QUBAHAN ACADEMIC JOURNAL
VOL. 5, NO. 2, May 2025
https://doi.org/10.48161/qaj.v5n2a1682

The Role of Largest Ownership Structure in ESG Reporting, Tax Avoidance, and Firm Value: Evidence from Emerging Markets

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ABSTRACT: The level of concern among business entities regarding sustainability issues in emerging markets remains minimal, particularly in Indonesia and Malaysia. The intention to fulfill the requirement is contingent upon the owner's intention, as ESG reporting is a non-financial information that is naturally considered a business ethic. Consequently, this study investigates the influence of ownership structure on Environmental, Social, and Governance (ESG) reporting, tax avoidance, and firm value. This study expands to investigate the impact of ESG reporting on tax avoidance and firm value in Indonesia and Malaysia, as sustainability initiatives could potentially be used as a strategy for tax avoidance. We find the largest ownership structure and check to see if all of its members add to the value of the company. This lets us figure out how much these large shareholders affect the company's tax and sustainability plans. We focus on all non-financial sector companies that have published ESG Reporting in Indonesia and Malaysia from 2012 to 2023. We apply moderated panel regressions to test our hypotheses. Our findings reveal that the largest ownership in Indonesia negatively influences ESG reporting but positively affects tax avoidance, while the largest ownership in Malaysia has no significant effect on ESG disclosure or tax avoidance. The supervision of the largest owner of ESG reporting significantly affects tax avoidance in both countries. The supervision of the largest ownership structure in ESG reporting also has a significant impact on firm value. Meanwhile, the supervision of the largest owner of tax avoidance does not impact firm value. This is the first study to investigate at how the largest ownership structure of companies in both countries oversee the creation of sustainability programs that meet the requirements for sustainability reporting while also being used as tax strategies and increase the value of the company.

Keywords: ownership structure, ESG reporting, tax avoidance, firm value, emerging market.

I. INTRODUCTION

Understanding how ownership structure influences corporate governance, ESG reporting, and tax behavior has become increasingly important particularly in emerging markets where institutional dynamics are still evolving. While prior studies have offered substantial insights into these relationships in developed economies [1-3], the implications for countries in the ASEAN region remain underexplored. This is especially relevant for Indonesia and Malaysia, where dominant ownership by families in Indonesia and institutions in Malaysia plays a central role in shaping corporate decision-making. Yet, much of the existing literature [4-5] tend to examine ownership types in isolation, overlooking how the largest shareholder can act as a powerful force behind both strategic governance and sustainability practices.

Moreover, ESG reporting and tax avoidance are often studied as separate corporate behaviors. However, in reality particularly within firms with concentrated ownership these areas are frequently intertwined. ESG disclosures may be used to enhance legitimacy while masking more aggressive financial practices, including tax avoidance [6-7]. This study addresses that gap by examining how the largest ownership structure not only influences ESG and tax strategies individually, but also supervises the interaction between the two, with implications for firm value. Through a comparative lens on Indonesia and Malaysia, this research contributes

fresh empirical evidence on how ownership concentration drives corporate behavior in institutional contexts where regulation and stakeholder pressures differ significantly.

The growing relevance of Environmental, Social, and Governance (ESG) policies in recent years shapes worldwide company strategies. Originally mostly voluntary, what is now a regulated obligation has changed, especially in reaction to the growing demand from many stakeholders for openness and ethical business practices. Emerging markets like Indonesia and Malaysia, where sustainability is increasingly becoming a part of corporate governance as these economies continue to expand, show this change particularly clearly [1, 8, 9]. Beginning gradually in 2019, mandatory ESG reporting in Indonesia marks a shift toward incorporating sustainability within corporate structures [10] in 2016 Malaysia established ESG reporting guidelines [11]. Some businesses in both nations willingly started ESG reporting as early as 2012, realizing the strategic advantages of sustainability in terms of improving reputation, lowering risks, and generating long-term value even beyond these legal benchmarks. However, research that looks at how these two areas ESG reporting and tax avoidance intersect is still quite limited, especially in the context of emerging markets. Much of the existing literature has focused on developed countries, where the institutional environment, governance structures, and regulatory enforcement differ greatly from what we see in developing economies [12-14].

Shapes governance practices and guarantees transparency by means of an awareness of how ownership structure affects business conduct. Especially in developing countries like Indonesia and Malaysia, this study offers fresh perspectives by analyzing how ownership structure influences non-financial reporting behavior. Although earlier studies mostly concentrated on financial results, this study broadens the focus to investigate how various ownership forms affect ESG reporting procedures and tax avoidance behav iors, therefore closing a significant vacuum in the body of knowledge. Especially in connection with tax avoidance, this study's analysis of how ownership structure influences ethical corporate behavior is one of its main contributions. We show that companies who have more solid ethical behavior commitments are more likely to show better tax compliance. This fits the idea that tax payments are expressions of business morality and social responsibility as well as financial duties. A company's contribution to the development of its nation increases with the more taxes it pays, therefore indicating a stronger degree of moral dedication to national sustainability and growth. This viewpoint is especially pertinent since earlier studies have mostly looked at this relationship in developed countries including China and the UK [15, 16]. This study expands the empirical evidence by concentrating on Indonesia and Malaysia, therefore including emerging economies where corporate governance systems, regulatory contexts, and stakeholder expectations may differ greatly. Whereas in established countries ESG is mostly driven by legislative enforcement, in emerging economies ownership concentration is rather important in determining sustainability obligations. This paper especially adds empirical data on how various ownership structures affect ESG transparency and ethical tax behavior, a field of research now lacking in the ASEAN setting.

For researching ESG governance and tax morality, Indonesia and Malaysia offer a strong relative case. Although both nations have instituted ESG reporting rules (Indonesia in 2019, Malaysia in 2016), institutional structures and enforcement policies greatly affect compliance levels even if both nations have established ESG reporting rules. Furthermore, the natural environment of highest proportion of ownership in Indonesia and Malaysia allows one to investigate how ownership structures affect tax compliance and ESG measures. According to the [17], Indonesia's tax-to---GDP ratio was 12.1% in 2022, which is below the Asia-Pacific average of 19.3%. As we know, this represents a nation's capacity to earn income compared to its economic production. This diminishing tendency underlines difficulties with fiscal capability and revenue collecting [17, 18]. Conversely, Malaysia's tax-to---GDP ratio in 2021, which dropped from 15.4% in 1998, shows a decline in tax income in relation to economic development [17] . These patterns between Indonesia and Malaysia offer a strong case study for examining how tax compliance and ESG pledges in developing countries are influenced by company ownership arrangements.

