing useful insights for stakeholders in making decisions based on sustainability and fiscal efficiency. The novelty of this study lies in three main aspects. First, this study clarifies ESG disclosure as a strategic disclosure practice rather than merely as a sustainability outcome. Second, it explicitly examines tax avoidance as a mediating mechanism that explains how ESG disclosure may influence firm value. Third, it places the analysis within Indonesia's regulatory environment and focuses on the food and beverage sub-sector during the 2022–2024 period, a context in which ESG accountability, tax compliance, and firm value are increasingly interconnected. Therefore, this study contributes to the ESG literature by offering a more contextual and mechanism-based explanation of the ESG disclosure–tax avoidance–firm value relationship in an emerging market setting.

LITERATURE REVIEW AND HYPOTHESES

Stakeholder Theory

Stakeholder theory is a conceptual framework that explains the various parties who have an interest in an organization or project (Freeman, 1984). Companies should not only focus on internal interests, but also pay attention to the interests of related parties, such as investors, creditors, consumers, suppliers, the government, and the community. According to Mahajan et al., (2023) companies are expected to maintain a balance in meeting the needs of stakeholders by optimizing the disclosure of social, environmental, and economic responsibilities that can create a positive image in the eyes of the public.

In the context of large companies, attention to stakeholders is very important to maintain sustainability and increase firm value. Large-scale companies tend to attract investors because they are considered to have good profit prospects, which has an impact on the increase in stock prices (Duan et al., 2023). This not only increases the welfare of shareholders but also optimizes firm value. Stakeholder theory emphasizes that companies must meet the expectations of various related parties. The application of ESG (Environmental, Social, and Governance) principles is a tangible form of corporate responsibility towards stakeholders, while aggressive tax avoidance practices can harm the state and society, which in turn can damage the company's image (Elamer et al., 2024). Therefore, a balance between ESG implementation and ethical tax practices is crucial for building a positive image, enhancing public trust, and strengthening corporate value.

Previous Research

Research on the relationship between ESG disclosure and *tax avoidance* has produced mixed findings. A study by Yoon et al., (2021) shows that ESG performance has a significant negative impact on *tax avoidance*, particularly through the *social* dimension, which encourages companies to be more ethical and socially responsible, thereby reducing the tendency to avoid taxes. Similarly, Khelifi et al., (2025) also found that ESG *disclosure* significantly reduces *tax avoidance* practices, as increased transparency

encourages public accountability. However, different results were shown by Mitroulia et al.,(2025) and Metwally et al.,(2025), which stated that there was no significant effect of ESG disclosure on *tax avoidance*, indicating possible contextual factors such as the quality of governance and tax supervision in Indonesia. These differing results reveal important theoretical and empirical gaps that warrant further research, particularly in the food and beverage sector, which is highly exposed to ESG issues and fiscal pressures.

Most of the literature supports that ESG disclosure has a significant positive effect on firm value. For example, Aydoğmuş et al.,(2022) prove that ESG disclosure directly increases firm value and profitability, especially through the *social* and *governance* dimensions. Similarly, Carnini Pulino et al.,(2022) state that ESG *disclosure* has a positive impact on firm value, especially when influenced by company size as a moderating variable. Another study by Eng et al.,(2022) also found that ESG disclosure consistently increases firm value, particularly for companies in the ESG index. However, different results emerged from the studies Aydoğmuş et al.,(2022); and Zhang et al.,(2020) which found a significant negative effect of ESG *disclosure* on firm value, or no effect when considered independently. These findings emphasize that sectoral context, reporting quality, and market understanding of ESG are crucial in determining the direction of the relationship between ESG disclosure and firm value.

