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Environmental, social and governance, and tax avoidance: Study in ASEAN countries

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ABSTRACT

This study investigates how business activities related to governance, social, and environmental performance affect tax avoidance practices in ASEAN countries. Using firm size, profitability, and leverage as control and moderating variables, a sample of 87 non-financial service businesses from five ASEAN nations Indonesia, Singapore, Malaysia, Thailand, and the Philippines that are listed on stock exchanges was used in the study. The sample was determined by the same criteria. E-Views was used for hypothesis testing. This study found that tax avoidance practices are influenced by governance, social, and environmental performance. Firm size, profitability, and leverage are used to control the stability and consistency of the impact of governance, social, and environmental performance on tax avoidance practices. The relationship between environmental, social, and governance performance and tax avoidance practices can be moderated by firm size and profitability; however, leverage cannot. Environmental, social, and governance performance are tools for businesses to avoid tax payments. These practices are influenced by firm size, profitability, and leverage, with moderation by firm size and profitability. The number of companies listed on stock exchanges in the five ASEAN countries is 3,634, but only a few companies disclose their environmental, social, and governance information. To ensure that businesses disclose sustainability concerns, assess their performance, and comply with tax regulations, governments and sustainability-related organizations must support and supervise the implementation of sustainability activities.

Contribution/ Originality: The limited studies related to environmental, social, and governance performance and tax avoidance in ASEAN countries are to be conducted. The use of firm size, profitability, and leverage as control variables and moderating variables aims to advance previous research. The government, as a tax regulator, should control and monitor environmental, social, and governance activities to ensure that these activities genuinely reflect the company's responsibility to stakeholders, rather than tax avoidance.

1. INTRODUCTION

One of a nation's main sources of income is taxes. Individual taxpayers and/or enterprises are the targets of the required tax (Putri, Hariyanto, Kusbandiyah, & Pandansari, 2022; Tanujaya & Cantikasari, 2022; Zoebar & Miftah, 2020). The country's society benefits indirectly from taxes, which are mandatory (Pamungkas, Effendi, & Saepudin, 2022). Companies are required to pay their income taxes in compliance with the relevant tax laws. While the government aims to increase state income through taxes, businesses often want to decrease their tax burdens (Fajarwati & Ramadhanti, 2021; Hidayat & Zuhroh, 2023; Maharani & Baroroh, 2019). Although it might not align with the original intent of the tax system, tax avoidance (TA) is the practice of individuals or businesses reducing their lawful tax obligations (Abdelfattah & Aboud, 2020; Hidayat & Zuhroh, 2023; Jiang, Hu, & Jiang, 2024). Using available tax deductions or incentives, selecting particular transaction or investment structures, or relocating income to areas or nations with lower tax rates are examples of TA practices that involve taking advantage of gaps or flaws in tax laws (Aladwey, 2022; Ariff, Wan Ismail, Kamarudin, & Mohd Suffian, 2023). Because it damages the nation's budget, tax avoidance is regarded as immoral even if it is lawful. A substantial amount of money must be set aside for the execution of a nation's numerous projects and initiatives. Tax avoidance is the practice of individuals or businesses lowering their lawful tax responsibilities, even if it does not serve the original intent of the tax system (Abdelfattah & Aboud, 2020; Hidayat & Zuhroh, 2023; Jiang et al., 2024).

In order to lawfully lower its tax burden, the corporation participates in tax avoidance actions. Increasing profits, financial efficiency, fierce competition, avoiding high tax rates, legal tax planning, tax reduction, and risk management are some of the reasons why businesses engage in tax avoidance (Dhaniswara, 2023; Fitriya, 2023; Manurung, 2020). TA acts are sometimes criticized for being unfair, particularly when larger corporations with more resources are able to take advantage of legal loopholes to avoid paying taxes, while individuals or small businesses lack the same ability. Although they may include loopholes or contentious tax rules, TA practices are involving large corporations worldwide have drawn public and media attention since they frequently pertain to lawfully lowering tax payments (Barford & Holt, 2013; Nair, 2023; Neate, 2019; Saxon, 2017) such as Facebook, Microsoft, Apple, Google, Amazon, Starbucks, Nike, and Volkswagen. They do this for a number of reasons, including shifting revenue from countries with higher taxes to regions with lower taxes, engaging in TA in its business operations in Europe, shifting profits from sales in Europe to its headquarters in countries with low tax rates, manipulating emission data to avoid fines and taxes related to pollution caused by the company's cars, and using the tax treaty structure between Ireland and other countries to shift income to subsidiaries based in Ireland. This has hurt the company's reputation and resulted in significant losses in the international market.

