

Different Pathways to Firm Value: ESG Disclosure, Corporate Governance, and Tax Avoidance

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ABSTRACT

Despite growing interest in ESG disclosure and corporate governance, limited evidence explains how they are associated with firm value through tax-related behavior, particularly in emerging markets. This study examines the associations of ESG disclosure and corporate governance with firm value and explores tax avoidance as a potential intervening mechanism. Using 324 firm-year observations from Indonesian manufacturing firms during 2023–2025, the study employs panel-data regression using the Common Effect Model. ESG disclosure is measured through content analysis, while corporate governance is represented by board independence, board meeting frequency, and audit committee size. The findings show that board independence is positively associated with firm value, whereas ESG disclosure, board meetings, and audit committee size show no significant direct associations. ESG disclosure is positively associated with tax avoidance, while the governance attributes are not. Predicted tax avoidance is positively associated with firm value. These findings indicate distinct pathways to firm value: a direct governance-monitoring channel through board independence and a possible disclosure–tax behavior pathway involving ESG disclosure. The study highlights the importance of considering the consistency between sustainability disclosure and firms’ substantive financial behavior.

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1. Introduction

Environmental, social, and governance (ESG) considerations have become increasingly relevant to corporate valuation as investors and other stakeholders look beyond conventional financial indicators when assessing firms. ESG performance can provide insights into how companies manage environmental and social risks, respond to stakeholder expectations, maintain legitimacy, and support long-term business continuity. These considerations are particularly relevant in emerging markets, where firms face growing sustainability expectations alongside institutional, regulatory, and resource constraints. Evidence from sixteen emerging markets shows that stronger ESG profiles are generally associated with higher firm valuation, while ESG controversies tend to reduce firm value (Rahat & Nguyen, 2024). However, ESG activities and disclosure do not necessarily translate automatically into higher market valuation. This raises a broader question about not only whether ESG is associated with firm value, but also how sustainability related practices become economically relevant. Recent studies suggest that this relationship may operate through intermediate corporate decisions and capabilities. Tan et al. (2024), for instance, identify technological innovation as a mechanism through which stronger ESG performance contributes to firm value, while Yuan et al. (2025) show that tax avoidance can serve as an economic channel linking ESG disclosure to long-term firm value. These findings shift attention from simply establishing an ESG and firm value relationship toward understanding the mechanisms through which sustainability orientation is translated into market outcomes.

Corporate governance provides another important dimension of this relationship because governance structures shape managerial oversight, accountability, and strategic decision-making. Board independence can strengthen monitoring by limiting excessive managerial discretion, board meeting frequency may indicate the intensity of board oversight and deliberation, and audit committee size may reflect the resources available to supervise financial reporting and risk related decisions. These governance characteristics may also be relevant to firms' tax choices. Armstrong et al. (2015) demonstrate that the relationship between governance and tax avoidance is more nuanced than a simple linear association: board independence and financial sophistication are positively related to tax avoidance at relatively low levels of avoidance but negatively related at relatively high levels. Governance mechanisms may therefore discourage both excessive and insufficient tax planning. This possibility becomes particularly important because the valuation consequences of tax avoidance are themselves ambiguous. Tax savings can preserve internal cash flows and provide additional resources for investment, financing, and shareholder wealth creation, but aggressive tax practices can also increase agency problems, regulatory scrutiny, reputational costs, and information risk. Consistent with this complexity, Elamer et al. (2024) find a negative association between tax avoidance and firm value among French listed firms and show that ESG ratings significantly moderate this relationship. Tax avoidance, therefore, represents more than an outcome of tax management; it may also constitute an economic decision through which sustainability and governance practices become connected with market valuation.

Despite these developments, research on ESG, corporate governance, tax avoidance, and firm value remains only partially integrated. Studies examining ESG and firm value indicate that sustainability, related value creation may occur through mechanisms such as technological innovation and tax behavior (Tan et al., 2024; Yuan et al., 2025), whereas governance research shows that governance characteristics can shape firms' tax strategies in different ways

(Armstrong et al., 2015). Another stream of research demonstrates that the valuation consequences of tax avoidance may depend on firms' broader ESG profiles (Elamer et al., 2024). Collectively, these findings point to close connections among sustainability practices, governance arrangements, tax decisions, and corporate valuation, but they leave an important issue unresolved. Recent evidence has already established tax avoidance as a mediator between ESG disclosure and long-term firm value (Yuan et al., 2025); therefore, simply introducing tax avoidance as an ESG on firm value mediator would offer limited novelty. The less explored question is whether tax avoidance can represent a common economic pathway linking both ESG performance and distinct governance attributes to firm value within the same analytical framework. This distinction matters because ESG reflects a firm's broader sustainability orientation and responsiveness to stakeholders, whereas governance attributes represent internal monitoring and oversight arrangements. Although these mechanisms differ conceptually, both may be connected with corporate tax behavior and, ultimately, firm valuation.

Against this background, this study examines the associations of ESG performance and corporate governance attributes with firm value and investigates the potential mediating role of tax avoidance in these relationships. Corporate governance is represented by board independence, board meeting frequency, and audit committee size, allowing the study to distinguish among governance mechanisms rather than treating corporate governance as a single aggregate construct. The analysis uses firm-year panel data from manufacturing companies listed on the Indonesia Stock Exchange during 2023–2025. Manufacturing firms offer a relevant setting because their operations often involve substantial environmental and social consequences while also requiring effective governance, taxation, and sustainability accountability. By examining ESG performance and multiple governance attributes together, the study provides a setting in which sustainability orientation and internal monitoring mechanisms can be assessed within a common framework and their relationships with corporate tax behavior and firm value can be considered simultaneously.

