

The Effect of Environmental, Social, and Governance (ESG) Disclosure on Tax Avoidance: Firm Size as A Moderating Variable

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Abstract. This study examines the impact of Environmental, Social, and Governance (ESG) disclosure on tax avoidance, with firm size acting as a moderating variable. This study focuses on manufacturing companies listed in the Bloomberg ESG database from 2020 to 2023 in Indonesia. This study uses a quantitative methodology, with regression analysis conducted using SPSS Version 27 software. Sampling was aimed at generating 174 observations that met the established criteria. Empirical findings indicate that all three ESG dimensions—environmental, social, and governance—significantly influence tax avoidance. These results suggest that the implementation of sustainability principles across various operational areas is closely correlated with a company's tax management strategy. Furthermore, firm size moderates the relationship between ESG disclosure and tax avoidance, offering deeper insights into tax compliance behaviour among manufacturing companies. The implications of this study emphasize the need to integrate ESG practices into the corporate governance framework. This integration can enhance transparency, accountability, and the effectiveness of tax management.

Keywords: Company Size, Environmental, Social, and Governance (ESG), Manufacturing Company, Tax Avoidance

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Introduction

Over the past five years, global business trends have shown a significant shift in how stakeholders assess corporate performance. Rather than solely emphasizing profitability, companies are now being urged to operate more responsibly by implementing Environmental, Social, and Governance (ESG) principles. This growing interest in ESG stems from the understanding that environmental hazards, social demands, and inadequate governance can jeopardize long-term business viability. Research by Lestari & Pebriyani (2025) indicates that ESG performance is increasingly viewed as a measure of corporate integrity and a means of evaluating long-term prospects.

In the tax realm, tax avoidance continues to be a significant problem, as it reduces a company's contribution to national development. Although conducted within legal boundaries, these practices are often considered unethical and contrary to the principles of good corporate governance. Recent research has uncovered a possible link between ESG performance and tax aggressiveness, suggesting that companies with superior ESG ratings often pursue more prudent tax-saving approaches to protect their reputations and maintain stakeholder trust. (Elgharbawy & Aladwey, 2024). However, Syahputri (2025) presents conflicting evidence, highlighting that the influence of ESG on tax avoidance is still a topic of active scientific discussion.

The manufacturing sector is among the industries with the highest environmental risks and extensive social impacts, making a strong commitment to ESG practices crucial. Manufacturing companies are also under increasing scrutiny due to their intensive use of natural resources and the significant external impacts they generate (Khlifi et al., 2025). The 2020–2023 period was chosen because it reflects the growing demand for transparency, significant changes in global sustainability regulations, and a sharp increase in ESG disclosure in the post-pandemic era (Owino et al., 2025). In addition, Bloomberg ESG data provides consistently measurable indicators across companies and over time, thus offering a reliable basis for research sample selection.

The implementation of Environmental, Social, and Governance (ESG) principles is an important aspect for manufacturing companies, as it supports operational sustainability while maintaining the company's legitimacy in the eyes of stakeholders (Hashfi, 2024). Meanwhile, corporate tax policy is

reflected in the Effective Tax Rate (ETR), which is widely used as an indicator to assess the level of tax avoidance and the ethical dimension of corporate tax planning practices (Pratiwi et al., 2024).

Literature works Jiang et al., (2024) suggests that ESG practices can influence tax avoidance behavior; however, empirical findings are mixed. Some studies report that ESG disclosure reduces tax avoidance, while others find insignificant effects depending on the industry context and measurement approach (Tyas et al., 2024). Company characteristics, particularly company size, are believed to influence both the level of ESG disclosure and corporate tax policies, as larger companies tend to face greater public scrutiny and regulatory pressure (M & Andesto, 2025). This highlights the need for a comprehensive empirical analysis to examine the dynamics between ESG, firm size, and Effective Tax Rate (ETR) among manufacturing firms during the 2020–2023 period in Indonesia.