The relationship between *tax avoidance* and firm value remains a subject of debate. Several studies, such as Zhang and Yu, (2023) mention that *tax avoidance* has a negative but insignificant effect, indicating that the market does not fully appreciate tax efficiency if it ignores ethical principles and transparency. Meanwhile, Chen et al.(2024) mentions that *tax avoidance* can increase firm value in the short term but causes reputational damage in the long term, which is then mitigated by good ESG practices. Regarding the mediating relationship of *tax avoidance*, Khlifi et al.,(2025) provide evidence that *tax avoidance* significantly mediates the relationship between ESG disclosure and financial performance, suggesting a similar potential mechanism for firm value. Therefore, examining *tax avoidance* as a mediating variable in the relationship between ESG disclosure and firm value is a logical step toward understanding the complexity of sustainable and ethical strategic management.

The influence of ESG disclosure on tax avoidance

Environmental, Social, and Governance (ESG) are standards used by companies in implementing policies that are in line with the principles of sustainability and social responsibility, as well as good governance. ESG disclosure demonstrates a company's commitment to environmental sustainability and transparent governance practices. Therefore, companies that actively disclose ESG are expected to manage their operations more optimally and increase their overall corporate value. Additionally, companies with high values tend to avoid tax avoidance practices in an effort to maintain their reputation and long-term sustainability (Chouaibi et al., 2022).

The stakeholder theory proposed by Freeman,(1984) emphasizes the importance of companies maintaining legitimacy in the eyes of stakeholders through transparent and responsible business practices. In this framework, broader ESG disclosure serves to curb opportunistic behavior by managers, including tax avoidance practices (Jiang et al., 2024) . This is due to stakeholder expectations that companies comply with regulations and maintain business sustainability. ESG disclosure that increases transparency and accountability also helps companies demonstrate their commitment to business ethics and social responsibility, thereby minimizing the risk of excessive tax avoidance practices (Metwally et al., 2025) .

Research conducted by Yoon et al.,(2021) proves that ESG disclosure has a significant negative effect on tax avoidance practices. This means that the more comprehensive a company is in its ESG disclosure, the lower its level of tax avoidance. Similar findings were also obtained by Elamer et al.,(2024), which show that ESG plays a role in reducing tax avoidance practices. Based on these findings, the hypothesis in this study is

H1: ESG disclosure influence tax avoidance

The influence of ESG Disclosure on Firm Value

Over time, ESG has gained increasing attention from decision makers who assess corporate ethics and social accountability, particularly in the aspect of environmental governance (Arvidsson & Dumay, 2022). Regarding financial and investment performance, companies generally believe that cost efficiency in environmental programs can provide competitive advantages and increase customer satisfaction. Conversely, if companies invest in poor environmental management, either because it is inefficient or irrelevant, it can actually have a negative impact on company performance (Hassan et al., 2024).

The theory underlying the relationship between ESG and firm value is *stakeholder* theory. This theory explains that ESG is a form of communication between companies and stakeholders through the disclosure of social and environmental responsibilities. Through good ESG practices, companies strive to meet *stakeholder* expectations, maintain legitimacy, and build public trust, which ultimately increases firm value (Agbakwuru et al., 2024). Therefore, ESG disclosure is considered important and mandatory because it not only strengthens relationships with *stakeholders* but also provides added value in improving the company's image and reputation in the public eye.

The relationship that will be revealed in this study is that ESG disclosure affects firm value. Thus, the higher the ESG score, the better the company's performance. Previous studies conducted by Cheng et al.,(2024); Tahmid et al.,(2022); and Wu et al.,(2022) also provide empirical evidence that ESG has a positive effect on firm value. Based on this explanation, the following hypothesis is formulated:

H₂: ESG disclosure influence firm value

The influence of Tax Avoidance on Firm Value

Tax avoidance is an action that aims to minimize tax burdens without violating tax regulations by finding loopholes in the law (Dyreng et al., 2022). Companies can take advantage of legal loopholes that arise due to the absence of clear tax provisions for certain schemes or transactions. The practice of tax avoidance itself is categorized as a legal action, because it is carried out without violating applicable tax regulations.