This study contributes to the literature in three related ways. First, it builds on mechanism-based ESG research by examining tax avoidance as a potential economic pathway through which ESG performance may become associated with firm value, extending evidence that ESG, related value creation can operate through intermediate corporate decisions (Tan et al., 2024; Yuan et al., 2025). Second, it extends governance research by examining board independence, board meeting frequency, and audit committee size separately and assessing whether their relationships with firm value may also operate through corporate tax behavior. In doing so, the study connects evidence on governance and tax avoidance (Armstrong et al., 2015) with the broader question of firm valuation. Third, integrating ESG performance, distinct governance attributes, tax avoidance, and firm value within a single framework provides a more comprehensive way to understand how sustainability orientation and internal governance mechanisms may become economically relevant through corporate tax decisions. Beyond its theoretical contribution, this integrated perspective may also help corporate boards, investors, and regulators evaluate the consistency among sustainability practices, governance oversight, tax strategies, and long-term value creation.

2. Literature Review & Hypothesis Development

2.1 Theoretical Foundation

Stakeholder Theory provides an appropriate theoretical foundation for explaining the value relevance of Environmental, Social, and Governance (ESG) disclosure. The theory emphasizes that firms operate within relationships with multiple stakeholder groups whose support and resources are important for organizational continuity and long-term value creation (Donaldson & Preston, 1995). From this perspective, ESG disclosure represents a mechanism through which firms communicate their environmental responsibilities, social commitments, and governance practices to stakeholders. More comprehensive ESG disclosure may reduce information uncertainty, strengthen stakeholder confidence, enhance corporate legitimacy, and provide investors with relevant information regarding sustainability, related risks and opportunities. Consequently, ESG disclosure may become value relevant when the information enables stakeholders to assess a firm's ability to manage sustainability risks and maintain long-term corporate performance.

Agency Theory complements Stakeholder Theory by explaining the importance of corporate governance in monitoring managerial behavior and protecting shareholder interests. The separation between ownership and control creates potential agency conflicts because managers may pursue decisions that do not necessarily maximize shareholder wealth (Jensen & Meckling, 1976). Consequently, agency theory provides a compelling theoretical lens to elucidate the drivers of tax avoidance, particularly in modern firms characterized by the separation of ownership and executive control (Palupi & Istimawani, 2025). Corporate governance mechanisms are therefore expected to constrain managerial discretion, strengthen accountability, and improve monitoring effectiveness. In this study, corporate governance is represented by three distinct attributes: board independence, board meeting frequency, and audit committee size. Board independence reflects the capacity for relatively objective oversight, board meeting frequency represents the intensity of board monitoring and deliberation, and audit committee size reflects the resources available for specialized financial oversight. These attributes therefore capture different dimensions of corporate governance rather than constituting a single composite governance measure.

Integrating Stakeholder Theory and Agency Theory provides a broader framework for understanding the relationships among ESG disclosure, corporate governance attributes, tax avoidance, and firm value. ESG disclosure represents an outward, facing mechanism through which firms communicate their sustainability orientation and responsiveness to stakeholder expectations, whereas corporate governance attributes represent internally oriented mechanisms for monitoring managerial decisions. Both mechanisms may be directly associated with firm value through transparency, accountability, monitoring effectiveness, and stakeholder confidence. Their relationships with firm value may also operate indirectly through managerial financial decisions. Corporate tax behavior is particularly relevant because tax avoidance can generate cash flow benefits while simultaneously creating agency, information, regulatory, and reputational risks. Tax avoidance may therefore provide an economic mechanism through which ESG disclosure and corporate governance attributes become associated with firm value.

2.2 Direct Effects of ESG Disclosure and Corporate Governance Attributes on Firm Value

ESG disclosure and corporate governance represent two conceptually distinct but complementary mechanisms through which firms may influence market valuation. Stakeholder Theory suggests that greater ESG transparency can reduce sustainability, related information asymmetry and strengthen stakeholder confidence, whereas Agency Theory suggests that effective corporate governance can constrain managerial opportunism and improve monitoring. Prior literature demonstrates that both sustainability, related information and governance mechanisms are relevant to investors' assessment of corporate prospects (Brick & Chidambaran, 2010; Rahat & Nguyen, 2024). Accordingly, the overarching direct effect hypothesis is formulated as follows:

H1: ESG disclosure and corporate governance attributes are directly associated with firm value.

ESG disclosure provides investors with information beyond conventional financial reporting regarding firms' environmental responsibilities, social practices, governance arrangements, and exposure to non-financial risks. From a Stakeholder Theory perspective, transparent ESG information may reduce information asymmetry, demonstrate responsiveness to stakeholder expectations, and strengthen confidence in firms' long-term sustainability. Rahat and Nguyen (2024) find that stronger ESG profiles are generally associated with higher firm valuation across emerging markets, whereas ESG controversies adversely affect valuation. More closely aligned with the disclosure construct used in this study, An et al. (2025) report that ESG information disclosure increases firm value and identify reduced financing constraints as an underlying mechanism. Thus, ESG disclosure may become economically relevant by improving the information available to investors for assessing corporate risks and long-term prospects. Accordingly:

H1a: ESG disclosure is significantly associated with firm value.

Board independence represents a governance mechanism designed to strengthen objective monitoring of managerial decisions. Agency Theory suggests that greater board independence can reduce managerial dominance, constrain opportunistic behavior, and strengthen accountability, thereby reducing agency problems between managers and shareholders. However, formal independence does not necessarily guarantee monitoring effectiveness because independent board members' contribution may also depend on expertise, access to relevant information, and their ability to challenge management. Therefore, the economic consequences of board independence may differ across firms and institutional settings. Nevertheless, because independent oversight affects the monitoring environment within which managerial decisions are made, board independence is expected to be relevant to investors' assessments of firm value. Accordingly:

H1b: Board independence is significantly associated with firm value.