Emerging markets, such as those in Southeast Asia, often contend with weaker enforcement mechanisms, less transparency, and diverse stakeholder expectations. These factors can significantly influence how companies approach both ESG disclosures and tax practices [19, 20]. Although countries like Indonesia and Malaysia have begun encouraging or mandating ESG reporting, there's still a lack of evidence on whether companies are using these disclosures to genuinely demonstrate responsible behavior or simply as a way to legitimize aggressive tax planning. While some recent studies have examined the link between ESG practices and financial performance [21] or firm value [22], few have explored how corporate ownership structures might shape the relationship between ESG reporting and tax avoidance. Cross-country studies in this region are also rare, which leaves an important gap in understanding how differences in national context influence corporate strategies.

This study aims to address that gap by focusing on Indonesia and Malaysia two emerging economies that share similarities in development trajectory but differ in regulatory and ownership landscapes. By examining

whether ESG reporting is used strategically to manage tax burdens, and how this is influenced by dominant ownership, this research offers new insights that can inform both academic discussions and policy development.

This paper attempts to investigate how company tax behavior and ESG disclosure are affected by ownership patterns in Malaysia and Indonesia. It specifically looks at how ownership structure effects ESG reporting transparency in developing markets, how much ESG commitment drives company tax avoidance behavior, and how family ownership against institutional ownership modulates these interactions in Indonesia and Malaysia. This paper investigates the influence of dominant shareholders in forming financial stra tegies and company sustainability initiatives in order to answer these concerns. This study adds to the body of knowledge on corporate governance by offering empirical analysis of the interconnections among ownership, ESG reporting, and tax behavior. It also guides legislators, investors, and business leaders trying to improve corporate responsibility. This paper offers fresh empirical analysis of ethical business practices and corporate governance in two largest rising markets from ASEAN: Malaysia and Indonesia.

The following is the organization of this paper: The pertinent literature is then reviewed in the next part, which then goes into great length on the research technique. The results and discussion part shows the conclusions; the last section ends with policy consequences and suggestions for next studies.

II. RELATED WORK

1. THEORETICAL FRAMEWORK

1.1. Grand theory of Largest Ownership and Managers' Behaviors of ESG Reporting and Tax Avoidance

This research draws on several theoretical frameworks to explain the interplay among ownership structure, ESG involvement, tax aggressiveness, and firm value. Agency Theory, Stakeholder Theory, Legitimacy Theory, and Political Cost Theory for emerging economies enable one to explain how ownership concentration, corporate social responsibility, and governance mechanisms interact.

According to the Agency Theory [23] concentrated ownership can significantly influence managerial choice-making and monitoring and therefore ESG engagement. In emerging nations like Indonesia and Malaysia, where ownership is sometimes relatively concentrated, majority shareholders can exert significant control over business policies like ESG policies. While concentrated ownership aligns the interests of management with those of majority shareholders on the same track, it has the effect of financial returns being prioritized more over generalized ESG responsibilities. Focusing on the role played by various stakeholder's investors, employees, consumers, governments, and communities in business ESG policies and tax conduct, Stakeholder Theory [24] underscores Strong stakeholder orientations enable firms to enact comprehensive ESG policies because they recognize the long-term benefits of sustainable business practices. In the case of tax avoidance, firms that maintain shareholder trust could potentially have greater tax transparency and firms that prioritize short-term financial goals could employ aggressive tax strategies. Legitimacy Theory view holds the opinion that companies use ESG approaches to attain societal favor and decrease regulatory scrutiny: Companies can use ESG programs as a strategic tool to increase their legitimacy and ensure harmonious relationships with regulators and investors in developing countries, where the enforcement of regulations is arbitrary. ESG reporting adoption can be an indicator of accountability of business, thereby enhancing corporate legitimacy and reducing the perceived risks of tax avoidance. The Political Cost Theory [25] explains how firms handle ESG and tax policies to balance political risks and accounting penalties. High government-connected firms will be incentivized to comply with ESG norms in governments that are also actively engaged with corporate governance to ensure government patronage and avoid regulatory backlash. On the other hand, highly politically sensitive firms can use discretionary ESG disclosures to pre-empt public outcry and, in the process, optimize tax policies to reduce fiscal burden.

This study categorizes ownership kinds as separate entities, in accordance with previous research [26, 27]. Familial ownership frequently emphasizes confidentiality and the safeguarding of wealth, which may diminish ESG transparency and escalate tax planning efforts [28, 29]. Conversely, state ownership, owing to public responsibility, generally improves ESG compliance and deters aggressive tax techniques [30]. Managerial ownership, although frequently congruent with management goals, might result in diverse results contingent upon executive incentives [31], This study examines family ownership in Indonesia and institutional ownership in Malaysia, which are the predominant types in each environment, as the focal point of investigation. Companies with predominant state or managerial ownership were omitted to preserve conceptual and methodological clarity.

1.2. *Conceptual framework of Largest Ownership and Managers' Behavior-ESG Reporting*

In Indonesia, the majority of publicly listed companies are predominantly owned and controlled by families, resulting in a shareholding structure where the largest portion of equity is held by family members or their direct representatives. This form of concentrated ownership can lead to increased information asymmetry, especially when family owners simultaneously occupy managerial roles or exert strong influence over executive decision-making. Such arrangements often reduce incentives for transparency and may compromise the quality of governance practices [26-27].

Family owners typically have strategic discretion over the extent of Environmental, Social, and Governance (ESG) disclosure. In firms that have not yet adopted comprehensive sustainability initiatives, limited ESG reporting may reflect both a lack of substantive activity and a deliberate choice to avoid drawing scrutiny. Moreover, if a company is involved in environmentally or socially harmful practices, family owners due to their close proximity to operations may choose to withhold negative information, preferring to publish only minimal ESG disclosures to maintain reputational control [28].

However, the growing societal awareness and stakeholder demand for corporate accountability especially from consumers, communities, and regulators have begun to shift these dynamics. As public sensitivity to environmental protection and social equity rises, family-controlled firms may recognize ESG reporting not just as a regulatory obligation but also as a strategic opportunity. In cases where the firm is not involved in harmful practices, family owners may proactively embrace ESG transparency as a tool to enhance legitimacy, align with global sustainability trends, and build long-term business value [32-33].

In contrast to Indonesia, the majority of publicly listed companies in Malaysia are predominantly owned and controlled by institutional investors, who possess greater resources and capabilities to oversee managerial performance. Institutional owners play a crucial role in corporate governance by acting as external monitors, often demanding higher levels of transparency, accountability, and regulatory compliance. Their influence typically supports the implementation of independent boards and the enforcement of ethical and responsible corporate behavior [26, 34].

These governance-focused characteristics are particularly prominent among long-horizon institutional investors such as pension funds and ESG-oriented investment institutions who prioritize sustainability and long-term value creation. Consequently, institutional owners are more likely to advocate for comprehensive ESG disclosures, alignment with international sustainability standards, and enhanced corporate citizenship [35, 36]. Their presence contributes to a corporate environment that integrates ESG principles into core business strategies, thereby improving firm legitimacy and long-term stakeholder trust.