Companies in ASEAN nations also experience the TA phenomena. PT Adaro Energy, an Indonesian business, handled the TA lawsuit. The companies used transfer pricing techniques with Singapore and Indonesia, two significant ASEAN nations. It is alleged that the company transferred profits to its Singaporean affiliate. Additionally, the company bought and sold coal to its Singaporean affiliate at a discount. Consequently, the company was able to avoid US$125 million in Indonesian taxes (Globalwitness, 2019). One of the biggest tobacco corporations in the world, Philip Morris, was also involved in Thailand. Philip Morris is accused of manipulating the import statistics of cigarettes from the Philippines, causing the company to lose almost US$662 million. The reported import value was lower than the actual value, thereby reducing the amount of tax that should be paid (VOA Indonesia, 2019). Cases of TA also occurred in the Philippines involving Alice Guo, the former mayor of Bamban, Tarlac, along with two others, including officials from Baofu Land Development Inc. The basis of this tax evasion charge is the transfer of Guo's shares in Baofu without paying the required taxes, namely the capital gains tax and documentary stamp tax (Laqui, 2024). The amount of tax that must be paid was decreased since the stated import value was less than the real value (VOA Indonesia, 2019). Alice Guo, the former mayor of Bamban, Tarlac, and two other individuals, including representatives of Baofu Land Development Inc., were also involved in TA cases in the Philippines. The transfer of Guo's Baofu shares without the payment of the necessary taxes, specifically the capital gains tax and documentary stamp tax, forms the basis for this TA allegation (Laqui, 2024).

Based on previous studies, a number of variables, both financial and non-financial, influence a company's decision to act in TA. Financial factors include profitability, capital structure, leverage, transfer pricing, capital intensity, sales growth, company size, and solvency (Dalam & Novriyanti, 2020; Finér & Ylönen, 2017; Gunita & Oktaviani, 2023; Krisyadi & Novilim, 2020; Muhmad, Haat, Taha, Rashid, & Muhmad, 2020; Nasirudin & Trisnawati, 2023; Nyman, Kaidun, & Lingga, 2022; Prabowo & Sahlan, 2021; Santi, Murni, & Harsono, 2023; Yuliawati & Sutrisno, 2021). Information technology, research and development activities, stakeholder pressure on social and environmental performance, risk management, business strategy, and good governance mechanisms are examples of non-financial factors (Alarie, 2023; Finér & Ylönen, 2017; Ghafoori & Rahmani, 2017; Gunita & Oktaviani, 2023; Ibrahim & Sari, 2024; Kanagaretnam, Lee, Lim, & Lobo, 2014; Khlifi, Chouaibi, & Chouaibi, 2025; Krisyadi & Novilim, 2020; Megeid, 2023; Omesi & Appah, 2021; Santi et al., 2023; Yuliawati & Sutrisno, 2021). This research focuses on non-financial factors that influence corporate actions to engage in TA practices, namely environmental, social, and governance (ESG) performance.

Bimo, Prasetyo, and Susilandari (2019) explained that ESG is a set of practices that businesses do in relation to their internal control, social interactions, and the environmental elements of their surroundings. ESG is typically driven by a company's aim to improve its reputation as an ethical enterprise (Yoon, Lee, & Cho, 2021). Yudhanto and Simamora (2023) stated that the firm will acquire the trust of stakeholders, which would eventually increase its worth. A company's dedication to meeting social responsibilities in order to achieve sustainability is shown in its good ESG performance (E-Vahdati, Wan-Hussin, & Ariffin, 2022). In response to global issues, including social inequality and climate change, ASEAN has incorporated ESG concepts into various regional policies and activities (Ab Aziz, Abdul Latiff, Osman, & Alshdaifat, 2024). It's possible that the strong ESG performance would promote TA (Zhang, Zhang, Lu, & Yan, 2021). The study by Sumunar and Djakman (2020) is one of the many studies on ESG that concentrate on how ESG affects business performance. Thus, there is a huge need for study on how ESG disclosure affects TA. This is done in order to get more precise data on the function of an organization's ESG disclosure. As evidenced by works by Anggraini and Wahyudi (2022); Pratiwi, Fuadah, and Yunisvita (2024); Ramadhan and Wadi (2024); Nurlaely and Dewi (2023); Hidayat and Zuhroh (2023); Sugimin and Indudewi (2024); Mukhtaruddin, Susanto, Andara, and Abukosim (2024) and Teja (2024) research on ESG and TA in Indonesia also yields a variety of findings. Contradictions and variations in the findings of earlier studies may be caused by differences in the firms involved and the years of research in each study.