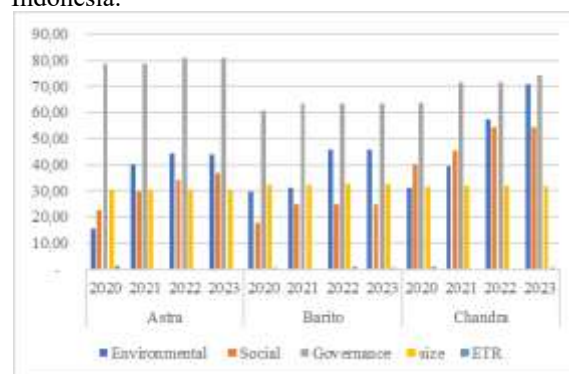


Fig. 1. ESG, Company Size, and ETR 2020–2023 Period

Based on Figure 1, scores show variation across companies and over the 2020–2023 period. Overall, Governance scores were higher than other ESG components. This indicates that manufacturing companies demonstrate stronger performance in governance practices than in environmental and social aspects. Furthermore, most companies showed year-over-year improvements in ESG scores. This finding reflects the growing emphasis on sustainability practices.

On the other hand, the Effective Tax Rate (ETR) shows fluctuations across companies and observation periods, reflecting differences in corporate tax policies and the level of tax avoidance adopted by each company (Syahputri, 2025). Empirical evidence from Syahputri (2025) suggests that ESG performance or ESG disclosure may be related to tax avoidance practices; however, these findings are still inconclusive. While some studies indicate that

stronger ESG performance reduces tax avoidance, others report no significant effect or a context-dependent relationship influenced by additional variables.(Nurjanah & Romadhina, 2025).

Other studies also show that profitability, firm size, and ESG collectively influence tax avoidance, highlighting the role of firm characteristics in shaping corporate tax behavior.(Wijaya, 2025)In this context, larger companies tend to face greater stakeholder pressure and therefore exhibit a relatively more stable Effective Tax Rate (ETR). This suggests that company size may moderate the relationship between ESG and tax avoidance. Therefore, the mixed findings in previous studies underscore the importance of this study in empirically examining the effect of ESG on tax avoidance, with company size playing a moderating role.(Wijaya, 2025).

To examine the relationship between ESG and tax avoidance, this study includes firm size as a moderating variable. Previous studies by Alexander & Menicacci (2025),This suggests that company size plays a significant role in shaping tax strategies, as larger companies tend to face greater public and regulatory scrutiny and have more resources available for tax planning. Consequently, large companies may exhibit different tax behaviors than smaller companies, even when they report similar levels of ESG disclosure.(Hossain et al., 2025).

ESG was chosen as a key variable due to the increasing importance of sustainability indicators in evaluating the quality and transparency of corporate governance.(Tandean & Winnie, 2025)Tax avoidance is used as the dependent variable because it is a key issue in both accounting and public policy, particularly in relation to business ethics. Firm size is included as a moderating variable to better isolate the effect of ESG on tax avoidance and to minimize potential biases stemming from structural differences between firms.

Based on the above discussion, this study is important for providing up-to-date empirical evidence on the relationship between sustainability practices and corporate tax behavior, while addressing inconsistencies observed in previous research. This study is expected to contribute to the accounting literature, offer insights for regulators in formulating tax and ESG reporting policies, and assist companies in understanding how sustainability commitments may influence perceptions and risks related to tax compliance.

Literature Review

Legitimacy Theory

Legitimacy theory argues that companies need to ensure their operational activities align with societal values, norms, and expectations in order to gain public acceptance.(Septiana & Aminah, 2025). This legitimacy plays a key role in the survival of a company, as it shapes how the company is viewed by society. According to Suchman, (1995) Legitimacy refers to the general perception that a company's actions align with prevailing social value systems. To maintain this legitimacy, companies often rely on ESG disclosures to demonstrate their commitment to ethical and responsible business practices. Social and environmental disclosures, in particular, are commonly used as a strategic response to stakeholder pressure and as a tool to strengthen the company's image (Wijaya, 2025).

From a tax avoidance perspective, Legitimacy theory suggests that firms concerned with maintaining a positive reputation tend to be more cautious about engaging in practices that could be considered unethical, including aggressive tax avoidance. Such behavior can threaten a firm's legitimacy, as it is often perceived as inconsistent with the principles of corporate social responsibility. This view is supported by Krisna & Julianto (2024), which found that companies that place greater emphasis on reputation and transparency are less likely to engage in tax avoidance. Consequently, higher levels of ESG disclosure may increase pressure on companies to act ethically and comply with tax regulations, ultimately reducing their propensity to evade taxes.