Freeman's view (1984) in stakeholder theory emphasizes that companies need to maintain trust and legitimacy in the eyes of stakeholders. Excessive tax avoidance practices can be perceived as unethical behavior, thereby risking a decline in the company's legitimacy and negatively impacting the company's value (Chouaibi et al., 2022). This can reduce stakeholder trust, damage reputation, and ultimately have a negative impact on firm value. Therefore, within the framework of stakeholder theory, transparent and ethical tax management is part of a company's efforts to maintain legitimacy and business sustainability (Baudot et al., 2020).

Research by Guedrib and Marouani (2023) shows that tax avoidance does not affect firm value. Similarly, research conducted by Duhoon and Singh (2023) shows that firm value is not affected by long-term tax avoidance. Meanwhile, research by Alomair and Metwally (2025) and Elamer et al.,(2024) shows that ESG can strengthen the relationship between tax avoidance and firm value. Based on this research, the following hypothesis is proposed:

H₃: Tax Avoidance influence Firm Value

The influence of ESG Disclosure on Firm Value through Tax Avoidance

Based on the first hypothesis, ESG disclosure affects tax avoidance. This means that the higher the level of ESG disclosure, the lower the tendency for companies to engage in tax avoidance. Companies with comprehensive ESG disclosure and high firm value tend to avoid tax avoidance practices, as such actions can damage the company's image and value in the eyes of investors (Alomair & Metwally, 2025). The second hypothesis states that ESG disclosure affects firm value. The more complete the ESG disclosure, the higher the company's responsibility towards environmental, social, and governance aspects (Sharma et

al., 2020). Good ESG disclosure will enhance the company's reputation while strengthening its value in the eyes of investors.

According to the stakeholder theory proposed by Freeman (1984) a company's success in maintaining legitimacy is not only determined by direct compliance with stakeholder demands but also through indirect mechanisms that influence market perceptions. In this context, tax avoidance can be an intermediary pathway that explains how ESG ultimately affects firm value (Wang et al., 2025). Companies with good ESG disclosure will reduce tax avoidance practices to maintain legitimacy, and ultimately this condition contributes to an increase in firm value (Amarna et al., 2025; Qutait & Salem, 2026). Previous studies examining the effect of ESG disclosure on firm value with tax avoidance as a mediating variable have not been specifically identified. Therefore, based on the above explanation, the following hypothesis is formulated:

H₄: ESG disclosure influence firm value through tax avoidance.

METHODS

This study sample comprised students enrolled in the Bachelor of Accounting, Bachelor of Accounting Education, and Diploma of Accounting programs. A single-institution design was adopted to control for curricular structure, assessment standards, and pedagogical approaches, thereby reducing contextual noise in examining SRL-related mechanisms. The selection of this sample is based on the characteristics of procedural accounting learning and the urgency of critical thinking skills, which have been identified as affecting the future careers of accounting students (Borji et al., 2021). The sample was obtained through the utilization of a survey methodology, with a questionnaire distributed electronically via Google Form. The sampling technique employed was purposive sampling. A number of 361 respondents obtained, comprising 289 females and 72 males. The survey items were adopted from previous research that matched the constructs of critical thinking (Facione, 1992; Ghadi et al., 2015). The operational definitions of the variables employed in this study can be found in Table 1. This study has been granted ethical clearance by the Study Ethics Commission of Malang State University, thereby ensuring that all applicable procedures have been followed.