The author decided to conduct a new study to investigate the effect of ESG on TA due to the heterogeneity and inconsistency of previous studies. Additionally, the author included several control and moderating factors, such as leverage, business size, and profitability. Because of the significant economic expansion in the ASEAN region, the author selected non-financial enterprises in these countries. In the current global economic environment, research on how ESG performance affects TA in ASEAN nations offers an interesting and relevant perspective. Companies are encouraged to enhance their competitive value, particularly by reducing their tax burden, amid fierce commercial competition among ASEAN countries (Duong & Huang, 2022). Businesses in this area are also concerned with sustainability and corporate governance. Non-financial businesses in ASEAN countries, especially those in the consumer goods, energy, and technology sectors, are closely related to ESG concerns and TA. Additionally, the market capitalization of Indonesia, Malaysia, Thailand, Singapore, and the Philippines is the highest among ASEAN nations, which is another reason the author selected ASEAN countries as the subject of the study (OECD, 2024).

2. THEORITICAL FRAMEWORK

2.1. Grand Theory

2.1.1. Agency Theory

The relationship between the principle and agent is explained by the agency theory (Jensen & Meckling, 1979). The government-business connection may be viewed as a principal-agent relationship according to agency theory. While the taxpayer, acting as the agent, seeks to maximize their profit, the government, acting as the principal, seeks to promote societal welfare through tax revenue. The fundamental tenet of agency theory is the existence of information asymmetry, according to which management is more knowledgeable about the state of the business than the government. This raises the possibility of a tax conflict of interest, which in turn motivates businesses to try to avoid taxes (Tanujaya & Cantikasari, 2022).

The corporation acting as an agent may operate against the principal's intentions due to the separation of policy and authority. While the principal expects the tax payments to be maximized, the agent anticipates minimizing the tax burden. To avoid reducing its earnings or profits, the corporation seeks to minimize its tax obligations. By amending current tax laws, the government aims to increase tax revenues. To boost national revenue, the government expects businesses to fulfill their tax obligations. Implementing legally permissible tax avoidance strategies is one way to achieve the objectives of both the government and taxpayers. According to agency theory, problems in the agency relationship may arise from the differing goals of the principal and the agent, with the principal aiming to maximize tax payments and the agent aiming to reduce tax liabilities (Fajarwati & Ramadhanti, 2021).

2.1.2. Legitimacy Theory

The legitimacy theory explained an organization must constantly adjust to societal norms in order for society to accept it (Lukman, Marcello, & Andrian, 2024). This theory states that businesses and society are inextricably linked. To gain the community's acceptance and support, a business must demonstrate its commitment to the environment and society. The corporation must show that its operations align with societal values. One strategy for earning public trust is to be transparent when sharing information about the company's ESG performance (Chairani & Zuraida, 2021).

How businesses interact and adjust to society norms and expectations is the main emphasis of the legitimacy theory (Dowling & Pfeffer, 1975). It is evident that companies' commitment to ESG concerns is a way to gain legitimacy. Consequently, legitimacy theory and ESG performance are closely linked. A company's social and environmental responsibilities are reflected in its ESG performance. This score measures public trust in the business, rather than being merely a numerical value. The public perceives a corporation as more legitimate the better its ESG performance. A company's potential for strategic advantage will improve if it maintains a high level of public legitimacy, which can lead to increased profits. Conversely, the company's viability may be threatened if ESG procedures result in a loss of credibility (Duhoon & Singh, 2023). Consequently, adherence to rules and regulations becomes crucial for maintaining the business's operations and winning over stakeholders and the community, among others. The legitimacy thesis emphasizes how reliant an institution is on its social surroundings. ESG performance, a measure of the organization's disclosure of information pertaining to ESG characteristics, reflects this (Chairani & Zuraida, 2021). The significance of ESG performance in relation to corporate social legitimacy is emphasized by this study. Additionally, the community will be more supportive of the corporation because of its concern for the environment (Ruan & Liu, 2021).