1.3. *Conceptual framework of Largest Ownership and Managers' Behavior-Tax Avoidance*

In Indonesia, where the majority of publicly listed companies are largely family-owned, tax-related decisions are often influenced by the self-interest of controlling families. These owners are generally more reluctant to see their personal or family wealth reduced due to corporate tax obligations. According to Agency Theory [39], when ownership and control are concentrated, as in family firms, the principal-agent conflict is diminished, but another type of agency problem may arise namely, the conflict between controlling and minority shareholders. In this context, family owners may actively monitor and direct managers to engage in tax planning strategies that aim to minimize tax burdens and preserve wealth within the family structure.

However, this pursuit of tax efficiency is typically balanced by a cautious approach. Family firms are less likely to engage in aggressive tax avoidance, as such strategies increase the risk of detection, penalties, and reputational harm. Since family-owned businesses are often tightly intertwined with their personal identities and legacies, maintaining a positive public image is critical. As a result, they are more inclined toward moderate or non-aggressive tax strategies ones that achieve financial efficiency without provoking regulatory scrutiny or damaging public trust [27, 5].

This nuanced behavior aligns with findings from earlier studies, which show that while family firms are motivated to engage in tax avoidance to conserve wealth, they simultaneously avoid risky schemes that could lead to public backlash or legal consequences. Their tax planning decisions are therefore shaped by both financial motives and socioemotional concerns, such as long-term reputation, intergenerational continuity, and social legitimacy [38, 39].

This condition stands in contrast to Malaysia, where institutional investors hold significant ownership and exert substantial influence over corporate decision-making. Given their dominant position, institutional owners are well-positioned to monitor managerial behavior and ensure that tax management strategies are conducted prudently. Rather than encouraging aggressive tax avoidance, institutional investors tend to promote responsible, regulation-compliant tax planning that aligns with long-term corporate sustainability and risk management objectives.

Institutional investors are generally rule-abiding, emphasizing transparency, ethical conduct, and strict adherence to legal frameworks. Their strong governance role enables them to act as effective external monitors, reducing opportunities for opportunistic behavior by management. Empirical evidence shows that institutional ownership is negatively associated with aggressive tax avoidance [31]. These investors typically favor moderate and transparent tax strategies to avoid regulatory sanctions, reputational damage, and backlash from key stakeholders [42].

Moreover, the degree of institutional activism plays a critical role. Long-term, governance-oriented institutional investors such as pension funds and sovereign wealth funds are more effective in curbing excessive tax planning compared to short-term, return-driven funds [34]. As a result, institutional ownership in Malaysia contributes to more disciplined and sustainable tax practices, reflecting a preference for legitimacy and compliance over aggressive tax minimization.

2. *HYPOTHESIS DEVELOPMENT*

Indonesia's business landscape is largely shaped by family-controlled companies, where a few key players hold significant power [41, 29]. Investor protections are generally weaker [42] and regulatory enforcement is often inconsistent [43]. As a result, ESG reporting in many firms is seen more as a formal obligation a box to tick rather than a genuine part of business strategy [44]. Likewise, tax strategies in this context tend to be more opportunistic. When oversight is perceived as loose, controlling families may prioritize minimizing tax liabilities to protect their wealth [27, 45].

Malaysia, on the other hand, presents a different picture. The presence of institutional investors especially government-linked investment companies (GLICs) is stronger [35-36] and the regulatory environment is more structured and developed [46]. ESG policies were introduced earlier, in 2016, and have become more embedded in corporate practices [10]. These institutional investors are generally aligned with international standards, encouraging firms to improve transparency and adopt responsible tax behavior that supports long-term value creation [47, 50].

These institutional differences clearly shape how companies approach ESG. In Indonesia, ESG disclosures are often used as a signaling tool to show regulators and stakeholders that the company is compliant without necessarily making substantial internal changes [32, 49]. In contrast, ESG in Malaysia is more likely to be integrated into core business decisions, especially in firms with strong institutional ownership [36-37].

The same pattern holds true for tax practices. Malaysia's more effective tax governance and regulatory oversight make aggressive tax avoidance riskier and less attractive [50-51]. In Indonesia, despite having tax regulations, inconsistent enforcement enables companies particularly those with high ownership concentration to maneuver more freely [7, 52]. As a result, ESG and tax strategies in Indonesia are more susceptible to the influence of dominant shareholders, whereas in Malaysia, these strategies tend to align more closely with established governance norms and investor expectations [4-5].

2.1. *The Effect of Largest Ownership on ESG Reporting*

The large shareholders have significant influence over corporate policies and practices, including the field of ESG disclosure [26]. The literature has provided inconclusive evidence on the impact of different types of shareholders on ESG practice. Banks, as large shareholders, are keen on taking long-term investment stances in conjunction with having a high priority for ESG-based risks with the consideration that adequate ESG disclosures will improve organizational performance and reduce financial risks [53]. State/government ownership tends to enhance ESG reporting by increased political accountability and regulation, thus nudging corporations toward socially and environmentally sustainable behaviors [30]. By contrast, as the prevailing ownership stakes are captured by family or individual investors, the inclination towards control retention and profit maximization tends to take precedence, typically resulting in lower levels of ESG disclosure [28]. This is consistent with [41] who reported that corporate ownership negatively affects the quality of ESG reporting. Such concentrated ownership structures exacerbate this problem, as controlling shareholders are more likely to consider sustainability reporting a regulatory requirement instead of a strategic resource [54].

The varying effects of various types of shareholders on ESG reporting highlight the significance of ownership concentration as a driving factor in accounting for sustainability disclosure practice. Correspondingly, when one type of shareholder becomes the leading owner, we can posit the following hypotheses:

- H1a: The most significant ownership forms determine ESG disclosure

The ownership structure also plays a central role in determining the extent of ESG disclosure since various categories of principal shareholders exhibit varying degrees of commitment towards sustainability reporting and transparency. Prior research has shown that various ownership types family, institutional, government, and foreign

impact ESG disclosure in distinct ways. When a particular ownership type possesses the majority of shares, its impact on ESG reporting becomes increasingly significant. This study investigates the realization of such impacts in Indonesia and Malaysia, where ownership structures are heterogeneous and may lead to variation in the effects of ESG disclosures.

In Indonesia, family ownership is the most dominant form of corporate ownership and has been found to negatively impact ESG reporting. Many family-controlled firms prioritize business secrecy and internal control over external transparency, limiting ESG disclosure [29]. Government ownership, particularly in state-owned enterprises (SOEs), tends to have a positive effect on ESG reporting due to regulatory mandates and the emphasis on public accountability [43]. Institutional ownership in Indonesia has shown a moderate impact on ESG reporting, contingent upon the level of investor activism and the degree to which institutional investors push for sustainability disclosures [42]. Foreign ownership, though not a dominant form of ownership in Indonesia, is generally associated with higher ESG disclosure, as international investors adhere to global sustainability standards and exert pressure on firms to comply [55]. However, high ownership concentration in Indonesia where a small group of shareholders holds significant control negatively influences ESG transparency, as controlling shareholders may resist disclosures that could dilute their influence [44].