Environmental, Social, and Governance (ESG)

The ESG concept initially emerged from corporate social responsibility reporting promoted by the United Nations Principles for Responsible Investment, which then spurred the global development of the ESG movement (Alareeni & Hamdan, 2020). Over time, ESG has gained increasing attention from investors, as it is seen as a source of long-term value not only for shareholders but also for other stakeholders. By integrating ESG practices, companies tend to adopt a stronger long-term strategic focus and are better equipped to produce more accurate analysis to support managerial decision-making (Almeyda & Darmansyah, 2019).

As a company grows, the potential for conflict between owners and management can increase,

especially when ESG-related information is not adequately disclosed (Norisnita et al., 2025). This lack of transparency can lead to risky investment decisions inconsistent with sustainability principles. Consequently, integrating ESG considerations into the company evaluation process is becoming increasingly important, as they reflect not only financial performance but also the quality of a company's sustainability and social responsibility practices (Mohammad & Wasiuzzaman, 2021).

Tax Avoidance

Tax avoidance can be understood as an action taken to minimize tax liabilities through legally permissible means, whereas tax evasion involves reducing tax liabilities through unlawful practices (Khairunnisa et al., 2023). Tax avoidance has become a significant issue because, although legally permitted, the practice is discouraged by tax authorities. In response to these concerns, the Indonesian government has implemented various regulations aimed at curbing and preventing tax avoidance practices that can reduce state revenues (Syahputri, 2025). In this study, tax avoidance is measured using the Effective Tax Rate (ETR). A higher ETR indicates that a company is less effective in utilizing tax incentives and therefore faces a relatively higher tax burden (Nurjanah & Romadhina, 2025). Conversely, a lower ETR may indicate greater use of tax incentives or a higher level of tax avoidance, ultimately resulting in a lower tax burden (Pratiwi et al. 2024).

Company Size

According to Rosalinda et al., (2022), company size can be assessed based on the scale of an entity, as reflected in its equity value, sales volume, or total assets. Meanwhile, Law No. 20 of 2008 concerning Micro, Small, and Medium Enterprises in Indonesia defines company size based on criteria related to net asset value and sales revenue. In this study, company size is measured using total assets or total net sales, as these reflect the scale of the company's operational activities. To represent company size, this study uses the natural logarithm of total assets as a proxy, following Fajriah et al. (2022).

Hypothesis Development

Environmental Disclosure and Tax Avoidance Score

Environmental disclosure reflects how companies respond to environmental issues and demonstrate their commitment to sustainability (Pratiwi et al., 2024). Companies facing increased public scrutiny regarding environmental issues tend to disclose more information as a way to maintain legitimacy and stakeholder trust. While this strategy helps build a positive image, it can also reduce stakeholder sensitivity to other opportunistic behavior, including tax avoidance (Zahra, 2025).

At the same time, environmental initiatives often require significant financial resources. To absorb these costs without reducing profitability, management can rely on more aggressive tax planning. (Mukhtaruddin et al., 2024) The view that information disclosure is a legitimation tool or a cover, together with empirical evidence showing that ESG performance, particularly environmental aspects, can be aligned with tax aggressiveness, provides a strong basis for expecting a positive relationship between environmental information disclosure and tax avoidance. (Cantika & Pramiana, 2025).

H₁: Environmental Disclosure Score has a positive and significant impact on tax avoidance.

Social Openness Score and Tax Avoidance

Social disclosure reflects a company's responsibility towards employees, consumers and the wider community (Jiang et al., 2024). From a legitimacy perspective, this type of disclosure plays a role in building a company's image as a socially responsible entity. This image can ultimately strengthen public acceptance and increase stakeholder trust. However, a strong social reputation also potentially provides management with greater flexibility in implementing company policies, as stakeholders tend to provide less critical scrutiny of certain issues, such as corporate tax contributions (Saproni et al., 2025).

Empirical studies show that under certain conditions, social performance can move in tandem with tax avoidance, particularly when companies are able to shape stakeholder perceptions through a social responsibility narrative. This line of reasoning supports the expectation of a positive relationship between social disclosure and tax avoidance (Wicaksono & Muid, 2024).

H₂: Social Openness Score has a positive and significant influence on tax avoidance.