2.1.3. Stakeholder Theory

The stakeholder theory states that a company's ability to balance and satisfy the interests of different stakeholders is crucial to its long-term viability and success. It declares that everyone who has a stake in the business has the right to know about all its operations that affect them (Freeman, 1984). It highlights the complexity of the environment in which businesses operate. Every person or group has interests and influences others. It emphasizes how crucial it is to balance the interests of different groups. These organizations have the power to impact the company's long-term viability either positively or negatively. Social performance becomes a useful metric for assessing how well a business can meet stakeholders' expectations.

A company's efforts to reduce business risks by integrating social responsibility with economic goals are reflected in its ESG performance (Sumunar & Djakman, 2020). Stakeholders can assist the business in a number of ways, including social (establishing a good reputation), financial (investing), and consumptive (buying goods or services). This is consistent with the idea of stakeholder theory (El-Deeb, Ismail, & El Banna, 2023). The primary focus of the stakeholder theory is the company's obligation to its stakeholders. When the business follows prevailing social standards, internal stakeholders are more satisfied (Mu, Xu, &

Chen, 2024). The company's ESG performance indicates how well it provides information about ESG issues.

2.2. Literature Review

2.2.1. Environmental, Social, and Governance

More thorough information on sustainable finance practices is being demanded by investors and governments. Initially, CSR disclosure was viewed as a step in the right direction toward sustainable financing. However, the 2007 financial crisis revealed how inaccurate CSR data can be in predicting a business's resilience to sustainability issues. Consequently, the concept of ESG has become a more comprehensive framework for assessing business sustainability and guiding investment decisions (Karyani & Perdiansyah, 2022).

A company's ability to disclose information on environmental, social, and governance issues is measured by its ESG performance (E-Vahdati et al., 2022). In addition to assisting businesses in risk management, the ESG score enhances a company's reputation with investors, customers, and the public. This aligns with the primary goal of ESG reporting, which is to improve the company's image by demonstrating that it considers social, ethical, and environmental factors in its operations (Yoon et al., 2021). The London Stock Exchange Group Workspace (LSEG), formerly known as Refinitiv Eikon, is one of the data streams utilized in this study to assess the ESG performance of non-financial firms in ASEAN countries.

Investors concerned about sustainability will pay more attention to companies that perform well in terms of ESG. This may make it easier and less expensive for businesses to obtain capital. ESG should be advantageous to society at large, in addition to benefiting businesses (Angir & Weli, 2024). Additionally, ESG will promote the sustainability of businesses. When businesses stop sacrificing the environment and their surroundings in order to make money, they will be able to achieve business sustainability (Yudhanto & Simamora, 2023). To stay competitive in the market, some businesses with strong ESG performance, however, this chance to boost their earnings and use TA to preserve those gains (Zhang et al., 2021).

2.2.2. Tax Avoidance

The problem of TA has an effect on the state's declining revenue. Ariff et al. (2023) stated tha TA is a logical corporate strategy that involves practical economic decisions with significant advantages. TA is a legitimate tactic used by taxpayers to reduce their taxable income. This method is carried out by taking advantage of tax law gaps that allow tax burdens to be reduced without violating the law (Duhoon & Singh, 2023). TA can have a detrimental effect on state revenue even when it is not illegal. The government is aware that big businesses frequently look for proactive ways to reduce their tax liability (Dalam & Novriyanti, 2020).

TA is a legal strategy used by taxpayers to maximize their tax liability by taking advantage of gaps or flaws in the current tax laws. Using different tax benefits offered by the government, such as exemptions, deductions, or ambiguous clauses, is how TA is done (Stawati, 2020). Companies that legally attempt to reduce their tax liability by making the best use of current tax laws are engaging in TA. TA does not entail unlawful activities, in contrast to TA, which is a crime (Duhoon & Singh, 2023).

2.2.3. Hypothesis

An organization's capacity to carry out its business plan and generate long-term value may be impacted by ESG factors. The company's ESG score provides insight into its ESG performance (E-Vahdati et al., 2022). Investors who are becoming more concerned about the social and environmental effects of their investments will be drawn to strong ESG performance. Its performance in terms of ESG factors improves with increasing ESG performance. The principles of legitimacy theory and stakeholder theory state that a company's success is determined by its capacity to satisfy the needs of different stakeholders, including shareholders and the general public, in addition to its profitability. The existence and sustainability of a company are greatly influenced by the level of trust of its stakeholders (Sumunar & Djakman, 2020).