In Malaysia, ownership structures exhibit distinct characteristics that influence ESG reporting differently from Indonesia. Family ownership, which is also significant in Malaysia, has been found to have a more positive effect on ESG reporting, as many family firms in Malaysia recognize sustainability initiatives as beneficial for long-term corporate value [46]. Government ownership positively influences ESG reporting, though the regulatory priorities differ from those in Indonesia [36]. Institutional ownership in Malaysia exerts a strong influence on ESG reporting, as institutional investors play an active role in advocating for greater corporate transparency and governance improvements [36]. Similarly, foreign ownership enhances ESG disclosure, though its influence varies depending on the nature of the foreign investors involved [48]. Ownership concentration in Malaysia demonstrates more variability, with some firms showing strong ESG commitments while others exhibit minimal disclosures [49] .

- H1b: The effect of the largest ownership structure on ESG reporting differs between Indonesia and Malaysia.

2.2. The Effect of Largest Ownership on Tax Avoidance Behavior

Ownership structure is important in explaining tax avoidance practices since different categories of dominant shareholders have different levels of tax planning aggressiveness. Previous research has established that ownership types influence corporate tax strategy; therefore, the effect of a specific ownership type on tax avoidance is higher as the type owns the largest proportion of shares. This study explores the manifestation of these consequences in Indonesia and Malaysia, environments where ownership structures are different substantially, and hence tax avoidance results may differ. Agency theory [23] forms the foundation for an explanation of the effect of differing ownership structures on the behavior of tax avoidance. Under high-concentration ownership scenarios, principal-agent tensions may urge intensive tax planning to increase shareholder wealth. Political cost theory [25] argues, meantime, why government-connected ownership is linked with reduced tax avoidance: state-owned businesses are under more public scrutiny and regulatory control.

In Indonesia, where family ownership is the most common form of corporate control, tax avoidance is usually higher because family-controlled firms prioritize the preservation of wealth and retention of internal control sometimes at the expense of tax compliance [27]. Institutional ownership's effect on tax avoidance, however, has been mixed based on the degree of investor activism and the imposition of corporate governance structures [34]. Most prominently, government ownership, especially in state-owned enterprises (SOEs), tends to discourage tax avoidance because of regulatory requirements and political scrutiny [56]. At the same time, extensive foreign ownership has been linked with high tax avoidance activities, due to strategies adopted by multinational corporations to optimally allocate tax burdens across different countries [57]. Additionally, highly concentrated ownership in Indonesia is likely to increase tax avoidance, since controlling shareholders can seek approaches to mitigate tax burdens in an effort to boost individual or group benefits [45].

In Malaysia, the effect of ownership structures on tax avoidance shows a tendency that may be Indonesia, different. The relationship of family ownership and tax avoidance is more varied, as some family-controlled firms in Malaysia exhibit tax aggression, while others give importance to corporate reputation, and long-term stability [58]. Yet, institutional ownership has proven yet again to be the key parameter [58]. Government ownership also exerts strong negative influence on tax avoidance, but the specific strength of this factor often varies due to regulatory factors and governance structures [50]. The foreign ownership on tax avoidance is actually out of place thus causing more inconsistent results, as you can see, there are two foreign investors, one of them adopts a tax planning technique while the other complies with stringent governance [57]. Finally, ownership concentration in

Malaysia is a double-edged sword that on one side shows some firms practicing aggressive tax planning, and on the other side some firms complying owing to corporate governance mechanisms [59].

The effect of the highest ownership concentration on tax avoidance is likely to vary between Indonesia and Malaysia depending on their different dominant ownership structures. Tax avoidance is more common in Indonesia, where family-owned companies predominate, because controlling shareholders' motivations to reduce tax liabilities. By means of regulatory frameworks and investor-driven governance programs, Malaysia's institutional and government-linked ownership structures generate more robust incentives for tax compliance.

- H2a: The largest ownership structure affects tax avoidance activities.
- H2b: The effect of largest ownership on tax avoidance differs between Indonesia and Malaysia.

2.3. The Effect of ESG Reporting -That Supervised by Largest Ownership- on Tax Avoidance Behavior

The largest shareholders are critical in determining both ESG reporting and the company's approach to corporate taxes. When the major shareholders advocate transparency in comprehensive ESG reporting, that transparency about and commitment to sustainability may act as a mechanism for corporate accountability, which would dissuade tax avoidance. Assessing ESG disclosure as a measure of strong business practices may evoke themes related to conduct, ethics, and compliance with applicable laws. Strong ESG disclosure can deter aggressive tax planning as it minimizes the potential for mistakes and the need to engage in evasive behavior by minimizing the opportunity to engage in such conduct. On the other hand, in the case of larger shareholders focused on short-term financial performance over transparent sustainability practices, they can deter comprehensive ESG reports and focus more on financial strategies that optimize the company financial standing or tax burdens possibly through aggressive tax avoidance structures.

Legitimacy Theory and Agency Theory framework best explains this relationship. Legitimacy Theory [60] suggests that companies use ESG reporting to gain legitimacy and maintain societal approval. In this framework, ESG disclosure acts as a tool to signal moral corporate behavior and compliance with regulation, thereby reducing scrutiny concerning tax avoidance. More likely, firms engaged in extensive ESG reporting are trying to enhance their legitimacy, thus reducing their willingness to engage in aggressive tax avoidance tactics. Conversely, companies that view ESG disclosure as mostly ceremonial or regulatory will likely continue the practice of tax avoidance while maintaining the appearance of ESG transparency. Agency Theory [23] provides a deeper explanation for the influence of ownership concentration on ESG and tax avoidance behavior. In firms with high ownership concentration, principal-agent conflicts can potentially lead to a focus on shareholder versus stakeholder values, whereby large shareholders may exert influence over management that prioritizes their own interests at the potential expense of more widespread corporate responsibility. Under this circumstance, ESG reporting can be used as a mechanism to placate external stakeholders while engaging in tax avoidance behaviors. In contrast, institutional and government-related ownership structures can curb agency conflicts through more stringent ESG disclosure requirements, which inherently correlate with reduced tax avoidance.