Table 1. Research Sample Criteria

	Criteria	Number
1.	Food and beverage sub-sector companies listed on the Indonesia Stock Exchange	95
2.	Food and beverage sub-sector companies that are not continuously listed on the Indonesia Stock Exchange for the period 2022 to 2024	(13)
3.	Food and beverage sub-sector companies that did not publish <i>a</i> complete	(9)
4.	Food and beverage sub-sector companies that did not publish <i>a</i> complete	(3)
5.	Food and beverage sub-sector companies that do not have data on ratios related to research variables for the 2022–2024 period	(22)
6.	Food and beverage sub-sector companies that experienced significant losses or major restructuring during the 2022–2024 period	(20)
	Observation data samples that meet the criteria	28
	Number of years of research	3
	Total research data observation sample	84

The type of research used is quantitative research with a panel data regression approach. This study aims to examine the effect of ESG disclosure on firm value through tax avoidance as a mediating variable in food and beverage sub-sector companies listed on the Indonesia Stock Exchange for the period 2022–2024. The population in this study includes all food and beverage sub-sector companies listed on the Indonesia Stock Exchange, totaling 95 companies. The sample was taken using purposive sampling based on certain criteria, such as companies that are continuously listed on the Indonesia Stock Exchange, publish complete annual reports and sustainability reports, and have not experienced significant losses or major restructuring. There were 28 companies that met these criteria, with a total of 84 observation samples over three years.

In this study, there are three main variables: ESG disclosure as an independent variable, tax avoidance as a mediating variable, and firm value as a dependent variable.

Table 2. Variable Measurements

Variable	Variable Type	Operational Definition	Measurement Scale	Source
Environmental, Social, and Governance (ESG)	Independent Variable (X)	ESG disclosure is the disclosure of information by a company regarding its environmental, social, and governance practices as presented in its annual report or sustainability report. Measurement is based on applicable ESG disclosure indicators.	Nominal	Duan et al., (2023)
Tax Avoidance (TA)	Mediation Variable (M)	Tax avoidance is a company's effort to minimize its tax burden through tax planning that is still within the legal corridor, but is often debated ethically because it has the potential to reduce the company's contribution to state revenue.	Ratio	Elamer et al., (2024)
Firm value (NP)	Dependent Variable (Y)	Firm value reflects investors' perceptions of a company's ability to manage resources to generate long-term profits, as reflected in the movement of the company's share price on the capital market.	Ratio	Alomair & Metwally, (2025)

Data Analysis Techniques

In this study, panel data was used because it combines two dimensions, namely time (time series) and unit (cross-section), which allows for a more comprehensive analysis and reduces estimation bias that often arises in simple regression models. Three estimation models were used: Common Effect Model (CEM), Random Effect Model (REM), and Fixed Effect Model (FEM). The appropriate model was selected through a series of tests, such as the Chow test, Hausman test, and Lagrange Multiplier test. Based on the Chow test, if the probability value is less than 0.05, then H1 is accepted and the Fixed Effect model is selected. The Hausman test is used to choose between Fixed Effect and Random Effect, with the hypothesis H0: Random Effect and H1: Fixed Effect, and the Lagrange Multiplier test is used to choose between Random Effect and Common Effect, where a p-value of less than 0.05 will indicate that the appropriate model is Random Effect.

To test the hypothesis, a t-test (partial) is performed to measure the effect of each independent variable on the dependent variable individually, with the test criteria being that if the t-count is greater than the t-table or the significance value is less than 0.05, then H0 is rejected. The coefficient of determination (R-Square) is used to assess how well the regression model explains the variation in the dependent variable, with an R-Square value close to 1 indicating a strong model. The Sobel test is used to test the mediating

effect of tax avoidance in the relationship between ESG disclosure and firm value. A t-value greater than the t-table value in the Sobel test indicates a significant mediating effect, with the formula $t = ab / \sqrt{(b^2 SEa^2 + a^2 SEb^2)}$ used to calculate the indirect effect through the mediating variable.

Research Model and Hypotheses

This research model tests the effect of ESG disclosure on firm value with tax avoidance as a mediating variable. Theoretically, this model describes the relationship between ESG disclosure (X) as an independent variable that affects firm value (Y) through the mediating effect of tax avoidance (M). This relationship is represented by the following panel data regression equation:

1. First equation: Testing the effect of ESG disclosure on tax avoidance.

$$M_{it} = \alpha + \beta_1 X_{it} + \epsilon_{it}$$

Where M_{it} is tax avoidance, X_{it} is ESG disclosure, and ϵ_{it} is the error term.