Governance Disclosure Score and Tax Avoidance

Governance disclosures highlight how a company demonstrates transparency, accountability, and control within its organizational structure. From a legitimacy perspective, these disclosures help signal that business activities are managed professionally and orderly (Asmoroa et al., 2024). However, strong and transparent governance does not always prevent tax evasion. Companies with a solid governance framework often have better compliance, documentation, and tax planning capabilities, which can be used to legally optimize tax payments (Nurlaely & Dewi, 2023).

In practice, this may involve exploiting regulatory loopholes, cross-jurisdictional arrangements, or timing strategies. Recent studies also show that the relationship between ESG and tax aggressiveness is highly context-dependent. In well-managed companies, governance mechanisms may coexist with aggressive tax strategies as part of a broader effort to maximize firm value. This perspective supports the expectation of a positive relationship between governance disclosure and tax avoidance. (Angelina & Carolina, 2025).

H₃: Governance Disclosure Score has a positive and significant impact on tax avoidance.

Company Size and Tax Avoidance

Company size reflects the company's resource capacity, operational complexity, and planning capabilities. Larger companies generally face higher levels of public and regulatory scrutiny, but they also have broader resources, including dedicated tax teams, external advisors, sophisticated systems, and complex organizational structures. These conditions allow them to implement more sophisticated tax planning strategies while remaining within legal constraints (Putri et al., 2025).

Additionally, large companies tend to allocate significant resources to ESG activities as part of their efforts to maintain legitimacy (Septiana & Aminah, 2025). The costs associated with these initiatives may encourage management to protect profit margins through more aggressive tax planning. Previous studies have also shown that ESG engagement can help manage the reputational risk of tax aggressiveness, a practice more likely to occur in

larger companies with diversified operations. This reasoning supports the expectation of a positive relationship between company size and tax avoidance (M & Andesto, 2025).

H₄: Company size has a positive and significant influence on tax avoidance.

Company Size as A Moderator between Environmental Disclosure and Tax Avoidance

The impact of environmental disclosure on tax avoidance is expected to be more pronounced for larger companies. From a legitimacy perspective, larger companies derive stronger legitimacy benefits from environmental disclosure due to their higher visibility and wider media exposure (Mukhtaruddin et al., 2024). Therefore, disclosure of environmental information becomes more effective as a form of reputation protection.

With this reputational protection, large companies tend to have greater flexibility to engage in aggressive tax planning as a way to manage costs and maintain performance (Lee, 2024). Evidence from recent studies on ESG and tax aggressiveness, including views on disclosure as a tool of legitimacy or cover-up, suggests that firm characteristics and organizational context may strengthen the relationship between environmental disclosure and tax avoidance (Dewi, 2025).

H₅: Firm size moderates the relationship between environmental disclosure scores and tax avoidance.

Company Size as A Moderator between Social Disclosure and Tax Avoidance

The relationship between social disclosure and tax avoidance is expected to be stronger in larger companies. The social legitimacy established by larger companies typically carries greater weight and broader reach, making it more effective in mitigating the avoidance of public and stakeholder criticism (Dewi, 2025). From a legitimacy perspective, when large companies emphasize their social contributions, stakeholder sensitivity to tax-related issues tends to decrease.

As a result, tax avoidance strategies become easier to justify or defend. Recent empirical evidence showing that ESG performance, including its social dimension, can align with tax aggressiveness provides further support for the moderating role of firm size in the relationship between social disclosure and tax avoidance (M & Andesto, 2025).

H₆: Firm size moderates the relationship between social disclosure scores and tax avoidance.

Company Size as A Moderator between Governance Disclosure and Tax Avoidance

In larger companies, governance disclosures are typically more extensive and standardized, reinforcing the perception of strong compliance and control. From a legitimacy perspective, this perception tends to increase stakeholder trust, which can provide management with greater flexibility to pursue aggressive yet legal tax optimization.

Larger company size is also associated with more complex organizational structures, such as multiple subsidiaries, intra-group transactions, and cross-border operations, all of which expand opportunities for tax planning avoidance (Dewi, 2025). Recent studies have shown that the relationship between ESG and tax aggressiveness can persist in certain contexts, particularly when governance and internal control mechanisms support systematic tax strategies. This argument supports the moderating role of firm size in the relationship between governance disclosure and tax avoidance (Putri et al., 2025).

H₇: Firm size moderates the relationship between governance disclosure scores and tax avoidance.