ESG reporting has a particularly urgent relevance to tax avoiders and users of tax havens in emerging markets such as Indonesia and Malaysia, given the differences in corporate governance structures. Corporate taxes are significant in firms with concentrated ownership where ESG disclosure might be used as a legitimacy tool to mask behavior and generate false perceptions among key stakeholders or allow to select those stakeholders whose interests are being ignored for firms to hide behind a motto that they are committed to transparency. Having Indonesia and Malaysia distinction is critical, as the family ownership structure that dominates Indonesia's ownership structure may produce a weaker relationship between ESG and tax avoidance, with ESG merely a symbolic tool for compliance. On the other hand, Malaysia could also drive greater transparency as the institutional and government linked ownership has been stringent to enforce ESG reporting that encourages lower tax avoidance. Through its examination of these variations, this study adds to the growing body of literature on corporate governance, sustainability and tax compliance in emerging markets

In light of these dynamics, this study posits the following hypothesis:

- H3a: The strategic decision of ESG reporting, as influenced by the largest ownership structure, affects tax avoidance.
- H3b: The effect of ESG reporting, as supervised by the largest ownership structure, on tax avoidance differs between Indonesia and Malaysia.

2.4. The Effect of ESG Reporting -That Supervised by Largest Ownership- on Firm Value

The largest shareholders, who promote good ESG practices actively, can indirectly raise firm value through improved corporate reputation, operational efficiency, and risk reduction. A successful ESG approach communicates long-term sustainability and moral corporate behavior, which has the potential to attract investors, improve stakeholder trust, and reduce the risk exposure of the firm. Conversely, if the major shareholders engage

in ESG reporting only as a means of "greenwashing" advertising sustainability initiatives without making substantial changes such a strategy can backfire, causing reputational damage and reducing the value of the company if stakeholders perceive the firm's ESG commitments as disingenuous.

This relationship is best explained in the context of Stakeholder Theory and Legitimacy Theory. Stakeholder Theory [24] would imply that firms must trade off the interests of different stakeholders like investors, regulators, customers, and society. Effective ESG practice creates value in ways that are long term by aligning firm practices to meet stakeholder expectations, thereby creating firm value. Firms with concentrated ownership may implement ESG reporting to attract external stakeholders, but whether such efforts are symbolic or not is contingent upon the enforcement of regulation and the character of corporate governance institutions. Under Legitimacy Theory [60], organizations undertake ESG reporting as a way of acquiring legitimacy and ensuring societal support. Organizations capable of embedding ESG strategies within their operational practices possess the potential to enhance their legitimacy, which in turn can enhance their market capitalization along with financial strength. Nevertheless, in case ESG reporting is being employed as a symbolic tool, organizations may experience adverse financial impacts if it comes to light that their practices are manipulative or misleading.

It is important to ask whether and in what context ESG creates value for the company and this depends to an extent on the level of regulation and law enforcement. In the specific Indonesian context, where family ownership is dominant, ESG disclosure should exist more as a legitimacy-seeking mechanism rather than as an intrinsically embedded corporate strategy. The outcome leads to less ultimate firm value because there may be no tangible benefit to sustainability practices, if ESG disclosures are not mandated. In contrast in Malaysia the ESG disclosure in the firms is more regulated and strategically integrated and therefore might have a more valuable impact on the firm value where the proportion of government and institutional ownership is high.

This study contributes to the literature in the manner that it shows how ESG reporting can be value-creating mechanism rather than as an obligatory under the regulatory regime if it is under a right supervision of biggest stockholders. Leveraging the context of a comparative study between Indonesia and Malaysia, this study contributes new knowledge on the roles of ownership structures in shaping ESG-based financial performance in the context of developing markets. In agreement with these assumptions, this investigation formulates the following hypothesis:

- H4a: The strategic decision of ESG reporting, as supervised by the largest ownership structure, affects firm value.
- H4b: The effect of ESG reporting, as supervised by the largest ownership structure, on firm value differs between Indonesia and Malaysia

2.5. *The Effect of Tax Avoidance -That Supervised by Largest Ownership- on Firm Value*

Major shareholders, holding the largest stakes, who actively monitor firm tax policies, can significantly influence firm value. If dominant shareholders encourage compliant tax policies, this can generate risk reduction, improved corporate reputation, and increased investor confidence, which increases firm value ultimately. Responsible tax strategies are congruent with long-term financial sustainability since as firms that comply with tax regulations and demonstrate fiscal responsibility are perceived as lower-risk investments [34] . However, if the largest shareholders prefer aggressive tax avoidance, it may provide short-term financial benefits in the form of saving taxes but may pose long-term risks in the shape of regulatory scrutiny, loss of reputation, and potential legal fines, which can ultimately erode firm value [27].

This relationship is best explained through agency theory and political cost theory. Agency Theory [23] suggests that conflicts between shareholders and management arise when controlling shareholders prioritize their own financial interests over corporate transparency and compliance. In cases where ownership is highly concentrated, dominant shareholders may encourage tax avoidance to maximize returns, potentially undermining corporate governance and long-term financial stability [56]. On the other hand, dispersed ownership or institutional investor influence may deter excessive tax avoidance due to greater oversight and accountability [34].

Political Cost Theory [25] explains why firms engage in responsible or aggressive tax strategies based on their exposure to political and regulatory pressures. Firms with significant government-linked ownership or institutional investors may avoid tax aggressiveness to maintain regulatory compliance and public legitimacy, thereby safeguarding firm value. In contrast, firms with family-dominated or high ownership concentration may engage in aggressive tax avoidance to maximize shareholder returns, increasing firm risk in the long run [27].

The level of law enforcement and regulatory oversight further determines how tax avoidance influences firm value. In Indonesia, where family ownership is prevalent, tax avoidance may be used as a financial strategy to protect family wealth, potentially leading to higher financial risk and regulatory scrutiny [27]. In contrast, Malaysia's institutional and government-linked ownership structures may enforce stricter tax compliance,

contributing to more stable long-term firm value [34]. Each characteristic of the largest ownership in both countries above leads to the following hypotheses:

- H5a: Tax avoidance activities, as supervised by the largest ownership structure, affect firm value.
- H5b: The effect of tax avoidance activities, as supervised by the largest ownership structure, on firm value differs between Indonesia and Malaysia.

III. MATERIAL AND METHOD

1. RESEARCH DESIGN

This study adopts a quantitative approach to examine the impact of monitoring and supervision of ownership structures on ESG reporting quality, tax avoidance behavior, and firm value in Indonesian and Malaysian companies. We use panel data regression models to analyze the relationship between ownership structure and corporate behavior in these emerging markets. A comparative analysis is performed to highlight differences in the regulatory frameworks of the two countries and how they shape the relationship between ownership concentration and corporate governance practices in strategic decisions, such as ESG reporting and tax avoidance, and to extend the impact on firm value.