Board meeting frequency reflects the intensity with which boards perform their monitoring and advisory responsibilities. More frequent meetings provide directors with additional opportunities to evaluate corporate performance, exchange information, discuss strategic and financial risks, and respond to managerial problems. However, the relationship between board meetings and firm value is not necessarily unidirectional. Vafeas (1999) finds that board meeting frequency is negatively related to contemporaneous firm value, partly because boards increase their activity following poor performance, although operating performance subsequently improves after periods of unusually high board activity. In contrast, Brick and

Chidambaran (2010) document that greater board monitoring activity positively affects firm value. Thus, board meeting frequency represents a relevant governance mechanism, although its valuation implications may depend on whether board activity reflects proactive monitoring or a response to existing corporate problems. Accordingly:

H1c: Board meeting frequency is significantly associated with firm value.

Audit committees perform specialized monitoring functions related to financial reporting, internal control, external auditing, and financial risk. Agency Theory suggests that an adequately resourced audit committee can reduce information asymmetry and strengthen the credibility of financial information by improving oversight of managerial financial decisions. A larger audit committee may provide greater human resources, expertise, and monitoring capacity. Nevertheless, larger committees may also experience coordination and communication problems, indicating that committee size should not automatically be interpreted as audit committee effectiveness. Rather, audit committee size represents an observable governance attribute that may affect the resources available for financial oversight and, consequently, investors' assessments of corporate governance and firm value. Accordingly:

H1d: Audit committee size is significantly associated with firm value.

2.3 Tax Avoidance as a Mediating Mechanism

Although high ESG disclosure reflects transparency and generally deters tax avoidance (Hidayat & Herawaty, 2024), empirical evidence remains inconsistent, highlighting a clear research gap. Mukhtaruddin et al. (2025) as well as Oktiani and Sanulika (2024) document a positive effect of ESG on tax avoidance, whereas Nurlaely and Dewi (2023) find a negative relationship. Conversely, Anggraini and Wahyudi (2022) observe no significant effect on corporate tax behavior.

Furthermore, tax avoidance serves as a potential economic mechanism linking ESG disclosure and corporate governance to firm value. Corporate tax strategies entail a trade-off between cash flow savings and agency, reputational, or regulatory costs, suggesting that tax avoidance may mediate the association between ESG, governance attributes, and firm value. Accordingly, the overarching mediation hypothesis is formulated as follows:

H2: Tax avoidance mediates the associations between ESG disclosure and corporate governance attributes and firm value.

ESG disclosure may influence firm value indirectly through corporate tax behavior because taxation can form part of stakeholders' broader assessment of responsible corporate conduct. From a Stakeholder Theory perspective, firms that communicate stronger commitments to sustainability may face greater expectations to align their tax practices with their environmental and social responsibilities. Aggressive tax avoidance may create inconsistency between firms' sustainability narratives and their underlying financial practices, potentially generating legitimacy and reputational costs. Tax behavior may subsequently affect firm value through the combination of tax saving benefits and associated agency and stakeholder costs. Yuan et al. (2025) provide direct empirical support for this mechanism, documenting that ESG disclosure enhances firms' long-term value and that tax avoidance serves as a mediating channel in this relationship. Therefore:

H2a: Tax avoidance mediates the association between ESG disclosure and firm value.

An independent board of commissioners functions to mediate management conflicts, oversee policies, and provide guidance to curb opportunistic behavior in tax policy management (Pandapotan et al., 2024). This is crucial as management tends to act opportunistically in maximizing profits, including minimizing tax expenses which drives tax avoidance (Maulana & Sugeng, 2026). Consequently, an independent board plays a pivotal role in ensuring regulatory compliance (Mita and Dewi, 2019) and limiting the exploitation of tax loopholes. Empirically, Hasan et al. (2024) find that board independence negatively affects tax avoidance due to strong and transparent oversight. Conversely, Makatita and Syahzuni (2025) demonstrate that board independence has no effect on tax avoidance. This inconsistency in empirical findings underlines the need to re-examine the impact of board independence on tax avoidance. Furthermore, board independence may indirectly influence firm value through managerial tax decisions. Independent board members evaluate whether tax saving benefits outweigh regulatory, agency, and reputational risks. Robust oversight can restrain excessive tax avoidance while maintaining economically efficient tax planning. Armstrong et al. (2015) demonstrate that this relationship is non linear: board independence is positively associated at low levels of tax avoidance, but negatively associated at high levels. This suggests that independent governance regulates managerial tax behavior rather than eliminating tax planning altogether. Because corporate tax behavior ultimately determines cash flows and risk profiles, tax avoidance serves as a plausible mediating pathway linking board independence to firm value. Accordingly, the hypotheses 2b is formulated as follows:

H2b: Tax avoidance mediates the association between board independence and firm value.

Board meetings are held to strengthen corporate oversight. Effective supervision is achieved when the board of commissioners meets frequently to anticipate and mitigate managerial tax avoidance practices (Tanujaya et al., 2021). Empirically, Hasan et al. (2024) reveal that board meetings negatively affect tax avoidance, suggesting that higher meeting frequency enables tighter management oversight and reduces tax avoidance. Conversely, Salihi and Kawi (2021) find a positive relationship, arguing that frequent meetings are utilized to formulate corporate tax strategies. Meanwhile, Tanujaya et al. (2021) and Arinta and Salatiga (2019) report that board meetings have no effect on tax avoidance, indicating that meeting frequency does not guarantee effective oversight of corporate tax policy.

These inconsistent findings highlight a clear research gap, warranting further empirical re-examination. Furthermore, board meeting frequency may indirectly influence firm value by altering the intensity with which directors monitor and advise managerial financial decisions, including corporate tax strategies. More frequent meetings allow directors to scrutinize tax related risks, challenge managerial assumptions, evaluate regulatory developments, and weigh expected tax savings against potential agency, regulatory, and reputational costs. Concurrently, board meetings facilitate advisory functions, supporting tax planning when deemed economically beneficial to shareholders.