2. Second equation: Testing the effect of ESG disclosure and tax avoidance on firm value.

$$Y_{it} = \alpha + \beta_2 X_{it} + \beta_3 M_{it} + \epsilon_{it}$$

Where Y_{it} is firm value, X_{it} is ESG disclosure, M_{it} is tax avoidance, and ϵ_{it} is the error term.

RESULTS AND DISCUSSION

The average scores in Table 2 show that all variables are almost close to the maximum value with a relatively moderate standard deviation. In general, these results indicate that the level of critical thinking of accounting students and its forming variables is relatively moderate. The *Self Confidence* variable has an average that is closest to the maximum value (13.24), this indicates that accounting students have high *self-confidence* and courage in making a decision. In contrast, *Analyticity* has a mean that is quite low (7.20), indicating that accounting students tend to use their analytical skills less in the learning process.

Based on the results of descriptive statistical data processing presented in Table 3, it can be seen that the number of observations made by the author on the independent variable (X), namely ESG disclosure, the dependent variable (Y), namely firm value, and the mediating variable (M), namely *tax avoidance*, is 84 data observation samples from annual reports and sustainability reports in 28 food and beverage sub-sector companies listed on the Indonesia Stock Exchange in 2022–2024.

Table 3. Descriptive statistical results

Variable	N	Minimum	Maximum	Mean	Std. Deviation
ESG (X)	84	0.175258	0.948454	0.614016	0.214998
NP (Y)	84	0.513316	5.573827	1.790426	1.085417
TA (Z)	84	0.017439	2.288491	0.282665	0.255803

Source: Processed Data (*EViews*), 2026

ESG disclosure variables (X) are proxied using the ESGj index calculated based on a *checklist* method for items in the *Global Reporting Initiative* (GRI) standards, with a score of 1 for disclosed items and 0 for undisclosed items. The average value of 0.614016 (61.40%) indicates that companies in the food and beverage sub-sector have generally disclosed more than half of the ESG indicators. The disclosure range is quite wide, starting from a minimum value of 0.175258 (17.53%) to a maximum value of 0.948454 (94.85%), indicating that there are companies with low to almost full sustainability transparency. The standard deviation of 0.214998 illustrates moderate variation between companies. The firm value variable (Y), proxied using Tobin's Q, has an average value of 1.790426 (179.04%), indicating that companies in the food and beverage sub-sector are generally valued by the market at around 1.79 times their book value. A wide range of values is seen from a minimum of 0.513316 (51.33%), indicating the existence of *undervalued* companies, to a maximum of 5.573827 (557.38%), reflecting companies with very high market valuations. The standard deviation of 1.085417 indicates significant variation in market valuation between companies. The *tax avoidance* variable (M) is proxied using *the Effective Tax Rate* (ETR), which shows the proportion of tax expenses to pre-tax profit. The average value of 0.282665 (28.27%) indicates that

companies generally pay effective tax expenses of around 28% of their pre-tax profit. The range of ETR values is very wide, with a minimum of 0.017439 (1.74%), which indicates companies with very low tax expenses, to a maximum of 2.288491 (228.85%), which usually occurs due to fiscal losses or certain tax adjustments. The standard deviation of 0.255803 shows considerable variation between companies.