2. SAMPLE SELECTION AND POPULATION DESCRIPTION

To capture meaningful insights into the corporate behavior of companies in Indonesia and Malaysia, we used non-random sampling, specifically purposive sampling method. We focused our study on non-financial publicly listed companies that had reported both ESG and financial reporting between 2012 and 2023. The financial institutions (like banks and insurance companies) were excluded because they operate under different regulations, especially when it comes to ESG reporting and tax policies. We sourced our data from Refinitiv Eikon, a comprehensive database that includes ESG scores, ownership details, and financial metrics. After removing companies with incomplete data, we ended up with 296 firm-year observations 198 from Indonesia and 98 from Malaysia. We believe this sample gives a solid representation of each country's corporate environment. In Indonesia, many of the firms are family-owned, which is common in the country's business landscape. Meanwhile, the Malaysian sample leans more toward institutional and government-linked ownership, which reflects how corporate ownership is structured there. We also made sure to include a good mix of industries such as energy, manufacturing, tech, and consumer goods, so that our results aren't biased toward any one sector. This setup allows us to fairly compare how different types of owners influence ESG reporting, tax strategies, and firm value in each country. Therefore, as Table 1 we have final sample distribution includes 296 companies, consist of 198 Indonesian firms (66.89%) and 98 Malaysian firms (33.11%). This sample captures the largest shareholding entities in each country, ensuring a robust analysis of ownership influence.

Table 1. Frequencies of country data.

Country	Frequency	Percentage
Indonesia	198	66.89
Malaysia	98	33.11

To ensure a representative analysis across sectors, the sample includes companies from diverse non-financial industries. The industry classification follows the Global Industry Classification Standard (GICS) and consists of:

Table 2. Data based on industry sector.

Industry Sector	Firm years	
	Indonesia	Malaysia
Basic Materials (Mining, Cement, Steel, Chemicals)	45	4
Energy (Oil & Gas, Renewable Energy)	14	23
Manufacturing (Automotive, Electronics, Heavy Industry)	43	18
Consumer Goods (Food & Beverage, Retail, Textiles)	46	15
Real Estate & Infrastructure	18	3

Technology & Telecommunications	32	35
Total	198	98

As Table 2 above, the sectoral distribution is balanced across both countries, ensuring that differences in corporate governance, ESG adoption, and tax strategies are not industry-biased. The data source is various, for ownership structure, ESG scores, and financial indicators are extracted from Refinitiv Eikon. Tax avoidance metrics are derived from annual reports and financial reports; meanwhile regulatory information on ESG disclosure requirements is sourced from Indonesia's Financial Service Authority or Otoritas Jasa Keuangan (OJK) and Bursa Malaysia.

IV. DATA ANALYSIS

1. VARIABLES AND EMPIRICAL MODEL

This research involves three empirical model as follows:

- Model 1 to test H1a dan H1b:

$$ESG_{it} = \alpha_1 + \beta_1 LO_{it} + \beta_2 DC_{it} + \beta_3 LO_{it} * DC_{it} + \beta_4 SIZE_{it} + \beta_5 AGE_{it} + \beta_6 DER_{it} + \beta_7 ROA_{it} + \varepsilon_{it} \quad (1)$$

- Model 2 to test H2a, H2b, H3a and H3b:

$$TA_{it} = \alpha_2 + \gamma_1 LO_{it} + \gamma_2 ESGfv_{it} + \gamma_3 DC_{it} + \gamma_4 LO_{it} * DC_{it} + \gamma_5 ESGfv_{it} * DC_{it} + \gamma_6 SIZE_{it} + \gamma_7 AGE_{it} + \gamma_8 DER_{it} + \gamma_9 ROA_{it} + \varepsilon_{it} \quad (2)$$

- Model 3 to test H4a, H4b, H5a and H5b:

$$FV_{it} = \alpha_2 + \delta_1 LO_{it} + \delta_2 ESGfv_{it} + \delta_3 TAfv_{it} + \delta_4 DC_{it} + \delta_5 LO_{it} * DC_{it} + \delta_6 ESGfv_{it} * DC_{it} + \delta_7 TAfv_{it} * DC_{it} + \delta_8 SIZE_{it} + \delta_9 AGE_{it} + \delta_{10} DER_{it} + \delta_{11} ROA_{it} + \varepsilon_{it} \quad (3)$$

Given that the timeframe of our study focuses on sustainable companies for the periods of 2012 - 2023 in Indonesia and Malaysia. We performed the Chow test, Hausman test, and Breusch–Pagan Lagrange Multiplier (LM) test for the best panel data model selection for Models 1, 2, and 3 above [61, 4] . These diagnostic tests consistently indicated that the common effects model was more appropriate for our data than either the fixed-effects or random-effects models. Moreover, the period of our study (2012–2023) and the nature of our dataset, which focuses specifically on sustainable companies in Indonesia and Malaysia, also limit the applicability of fixed-effects modeling due to insufficient within-entity variation. The model was also tested using classical assumptions, and the results indicate that it is free from multicollinearity, heteroscedasticity, and autocorrelation problems. To reduce the impact of outliers, winsorization was applied to all continuous variables at the 1st and 99th percentiles.

1.1. Dependent variables: ESG Reporting (ESG); Tax Avoidance (TA); and Firm Value (FV)

ESG reporting (ESG) is the process through which companies disclose their performance in environmental, social, and governance areas, helping stakeholders, such as investors, customers, and regulators, evaluate their commitment to sustainable and ethical practices. Key components of ESG reporting include: (1) environmental aspects, such as greenhouse gas emissions and resource usage; (2) social factors, such as community engagement, diversity, and human rights policies; and (3) governance metrics covering board structure, executive compensation, and regulatory compliance. This reporting guides responsible investments and promotes corporate transparency in sustainability efforts [62] . We employed the ESG combined score released by the Refinitive eikon as a measure of ESG Reporting. A higher ESG score indicates more items are disclosed by the companies.

According to [7], the process by which businesses take advantage of gaps or ambiguities in tax laws to reduce their tax obligations without committing crimes is known as tax avoidance (TA). The proxies of tax avoidance are the Effective Tax Rate (ETR) [56] , Effective Cash Tax Rate (CashETR) [61, 52] and Book-Tax Difference (BTD) [63, 31, 4] . This study modifies the aforementioned tax avoidance steps. In addition to ETR and Cash ETR alone, this study uses the ETR Differential, which indicates the difference between the statutory tax rate (STR) and ETR or Cash ETR. According to [64] and [7] the difference between the applicable mandatory income tax rate and the effective tax rate is more appropriate for capturing tax avoidance than using the ETR alone in studies that focus on different applicable tax rates based on territory. A higher value of the ETR differential suggests a higher tax avoidance.