More options to access wider funding sources arise when a firm achieves a higher ESG disclosure score. Businesses understand that after being embroiled in scandals or facing financial difficulties, having a high ESG disclosure score may help restore investor and public trust. Restoring a damaged reputation may be accomplished with the help of ESG initiatives (Karyani & Perdiansyah, 2022). It should be recognized, therefore, that businesses with sound governance may still maximize their tax benefits within the bounds of the law.

The company's strong ESG score indicates that its performance has improved, particularly in governance, social responsibility, and environmental areas. Due to support from stakeholders, investors, and the community, the company's earnings are expected to increase as a result of this improved performance. This motivates the business to adopt the best tax preparation techniques to sustain its earnings. Therefore, a high ESG score might also encourage businesses to avoid taxes. This is consistent with research showing that ESG has a positive impact on TA, as reported by Mukhtaruddin et al. (2024); Zhang et al. (2021) and Duong and Huang (2022). The following is the hypothesis put out in this study.

H: ESG performance affects tax avoidance.

3. METHODOLOGY

3.1. Population and Sampling

The research population consists of 3,634 non-financial enterprises in Indonesia, Malaysia, Thailand, Singapore, and the Philippines between 2019 and 2023. This research focuses on non-financial businesses in ASEAN nations. First, ASEAN is a major hub for business due to its strategic location in the global supply chain and its rapid economic expansion. Second, ESG concerns and tax strategy are closely related to non-financial enterprises, which include a variety of industries such as consumer products, energy, and technology. Non-financial corporations are a compelling subject for study to understand the interplay between the implementation of ESG policies and corporate tax behavior because of their operational complexity and wide-ranging influence. Purposive sampling is used in this study with specific criteria: (a) the company discloses ESG information, and (b) the company generates profit. Eighty-seven companies meet these criteria, with 425 data observations.

3.2. Variable Definition

The definitions and measurements of each variable are as follows.

Table 1 presents the variable definitions and measurements.

Table 1. The definition and measurement of variable.

Variable	Definition	Measurement
Tax avoidance (TA)	The efforts are made by the company to reduce the tax burden that must be paid by exploiting loopholes in tax regulations (Duhoon & Singh, 2023; Mukhtaruddin et al., 2024)	$CETR = \frac{Tax\ paid}{Pretax\ profit}$
Environmental, social, governance (ESG)	Score that represents the level of disclosure of information related to environmental, social, and governance (E-Vahdati et al., 2022; Mukhtaruddin et al., 2024)	$ESG\ overall\ score$
Firm size (FS)	The scale or size of a company as seen from the total assets of the company (Prabowo & Sahlan, 2021; Rahmadani, Muda, & Abubakar, 2020)	$FS = Ln\ (Total\ Asset)$
Return on assets (ROA)	The ratio that shows the efficiency of the company in generating profits from the economic resources owned by the company (Rifai & Atiningsih, 2019; Widadi, Subroto, & Rahman, 2022)	$ROA = \frac{Net\ Income\ After\ Tax}{Total\ Assets}$
Debt to equity ratio (DER)	The ratio describes the company's ability to finance its operations with debt rather than its own capital sources (Firmansyah & Bahri, 2022; Rahma, Pratiwi, Mary, & Indriyenni, 2022).	$DER = \frac{Total\ Debt}{Total\ Equity}$

3.3. Data Analysis Technique

Model 1

$$CETRit = \alpha + \beta 1ESGit + \varepsilon it \quad (1)$$

Model 2

$$CETRit = \alpha + \beta 1ESGit + \beta 2FSit + \beta 3ROAit + \beta 4DERit + \varepsilon it \quad (2)$$

Model 3

$$CETRit = \alpha + \beta 1ESGit + \beta 2FSit + \beta 3ROAit + \beta 4DERit + \beta 5ESGit * FSit + \beta 6ESGit * ROAit + \beta 7ESGit * DERit\ \varepsilon it \quad (3)$$

4. RESULT AND DISCUSSION

4.1. Descriptive Statistics

The first stage in performing data analysis is descriptive statistical analysis. The purpose of descriptive statistical tests is to characterize the properties of the data for every variable that will be utilized in the study. The following displays the findings of the descriptive statistics used in this investigation.

Table 2. Descriptive statistics.