Prior literature demonstrates that board meeting activity constitutes an essential component of board monitoring and managerial oversight (Brick & Chidambaran, 2010; Vafeas, 1999). If increased board activity shapes managerial tax decisions and the resulting tax behavior subsequently affects corporate cash flows and risk profiles, tax avoidance serves as a plausible indirect economic pathway linking board meeting frequency to firm value. Accordingly, Hypothesis 2c is formulated as follows:

H2c: Tax avoidance mediates the association between board meeting frequency and firm value.

A larger audit committee size can enhance firm performance through more comprehensive financial reporting discussions, thereby improving reporting quality and profitability (William & Suryanto, 2025). Furthermore, a strong audit committee presence strengthens corporate governance quality, which can suppress potential tax avoidance practices (Fauzan et al., 2019).

Empirically, Hasan et al. (2024) find that the audit committee negatively affects tax avoidance, suggesting that a more effective audit committee enhances transparency and managerial oversight, thereby reducing tax avoidance. Conversely, Pratama and Satwiko (2024) demonstrate that the audit committee has no effect on tax avoidance, indicating that audit committee size does not necessarily reflect oversight effectiveness. On the other hand, Dang and Nguyen (2022) observe a positive effect of audit committee size on tax avoidance, arguing that a larger committee may impair coordination and oversight efficacy.

These inconsistent findings highlight a clear research gap, necessitating further empirical re-examination of the effect of audit committee size on tax avoidance. Furthermore, audit committee size may indirectly influence firm value through corporate tax behavior. Audit committees are tasked with monitoring financial reporting, internal controls, audit processes, and financial risks, all of which directly intersect with corporate tax decisions. A sufficiently resourced audit committee can strengthen the scrutiny of complex tax positions and limit strategies that carry excessive compliance, reporting, or reputational risks. Conversely, greater monitoring capacity may enable firms to execute sophisticated yet economically efficient tax planning.

Thus, audit committee size shapes the governance environment surrounding corporate taxation, while the resulting tax behavior subsequently influences firm value through tax savings, agency costs, information transparency, and regulatory exposure. Consequently, tax avoidance represents a theoretically plausible mechanism connecting audit committee resources with firm valuation. Accordingly, Hypothesis 2d is formulated as follows:

H2d: Tax avoidance mediates the association between audit committee size and firm value.

3. Methodology

This study employs a quantitative explanatory design to examine the associations of ESG disclosure and corporate governance attributes with firm value, with tax avoidance as a potential mediating variable. Corporate governance is represented by board independence, board meeting frequency, and audit committee size, while profitability (ROA) and firm size (SIZE) are included as control variables. The unit of analysis is the firm-year.

The population consists of manufacturing companies listed on the Indonesia Stock Exchange (IDX) during 2023–2025. The sample is selected using purposive sampling based on several criteria: firms must be continuously listed during the observation period, consistently publish audited financial statements and sustainability reports, present financial statements in Indonesian rupiah, report positive profit before tax, and have an Effective Tax Rate (ETR) greater than zero and less than one. The final sample consists of 324 firm-year observations.

3.1 Variable Measurement

To address the research questions, this study incorporates dependent, independent, mediating, and control variables. Firm Value (FV) serves as the dependent variable, while Tax

Avoidance (TA) acts as the mediating variable, measured as (1-ETR). This measurement reverses the direction of ETR, such that a higher TA value indicates a higher level of tax avoidance. Meanwhile, corporate governance is measured using three distinct attributes: Board Independence (BI), Board Meeting Frequency (BM), and Audit Committee Size (AC). The study also includes profitability and Firm Size (SIZE) as control variables. The detailed specifications are presented in the following table:

Table 1. Variable Definition and Measurement

Variable	Code	Role	Measurement
Firm Value	FV	Dependent	Tobin's Q
Tax Avoidance	TA	Mediator	$1 - ETR$
ESG Disclosure	ESGD	Independent	Total ESG disclosure score / 96
Board Independence	BI	Independent	Proportion of independent board members
Board Meetings	BM	Independent	Number of board meetings per year
Audit Committee Size	AC	Independent	Number of audit committee members
Profitability	ROA	Control	Net income / Total assets
Firm Size	SIZE	Control	Natural logarithm of total assets

ESG disclosure is measured through content analysis of annual and sustainability reports. The measurement framework refers to SEOJK No. 16/SEOJK.04/2021 and adopts the indicators used by Angir and Weli (2024). The instrument consists of 32 indicators: 13 environmental, 14 social, and five governance indicators. Each indicator is scored from 0 to 3: 0 for no disclosure, 1 for general disclosure, 2 for partial disclosure, and 3 for complete disclosure. The maximum total score is therefore 96. The ESG disclosure index is calculated as:

$$ESGDit = \frac{\sum_{j=1}^{32} ESGScore_{jit}}{96}$$

where $ESGScore_{jit}$ represents the disclosure score for indicator j , firm i , and year t . A higher ESGD value indicates more comprehensive ESG disclosure.

Table 2. ESG Content Analysis Framework

ESG Dimension	Number of Indicators	Score per Indicator	Maximum Score
Environmental	13	0–3	39
Social	14	0–3	42
Governance	5	0–3	15
Total ESG	32	0–3	96

The environmental indicators cover areas such as energy, water, emissions, biodiversity, and waste management. The social dimension includes employment, occupational health and safety, human rights, community involvement, customer related issues, and sustainable innovation. The governance dimension covers sustainability governance, board

responsibilities, risk management, business ethics, anti corruption, and stakeholder relationships.