Firm value refers to a company's total market value based on its financial performance and potential future cash flow. This study shows that disclosing Environmental, Social, and Governance (ESG) information increases a company's perceived worth by enhancing transparency and reducing financing constraints. Firm value is

commonly estimated using market-based measures such as stock price, market capitalization, and financial metrics. The positive impact of ESG disclosure on firm value is particularly evident in non-state-owned, non-polluting, and highly transparent businesses [65] . Tobin's Q is employed as the primary measure of firm value because it captures how the market values the firm relative to its asset replacement cost. This is particularly relevant in emerging markets like Indonesia and Malaysia, where market perceptions of long-term value including the effects of ESG strategies and tax planning are critical indicators of investor confidence and intangible value [65-66]. Firm value is measured by Tobin's Q, the formula for which is:

$$Tobin's\ Q = \frac{Market\ Value\ to\ Equity + Book\ Value\ of\ Liabilities}{Book\ Value\ of\ Total\ Assets} \quad (4)$$

A higher value (greater than 1) of Tobin's Q suggests that the firm's market value exceeds its asset replacement cost, often indicating strong market confidence and growth potential [66] . A value of less than one might suggest undervaluation or difficulties in asset utilization.

1.2. Independent, Control Variables, and Country-Specific Variable

The main independent variable is the ownership structure, according to [26] the larger shareholder leads to a better monitoring and supervising the managers. This study uses largest ownership (LO), measured as the largest percentage of shareholding in a company. We identify and compare the largest ownership percentage across Indonesia and Malaysia.

The control variables are firm size (SIZE), measured using the logarithm natural of total assets, as larger firms tend to have more resources for ESG initiatives and tax planning; firm age (AGE), the number of years the company has operated, as older firm may exhibit more stable governance and financial policies; leverage (DER), measured using the debt to equity ratio (DER), as firms with higher leverage may face greater financial constraints that influence their tax and ESG strategies; and profitability (ROA), measured as return on assets (ROA) or net income to total assets ratio, as profitability may impact firms' ability to engage in tax planning and ESG reporting.

The country-specific variable (DC) is included as a dummy variable to account for differences between Indonesia and Malaysia. This variable is coded as: DC = 1 for Indonesian firms, and DC = 0 for Malaysian firms. This allows us to capture and compare variations in corporate governance, ESG practices, and tax strategies between the two countries. Additionally, interaction terms between DC and LO are incorporated to examine whether the impact of ownership concentration differs between Indonesia and Malaysia.

V. RESULT AND DISCUSSION

1. DESCRIPTIVE STATISTICS

The descriptive statistics are reported in Table 3. The mean ESG score was 46.5067. The maximum is 90.9903 and the minimum is 6.1724, indicating overall the level of ESG disclosure is moderate and a large variance across firms regarding their ESG reporting. TA has a mean score of 0.0039, with a maximum of 1.8246 and a minimum of -3.5119, indicating a difference between the statutory tax rate and ETR, means that on average the level of tax avoidance is low although still above zero, means firm potentially do the tax avoidance, which is paying less tax than expected based on the statutory rate. This suggests effective tax planning or possibly aggressive tax strategies. The negative value ETR Differential shows that the company is paying more than the statutory rate, which may be due to non-deductible expenses, loss carryovers not used, or conservative tax reporting. This could indicate inefficiency or low tax planning efforts. The FV has a mean score of 1.1178, with a maximum of 10.2006 and a minimum of -2.6537, which indicates overall the value of companies are in a good value, there is variation in a company's market value based on its financial performance and future cash flow potential, with a fairly wide range between the highest and lowest values. LO has a mean score of 0.4291, with a maximum of 0.9204 and a minimum of 0,16 indicating the largest ownership percentage is quite high almost 50% on average, and vary among Indonesian and Malaysian companies.

Table 3. Descriptive statistics.

Variables	Mean	Min	Max	Std Dev	Skewness	Kurtosis
ESG	46.5067	6.1724	90.9903	18.9452	0.1253	2.3185
TA	0.0039.	-3.5119	1.8246	0.2947	-5.0017	75.1839
FV	1.1178	-2.6537	10.2006	2.9564	1.8626	5.5447
LO	0.4291	0.1661	0.9204	0.2838	-0.2184	1.8795
ESGfv	46.5067	24.01778	68.6436	10.4468	-0.2406	2.2983
TAfv	0.0039	-0.2660	0..6673	0.0816	2.3180	20.2338
SIZE	21.9253	18.6645	32.6681	1.3581	2.4726	21.4434
AGE	57.1182	7	89	14.1853	-0.3584	3.0786
DER	1.1489	0.00003	20.3458	2.0211	4.9595	36.6493
ROA	0.0934	-0.0188	0..504	0.1121	2.2974	8.3475

Notes:
ESG = Environmental Social Governance Combine Score; TA= Tax Avoidance, measured with Cash Effective Tax Rate-Statutory Tax Rate; FV= Firm Value, measured with Tobins'Q; LO = Largest Ownership, measured with largest percentage of ownership in Indonesia and Malaysia; ESGfv = Fitted value of ESG derived from Model 1 regression; TAfv = fitted value of TA derived from Model 2 Regression; SIZE = Firm's size measured with logarithm natural of total assets; AGE = the number of year of corporation operated; DER = Leverage level, measured with Debt to Equity Ratio; ROA = profitability ratio, measured with ratio of net income to total assets.

Comparative data regarding ESG, ownership structures, and tax avoidance between the two countries are presented in Figure 1. The bar chart shows that, overall, companies in Malaysia have higher ESG scores than those in Indonesia. The average ESG score in Malaysia is 53%, whereas in Indonesia it is only 44%. This indicates a notable gap of nearly 10%, suggesting that ESG regulation enforcement and compliance are stronger in Malaysia than in Indonesia. Although both countries are geographically close and share similar Malay cultural roots, differences exist in their business systems and ethical practices. This gap may also be influenced by the fact that ESG reporting became mandatory earlier in Malaysia than in Indonesia.

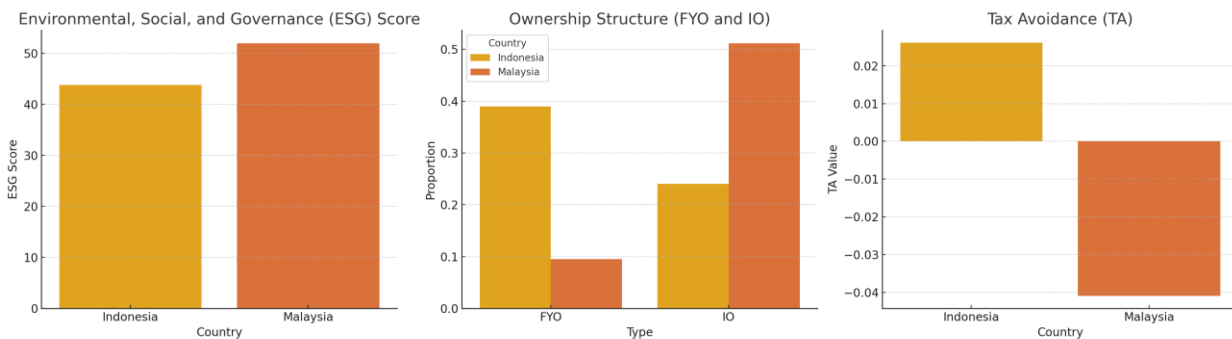

FIGURE 1. Comparative of ESG scores, ownership structures, and tax avoidance activity of indonesia and Malaysia.