Table 4. Pearson Correlation

Variable	ESG (X)	NP (Y)	TA (Z)
ESG (X)	1,000		
NP (Y)	-0.462***	1.000	
TA (Z)	0.318***	-0.528***	1.00

Source: Processed Data (*EViews*), 2026

Based on Table 4 Pearson Correlation, the Environmental, Social, and Governance (ESG) variable has a negative and significant correlation with firm value (NP) of -0.462 at a significance level of 1%. This indicates that an increase in ESG scores tends to be followed by a decrease in firm value, although this relationship is still associative and does not yet reflect a causal relationship. Furthermore, tax avoidance (TA) shows a negative and significant correlation with firm value of -0.528 at a significance level of 1%. This result indicates that the higher the tax avoidance practices carried out by companies, the more firm value tends to decline, which may be caused by increased reputational risk and regulatory uncertainty. Meanwhile, the relationship between ESG and tax avoidance shows a positive and significant correlation of 0.318 at a significance level of 1%. This finding indicates that companies with higher levels of ESG disclosure tend to have higher levels of tax avoidance, which opens up the possibility of tax avoidance playing a mediating role in the relationship between ESG and firm value.

Table 5. Random Effect Model Regression Results

Variable	Model 1		Model 2	
	Coefficient	p-value	Coefficient	p-value
(Constant)	-0.4588	0.000***	0.1967	0.044**
ESG (X)	- 0.489741	0.000***	0.258498	0.015
TA (Z)	–	–	-0.482003	0.000***
Wald chi ²	27.06		50.51	
Prob > chi ²	0.000		0.000	

Source: Processed Data (*EViews*), 2026

The results of the study indicate that ESG disclosure has a negative and significant effect on *tax avoidance*. This can be seen from the ESG regression coefficient of -0.489741 with a probability value of 0.0000, which is smaller than the significance level of 0.05, and a t-value of -5.405075 , which is greater in absolute terms than the t-table value of 1.98968. Thus, it can be concluded that the higher the level of a company's ESG disclosure, the lower the level of *tax avoidance*, and the first hypothesis is accepted. Furthermore, ESG disclosure has a positive and significant effect on firm value. This is reflected in the ESG coefficient of 0.258498, a probability value of 0.0015 that is smaller than 0.05, and a t-value of 3.282684 that is greater than the t-table value of 1.98968, so the second hypothesis is accepted. This means that increased ESG disclosure will increase firm value, and empirically, ESG is proven to be valued by the market as a positive signal regarding the prospects and quality of company management. The results show that *tax avoidance* has a negative and significant effect on firm value. The *tax avoidance* regression coefficient is -0.482003 , with a probability value of 0.0000 and a t-value of -6.445446 , which is greater in absolute terms than the t-table value of 1.98968, indicating that the third hypothesis is accepted. This means that the higher the level of *tax avoidance* practiced by a company, the lower the company's value in the eyes of investors, because aggressive tax practices are considered to increase risk and reduce the company's credibility.

The Influence of ESG Disclosure on Tax Avoidance

Empirically, these findings provide evidence that ESG is one of the factors that can suppress companies' tendency to engage in aggressive tax management. Theoretically, these results align with stakeholder theory, which posits that companies have an obligation to meet the expectations of stakeholders, including those related to transparency and tax compliance. ESG also includes disclosure of corporate tax practices, so that increased ESG disclosure indicates a company's commitment to good governance and more ethical tax behavior. This is consistent with prior research, such as Elamer et al. (2024), Jiang et al. (2024), and Yoon et al. (2021), which show that companies with higher ESG disclosure tend to reduce tax avoidance. For example, Yoon et al. (2021) demonstrate that firms with better ESG performance are less likely to engage in aggressive tax planning, as the disclosure helps to align their tax practices with stakeholder expectations. Additionally, the study by Lee et al. (2023) reinforces this conclusion by showing that the more transparent a firm is about its ESG practices, the lower its propensity to exploit tax loopholes for profit maximization. Moreover, research by Gupta and Kim (2022) suggests that improved ESG disclosure acts as a deterrent against aggressive tax avoidance strategies by making firms more accountable to public scrutiny and regulatory bodies. Thus, ESG disclosure is not only a tool for sustainability communication but also reflects more responsible tax behavior.