Research Method

This study adopts an associative research design with a quantitative approach to test the causal relationship between variables. Data are presented in numerical form and analyzed using statistical methods, following the framework proposed by Sugiyono (2020). In accordance with the research questions and hypotheses, Environmental, Social, and Governance (ESG) is treated as an independent variable, tax avoidance as a dependent variable, and company size as a moderating variable.

Population and Sample

The population of this study includes 48 manufacturing companies listed on Bloomberg during the 2020–2023 period. The sample was determined using purposive sampling, where companies were selected based on specific criteria. These criteria were established through expert judgment and relevant scientific considerations, as suggested by Mushofa et al. (2024). The sample selection criteria applied in this study are as shown in Table 1.

Table 1
Research Sample Criteria

No	Research Sample Criteria	Total
1	Bloomberg Listed Manufacturing Companies in Indonesia During the 2020–2023 Period	48
2	Bloomberg-listed manufacturing companies during 2020–2023 in Indonesia that do not have complete data to calculate research variables (ESG, tax avoidance, and company size)	(2)
3	Total	46
4	The research sample covers a four-year observation period (46 × 4)	184
5	Outlier Data	(10)
	Number of Samples	174

Based on the sample selection process, 46 manufacturing companies met the research criteria. Over a four-year observation period (2020–2023), a total of 184 company-year observations were generated. After data testing and the removal of 10 outliers to maintain the quality of the analysis, the final number of observations used in this study was 174. Referring to Table 1, the total sample used in this study consists of 174 observations.

Research Variables Measurement

Table 2
Variable Measurement

No	Variables	Measurement	Source
1	Environmental Disclosure Score	Bloomberg Environmental Disclosure Score	(Syahputri, 2025)
2	Social Openness Score	Bloomberg Social Disclosure Score	(Nurjanah & Romadhina, 2025)
3	Governance Disclosure Score	Bloomberg Governance Disclosure Score	(Pratiwi et al., 2024).
4	Tax evasion	ETR = Income Tax Expense / Profit Before Tax	(Tanjaya & Nazir, 2021)
5	Company Size	Company Size = Ln Total Assets	Fajriah et al., (2022)

Results

Data Analysis Techniques

This study used Microsoft Excel to create tables for the collected data. Additionally, SPSS Version 27 was used for statistical analysis. The tests conducted in this study included:

Model Feasibility Test

Table 3
ANOVA

Model	Sum of Squares	Df	Mean Square	F	Signature.
1 Regression	10,090	4	1,441	41,481	0.000 ^b
Remainder	5,907	170	0.035		
Total	15,997	174			

a. Dependent Variable: ETR (Y)

b. Predictors: (Constant), GDS.UP, Governance Disclosure Score (X3), EDS.UP, Company Size (Z), Environmental Disclosure Score (X1), SDS.UP, Social Disclosure Score (X2)

The ANOVA results show an F value of 41.481 with a significance level of 0.000, indicating that the estimated regression model is statistically significant. These results indicate that the independent variables of Environmental Disclosure Score, Social Disclosure Score, Governance Disclosure Score, along with company size as a moderating variable (Z), collectively have a significant influence on the dependent variable, Effective Tax Rate (ETR) (Y). In other words, the regression model used in this study is appropriate and reliable, because it is able to explain variations in tax avoidance meaningfully.

Coefficient of Determination Test

Table 4
Model^b Summary

Model	R	R Square	Adjusted R Squared	Signature
1	0.794 ^a	0.631	0.616	0,000

a. Predictors: (Constant), GDS.UP, Governance Disclosure Score (X3), EDS.UP, Company Size (Z), Environmental Disclosure Score (X1), SDS.UP, Social Disclosure Score (X2)

b. Dependent Variable: ETR (Y)

Referring to Table 4, the R-square value of 0.631 indicates that the regression model explains 63.1% of the variation in the Effective Tax Rate (ETR) (Y). This means that the ESG variables, firm size as a moderating variable (Z), and the interaction term (X×Z) play a significant role in explaining changes in tax avoidance. The remaining 36.9% of the variation is influenced by other factors not included in this research model.

