

# Independent Commissioners and Tax Avoidance: The Role of Sustainability

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**Abstract:** *This study aims to investigate how independent commissioners influence corporate tax avoidance, using sustainability performance as a mediating variable, and to examine whether independent commissioners encourage responsible tax practices through enhanced sustainability engagement. The research was conducted in Indonesia using secondary data from companies listed on the Indonesia Stock Exchange during the period 2019–2023, employing a quantitative approach with regression analysis and path analysis for mediation testing using Stata software. The results show that independent commissioners have a positive and significant impact on sustainability performance by enhancing corporate transparency and accountability, while their direct effect on tax avoidance is insignificant. However, sustainability performance significantly reduces tax avoidance and mediates the relationship between independent commissioners and tax avoidance. These findings indicate that independent commissioners indirectly encourage responsible tax behavior through improved sustainability practices, suggesting the need to strengthen governance frameworks and sustainability disclosure standards to promote ethical corporate behavior. The study is limited to a specific period (2019–2023) and the Indonesian context, which may reduce the generalizability of the findings to other regions or timeframes, but it contributes to the corporate governance and sustainability literature by providing empirical evidence on the mediating role of sustainability performance in Indonesia and offering insights for researchers, policymakers, and companies regarding the role of board independence in encouraging ethical tax practices.*

**Keywords:** *GRI-based sustainability reports, independent commissioners, sustainability performance, tax avoidance*

## 1. Introduction

Tax avoidance is increasingly recognized as a critical factor in evaluating the quality of financial information disclosed by firms [Jarboui et al., 2020]. It encompasses a range of corporate strategies designed to minimize tax obligations across different jurisdictions. These strategies may include legally sanctioned tax planning as well as more contentious approaches—often termed tax aggressiveness—whose legal standing and ethical implications are frequently questioned [Jarboui et al., 2020]. As a global concern, tax avoidance carries significant consequences for income distribution, fiscal sustainability, and the overall legitimacy of corporate behavior. Previous evidence from

Indonesian firms also highlights that tax avoidance reflects deeper governance and ethical challenges within the organization [Karina and Jeksen, 2021].

Aggressive tax planning causes significant global revenue losses, with the OECD (2021) estimating annual losses of between USD 100 and 240 billion, or up to 10% of global corporate tax revenues. This problem is particularly acute in developing countries such as Indonesia, where governments rely on corporate income taxes for essential services. Despite a statutory corporate tax rate of 22%, Indonesia's tax ratio remains below 12%, with many companies reporting lower effective tax rates. The Tax Justice Network (2023) reported that Indonesia lost more than USD 2.7 billion or around IDR 44 trillion due to corporate tax avoidance. Empirical studies in Indonesia further confirm that weak governance mechanisms contribute to persistent tax avoidance practices among listed companies [Yopie and Santo, 2023].

Tax avoidance, while legal in many cases, often occupies an ethical gray area, involving strategies such as tax sheltering, transfer pricing, and regulatory arbitrage, raising concerns about corporate social responsibility. In particular, the board of commissioners, which is tasked with monitoring management performance and ensuring accountability, plays a crucial role in promoting transparent and ethical corporate behavior. Within this structure, independent commissioners are expected to provide objective oversight and minimize managerial opportunism, thereby curbing unethical practices, including aggressive tax planning [Boussaidi and Hamed-sidhom, 2020]. Evidence from Indonesian capital market studies suggests that board independence can influence tax aggressiveness, although the strength of this influence varies across firms [Butar-butur et al., 2024].

Sustainability performance, particularly through environmental, social, and governance (ESG) disclosures, is increasingly viewed as a reflection of a company's ethical orientation. Firms that adopt structured reporting frameworks such as the Global Reporting Initiative (GRI) typically exhibit higher levels of transparency and social responsibility, which can deter aggressive financial practices like tax avoidance and enhance stakeholder trust. As a globally recognized soft law mechanism, the GRI provides comprehensive guidelines that align with stakeholder expectations and emphasize tax as an integral component of corporate accountability [Bird and Davis-Nozemack, 2018]. In this context, disclosing tax payments through sustainability reports becomes not only a demonstration of ethical governance but also a meaningful contribution to social equity and public trust. Previous studies in Indonesia also documented that stronger sustainability disclosure is associated with more responsible financial and tax behavior [Harsono and Susanti, 2022].

In Indonesia, the effectiveness of independent commissioners remains suboptimal, and the implementation of sustainability reporting further develops aspects of corporate governance. Although regulatory requirements mandate the involvement of independent commissioners in public companies, their influence in ensuring ethical financial practices varies widely. Similarly, while a growing number of companies are publishing sustainability reports, the quality and consistency of these disclosures remain uneven across industries. This condition strengthens the findings of Melissa & Iskandar Itan [2022] that governance mechanisms and sustainability practices in Indonesia are still in the development stage and require further empirical examination.

Previous research in developed countries shows that board independence strengthens monitoring quality and reduces aggressive tax strategies [Lanis and Richardson, 2011]. However, empirical evidence in emerging markets remains limited,

and the mechanisms by which governance structures influence tax avoidance, particularly through sustainability performance, are not fully understood. Given Indonesia's relatively low tax compliance and evolving governance standards, investigating this relationship offers valuable insights into how governance and sustainability interact to shape ethical corporate behavior.

This study aims to examine the mediating role of sustainability performance in the relationship between independent commissioners and corporate tax avoidance in Indonesian listed firms. Accordingly, this research seeks to address the following question:

Q1. Does sustainability performance mediate the relationship between independent commissioners and tax avoidance in Indonesian firms?