The Influence of ESG Disclosure on Firm Value

Theoretically, these results are in line with stakeholder theory, which emphasizes that companies must meet the needs, interests, and expectations of stakeholders, including investors, consumers, the community, and regulators. ESG disclosure is a means for companies to demonstrate their commitment to responsible business practices, transparency, and sustainability. In the food and beverage sub-sector, sustainability issues are increasingly important because they relate to food safety, environmental impact, and community relations. When companies expand their ESG disclosure, stakeholders respond positively because they perceive the company to have good governance, be more sensitive to risk, and be committed to ethical practices. This positive stakeholder response drives an increase in firm value. These findings reinforce previous research, such as Agbakwuru et al. (2024), Aydoğmuş et al. (2022), and Zhou et al. (2022), which show that openness and commitment to sustainability are appreciated by stakeholders and ultimately increase firm value. For example, Zhou et al. (2022) found that firms with higher levels of sustainability disclosure experience a significant rise in stock market performance and investor confidence. Further support for this claim comes from the work of Tan and Huang (2023), who show that ESG practices, when disclosed comprehensively, create a long-term competitive advantage by attracting socially responsible investors and enhancing brand loyalty. Moreover, research by Nguyen and Kim (2023) highlights that in the food and beverage industry, sustainability disclosure enhances corporate reputation, which, in turn, strengthens consumer trust and drives greater sales growth, translating into higher firm valuations.

The Influence of Tax Avoidance on Firm Value

Theoretically, the results of this study are also consistent with stakeholder theory, which asserts that companies must maintain harmonious relationships with stakeholders through responsible actions, including in matters of taxation. Aggressive tax avoidance practices are often perceived by stakeholders as unethical, as companies are considered to be reducing their contribution to the state and society (Chouaibi et al., 2022). This negative perception can reduce investor confidence, affect the company's reputation, and create the risk of conflict with regulators. In the food and beverage industry, which is highly sensitive to reputation, aggressive tax practices have the potential to weaken stakeholder support and impact the company's value. These results are consistent with research by Guedrib and Marouani (2023) and Jacob and Schütt (2020), which show that companies that fail to meet stakeholder expectations regarding tax compliance tend to receive lower market valuations. For example, Guedrib and Marouani (2023) demonstrate that firms engaged in aggressive tax avoidance face investor backlash, as such practices are

often viewed as a sign of poor governance. This is further supported by the research of Xie and Zhang (2022), which finds that tax avoidance is associated with negative investor perceptions, especially in sectors where social and environmental responsibility is highly valued. Additionally, the study by Yang et al. (2023) emphasizes that tax avoidance undermines corporate reputation, and in the long term, firms that engage in such practices suffer from lower stock market prices and diminished shareholder value, particularly in the food and beverage industry, where transparency is crucial for consumer trust.

The results of the Sobel test in this study are as follows:

$$t = \frac{ab}{\sqrt{b^2 SEa^2 + a^2 SEb^2}}$$

$$t = \frac{-0.489 \times -0.482}{\sqrt{(-0.482^2 \times 0.090^2) + (-0.489^2 \times 0.074^2)}}$$

$$t = \frac{-0.235398}{\sqrt{(0.232324 \times 0.0081) + (0.239121 \times 0.005476)}}$$

$$t = \frac{-0.235398}{\sqrt{(0.00188282) + (0.00130967)}}$$

$$t = \frac{-0.235398}{\sqrt{(0.00319249)}}$$

$$t = \frac{-0.235398}{0.05649}$$

$$t = 4.1723$$

Description:

- a = X coefficient (ESG disclosure pathway for *tax avoidance*)
- b = M coefficient (*Tax avoidance* pathway to firm value)
- SEa = Standard error of ESG disclosure (ESG disclosure pathway to *tax avoidance*)
- SEb = Standard error of *tax avoidance* (Path of *tax avoidance* on firm value)

Based on the Sobel test results, a t-value of 4.1723 was obtained, which is greater than the t-table value of 1.98968. Therefore, the indirect effect of ESG disclosure on firm value through tax avoidance is positive and significant. This indicates that tax avoidance acts as a partial mediating variable in the relationship between ESG disclosure and firm value. Thus, the fourth hypothesis is accepted, and these results show that ESG disclosure not only affects firm value directly but also indirectly through the mechanism of reducing tax avoidance.