Variables	Observation	Mean	Median	Max.	Min.	Std. dev.
CETR	435	0.2334	0.1940	0.9380	0.0002	0.1656
ESG	435	57.4177	58.7800	91.6000	10.1900	16.4314
FS	435	21.8013	21.7020	25.3360	18.3460	1.2956
ROA	435	0.0707	0.0560	0.4540	0.0010	0.0582
DER	435	0.8152	0.5980	8.9990	0.0005	0.9326

Note: Dependent variable: CETR.

Table 2 describes that Singaporean company Capital and Integrated Commercial Trust had the lowest CETR in 2019 at 0.0002. This indicates that, in comparison to other firms, the company's CETR is the highest. In 2022, the Malaysian company IOI Properties Group Bhd held the highest CETR of 0.9380. This indicates that, in comparison to other firms, the company's CETR is the lowest. The average CETR for the firm is 0.1940. The CETR data is uniformly distributed, as evidenced by the standard deviation of 0.1656 being less than the average.

The Thai company Carabao Group PCL has the lowest ESG score of 10.1900 in 2019. Nestlé Bhd, a Malaysian company, holds the highest ESG score of 91.6000 in 2021. The average ESG performance is 57.4177, which falls into the excellent category, according to the ESG mean of 57.4177. The ESG data is evenly distributed, as indicated by the standard deviation of 16.4314, which is lower than the average.

The Thai company Taokaenoi Food & Marketing PCL had the lowest FS of 18.3460 in 2022. PTT PCL held the highest FS of 25.3360 in 2022. The FS data is uniformly distributed, as indicated by the standard deviation of 1.2956, which is less than the average of 21.8013.

The sample data on ROA shows that Ratch Group PCL, a Thai company, had the lowest ROA in 2022 at 0.0010. This indicates that, compared to other companies, this one has the lowest ROA. In 2022, PT Indo Tambangraya Megah Tbk, an Indonesian company, had the highest ROA of 0.4540. This indicates that, compared to other companies, this one has the highest ROA. The average ROA is 0.0707. The ROA data is evenly distributed, as indicated by the standard deviation of 0.0582, which is less than the average.

The data on DER indicates that the Indonesian company PT. Indocement Tunggal Prakarsa Tbk had the lowest DER in 2019 at 0.0005. This suggests that, compared to other companies, it employs the least amount of debt to fund its operations and growth. The Malaysian company CelcomDigi Bhd had the highest DER in 2020, which was 8.9990. This indicates that, relative to other companies, it utilizes the most debt to support its operations and growth. The average amount of debt used to support the company's operations is 0.8152. The DER data distribution varies, as evidenced by the standard deviation of 0.9326, which is higher than the average.

4.2. Regression Model

The Fixed Effect Models (FEM) are selected as the appropriate model based on the results of the determination model in the regression data panel. The table below displays the regression test results for the three models examined.

Table 3. The result of 3 models testing.

Variable	Model 1			Model 2			Model 3		
	B	t_{value}	Sign	B	t_{value}	Sign	β	t_{value}	Sign
ESG	0.001	5.118	0.000*	0.001	4.681	0.000*	0.031	4.745	0.000*
FS				0.034	2.005	0.045*	0.120	4.723	0.000*
ROA				-1.056	-8.826	0.000*	-0.035	-0.115	0.907
DER				0.020	3.351	0.000*	-0.001	-0.051	0.958
FS*ESG							-0.001	-4.229	0.000*
ROA*ESG							-0.018	-3.272	0.001*
DER*ESG							0.001	0.742	0.458
Constant	0.155			-0.531			-2.453		
Adjusted R^2	0.891			0.858			0.832		
F_{value}	41.928			30.288			24.176		
Sig. F	0.000*			0.000*			0.000*		

Note: *significant: 5%.
Dependent variable: CETR.

Based on the results of the regression in Table 3, the regression equation model for this study is as follows.

Model 1

$$CETR = 0.155 + 0.001ESG$$

Model 1's equation demonstrates that, in the absence of ESG performance, the company's CETR is 0.155. Taxpayer compliance increases with a higher CETR, which reduces transfer pricing (TP) practices. ESG has a coefficient of 0.001 and is positive. Better ESG performance results in a higher CETR, which implies that TP practices decline. The adjusted R-squared is 0.891, indicating that ESG performance may account for 89.10% of the variation in CETR, with other factors not included accounting for 10.9% of the variation. ESG performance has a positive impact on CETR, as indicated by the significant relationship between ESG performance and CETR, with a p-value less than 0.050 (0.0000).