Partial t-test

Table 5
Partial t-test

Model	Coefficient			T	Signature.
	Unstandardized Coefficients	Standardized Coefficient			
	B	Standard Error	Beta		
1 (Constant)	-1,886	0.382		-4,943	0,000
EDS (X1)	0.004	0.001	0.264	4,288	0,000
SDS (X2)	-0.006	0.002	-0.199	-3.138	0,002
GDS (X3)	-0.006	0.001	-0.230	-4,083	0,000
FS (Z)	0.076	0.013	0.307	6,018	0,000
EDS.FS	0.001	0,000	0.310	6,019	0,000
SDS.FS	4,344	0,000	0.458	8,543	0,000
GDS.FS	1,891	0,000	0.118	2,181	0.031

a. Dependent Variable: ETR (Y)

Based on Table 5, several conclusions regarding the research hypothesis can be formulated as follows:

The analysis shows that the Environmental Disclosure Score has a coefficient (B) of 0.004, with a t-statistic of 4.288 and a significance level of 0.000. Since this value is below the threshold of 0.05, Hypothesis 1 is accepted, indicating that environmental disclosure has a positive and significant effect on tax avoidance. Practically, these results indicate that companies with higher levels of environmental disclosure tend to exhibit a stronger tendency towards tax avoidance. As companies become more active in communicating their environmental initiatives, their involvement in tax avoidance practices also appears to increase (Jiang et al., 2024).

These results are consistent with empirical evidence reported by Princess (2025). This suggests that the quality and scope of environmental disclosure, as part of the environmental pillar, tend to correlate with more compliant tax behavior. Furthermore, studies conducted in international markets and emerging economies have shown that stronger environmental performance or disclosure is generally associated with reduced tax avoidance, primarily through increased external scrutiny and increased pressure for regulatory compliance (Menicacci & Simoni, 2025).

Theoretically, these findings are consistent with Legitimacy Theory, which states that companies seek to maintain public acceptance by ensuring that their activities align with societal values, norms, and expectations (Septiana & Aminah, 2025). In this context, companies that are more transparent in disclosing environmental information will face higher legitimacy expectations to ensure consistency in corporate behavior, including compliance with fiscal

obligations. Aggressive tax avoidance practices may be perceived as unethical and potentially undermine corporate legitimacy. Consequently, companies that emphasize strong environmental commitments tend to refrain from engaging in tax strategies that pose reputational risks. Recent evidence further suggests that environmental pillars play a significant role in curbing tax avoidance in certain governance contexts (Nerantzidis et al., 2024).

More specifically, studies using disclosure-based measures report that Bloomberg ESG disclosure scores are associated with variations in tax avoidance after controlling for firm characteristics such as profitability and firm size (Teja, 2024). Further cross-country evidence reveals a negative relationship between environmental disclosure scores and tax avoidance. Sian et al., (2024), strengthening the argument that environmental transparency serves as a mechanism of accountability and social control over corporate tax policies.

This finding is consistent with previous research showing that ESG disclosure, particularly the environmental dimension, can be positively associated with tax avoidance practices. Research by Nurlaely & Dewi (2023) and Rahmah & Mukhtaruddin (2023), including studies by Wicaksono & Muid (2024) and Zahra (2025). Furthermore, it also highlights that this relationship tends to emerge when environmental disclosure is used as a legitimizing tool to manage corporate reputational risk.

The Social Openness score recorded a coefficient (B) of -0.006 , with a t-statistic of -3.138 and a significance level of 0.002 . Since this value is below the threshold of 0.05 , Hypothesis 2 is accepted. The results indicate that social openness has a negative and significant effect on tax avoidance. This means that companies with higher levels of social openness tend to exhibit a lower tendency to engage in tax avoidance. Overall, the findings suggest that social openness contributes to more compliant corporate behavior regarding tax regulations (Dewi, 2025).

Theoretically, these findings are consistent with Legitimacy Theory, which states that companies seek to gain and maintain public acceptance by ensuring that their operational activities and business policies align with societal values, norms, and expectations (Septiana & Aminah, 2025). Social disclosures, such as information related to employment practices, occupational health and safety, community engagement, and stakeholder rights protection, serve as mechanisms for companies to demonstrate social awareness and responsibility to the public. This transparency increases the legitimacy expectations

that companies must meet, including compliance with tax regulations.