Using a quantitative approach, this study analyzes panel data from IDX-listed firms during 2019 to 2023. Tax avoidance is measured via Effective Tax Rate (ETR), independent commissioners are captured by the proportion of independent commissioners, and sustainability performance is assessed through the extent of GRI-based disclosure. Mediation analysis is employed to evaluate the indirect effect pathways. Findings from this research are expected to offer empirical insights for enhancing corporate governance in emerging markets, supporting ethical behavior, and promoting inclusive and transparent business practices.

This paper has structured sections that discuss in more depth the theoretical framework, literature review, and the research hypothesis (Section 2), research methodology (Section 3). The findings are then presented (Section 4), and the final section (Section 6) concludes the study by discussing the results and highlighting limitations and directions for future research.

## Literature Review and Hypothesis Development

### Theoretical Background

#### Agency Theory

Agency theory, as introduced by Jensen and Meckling [1976], defines the relationship between shareholders (principals) and managers (agents) as a contractual agreement in which the principals delegate decision-making authority to the agents. This delegation creates potential conflicts of interest when the goals of managers differ from those of shareholders. Agency problems may arise due to asymmetrical information, where managers possess more internal knowledge than shareholders, and conflicts of interest, which can lead to decisions that are not aligned with the goal of maximizing firm value [Hendrastuti and Harahap, 2023].

One area where these agency problems can be observed is tax-related decision-making. Managers may engage in aggressive tax strategies to improve short-term financial outcomes or personal benefits, such as performance-based compensation. While tax avoidance may reduce a company's tax burden temporarily, it can also increase long-term risks, including regulatory scrutiny, reputational damage, and financial penalties. To reduce such risks, shareholders often implement monitoring mechanisms like external audits, corporate governance practices, or increased CSR disclosures [Jo & Harjoto, 2011; López-González et al., 2019].

Within the corporate governance structure, the board of commissioners serves as the primary monitoring mechanism designed to align managerial actions with shareholder interests. In particular, independent commissioners, who are not affiliated

with management or controlling shareholders, play a crucial role in ensuring objective oversight and enhancing board effectiveness [Fama and Jensen, 1983]. Their independence allows them to critically evaluate managerial decisions, limit opportunistic behavior, and encourage compliance with ethical and regulatory standards. Empirical evidence suggests that stronger board independence is associated with lower levels of earnings manipulation and tax aggressiveness [Lanis and Richardson, 2011; Minnick and Noga, 2010].

From an agency theory perspective, the presence of independent commissioners reduces agency costs by strengthening control and monitoring functions. Their oversight enhances transparency and accountability, thereby discouraging management from engaging in risky or unethical financial practices, including aggressive tax avoidance. Furthermore, independent commissioners can promote sustainability performance as part of broader governance oversight. Promoting sustainability reporting and responsible business conduct helps align corporate actions with stakeholder interests, thereby reducing agency conflicts and long-term risks [Hillman and Dalziel, 2003].

Accordingly, agency theory provides a strong theoretical foundation for examining how independent commissioners influence tax avoidance, both directly and indirectly through sustainability performance. By improving quality of governance and encouraging transparent reporting practices, independent commissioners can serve as an effective mechanism to mitigate managerial opportunism and encourage ethical corporate behavior.

### **Stakeholder Theory**

Stakeholder theory, proposed by Freeman [1984], emphasizes the point that companies are accountable not only to their shareholders but also to a wide range of stakeholders, including employees, customers, suppliers, governments, communities, and the environment. S. Benn et al. [2016] defines stakeholders as people or groups who can affect the achievement of a company's objectives, or who are affected by the achievement of its objectives. This perspective states that the success and sustainability of a business depend on its ability to manage relationships with these stakeholders and meet their interests and needs, not just to maximize profits for shareholders.

Ethically, ethical behavior and social responsibility are key views that companies should adopt in conducting business. Companies should be transparent in their financial and tax disclosures, enforce fair employment practices, and engage in environmental stewardship. Aggressive tax planning, although sometimes legally acceptable, can damage public trust and violate stakeholder expectations, especially those of the government and the wider community. Companies that aim to advance stakeholder interests will seek to distance themselves from coercive tax avoidance practices to ensure legitimacy and social license to operate [Francoeur et al., 2008; Rose, 2004].

Within this framework, corporate governance mechanisms, particularly the existence of independent commissioners, are crucial to ensuring that stakeholder interests are effectively represented and protected. Independent commissioners act as independent monitors, overseeing management decisions and ensuring that corporate strategies align with ethical and social expectations [Fama and Jensen, 1983]. Their independence from managerial influence allows them to balance competing interests among stakeholders and promote greater transparency and accountability. In doing so,

they help build stakeholder trust and reduce behavior that can damage a company's reputation, such as tax evasion or regulatory non-compliance.

Furthermore, stakeholder theory provides a strong conceptual foundation for linking governance and sustainability performance (ESG). A high level of sustainability performance signals a company's commitment to meeting stakeholder expectations through responsible environmental, social, and governance (ESG) practices. Through comprehensive sustainability disclosures as guided by the Global Reporting Initiative (GRI) companies demonstrate accountability to a wider audience, including regulators, investors, and the public [Freeman, 1984]. This transparency not only enhances stakeholder trust but also discourages unethical financial practices, including aggressive tax avoidance [Bird and Davis-Nozemack, 2018].

In this context, the role of independent commissioners is crucial in integrating stakeholder considerations into strategic decision-making and promoting sustainability-oriented governance. Their oversight encourages the implementation of sustainability initiatives that reflect stakeholder priorities, thereby strengthening corporate legitimacy and ethical compliance [Gunawan and Utama, 2025]. Consistent with stakeholder theory, this study argues that independent commissioners and strong sustainability performance together contribute to reducing tax evasion by promoting transparency, accountability, and long-term value creation.