3.2 Empirical Model

To test the hypotheses regarding both direct and indirect relationships through tax avoidance on firm value, the panel data regression analysis begins with selecting the best estimator model (Common Effect Model, Fixed Effect Model, or Random Effect Model) for each equation sub model. Subsequently, regression hypothesis testing is conducted for the direct relationships, alongside testing the mediating effect of tax avoidance, using the following equations:

$$TobinQ_{it} = \beta_0 + \beta_1 ESGD_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 AC_{it} + \beta_5 ROA_{it} + \beta_6 SIZE_{it} + \varepsilon_{it}$$

The indirect effect is tested using a two-step regression method. In the first step, all independent variables are regressed against tax avoidance, while the second step regresses the predicted values of tax avoidance on firm value. Model examines whether ESG disclosure and corporate governance attributes are associated with tax avoidance:

$$TA_{it} = \beta_0 + \beta_1 ESGD_{it} + \beta_2 BI_{it} + \beta_3 BM_{it} + \beta_4 AC_{it} + \beta_5 ROA_{it} + \beta_6 SIZE_{it} + \varepsilon_{it}$$

And model examines the relationship between predicted tax avoidance and firm value:

$$TobinQ_{it} = \beta_0 + \beta_1 \widehat{TA}_{it} + \varepsilon_{it}$$

where *TobinQ* represents firm value, *ESGD* represents ESG disclosure, *BI* is board independence, *BM* is board meeting frequency, *AC* is audit committee size, *TA* represents tax avoidance, *ROA* represents profitability, and *SIZE* represents firm size. The subscripts *i* and *t* denote firm and year, respectively.

3.3. Mediation and Robustness Analysis

Tax avoidance is examined as a potential mechanism linking ESG disclosure and corporate governance attributes with firm value. The mediation assessment considers the relationships between the focal independent variables and tax avoidance and between tax avoidance and firm value. The indirect effect can generally be expressed as:

$$Indirect\ Effect = a \times b$$

where *a* represents the estimated association between the respective explanatory variable and tax avoidance, while *b* represents the association between tax avoidance and firm value. The direction and statistical significance of these component paths are evaluated jointly when assessing the proposed mediation mechanism.

As an additional robustness analysis, the Sobel test is used to assess whether selected indirect effects through tax avoidance differ significantly from zero. The robustness analysis complements the main regression results and provides additional evidence regarding the relevance of tax avoidance as an intervening mechanism.

4. Result and Discussion

4.1 Descriptive Statistics

Table 3 presents the descriptive statistics of the variables used in this study based on 324 firm-year observations. Firm value, measured using Tobin's Q, has a mean of 2.084, with values ranging from 0.0681 to 11.7964. Tax avoidance (TA), measured as (1-ETR), has a mean of 0.329 and ranges from 0.0002 to 0.9429. ESG disclosure (ESGD) has a mean of 0.534, with a minimum of 0.0737 and a maximum of 0.8657. These figures indicate variation in firm value, tax avoidance, and ESG disclosure across the sampled observations.

As shown in Table 3, board independence (BI) has a mean of 0.476, while board meeting frequency (BM) averages 6.768 meetings and ranges from 3 to 12 meetings. Audit committee size (AC) ranges from 3 to 5 members, with an average of 3.109 members. For the control variables, profitability (ROA) has a mean of 0.086, whereas firm size (SIZE) has a mean of 12.680. Overall, the descriptive statistics demonstrate sufficient variation across the governance and financial characteristics of the sampled firms.

Table 3. Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Standard Deviation
TobinQ	324	0.0681	11.7964	2.084	1.3955
TA	324	0.0002	0.9429	0.329	0.0791
ESGD	324	0.0737	0.8657	0.534	0.0874
BI	324	0.2968	0.9098	0.476	0.2577
BM	324	3	12	6.768	0.7398
AC	324	3	5	3.109	0.4874
ROA	324	0.0013	1.0025	0.086	0.0939
SIZE	324	10.2937	14.1005	12.680	0.7209

Note. TobinQ = firm value measured by Tobin's Q; TA = tax avoidance measured as (1-ETR); ESGD = ESG disclosure; BI = board independence; BM = board meeting frequency; AC = audit committee size; ROA = profitability; SIZE = firm size.

4.2 Panel Model Selection

Prior to hypothesis testing, panel model specification tests were conducted to determine the most appropriate estimation model. Table 5 shows that the Chow test produces a probability value of 0.1478, which exceeds the 5% significance level, indicating that the Common Effect Model is preferred to the Fixed Effect Model. The Lagrange Multiplier test similarly reports a probability value of 0.7630, which is also greater than 0.05, indicating that the Common Effect Model is preferred to the Random Effect Model. Accordingly, the subsequent regression analyses are estimated using the Common Effect Model.

Table 4. Panel Model Selection Tests

Test	Model Comparison	Probability	Selected Model
Chow Test	CEM vs. FEM	0.1478	CEM
Lagrange Multiplier Test	CEM vs. REM	0.7630	CEM

Note: CEM = Common Effect Model; FEM = Fixed Effect Model; REM = Random Effect Model.

4.3 Direct Associations with Firm Value

Table 5 reports the results of the direct association model examining ESG disclosure and corporate governance attributes in relation to firm value, while controlling for profitability and firm size. The model is statistically significant overall, as indicated by a probability of the F-statistic below 0.001. The adjusted R² is 0.0367, indicating that the model explains a relatively limited proportion of the variation in Tobin's Q.

As presented in Table 5, ESG disclosure has a positive but statistically insignificant association with firm value ($\beta = 2.8952$, $p = 0.1468$), indicating that H1a is not supported. Board independence has a positive and statistically significant association with firm value ($\beta = 2.3780$, $p = 0.0478$), thereby supporting H1b. By contrast, board meeting frequency ($\beta = 0.4789$, $p = 0.2345$) and audit committee size ($\beta = 1.4890$, $p = 0.4902$) are statistically insignificant, meaning that H1c and H1d are not supported.

The control variables in Table 6 are both positively and significantly associated with firm value. ROA has a coefficient of 0.2800 with $p = 0.002$, while SIZE has a coefficient of 0.1800 with $p = 0.016$. Overall, board independence is the only focal variable with a statistically significant direct association with firm value, providing partial support for the overarching H1.