In this context, aggressive tax avoidance practices can be considered unethical, as they can reduce a company's contribution to the state and society. Consequently, companies that actively disclose social aspects tend to refrain from aggressive tax strategies to maintain consistency between their socially responsible image and their actual fiscal behavior. This finding is consistent with the results of research by Jiang et al. (2024), which showed that the social dimension of ESG is associated with lower tax avoidance in the Chinese market, and Syahputri (2025), which reported that higher ESG scores, including social disclosure, are associated with more compliant tax behavior across ASEAN countries. Furthermore, a study by Dewanti & Rusydi (2025) suggests that higher levels of social disclosure contribute to a reduction in the intensity of tax avoidance after controlling for other firm characteristics.

Similar findings were reported by Ghoul et al., (2025). A cross-country study showed that policies encouraging social disclosure contribute to reduced tax avoidance behavior, especially when such disclosure reflects strong accountability. Similarly, Menicacci and Simoni (2025) emphasized that comprehensive ESG disclosure influences corporate tax decisions toward more responsible practices through increased stakeholder oversight.

In addition, additional empirical evidence reported by Lee (2024) suggests that in companies with strong governance structures, social disclosure plays a role in limiting tax avoidance, as legitimacy and reputational pressures arise not only from the general public but also from strategic stakeholders such as investors and regulators. This finding is consistent with previous studies by Dewi (2025) and Nerantzidis et al., (2024) and is further strengthened by recent evidence from 2024–2025, including a study by Sian et al., (2024) and Dewanti & Rusydi (2025) which shows that social openness scores have a negative effect on tax avoidance.

The Governance Disclosure Score shows a coefficient (B) of -0.006 , with a t-statistic of -4.083 and a significance level of 0.000 . Since the significance value is below the threshold of 0.05 , Hypothesis 3 is accepted. These results indicate that governance disclosure has a negative and significant effect on tax avoidance. This suggests that companies with higher levels of governance disclosure are less likely to engage in tax avoidance, reflecting stronger oversight, greater transparency, and increased

accountability in corporate decision-making (Dewi, 2025).

These findings suggest that transparency and accountability in corporate governance play a significant role in shaping more compliant tax behavior. Theoretically, these results are consistent with Legitimacy Theory, which emphasizes that companies seek to gain and maintain social legitimacy by aligning their policies and practices with prevailing societal values, norms, and expectations (Septiana & Aminah, 2025). In this context, governance disclosures, including board structure, board independence, oversight mechanisms, and policy transparency, serve as signals to stakeholders that the company adheres to responsible business practices, thereby generating social pressure that limits tax avoidance behaviour.

Empirical evidence supports this interpretation. Jiang (2024) shows that overall ESG performance, including the governance dimension, significantly limits corporate tax avoidance by enhancing internal and external monitoring mechanisms that reflect good governance practices. A systematic literature review published in ScienceDirect further concludes that many studies identify a negative relationship between ESG or governance quality and tax avoidance, thus strengthening the theoretical argument that governance transparency reduces opportunities for aggressive tax avoidance practices.

Furthermore, Asmoroa et al., (2024) research also highlights the link between the quality of ESG disclosure, including governance aspects, and corporate tax behavior. A similar study of state-owned companies showed that ESG disclosure, particularly governance-related information, contributes to a more ethical and compliant tax approach. Furthermore, Ginesti & Campa, (2025) findings indicate that corporate social responsibility-related governance disclosures increase tax transparency and reduce tax avoidance, underscoring the role of governance disclosure as a legitimization mechanism influencing corporate tax decisions.

Therefore, the findings of this study are consistent with recent literature showing that the Governance Disclosure Score serves as a legitimizing instrument that encourages more compliant tax behavior and limits tax avoidance practices. Companies that are transparent in their governance structures tend to place greater emphasis on accountability and public expectations. These results align with previous studies by Dewi (2025) and Nerantzidis et al., (2024) and is further strengthened by recent evidence from 2024–2025, including a study by Sian et al., (2024) and

Dewanti & Rusydi (2025), which documents a negative relationship between governance disclosure scores and tax avoidance.

The firm size variable shows a coefficient (B) of 0.076, with a t-statistic of 6.018 and a significance level of 0.000. Since this value is below the threshold of 0.05, Hypothesis 4 is accepted, indicating that firm size has a positive and significant effect on the Effective Tax Rate (ETR). This positive relationship indicates that larger firms tend to report higher ETR values, which corresponds to lower levels of tax avoidance. Practically, as firm size increases, firms tend to engage in less tax avoidance, reflecting more compliant tax behavior among larger firms (Sofiamanan et al., 2023).