## Hypothesis Development

### Independent Commissioners and Tax Avoidance

Independent commissioners are a key element of effective corporate governance because they bring an external perspective and are not directly involved in the company's day-to-day operations. Their independence allows them to provide objective oversight, mitigate potential conflicts of interest, and ensure that managerial decisions remain aligned with the long-term interests of shareholders and other stakeholders [Fama and Jensen, 1983]. Through this oversight role, independent commissioners are expected to closely monitor areas that pose ethical or regulatory risks, including the company's tax practices.

A large body of research shows that boards of directors with stronger independence tend to demonstrate greater transparency and lower tolerance for opportunistic financial behavior. Independent commissioners typically scrutinize managerial decisions more thoroughly, especially when they could harm the company's reputation. Aggressive tax avoidance is one such practice, as it can attract regulatory scrutiny, undermine public trust, and undermine the company's legitimacy. Empirical evidence shows that companies with a higher proportion of independent board members tend to engage in lower levels of tax aggressiveness due to improved oversight and accountability [Lanis and Richardson, 2011; Richardson et al., 2013]. Furthermore, independent commissioners also influence the quality of corporate disclosure and compliance. Their presence encourages more rigorous financial reporting, promotes regulatory compliance, and improves the overall decision-making environment within the board. Studies show that boards with strong independent representation are more likely to support responsible tax behavior because independent commissioners are less driven by short-term incentives and more focused on the company's long-term sustainability [Chen et al., 2010; Minnick and Noga, 2010].

Overall, previous research suggests that independent commissioners help curb excessive tax avoidance by strengthening the monitoring function, reducing agency

problems, and promoting ethical standards in corporate governance [Michael and Widjaja, 2024]. Based on this rationale, this study predicts that independent commissioners play a constructive role in curbing tax avoidance.

H1: Independent commissioners are negatively associated with tax avoidance.

### **Independent Commissioners and Sustainability Performance**

Independent commissioners play a crucial role in fostering transparency and accountability, which are key elements of strong sustainability performance [Subhan et al., 2025]. Because they come from outside the organization and are free from managerial influence, independent commissioners are better positioned to evaluate whether a company's strategy aligns with broader environmental, social, and governance (ESG) expectations. Their oversight contributes to a governance environment that encourages ethical behavior, responsible resource management, and greater responsiveness to stakeholder concerns.

Several studies have noted that stronger board independence is associated with higher-quality sustainability disclosures. Independent commissioners tend to emphasize transparency and long-term value creation, making them more supportive of sustainability initiatives than directors who may be more focused on short-term financial gains. For example, previous research has shown that independent board members can encourage companies to adopt clearer sustainability reporting standards, improve monitoring of social and environmental risks, and ensure that sustainability strategies are integrated into corporate decision-making [Hu and Loh, 2018; Wang and Hussainey, 2013].

Boards with a higher proportion of independent commissioners also tend to be more attentive to stakeholder demands. Their presence reduces the likelihood of opportunistic behavior and encourages companies to communicate more openly about their non-financial performance. This aligns with the principles of stakeholder theory, which emphasizes that companies must meet the needs of diverse stakeholders to maintain legitimacy. Empirical findings indicate that companies with stronger board independence often demonstrate better ESG outcomes and a greater commitment to corporate social responsibility [Rao and Tilt, 2016].

In developing countries like Indonesia, the role of independent commissioners may be even more crucial. Sustainability reporting remains uneven, and many companies still treat ESG disclosure as a form of compliance, rather than a strategic priority. As regulatory enforcement continues to evolve, independent commissioners can act as a stabilizing force by encouraging companies to adopt more consistent sustainability practices and adhere to recognized standards such as the Global Reporting Initiative (GRI). Their monitoring role helps ensure that sustainability reporting not only complies with formal requirements but also reflects the company's true accountability.

Given this evidence, it is reasonable to expect that independent commissioners contribute positively to sustainability performance by increasing transparency, enhancing oversight, and aligning company actions with stakeholder expectations.

H2: Independent commissioners are positively associated with sustainability performance.

### **Sustainability Performance and Tax Avoidance.**

Sustainability performance (SP) is increasingly seen as a reflection of a company's broader ethical orientation and commitment to long-term value creation.

Companies that actively invest in sustainability initiatives tend to ensure transparency, stakeholder engagement, and responsible business practices [Alexandre et al., 2025]. These characteristics fundamentally contrast with aggressive tax strategies, which are often criticized for harming societal well-being and eroding public trust.

Several empirical studies have documented a negative relationship between sustainability performance and tax avoidance. Bird and Davis-Nozemack [2018] argue that ESG disclosures can serve as informal governance mechanisms that promote transparency and deter aggressive financial behavior. Supporting this, López-González et al. [2019] found that companies with strong sustainability initiatives tend to have lower levels of tax avoidance. This association reflects how ethical standards embedded in corporate sustainability practices often extend to firms' approaches to tax compliance.

López-González et al. [2019] provide additional evidence from a different context, showing that the more companies allocate resources to sustainability performance, the higher their tax payments tend to be, indicating reduced aggressive tax behavior. They argue that well-performing companies in terms of sustainability also contribute more positively to government development efforts. A similar conclusion was drawn by Jarboui et al. [2020], who found a significant and negative impact of sustainability performance on tax avoidance. Their study highlights that firms with strong environmental and social responsibility are more likely to fulfill tax obligations as part of their broader ethical commitments.

In Indonesia, where sustainability reporting is still in a developmental stage and institutional enforcement is relatively weak, testing this relationship becomes particularly relevant [Mukti et al., 2025]. The extent to which sustainability performance influences tax behavior in such a context remains an important empirical question. By focusing on Indonesian firms, this study aims to determine whether ethical and transparent business practices that reflected through sustainability efforts serve as effective deterrents to aggressive tax avoidance.

H3: Sustainability performance is negatively related to tax avoidance.