Model 2

$$CETR = -0.531 + 0.001ESG + 0.034FS - 1.056ROA + 0.020DER$$

Without considering the impact of ESG, FS, DER, and ROA, the value of CETR is -0.531. When FS, ROA, and DER are included as control variables, the impact of ESG performance on TA practices decreases by 3.30%. ESG, FS, ROA, and DER significantly influence CETR, as indicated by a significance value of 0.000, which is less than 0.050. ROA has a negative and significant impact on CETR and ESG, whereas FS and DER have positive and significant impacts on CETR.

Model 3

$$CETR = -2.453 + 0.031ESG + 0.120FS - 0.035ROA - 0.001DER - 0.001ESG * FS \\ - 0.018ESG * ROA + 0.001ESG * DER$$

Without the impact of ESG, FS, DER, ROA, the value of CETR is -2.453. The effect of ESG performance on CETR is reduced by 5.9% when moderating factors such as FS, ROE, and ROA are included. Overall, FS, DER, and ROA are able to moderate the association between ESG performance and CETR, as indicated by the significant p-value of 0.0000, which is less than 0.050. While DER is unable to moderate the association between ESG performance and CETR, FS and ROA can moderate and weaken the relationship between ESG performance and CETR.

4.3. Discussion

This study hypothesizes that TA is influenced by ESG performance. The test results showed a positive regression coefficient and a significance value of 0.000, which is less than 0.050. This indicates that ESG performance significantly and positively affects TA practices; therefore, the hypothesis may be accepted. Given the relationship between ESG performance and TA, businesses are more likely to participate in TA activities regardless of whether their ESG performance is high or low. In addition to promoting sustainable, ethical, and transparent business practices, firms also utilize the ESG concept to attempt to reduce their tax obligations (Fuadah, Mukhtaruddin, Andriana, & Arisman, 2022; Inawati & Rahmawati, 2023; Jiang et al., 2024). Because ESG activities connect to tax laws and strategies in addition to sustainability initiatives, they become problematic. Consequently, the company's TA choices are impacted by the ESG implementation.

According to sample data, non-financial enterprises in ASEAN nations have an average ESG score of 57.4177. Based on LSEG's evaluation of ESG performance, this score falls within the second quartile. With a moderate level of transparency in ESG data reporting, the study sample's average ESG performance is relatively good. Companies are less inclined to engage in tax evasion, as the sample data's average ESG performance is comparatively strong. High ESG performance increases the costs associated with implementing ESG initiatives. Initially, these costs were viewed as necessary for businesses involved in social and environmental issues. However, companies may use these expenses as a strategy to reduce their tax liabilities.

ESG can have an effect on TA. It is can be explained by stakeholder theory. The primary focus of the stakeholder theory is the company's obligation to its stakeholders (Freeman, 1984). One measure of shareholder satisfaction is the effectiveness of corporate social responsibility (Mu et al., 2024). The legitimacy theory, which suggests that a company's practice of social responsibility is aimed at acquiring societal legitimacy, is relevant in this context. The company's ESG performance reflects this social obligation. This outcome aligns with the idea that a company's decision to engage in TA activities is directly influenced by its ESG performance.

According to stakeholder theory, putting ESG principles into practice can help a company meet shareholder expectations by changing its business strategy and going beyond social responsibility (Anggraini & Wahyudi, 2022; Fuadah et al., 2022; Hidayat & Zuhroh, 2023; Pratiwi et al., 2024). Companies that prioritize environmental sustainability, for instance, must modify their supply chains, which may have an impact on their tax liabilities and cost structures. Furthermore, a positive reputation brought about by ethical ESG practices can increase investor and customer trust, which lessens the incentive to use dubious tactics like tax avoidance in order to achieve short-term gains. Thus, according to stakeholder theory, ESG has no impact on tax avoidance since effective ESG performance aims to increase shareholder wealth rather than tax avoidance.

FS, ROA, and DER are able to regulate the validity and consistency of the link between ESG performance and TA practices. The association between TA practices and ESG performance can be moderated by FS and ROA. FS and ROA boost TA practices, which is why they lower CETR. FS functions as a moderator. While FS can interact with ESG performance and act as an independent variable, it is the variable that moderates the link between ESG performance and TA practices. ROA, in its purest form, can interact with ESG performance but is not an independent variable; it is a variable that moderates the link between ESG performance and TA techniques. DER acts as a moderator. DER is a variable that moderates the link between TA practices and ESG performance; it has no impact on TA practices and cannot interact with ESG performance (Solimun, 2010).