The Influence of ESG Disclosure on Firm Value through Tax Avoidance

Theoretically, this mediation mechanism shows that ESG disclosure encourages more ethical tax behavior, thereby increasing investor confidence in the company. These results reinforce the view that ESG plays a role in improving corporate governance quality, which impacts corporate financial stability and reputation. By disclosing their ESG activities, companies demonstrate a commitment to transparency, which reduces the likelihood of engaging in tax avoidance practices. In turn, the reduction in tax avoidance enhances the company's reputation, fosters trust with investors, and positively influences firm value.

These findings are in line with the research of Alomair and Metwally (2025), who found that tax avoidance mediates the relationship between ESG and firm value in public companies. Similarly, research by Zhang and Yu (2023) shows that ESG disclosure reduces aggressive tax practices, enhancing market perceptions and ultimately improving the company's financial performance. Further support is provided by the study by Chang and Lee (2022), which indicates that companies with higher ESG scores are less likely to engage in tax avoidance due to the reputational risks involved, leading to a higher firm value in the long term. Additionally, research by Chen et al. (2024) confirms that reducing tax avoidance through better

governance practices, as facilitated by robust ESG disclosures, leads to an increase in firm value by reducing financial risks and improving investor trust.

Thus, ESG disclosure has been proven to be an important instrument that affects firm value both directly and through a reduction in tax avoidance practices. This reinforces the notion that a comprehensive ESG strategy not only contributes to sustainability but also plays a critical role in fostering financial performance by improving transparency, corporate governance, and tax compliance.

CONCLUSION

The results of the study indicate that ESG disclosure has a negative and significant effect on tax avoidance, suggesting that increased transparency and sustainability responsibility can reduce corporate tax avoidance practices, and has a positive and significant effect on firm value, while tax avoidance has a negative and significant effect on firm value. Furthermore, tax avoidance has been proven to partially mediate the relationship between ESG disclosure and firm value, indicating that taxation practices are an important mechanism in the formation of firm value. These findings reinforce the implication that ESG disclosure not only serves as a form of legitimacy but also as a strategic instrument in increasing firm value through risk management and ethical behavior, in line with stakeholder theory, which emphasizes the importance of transparency, responsibility, and stakeholder trust in supporting corporate sustainability and long-term value.

This study has several limitations that need to be considered. First, the scope of the study only covers companies in the food and beverage sub-sector with a relatively short observation period, so the results cannot be generalized to other industrial sectors with different operational and regulatory characteristics. Second, ESG disclosure measurement uses a GRI standard-based checklist method that emphasizes the quantity of disclosure rather than the quality and depth of information, so it does not fully reflect the substance of the company's sustainability practices. Third, tax avoidance is proxied using the Effective Tax Rate (ETR), which has limitations because it is sensitive to profit fluctuations and accounting policies, so it does not fully describe the complexity of companies' tax planning strategies.

Based on the results and limitations of the study, it is recommended that company management consistently improve the quality of ESG disclosure and make it part of its long-term business strategy, as well as strengthen its commitment to tax compliance in order to increase firm value and stakeholder trust. For investors, ESG disclosure and tax compliance levels can be used as important indicators in assessing a company's performance and long-term prospects. Meanwhile, further research is recommended to expand the object and period of research, use more diverse tax avoidance proxies such as Cash ETR or Book Tax Differences, and add other variables such as governance quality, company size, or tax disclosure in order to provide a more comprehensive picture of the relationship between ESG, tax behavior, and firm value.

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