Table 5. Results

Dependent	TobinQ		TA		TobinQ	
Independent	Hypotesis 1		Hypotesis 1			
	Coef	Sig	Coef	Sig	Coef	Sig
CONSTANT	0,106	0,568	0,561	0,000	2,824	0,000
ESGD	2,895	0,146	0,789	0,024		
BI	2,378	0,047	0,478	0,947		
BM	0,478	0,234	0,378	0,673		
AC	1,489	0,490	0,768	0,804		
ROA	0,280	0,002	0,350	0,000		
SIZE	0,180	0,016	0,220	0,003		
$\widehat{TA}$					0,410	0,000

ADJ R2	0,0367	0,0156	0,008
PROB F-STAT	0,0000	0,0000	0,000

Note: ESGD: ESG Disclosure; BI= board independence; BM: board meeting; AC: Audit Comittee; ROA: Profitability; SIZE: Company Size, TA:Tax Avoidance; TobinQ= Firm Value; $\widehat{TA}$ = Tax Avoidance regression

4.4 Mediation Analysis

The mediation analysis examines whether tax avoidance provides an intervening pathway between ESG disclosure and corporate governance attributes and firm value. Table 7 presents the first mediation component, in which tax avoidance is regressed on ESG disclosure, board independence, board meeting frequency, audit committee size, and the control variables. The model is statistically significant overall, with a probability of the F-statistic below 0.001, while the adjusted R² is 0.0156.

As shown in Table 5, ESG disclosure is positively and significantly associated with tax avoidance ($\beta = 0.7890$, $p = 0.02445$). Since tax avoidance is measured as (1-ETR), a higher TA value represents a higher level of tax avoidance. Thus, greater ESG disclosure is associated with higher tax avoidance. In contrast, board independence ($\beta = 0.47847$, $p = 0.9474$), board meeting frequency ($\beta = 0.37847$, $p = 0.6738$), and audit committee size ($\beta = 0.7684$, $p = 0.8047$) are not statistically associated with tax avoidance. The control variables reported in Table 5 are both significantly associated with tax avoidance. ROA has a positive coefficient of 0.3500 with $p = 0.0001$, while SIZE has a positive coefficient of 0.2200 with $p = 0.003$. These results indicate that ESG disclosure, profitability, and firm size are positively associated with tax avoidance within the estimated model. The second component of the mediation analysis examines the association between predicted tax avoidance and firm value. As reported in Table 8, predicted tax avoidance has a positive and statistically significant association with Tobin's Q ($\beta = 0.4100$, $p < 0.001$). The model is statistically significant overall, with a probability of the F-statistic of 0.000040, while the adjusted R² is 0.00856.

Table 5 thus confirms a statistically significant effect of the mediator on the outcome variable. When this result is considered together with the significant association between ESG disclosure and tax avoidance, the findings provide component path evidence consistent with a potential mediating role of tax avoidance in the ESG disclosure and firm value relationship. However, as the indirect effect test linking ESG disclosure, tax avoidance, and firm value is absent from the core results, the proposed mediation role should be regarded tentatively at this stage.

Regarding the direct relationships with firm value, H1b is supported because board independence is positively and significantly associated with Tobin's Q. H1a, H1c, and H1d are not supported because ESG disclosure, board meeting frequency, and audit committee size do not show statistically significant direct associations with firm value. Consequently, the overarching H1 receives partial support.

For the mediation-related hypotheses, Table 5 shows that ESG disclosure is significantly associated with tax avoidance and that predicted tax avoidance is significantly associated with firm value. By contrast, board independence, board meeting frequency, and audit committee size are not significantly associated with tax avoidance. Thus, the available results provide component path evidence consistent with H2a, whereas H2b, H2c, and H2d are not supported

by the predictor to mediator paths. Because the Sobel test will be presented separately as a robustness analysis after the Discussion, the present Results section does not use the robustness evidence to determine the main hypothesis decisions.

4. 5 Discussion

The findings reveal an asymmetric pattern in the ways ESG disclosure and corporate governance attributes are associated with firm value. Among the focal variables, board independence is the only governance attribute that is directly and positively associated with firm value, whereas ESG disclosure, board meeting frequency, and audit committee size do not show significant direct associations. At the same time, ESG disclosure is positively associated with tax avoidance, while board independence, board meeting frequency, and audit committee size are not significantly related to tax avoidance. Predicted tax avoidance is also positively associated with firm value. Rather than indicating a uniform value-creation mechanism, these findings point to an important empirical distinction: corporate governance and ESG disclosure appear to be associated with firm value through different pathways. Board independence reflects a more direct governance, monitoring channel, whereas the relevance of ESG disclosure appears more complex and potentially connected with firms' tax related behavior.

The insignificant association between ESG disclosure and firm value indicates that a greater extent of ESG information disclosure does not necessarily translate directly into higher market valuation. This finding differs from studies documenting positive valuation consequences of ESG activities and disclosure, including evidence from emerging markets showing that stronger ESG profiles can contribute to firm valuation (Rahat & Nguyen, 2024) and evidence that ESG disclosure may enhance firm value through reductions in financing constraints (An et al., 2025). The present result does not necessarily imply that ESG information is irrelevant to investors. Rather, it suggests that the extent of disclosure alone may be insufficient to generate a valuation premium. Because the ESGD measure captures the amount of ESG information disclosed rather than investors' perceptions of its credibility or the underlying quality of ESG performance, the result should be interpreted as evidence that greater disclosure by itself is not directly associated with higher firm value in the firms examined.

From a signaling perspective, this finding highlights an important distinction between the existence of a signal and the credibility of that signal. ESG disclosure can theoretically reduce information asymmetry by communicating firms' environmental, social, and governance commitments to external stakeholders. However, a signal becomes economically meaningful when market participants perceive that it conveys credible information about underlying corporate characteristics. Thus, extensive ESG disclosure may not automatically become value relevant if stakeholders cannot readily determine whether the disclosed information represents substantive corporate practices. This interpretation provides a possible boundary condition to the positive ESG–firm value relationship documented in previous research (An et al., 2025; Rahat & Nguyen, 2024). In the context of an emerging market such as Indonesia, the value relevance of ESG information may therefore depend not only on disclosure intensity but also on its credibility, comparability, and consistency with observable corporate behavior. These possible explanations should nevertheless be interpreted cautiously because the present study does not directly measure investor perceptions or disclosure credibility.