Yoon et al. (2021); Zhang et al. (2021); Nurlaely and Dewi (2023) and Teja (2024) are all in conformity with the findings of this study. This is due to the fact that the expenses made by the business in order to optimize ESG performance may lower its fiscal profit, which in turn may lessen the tax burden that the business must bear. This study's findings, however, contradict those of Anggraini and Wahyudi (2022); Pratiwi et al. (2024) and Ramadhan and Wadi (2024). Since businesses with strong ESG performance and high scores typically do not participate in TA practices, ESG has no effect on TA practices (Pratiwi et al., 2024). One of the many possible causes of the differences in the results is (1) variations in ESG measurement. This analysis employs ESG scores released by LSEG Data & Analytics, (2) variations in tax laws and rates in ASEAN nations, and (3) sample industries, in contrast to earlier research that utilized ESG ratings published by Bloomberg. The types of expenses associated with ESG activities vary depending on the research aim, which in turn causes varied TA strategies.

4.4. Sensitivity Analysis

An essential component of the research process is sensitivity analysis. Determining whether the developed research model can be applied to a specific situation, industry, or country is the goal of this study (Pianosi et al., 2016; Ten Broeke, Van Voorn, & Ligtenberg, 2016; Widaningsih, 2017). Finding the stability and consistency of a variable's impact on other variables in a research model is the aim of this investigation. The following table displays the findings of this study's sensitivity analysis:

Table 4. The result of sensitivity analysis.

Country	Correlation (R)	Significant
Thailand	0.233	0.002*
Malaysia	0.047	0.634
Philippines	0.206	0.324
Indonesia	0.010	0.945
Singapore	0.351	0.003*

Note: *sign 0.05.

Table 4 demonstrates that only Singapore and Thailand have a significant impact of ESG performance on TA techniques in firms listed on five ASEAN stock markets, with respective effects of 35.10% and 23.30%. No influence was observed in Indonesia, Malaysia, or the Philippines, with effects of 1%, 4.70%, and 20.60%, respectively. Companies in Thailand and Singapore are more focused on environmental aspects. These actions enhance the company's reputation and image. A positive reputation and image motivate companies to comply with all relevant laws, particularly those related to taxes. Adhering to tax laws is a moral obligation that contributes to national development and demonstrates social responsibility. Companies are more likely to reduce TA practices when their ESG performance is higher. These findings indicate the consistency and stability of the study model regarding the relationship between ESG performance and TA in Singapore and Thailand. This is attributable to the stringent laws governing government, taxes, social concerns, and the environment in these countries.

5. CONCLUSION

5.1. Conclusions

The study analyzes a sample of 87 non-financial businesses listed on the stock markets of ASEAN nations, Indonesia, Malaysia, Thailand, Singapore, and the Philippines to investigate the impact of ESG performance on tax avoidance (TA) practices from 2019 to 2023. (FS), (DER) and (ROA) are included as moderating and control factors. The company's ESG performance significantly influences the TA practices it adopts. Decisions to implement or avoid certain TA methods are often affected by ESG performance. Since sustainability-related operations are closely linked to tax policies and planning, ESG performance directly impacts TA actions. In Thailand and Singapore, ESG performance has a substantial effect on TA practices; in Indonesia, Malaysia, and the Philippines, the effect is less pronounced. ROA can moderate the consistency and stability of ESG performance's impact on TA procedures. Additionally, it was found that FS, DER, and ROA have minimal influence on the relationship between TA practices and ESG performance.

5.2. Research Limitation

The use of CETR to measure tax avoidance practices, the use of non-financial company samples, and the fact that many ASEAN companies still fail to disclose ESG are all research limitations that hinder the study's findings from providing a complete picture of the subject. The research was conducted over a five-year period, from 2019 to 2023. As a result, the study's implications for financial firms that were not included as research participants are limited.

5.3. Remarks

It is suggested that future studies employ Book Tax Differences (BTD) to quantify tax avoidance practices and extend the observation period. By directly measuring the gap between accounting profit and taxable profit, BTD makes it easier to identify possible tax avoidance and assess the efficacy of tax planning in a more accurate and impartial manner, thereby increasing the number of industries included in the sample. For businesses to regularly report on their ESG performance, the government and associated agencies must play a significant role in improving monitoring and corporate awareness of sustainability concerns.

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