### **The Mediating Role of Sustainability Performance**

While previous studies have examined the direct relationship between board characteristics, sustainability performance, and tax avoidance, little attention has been paid to how sustainability performance may serve as a mediating mechanism [Jarboui et al., 2020]. Independent commissioners are, by nature, expected to provide objective oversight and protect stakeholder interests. Their oversighting role often encourages higher levels of transparency, stricter compliance, and a stronger commitment to ethical behavior, all of which align with sustainability principles.

Independent commissioners are generally associated with improved governance quality, which can encourage the implementation of more comprehensive sustainability initiatives. These initiatives typically emphasize responsible resource use, fair labor practices, and ethical governance structures. When companies invest in sustainability, they tend to communicate more openly with stakeholders and align their operations with broader societal expectations. Such transparency makes it more difficult for companies to justify or conceal aggressive tax practices, which are often perceived as contradictory to broader commitments to social responsibility.

Empirical research also shows that companies with stronger sustainability performance are less likely to engage in tax avoidance. Studies such as Bird and Davis-Nozemack [2018]; Richardson et al. [2013] show that companies with strong

sustainability practices tend to view tax payments as part of their social obligations. Sustainability-oriented companies tend to prioritize long-term legitimacy over short-term financial benefits, thus reducing the likelihood of adopting aggressive tax strategies.

In this regard, sustainability performance can serve as a channel for independent commissioners to influence tax behavior [Gunawan and Utama, 2025]. By encouraging accountability and compliance with sustainability standards, independent commissioners can indirectly reduce tax evasion through improved sustainability performance. This potential pathway is particularly relevant in Indonesia, where sustainability reporting is still developing and independent commissioners often serve as crucial guardians of corporate integrity.

Based on this rationale, this study proposes that sustainability performance mediates the relationship between independent commissioners and tax evasion. Strengthened sustainability efforts can reflect and strengthen the ethical oversight driven by independent commissioners, ultimately shaping a company's approach to tax practices.

H4: Sustainability performance mediates the relationship between independent commissioners and tax avoidance.

## 2. Methodology

### Sample Data

This study focuses on companies listed on the Indonesia Stock Exchange (IDX) during the period 2019–2023. The purposive sampling method was employed, wherein companies were selected based on specific criteria aligned with the study's objectives. According to Etikan [2016], purposive sampling involves selecting subjects who are expected to provide rich and relevant information in line with the purpose of the study. In this context, the criteria used to determine the sample included: (1) companies that have been listed on the IDX since 2019, (2) companies that publish audited annual financial reports, (3) companies that publish sustainability reports during the observation period, and (4) availability of the necessary data to measure all research variables.

The population comprises 200 companies listed on the IDX. Considering the five-year observation period, the final dataset consists of 637 firm-year observations. All data for the dependent, independent, and control variables were collected from official sources, including the IDX website and the companies' own annual and sustainability reports. Although purposive sampling may limit the generalizability of the results, it is considered appropriate for ensuring that the data used are both complete and reliable.

### Research Methodology

To test the research hypotheses, this study applies path analysis, a method suitable for estimating direct and indirect effects simultaneously between variables. The mediation hypothesis is evaluated following the framework of Baron and Kenny [1986]; Kenny et al. [1998], which includes three steps:

Step 1: Demonstrate that the independent variable (independent commissioners) significantly affects the dependent variable (tax avoidance).

Step 2: Demonstrate that the independent variable significantly affects the mediator (sustainability performance).

Step 3: Demonstrate that the mediator significantly affects the dependent variable while controlling for the independent variable.

The interpretation of mediation is based on the change in the relationship between independent commissioners and tax avoidance after sustainability performance is included in the model. If the effect of independent commissioners on tax avoidance remains significant after the mediator is added, mediation is not supported. If the effect weakens but remains statistically significant, this indicates partial mediation. Conversely, if the effect becomes statistically insignificant after sustainability performance is included, this indicates full mediation.

This relationship is estimated using the following path model:

Model 1:

$$ETR_{it} = \beta_0 + \beta_1 BCI_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 BSIZE_{it} + \beta_5 ROA_{it} + \beta_6 FAGE_{it} + \gamma_{industry} + \gamma_{year} + \epsilon_{it}$$

Model 2:

$$SP_{it} = \beta_0 + \beta_1 BCI_{it} + \beta_2 FSIZE_{it} + \beta_3 LEV_{it} + \beta_4 BSIZE_{it} + \beta_5 ROA_{it} + \beta_6 FAGE_{it} + \gamma_{industry} + \gamma_{year} + \epsilon_{it}$$

Model 3:

$$ETR_{it} = \beta_0 + \beta_1 BCI_{it} + \beta_2 SP_{it} + \beta_3 FSIZE_{it} + \beta_4 LEV_{it} + \beta_5 BSIZE_{it} + \beta_6 ROA_{it} + \beta_7 FAGE_{it} + \gamma_{industry} + \gamma_{year} + \epsilon_{it}$$

This methodological framework allows for the analysis of both direct and indirect relationships, contributing to a deeper understanding of the ethical and governance mechanisms that influence tax behavior in emerging market environments. The conceptual model underlying this hypothesis is presented in Figure 1, which depicts the hypothesized path from independent commissioners to sustainability performance and ultimately to tax avoidance.