In contrast, board independence is positively associated with firm value, supporting the monitoring perspective of agency theory. Agency theory argues that separation between ownership and control creates potential conflicts between managers and shareholders, making effective monitoring mechanisms important for limiting managerial opportunism (Jensen & Meckling, 1976). Independent board members may strengthen oversight by providing greater objectivity in monitoring managerial decisions and protecting shareholder interests. Consequently, investors may perceive stronger board independence as an observable indication of governance quality and managerial accountability, which may be reflected in higher firm valuation. The finding therefore suggests that, compared with disclosure based sustainability signals, board independence may constitute a governance mechanism whose relevance to market valuation is more direct. More broadly, this result reinforces the importance of distinguishing among individual corporate governance mechanisms rather than assuming that all governance characteristics generate equivalent valuation consequences. The results for board meeting frequency and audit committee size provide further evidence of such heterogeneity across governance mechanisms. Neither board meeting frequency nor audit committee size is significantly associated with firm value. These findings suggest that numerical governance characteristics alone may be insufficient to represent the effectiveness of internal monitoring. Previous studies have shown that board meeting frequency can have different implications depending on the circumstances in which meetings occur; greater meeting frequency may reflect active monitoring, but it may also arise as a response to organizational difficulties (Vafeas, 1999; Brick & Chidambaran, 2010). Similarly, the number of audit committee members does not necessarily capture qualitative dimensions such as expertise, independence, experience, or member engagement. Accordingly, the non-significant findings should not be interpreted as evidence that board activities or audit committees are unimportant. Instead, they raise the possibility that the effectiveness of these mechanisms depends on qualitative characteristics that are not captured by meeting frequency or committee size in the present study.

A particularly noteworthy finding is the positive association between ESG disclosure and tax avoidance. Because tax avoidance is measured as (1-ETR), a higher value represents a higher level of tax avoidance; therefore, the result indicates that firms with more extensive ESG disclosure tend to exhibit higher tax avoidance. This finding reveals an important tension between sustainability communication and firms' tax-related behavior. Taxation is economically relevant to the broader stakeholder environment because corporate tax payments contribute to public resources, while ESG disclosure communicates a firm's orientation toward environmental, social, and governance responsibilities. The coexistence of extensive ESG disclosure and greater tax avoidance therefore suggests that sustainability communication and other dimensions of corporate conduct do not necessarily move in the same direction. This finding is particularly relevant to the emerging literature connecting sustainability reporting with corporate taxation. Nasih et al. (2024), for example, explicitly raise the question of whether sustainability reporting and tax avoidance reflect alignment or potentially conflicting corporate strategies. The present evidence contributes to this debate by showing that higher ESG disclosure can coexist with higher tax avoidance.

From stakeholder and signaling perspectives, the positive ESG disclosure–tax avoidance relationship may be understood as a potential disclosure–behavior inconsistency. Stakeholder theory emphasizes that corporate responsibility extends to multiple groups affected by

corporate activities (Donaldson & Preston, 1995), while signaling theory implies that sustainability disclosure communicates information regarding firms' underlying commitments. When greater ESG disclosure coexists with greater tax avoidance, the credibility of the sustainability signal may depend on whether stakeholders perceive tax practices as consistent with the broader responsibility communicated through ESG disclosure. Importantly, the finding should not be interpreted as direct evidence of greenwashing. The present study measures the extent of ESG disclosure and tax avoidance, but it does not directly measure misleading disclosure, managerial intent, or the gap between disclosed ESG claims and actual ESG performance. Therefore, disclosure-behavior inconsistency is a more empirically defensible interpretation. This distinction also offers a useful theoretical implication: evaluating corporate sustainability may require attention not only to what firms disclose but also to whether sustainability communication is consistent with substantive corporate decisions.

Corporate governance attributes, however, exhibit a different relationship with tax avoidance. Board independence, board meeting frequency, and audit committee size are not significantly associated with tax avoidance. This result suggests that the structural governance characteristics examined in this study may not independently constrain or encourage firms' tax-avoidance decisions. Prior research indicates that the governance tax avoidance relationship can depend on managerial incentives and specific governance arrangements rather than on governance structures alone (Armstrong et al., 2015). Particularly informative is the contrasting result for board independence: board independence is positively associated with firm value but has no significant association with tax avoidance. This pattern suggests that the value relevance of independent oversight may operate through channels other than corporate taxation, potentially including broader managerial monitoring, strategic discipline, financial reporting oversight, and shareholder protection. Therefore, governance mechanisms that are relevant to market valuation need not necessarily influence every dimension of corporate financial decision making.

The mediation analysis provides further insight into these different pathways. ESG disclosure is significantly associated with tax avoidance, and predicted tax avoidance is positively and significantly associated with firm value, whereas the governance attributes do not exhibit significant predictor to mediator relationships. Taken together, these results provide component path evidence consistent with a potential tax avoidance pathway between ESG disclosure and firm value. This pattern is particularly noteworthy because ESG disclosure does not have a significant direct association with firm value. It therefore raises the possibility that the economic relevance of ESG disclosure may emerge through its relationship with substantive corporate financial behavior rather than through disclosure alone. Recent literature has similarly begun to examine taxation as a mechanism connecting ESG related corporate behavior and firm value (Yuan et al., 2025) and to investigate the interaction between ESG characteristics, tax avoidance, and valuation outcomes (Elamer et al., 2024). Nevertheless, the evidence from the main analysis should not be interpreted as definitive confirmation of mediation because the main Results do not directly estimate the indirect effect of ESG disclosure through tax avoidance. The finding is therefore more appropriately characterized as evidence consistent with a potential mediating mechanism.