According to Mayddarto (2022), large businesses have greater resources, operational complexity, and financial planning flexibility, allowing them to handle tax obligations more strategically than smaller businesses. Legitimacy theory, which states that businesses aim to maintain public acceptance by aligning their operations with societal ideals and expectations, can theoretically explain these results (Septiana & Aminah, 2025). However, for larger companies, legitimacy pressures often come with higher economic and political costs, including substantial tax liabilities. To balance legitimacy demands and economic interests, large companies may employ legally permitted tax avoidance strategies as a means of increasing cost efficiency, provided the practice remains socially acceptable and does not pose significant reputational risks (Suhermanto & Mardjono, 2025).

In addition, larger companies generally have more complex organizational structures, engage in cross-border activities, and have greater access to professional tax consultants, all of which create greater opportunities to exploit loopholes in tax regulations. These factors enable larger companies to pursue more aggressive tax planning strategies than smaller companies. Recent empirical evidence supports this argument. Wijaya (2025) shows that company size has a significant positive impact on tax avoidance in public companies in Indonesia, suggesting that company scale increases the ability and incentive to reduce tax burdens. Similar results were reported by Nurjanah and Romadhina (2025), who showed that companies with larger total assets tend to exhibit higher levels of tax avoidance.

International evidence also reveals a similar trend. Menicacci and Simoni (2025) found that large firms in European markets are more actively involved in aggressive tax planning, particularly in sectors

characterized by uneven regulatory oversight. Furthermore, Alomair & Metwally (2025) report shows that company size makes a significant contribution in explaining variations in tax avoidance, although this influence may depend on the quality of corporate governance and the extent of ESG disclosure.

Although Legitimacy Theory emphasizes social acceptance, large corporations still have strong incentives to engage in tax avoidance to minimize costs and maintain financial performance (Alomir & Metwally, 2025). As long as these practices operate within legal boundaries and do not directly erode public legitimacy, large corporations often leverage their advantages of scale and resource capabilities to adopt more aggressive tax planning strategies. These results align with previous research by Sofiamanan et al. (2023), Suhermanto and Mardjoni (2023), and Mayndarto (2022).

The interaction between Environmental Disclosure Score and firm size yields a coefficient (B) of 0.001, a t-statistic of 6.019, and a significance level of 0.000. Given the significance value is below 0.05, Hypothesis 5 is accepted. These results indicate that firm size moderates the relationship between environmental disclosure and tax avoidance. Specifically, in larger firms, a higher Environmental Disclosure Score is more effective in reducing the level of tax avoidance. These results are in line with previous research conducted by Dewi (2025) and M and Andesto (2025).

The interaction between Social Disclosure Score and firm size yields a coefficient (B) of 4.344E-7, a t-statistic of 8.543, and a p-value of 0.000. Due to this very low p-value, Hypothesis 6 is accepted. Although the coefficient is relatively small, firm size moderates the relationship between social disclosure and tax avoidance. Specifically, social disclosure has a stronger influence on tax avoidance in larger firms. This finding is in line with previous research by Dewi (2025) and M and Andesto (2025).

The interaction between Governance Disclosure Score and firm size yields a coefficient (B) of 1.891E-6, a t-statistic of 2.181, and a p-value of 0.031. Since this p-value is below 0.05, Hypothesis 7 is accepted. These results indicate that firm size moderates the relationship between governance disclosure and tax avoidance. Specifically, the effect of Governance Disclosure Score on the propensity for tax avoidance is stronger for larger firms. This result is consistent with findings from Goddess (2025) and (M & Andesto, 2025).

Conclusion

These findings emphasize the need to adopt and improve the quality of ESG disclosures in manufacturing companies. Environmental, social, and governance (ESG) elements are associated with tax avoidance practices, implying that advancements in corporate governance and sustainability reporting can serve as key strategies to mitigate such behavior and lower potential future legal risks. Furthermore, companies should ensure that all tax planning operations comply with applicable tax laws. This study has limitations, primarily because the variables used do not fully account for all fluctuations in the Effective Tax Rate (ETR). Consequently, future studies are recommended to include additional relevant variables, such as institutional ownership, board composition, Corporate Social Responsibility (CSR), or other governance-related aspects. Furthermore, the addition of further moderating or mediating variables could yield a more comprehensive understanding of the studied relationships.

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