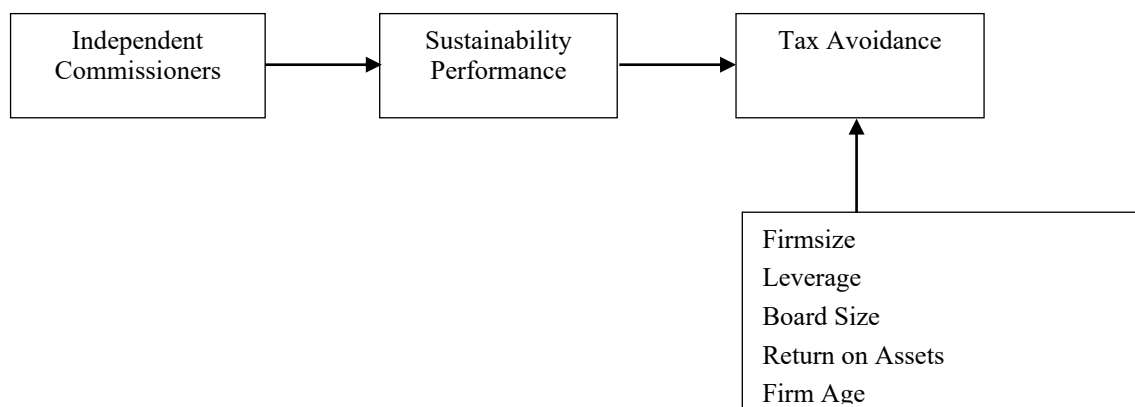


Figure 1. Conceptual Model

### Analysis Test Design

All statistical analyses in this study were conducted using Stata software. The analysis began with descriptive statistics to summarize the characteristics and distribution of the study variables, followed by correlation analysis to examine initial relationships and potential multicollinearity. To ensure the validity of the regression results, classical assumption tests were conducted, including heteroscedasticity, multicollinearity, and autocorrelation tests, which are particularly relevant in panel data analysis. Hypotheses were tested using a panel regression model with industry and year

fixed effects to control for unobserved firm-level and time-specific heterogeneity. The mediating role of sustainability performance was examined using a path analysis approach following Baron and Kenny [1986], which allows for the assessment of direct and indirect effects. Statistical inference was based on t-tests for individual coefficients, F-tests for overall model significance, and adjusted R-squared values to evaluate explanatory power.

## Measurement of Variables

### Tax Avoidance (ETR)

Tax Avoidance is the dependent variable in this study and is measured using the Effective Tax Rate (ETR). ETR is calculated as the ratio of total tax expense to pre-tax income. A lower ETR indicates a higher level of tax avoidance, reflecting the firm's ability to minimize its tax liability, while a higher ETR indicates that the firm pays more taxes, indicating a lower level of tax avoidance [Widuri et al., 2020]. ETR is widely used in previous studies as a measure of tax avoidance due to its simplicity and availability in financial statements. It helps assess the effectiveness of a firm's tax planning activities [Phillips, 2003]. This study follows Watson [2015], who notes that ETR is widely accepted in the accounting literature as a proxy for tax avoidance.

$$ETR = \frac{\text{Tax Expense}}{\text{Pre Tax Income}}$$

### Board of Commissioners Independence (BCI)

Independent commissioners play a key role in strengthening corporate governance by providing unbiased assessments and independent oversight. As highlighted by Armstrong et al. [2015], their presence promotes accountability to shareholders and the public by encouraging transparency and more effective monitoring, which can prevent unethical practices such as aggressive tax avoidance. In this study, the Independent Commissioners serve as the independent variable, measured by the proportion of independent commissioners on the board of directors. A higher proportion reflects stronger independent oversight, as independent commissioners are expected to reduce the influence of controlling shareholders, increase the objectivity of board decisions, and enhance oversight of financial reporting, risk management, and tax-related policies.

$$BCI = \frac{\text{Number of Independent Commissioners}}{\text{Total Number of Commissioners}} \times 100$$

### Sustainability Performance (SP)

Sustainability performance is a mediating variable in this study. This performance is measured using the 2021 Global Reporting Initiative (GRI) standards to assess a company's sustainability performance. Specifically, this variable is captured through the Presence of Sustainability Report, a dummy variable indicating whether a company discloses tax payments in its GRI-based sustainability report. Presence of Sustainability Report is equal to one if the company discloses tax payments in its sustainability report for the year, and zero otherwise. Disclosure of previous year's tax payments in the current year is expected to influence aggressive tax avoidance behavior in the current year. This measure reflects how a company's transparency regarding its sustainability efforts, especially in tax matters, can influence its approach to tax avoidance.

## Control Variables

1. Firm size (FSIZE): Firm size is considered an important determinant of tax avoidance. Larger firms tend to have more resources and opportunities to engage in tax planning activities [Richardson and Lanis, 2007]. Firm size is measured by the natural logarithm of total assets.
2. Leverage (LEV): Leverage is often associated with tax avoidance, as interest expense from debt can reduce taxable income. They found that firms with higher levels of debt tend to be more aggressive in pursuing tax reduction opportunities, mainly due to the tax-deductible nature of interest expense [Sari & Tjen, 2019]. Leverage is measured by total debt divided by total assets.
3. Board Size (BSIZE): Board size can affect corporate governance and decision-making related to tax strategy. As Campbell and Mínguez-Vera [2008] suggest, board size is expected to have a positive effect on the likelihood of appointing female directors, as larger boards may provide greater opportunities for diversity and inclusion. Board size is measured by the total number of board members.
4. Return on Assets (ROA): Return on Assets (ROA) reflects a firm's profitability, which may affect the amount of tax paid. ROA is calculated by dividing net income by total assets. According to Richardson and Lanis [2007], ROA is a primary measure of profitability, where higher profits generally lead to higher income tax payments, which encourages companies to seek tax avoidance strategies.
5. Firm Age (FAGE): Older firms may have more stable operations and more experience in managing tax planning compared to newer firms. Firm age (FA) is included as a control variable because older firms may have more experience and established tax strategies, which could potentially affect their level of tax avoidance [Loderer and Waelchli, 2010].