Taken together, the findings contribute to an integrated understanding of ESG disclosure, corporate governance, tax behavior, and firm valuation by identifying distinct rather than

uniform pathways. Agency theory helps explain the direct governance monitoring channel through which board independence is associated with firm value, while signaling theory highlights why ESG disclosure may not generate valuation benefits merely through greater disclosure intensity. Stakeholder theory further extends this explanation by emphasizing the importance of consistency between sustainability communication and substantive corporate behavior, including tax practices. In this respect, the study shows that board independence appears to be associated with firm value through a direct monitoring channel, whereas ESG disclosure exhibits a more complex disclosure–tax behavior pathway. Overall, these findings provide a more nuanced understanding of how sustainability disclosure and corporate governance are associated with firm value by demonstrating that their value relevance may depend on distinct underlying mechanisms. The following robustness analysis provides additional evidence on the relevance of tax avoidance as an intervening mechanism by examining indirect effects involving the financial characteristics included as control variables in the main models.

4. 6. Robustness Test

An additional robustness analysis was conducted using the Sobel test to examine whether tax avoidance provides an indirect pathway linking the financial characteristics included as control variables to firm value. Specifically, the analysis evaluates the indirect effects of profitability (ROA) and firm size (SIZE) on Tobin’s Q through tax avoidance. These variables were examined because both ROA and SIZE are significantly associated with tax avoidance in the main model, while predicted tax avoidance is significantly associated with firm value. The results are presented in Table 6.

Table 6. Robustness Test of Indirect Effects through Tax Avoidance

Indirect Path	Path a	Path b	Indirect Effect ($a \times b$)	Sobel Z	p-value	Result
ROA → TA → Tobin’s Q	0.350	0.410	0.1435	3.182	0.0014	Significant
SIZE → TA → Tobin’s Q	0.220	0.410	0.0902	2.538	0.0111	Significant

Note. TA = tax avoidance; ROA = profitability; SIZE = firm size. Path a represents the association between the respective financial characteristic and tax avoidance, while path b represents the association between predicted tax avoidance and Tobin’s Q. The indirect effect is calculated as $a \times b$. Statistical significance is evaluated at the 5% level.

As reported in Table 6, the Sobel test indicates a positive and statistically significant indirect effect of profitability on firm value through tax avoidance. The indirect effect is 0.1435, obtained from the product of the ROA on tax avoidance coefficient (0.350) and the tax avoidance on firm value coefficient (0.410). The Sobel Z-statistic of 3.182 with a p-value of 0.0014 confirms that this indirect effect is statistically significant. This result indicates that tax avoidance provides an additional indirect pathway linking profitability to firm value. Thus, the association between profitability and firm value observed in the main analysis may operate not only directly but also indirectly through firms’ tax avoidance behavior.

A similar pattern is observed for firm size. The indirect effect of SIZE on firm value through tax avoidance is 0.0902, based on the product of the SIZE on tax avoidance coefficient (0.220) and the tax avoidance on firm value coefficient (0.410). The Sobel test yields a Z-statistic of 2.538 and a p-value of 0.0111, indicating a statistically significant indirect effect at the 5% level.

This finding suggests that tax avoidance also provides an indirect pathway linking firm size to firm value. In the estimated models, larger firms are associated with higher tax avoidance, which in turn is positively associated with firm value.

Overall, the robustness analysis provides additional evidence that tax avoidance is empirically relevant as an intervening mechanism linking firm characteristics to firm value. The significant indirect effects for both profitability and firm size complement the main findings by demonstrating that the tax avoidance channel is not limited to its direct association with firm value but can also transmit the associations of other firm characteristics with valuation. Nevertheless, these results should be interpreted as additional robustness evidence rather than confirmation of H2a to H2d, because ROA and SIZE serve as control variables rather than the focal ESG disclosure and corporate governance variables specified in the mediation hypotheses. Accordingly, the robustness analysis strengthens the broader evidence regarding the relevance of tax avoidance as an intervening mechanism without altering the conclusions of the main hypothesis tests.

5. Conclusion and Suggestion

This study provides evidence that ESG disclosure and corporate governance do not relate to firm value in the same way. Among the governance mechanisms examined, board independence is positively associated with firm value, while board meeting frequency and audit committee size show no significant associations. ESG disclosure is also not directly associated with firm value; however, it is positively associated with tax avoidance, while predicted tax avoidance is positively associated with firm value. These findings suggest that simply disclosing more ESG information may not be sufficient to create higher firm value. What may also matter is how sustainability communication is reflected in firms' actual business and financial practices. Overall, this study contributes to the literature by distinguishing a direct governance monitoring channel, reflected in the role of board independence, from a possible disclosure–tax behavior mechanism linking ESG disclosure with firm valuation. This distinction offers a more nuanced understanding of why sustainability disclosure and corporate governance may have different implications for firm value.

From a practical perspective, the findings encourage companies to move beyond the quantity of ESG information disclosed and pay greater attention to the consistency between sustainability communication and substantive corporate practices, including tax behavior. Investors may therefore benefit from evaluating ESG disclosure together with governance and financial behavior rather than relying on disclosure intensity alone, while the findings also suggest the importance for regulators of promoting credible, comparable, and meaningful sustainability reporting. The additional robustness analysis further indicates that tax avoidance provides significant indirect pathways linking profitability and firm size with firm value, reinforcing the broader relevance of tax related behavior in understanding firm valuation. Nevertheless, the findings are limited to Indonesian manufacturing firms during 2023–2025, while the ESG and governance measures primarily capture disclosure and structural characteristics rather than the underlying quality of corporate practices. Future research could therefore cover broader industries and longer periods, incorporate substantive ESG performance and qualitative governance measures, and directly test the proposed

indirect effects using bootstrap procedures to provide stronger evidence on the potential mediating role of tax avoidance.

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