### 3. Results and discussions

#### 3.1 Descriptive Statistics

Table I. Summary statistics of the sample

	N	Mean	Standar d Deviasi	Minimu m	P25	Media n	P75	Maximu m
SP	63 7	0.590	0.195	0.127	0.437	0.603	0.754	0.929
ETR	63 7	0.720	2.900	0.000	0.179	0.225	0.308	6.934
BCI	63 7	0.433	0.142	0.000	0.333	0.400	0.500	0.833
FSIZE	63 7	16.59 1	1.793	12.483	15.29 2	16.544	17.77 8	21.200
LEV	63 7	0.536	0.248	0.040	0.330	0.529	0.759	1.149
BSIZ E	63 7	5.802	2.359	2.000	4.000	5.000	7.000	12.000
ROA	63 7	0.948	7.159	-0.222	0.014	0.043	0.111	0.990
FAGE	63 7	18.02 0	10.547	2.000	9.000	16.000	28.00 0	41.000

Source: Processed data by Stata (2026)

Table I presents descriptive statistics for all variables used in this study. Sustainability Performance (SP) has a mean value of 0.590 with a standard deviation of 0.195, indicating that most companies in the sample exhibit a moderate level of sustainability engagement. Effective Tax Rate (ETR), used as a proxy for tax avoidance, has a mean value of 0.720 and exhibits considerable variation with a relatively large standard deviation, indicating differences in tax strategies between companies.

The Proportion of Independent Commissioners (BCI) has a mean value of 0.433, with the 25th, 50th, and 75th percentiles being 0.333, 0.400, and 0.500, respectively, indicating that companies generally maintain a moderate level of board independence. Regarding company characteristics, FSIZE, LEV, BSIZE, ROA, and FAGE also exhibit reasonable variation, reflecting differences in operational scale, capital structure, profitability, board structure, and company maturity. Overall, the descriptive statistics indicate sufficient variability in the sample to support further empirical analysis.

### 3.2 Correlation Analysis

Table II. Pearson correlations

	SP	ETR	BCI	FSIZE	LEV	BSIZE	ROA	FAGE
SP	1.000							
ETR	-0.105*** (0.008)	1.000						
BCI	0.076* (0.054)	-0.082** (0.040)	1.000					
FSIZE	0.115*** (0.004)	0.033 (0.409)	0.147*** (0.000)	1.000				
LEV	-0.038 (0.334)	0.079** (0.046)	0.201*** (0.000)	0.399*** (0.000)	1.000			
BSIZE	0.089** (0.025)	-0.067* (0.093)	0.160*** (0.000)	0.677*** (0.000)	0.254*** (0.000)	1.000		
ROA	0.114*** (0.004)	-0.032 (0.419)	-0.002 (0.962)	-0.066* (0.095)	-0.051 (0.197)	-0.111*** (0.005)	1.000	
FAGE	0.103*** (0.010)	0.061 (0.122)	-0.082** (0.038)	0.190*** (0.000)	0.102** (0.010)	0.202*** (0.000)	0.029 (0.460)	1.000

p-values in parentheses

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Source: Processed data by Stata (2026)

The Pearson correlation results in Table II provide an initial overview of the relationships between the main variables. Sustainability performance (SP) is negatively and significantly associated with ETR, indicating that companies with stronger sustainability engagement tend to exhibit lower tax avoidance. SP also shows a positive and significant association with independent commissioners (BCI), suggesting that stronger governance is associated with better sustainability outcomes. Meanwhile, BCI is negatively associated with ETR, supporting the idea that independent oversight can deter aggressive tax behavior [Chen et al., 2010; Lanis and Richardson, 2011;

Richardson et al., 2013]. Although several variables show statistically significant relationships, their coefficients remain relatively moderate, suggesting no serious multicollinearity issues. To validate these initial findings and examine relationships more rigorously, this study continued with multiple regression and mediation analyses.

### 3.3 Results of Structural Equation Model

Table III. Results of regression analysis for mediation

	(1)	(2)	(3)
	ETR	SP	ETR
BCI	-1.766	0.119**	-1.551
	(-1.44)	(2.04)	(-1.26)
FSIZE	0.128	0.020***	0.163
	(0.94)	(2.83)	(1.19)
LEV	1.175**	0.008	1.188**
	(2.13)	(0.20)	(2.15)
BSize	-0.178**	0.005	-0.169**
	(-2.23)	(1.21)	(-2.17)
ROA	-0.022***	0.002***	-0.018***
	(-3.26)	(2.78)	(-3.20)
FAGE	0.014	0.001	0.016
	(1.02)	(1.63)	(1.17)
SP			-1.804**
			(-2.12)
cons	-0.274	0.230**	0.141
	(-0.15)	(2.03)	(0.08)
F	1.221	6.588	1.313
r <sup>2</sup> a	0.030	0.141	0.041
N	637	637	637

t statistics in parentheses

\* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01

Source: Processed data by Stata (2026)

Regression results provide important evidence regarding how independent commissioners influence corporate tax avoidance and how sustainable performance acts as a mediating mechanism in this relationship. The first regression model examines the direct effect of independent commissioners on tax avoidance. Although the coefficient of board commissioner independence (BCI) is negative, the result is statistically insignificant, indicating that independent commissioners do not directly reduce corporate tax avoidance [Minnick and Noga, 2010]. From an Agency Theory perspective, independent commissioners are expected to strengthen oversight and

reduce opportunistic managerial behavior, including aggressive tax practices [Michael and Widjaja, 2024]. However, the insignificant result suggests that oversight through board independence alone may not be sufficient to curb tax-related opportunism [Alhady et al., 2021]. This finding reflects the reality that independent commissioners may face structural limitations, institutional constraints, or unequal power relationships with controlling shareholders, which weaken their effectiveness in directly influencing strategic tax decisions [Khan et al., 2023]. This evidence differs from several studies documenting a significant effect of governance oversight on tax avoidance Lanis and Richardson [2011], but is consistent with research showing that board independence does not always translate into direct improvements in ethical tax behavior, particularly in emerging markets where governance maturity is still developing [Chen and Hanlon, 2025]. Therefore, Hypothesis 1, which predicts a negative relationship between independent commissioners and tax avoidance, is not supported.

The second regression model revealed a significant positive relationship between independent commissioners and sustainability performance. This finding indicates that companies with a higher proportion of independent commissioners demonstrate stronger engagement in sustainability initiatives and disclosures. In contrast to the insignificant effect on tax avoidance, independent commissioners appear to successfully influence managerial orientation toward greater accountability and transparency. This result can be explained by Stakeholder Theory, which states that companies are accountable not only to shareholders but also to a wider range of stakeholders, including communities, regulators, and society [Freeman, 1984]. Independent commissioners tend to be more sensitive to reputational risks and social legitimacy issues, which motivates them to encourage management to adopt sustainability practices that enhance stakeholder trust and corporate legitimacy. This finding aligns with previous empirical evidence showing that board independence and diversity strengthen sustainability engagement, enhance stakeholder responsiveness, and promote ethical corporate decision-making [Fuente and Lozano, 2016]. Specifically, Jarboui et al. [2020] documented that independent and diverse boards are positively associated with higher sustainability performance, supporting the role of governance structures in advancing sustainability-oriented strategies. Thus, Hypothesis 2, which states that there is a positive relationship between independent commissioners and sustainability performance, is supported.

The third model examines the relationship between sustainability performance and tax avoidance, and the results show a negative and statistically significant effect, indicating that companies with better sustainability performance engage in lower levels of tax avoidance. This finding strengthens the argument that sustainability is not merely a symbolic expression but reflects a deeper ethical commitment and governance discipline [Giovannoni and Fabietti, 2014]. Companies that integrate sustainability values into their operations develop stronger tax morale and become more aware of the social implications of tax behavior [Mkadmi and Ali, 2024]. Consistent with Stakeholder Theory, sustainability reporting enhances accountability and strengthens the link between tax contributions and societal well-being, increasing stakeholder oversight and thus discouraging aggressive tax strategies [Chandrasena et al., 2025]. These results are consistent with previous research showing that engagement in sustainability, particularly GRI-based sustainability disclosure, can reduce aggressive corporate behavior including tax avoidance, especially in contexts where increased tax transparency increases reputational risk [Jarboui et al., 2020; Rudyanto, 2024].

Therefore, Hypothesis 3, which predicts a negative relationship between sustainability performance and tax avoidance, is supported.

When sustainability performance is included in the tax avoidance model, independent commissioners remain insignificant, while sustainability performance remains significant. This pattern provides evidence of a mediation effect, indicating that independent commissioners do not directly reduce tax avoidance but exert their influence indirectly through sustainability performance. In other words, independent commissioners strengthen a company's commitment to sustainability, and sustainability, in turn, shapes ethical tax behavior. This mechanism reflects both theoretical foundations used in this study show governance characteristics influence tax behavior indirectly through broader ethical and sustainability channels, as illustrated in Jarboui et al. [2020] where sustainability performance fully mediates the relationship between board characteristics and tax avoidance. To further validate the mediation effect, a Sobel test was conducted. The results showed a Sobel test statistic of -1.47 with a one-sided probability of 0.07 and a two-sided probability of 0.14, indicating that the indirect effect is statistically weak at conventional significance levels. However, when interpreted in conjunction with the regression-based mediation analysis, these results suggest that sustainability performance still serves as an important channel through which independent commissioners influence corporate tax behavior. Therefore, Hypothesis 4, which states that sustainability performance mediates the relationship between independent commissioners and tax avoidance, is supported.

Overall, the findings collectively suggest that independent commissioners alone may not be sufficient to directly shape firms' tax strategies; However, their influence becomes effective when it is channeled through sustainability performance. Independent commissioners contribute to strengthening transparency, legitimacy, and stakeholder orientation, and once sustainability values are institutionalized, firms tend to avoid aggressive tax practices. These results reinforce the integrated role of corporate governance and sustainability in shaping responsible corporate tax behavior and support the idea that ethical tax conduct is closely linked with broader sustainability engagement rather than solely governance formalities.

#### 4.4 Additional Test

Table IV. Additional test in the tax context

	(1)	(2)	(3)	(4)	(5)	(6)
	ETR	SP	ETR	ETR	SP	ETR
BCI	0.016	0.112	0.013	-2.519	0.089	-2.284
	(0.514)	(1.423)	(0.431)	(-1.265)	(0.960)	(-1.133)
FSIZE	0.005	0.015	0.005	0.158	0.025***	0.224
	(1.405)	(1.483)	(1.279)	(0.638)	(2.635)	(0.898)
LEV	-0.038*	0.088*	-0.040**	2.462*	-0.049	2.334*
	(-1.939)	(1.676)	(-2.044)	(1.916)	(-0.762)	(1.858)
BFSIZE	0.007***	0.000	0.007***	-0.260**	0.007	-0.242**
	(2.933)	(0.011)	(2.937)	(-2.101)	(1.223)	(-1.989)
ROA	-0.002***	0.002***	-0.002***	-4.824***	0.176*	-4.358***
	(-6.354)	(2.939)	(-6.545)	(-3.488)	(1.895)	(-3.176)
FAGE	-0.001*	0.003***	-0.001**	0.026	0.000	0.026
	(-1.912)	(3.015)	(-2.109)	(1.068)	(0.097)	(1.096)

SP			0.024			-2.641*
			(1.092)			(-1.896)
cons	0.020	0.224	0.014	0.262	0.178	0.733
	(0.364)	(1.372)	(0.268)	(0.071)	(1.064)	(0.198)
Industry FE	Yes	Yes	Yes	Yes	Yes	Yes
Year FE	Yes	Yes	Yes	Yes	Yes	Yes
r2	0.413	0.225	0.416	0.110	0.213	0.124
r2 a	0.370	0.168	0.371	0.055	0.165	0.067
N	290	290	290	347	347	347

t statistics in parentheses

\*  $p < 0.1$ , \*\*  $p < 0.05$ , \*\*\*  $p < 0.01$

Source: Processed data by Stata (2026)

As a supplementary analysis, we extend our regressions by including Sustainability Performance (SP) as a potential channel linking board capital (BCI) and corporate tax behavior. Columns (1)–(3) and (4)–(6) report estimates using ETR as a proxy for tax avoidance and SP as a mediating variable. Consistent with the main results, BCI does not exhibit a significant direct effect on ETR in any model, suggesting that stronger board capital does not necessarily translate into a more conservative tax strategy. SP is also found to be statistically insignificant in influencing ETR, suggesting that firms with higher sustainability engagement do not exhibit significantly different levels of tax avoidance.

From a theoretical perspective, these findings align more with agency theory than stakeholder theory. Although stakeholder theory suggests that firms with stronger sustainability commitments should behave more responsibly, including in tax practices, the insignificant relationship implies that sustainability initiatives may be more symbolic than substantive in shaping tax behavior. Meanwhile, from an agency theory perspective, managerial discretion over tax strategy may remain driven by internal incentives and opportunistic motives rather than external stakeholder expectations.

Compared to previous studies that documented mixed evidence, some found that sustainability reduces tax avoidance, while others showed no relationship. Our findings fall into the latter stream, supporting the idea that SP does not always act as an effective governance or ethical constraint on tax planning. Overall, additional testing confirms that neither BCI nor SP plays a meaningful role in explaining corporate tax avoidance behavior.

### 3.5 Robustness Test

Table V. Robustness test using GLS estimation

	(1)	(2)	(3)
	ETR	SP	ETR
BCI	-0.633***	0.117***	-0.329***
	(-6.56)	(7.83)	(-3.16)
Fsize	0.050***	0.014***	0.031*
	(3.33)	(7.64)	(1.71)
LEV	0.464***	0.023*	0.246***
	(5.32)	(1.90)	(2.59)
Bsize	-0.062***	0.003*	-0.042***
	(-5.30)	(1.72)	(-3.88)

ROA	-0.010***	0.001***	-0.006***
	(-3.54)	(2.66)	(-2.92)
FAGE	0.006**	0.001***	0.002
	(2.30)	(3.99)	(0.72)
SP			-0.182**
			(-2.04)
cons	-0.066	0.315***	0.190
	(-0.28)	(10.97)	(0.69)
Year FE	Yes	Yes	Yes
Industry FE	Yes	Yes	Yes
F			
p	.	.	.
r2 p			
r2 a			
N	602	602	602

t statistics in parentheses

\* p < 0.1, \*\* p < 0.05, \*\*\* p < 0.01

Source: Processed data by Stata (2026)

To ensure that our findings are not affected by heteroscedasticity or autocorrelation issues, we re-estimated Models (1)– (3) using the Generalized Least Squares (GLS) estimator. The GLS approach is appropriate for panel data settings and provides more efficient and reliable parameter estimates. Table V reports the regression results. Consistent with the main analysis, BCI exhibits a significant negative association with ETR in Models (1) and (3), indicating that stronger board capital is associated with higher levels of tax avoidance. Conversely, BCI exerts a significant positive effect on SP in Model (2), and SP maintains its negative and significant effect on ETR in Model (3). These results confirm the mediating role of SP in reducing aggressive tax strategies.

From an agency theory perspective, the results suggest that firms with stronger governance structures can implement managerial discipline, which may be strategically directed at reducing tax burdens. However, in line with stakeholder theory, improved sustainability performance helps align managerial decisions with broader stakeholder interests, reducing opportunistic tax behavior. Compared with previous findings in the previous literature, the GLS results remain consistent in direction and significance, strengthening the robustness and stability of our baseline results.

#### 4. Conclusions

This study investigates the influence of board independence on corporate tax avoidance by examining the mediating role of sustainability performance. The findings indicate that independent commissioners do not directly constrain tax avoidance behavior. Instead, their presence significantly enhances sustainability performance, suggesting that the monitoring role of independent commissioners is more strongly reflected in encouraging broader ethical and responsible corporate practices rather than directly shaping tax strategies.

The results further demonstrate that sustainability performance serves as an important channel through which independent commissioners indirectly reduce tax avoidance. Firms with stronger sustainability engagement tend to behave more

transparently and less aggressively in tax planning. These results align with agency theory, which posits that effective governance mechanisms mitigate managerial opportunism, and with stakeholder theory, which emphasizes that firms committed to meeting stakeholder expectations are more likely to maintain ethical and legitimate financial practices.

This study contributes to the literature by providing empirical evidence that governance effectiveness in the tax context operates indirectly through sustainability pathways. The findings highlight those independent commissioners promote long-term value creation not solely through direct tax oversight but by fostering responsible corporate conduct. These insights offer practical implications for regulators and policymakers, suggesting that strengthening governance structures should be complemented with efforts to promote meaningful sustainability engagement to mitigate aggressive tax strategies.

Several limitations need to be acknowledged and provide opportunities for future research. The analysis is based on a specific institutional context and relies on ETR as the primary proxy for tax avoidance, which may not fully capture all dimensions of tax aggressiveness. Sustainability performance is also measured using a particular index that may differ across settings. Future research may extend this study by employing alternative tax avoidance proxies, incorporating additional governance characteristics, exploring longitudinal effects, or testing the model across different countries and regulatory environments to enhance generalizability and deepen understanding of the governance–sustainability–tax relationship.

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