The different ownership structures shown in Figure 1 indicate that public companies in Indonesia are largely dominated by family ownership, whereas in Malaysia, institutional ownership is more prevalent. This situation highlights the contrasting ways companies are controlled and monitored in the two countries. In Indonesia, many public companies are still run by families, which often keeps decision-making within a close circle and focuses on long-term goals. However, this can also pose challenges in terms of transparency and governance. In contrast, most public companies in Malaysia are owned by institutions such as pension funds or government-linked investors. These institutional owners typically advocate for stronger oversight, clearer reporting, and alignment with international standards especially regarding ESG and responsible investing.

Indonesia and Malaysia share a similar condition in terms of tax ratio, which is around 10%–11%, making them the two lowest among ASEAN countries. This indicates that both countries have not yet optimized their potential tax revenue, reflecting lower levels of tax compliance and higher levels of tax avoidance.

2. CORRELATION MATRIX

To ensure and to predict the relation between independent and dependent variables we performed the correlation matrix as follows:

Table 4. Correlation matrix between variables.

Variables	FV	LO	ESGfv	TAfv	DC	LO*DC	ESGfv	TAfv	SIZE	AGE	DER	ROA
FV	1.000											
LO	-0.1352	1.000										
ESGfv	0.0774	-0.6148	1.000									
TAfv	-0.0229	-0.0123	-0.2021	1.000								
DC	0.2128	-0.2047	-0.3678	0.3869	1.000							
LO*DC	0.0601	0.5980	-0.8527	0.2098	0.5861	1.000						
ESGfv*DC	0.2570	-0.5076	0.0341	0.2781	0.9110	0.2403	1.000					
Tafv*DC	-0.1291	-0.0630	-0.2842	0.8094	0.1977	0.0936	0.0826	1.000				
SIZE	0.1194	-0.0230	0.1277	0.2624	0.1988	0.1563	0.2629	0.1480	1.000			
AGE	-0.3581	0.1798	-0.1612	0.0809	0.0834	0.1571	0.0223	0.0479	-0.0887	1.000		
DER	-0.1900	-0.2214	-0.1363	0.6712	0.0063	-0.1318	-0.0388	0.8527	0.0109	0.1419	1.000	
ROA	0.0786	0.0737	0.2516	0.1340	-0.0762	0.0045	-0.0109	0.0064	0.1999	-0.1135	-0.0470	1.000

Notes:
ESG = Environmental Social Governance Combine Score; TA= Tax Avoidance, measured with Cash Effective Tax Rate -Statutory Tax Rate; FV= Firm Value, measured with Tobins'Q; LO = Largest Ownership, measured with largest percentage of ownership in Indonesia and Malaysia; ESGfv = Fitted value of ESG derived from Model 1 regression; TAfv = fitted value of TA derived from Model 2 Regression; SIZE = Firm's size measured with logarithm natural of total assets; AGE = the number of year of corporation operated; DER = Leverage level, measured with Debt to Equity Ratio; ROA = profitability ratio, measured with ratio of net income to total assets

The correlation matrix in Table 4 provides a more detailed relationship between the variables. There is a notably negative correlation between the largest ownership and ESG reporting (-0.61), suggesting that in firms where ownership is more concentrated, particularly family-owned firms, there tends to be less emphasis on disclosing ESG information. This indicates that these firms prioritize control and financial performance over transparency and sustainability. Additionally, the small positive correlation between ESG reporting and firm value (0.08) implies that companies with better ESG practices tend to be valued more by the market, although the effect is not very strong. On the other hand, the negative correlation between ESG and tax avoidance (0.20) points to the idea that firms that are more engaged in ESG activities are less likely to avoid taxes, possibly because they want to maintain a reputation for being socially responsible.

These results offer a preview of how ownership structures influence corporate strategies, particularly in emerging markets such as Indonesia and Malaysia, where the dynamics of family ownership and institutional influence can significantly shape ESG reporting, tax practices, and overall firm value.

3. RESULT of this Work

3.1 Model 1: Does the Largest Ownership Structure Influence ESG Reporting? (H1a, H1b)

We began by investigating whether the largest ownership structure has a meaningful influence on ESG reporting practices (H1a), and whether this influence varies between countries (H1b). Our results show that the direct effect of ownership concentration alone (H1a) is not consistently significant. However, the comparison between Indonesia and Malaysia reveals a notable difference (supporting H1b). In Indonesia, where many companies are family-owned, concentrated ownership appears to be associated with lower levels of ESG disclosure. This may reflect a tendency among dominant shareholders to prioritize control and discretion over transparency. In contrast, this relationship is much weaker in Malaysia. These findings are consistent with agency and stakeholder theories, which suggest that when control is highly centralized, firms may deprioritize external accountability. Our results align

with prior research by [41] and [30], who found that family ownership is often linked to more cautious or limited ESG disclosure.

Furthermore, among the control variables, firm size (SIZE) shows a significant positive impact on ESG at the 1% significance level, suggesting that larger firms tend to engage more in ESG reporting. Conversely, debt-to-equity ratio (DER) has a significant negative effect on ESG at the same significance level, implying that firms with higher leverage are less likely to engage in ESG initiatives. Additionally, return on assets (ROA) is positively and significantly associated with ESG at the 1% level, highlighting the role of profitability in driving ESG engagement. The R-squared value of 0.304 suggests that the model explains approximately 30.4% of the variation in ESG reporting, indicating a moderate explanatory power. The overall significance of the model is confirmed by the F-test result, with a Prob(F) value of 0.000, reinforcing the robustness of the regression analysis.

Table 5. Main regression result.

Variables	Expected sign	Model 1 Y= ESG	Model 2 Y= TA	Model 3	Remark	
LO	+/-	2.818	-0.231	-9.645*	H1a	
		(0.736)	(0.905)	(0.068)	H2a	
DC		6.770	-0.075	-45.361*		
		(0.169)	(0.987)	(0.054)		
LO*DC	+/-	-37.372***	5.897	13.701**	H1b	√
		(0.000)	(0.818)	(0.045)	H2b	
ESGfv	+/-		0.179	-0.574*	H3a	
			(0.793)	(0.085)	H4a	√
TAfv	+/-			45.160**	H5a	√
				(0.047)		
ESGfv*DC	+/-		-0.016**	0.757**	H3b	√
			(0.038)	(0.045)	H4b	√
TAfv*DC	+/-			-8.679	H5b	
				(0.168)		
SIZE		1.939***	-0.307	-0.588*		
		(0.006)	(0.817)	(0.053)		
AGE		0.026	-0.004	-0.056***		
		(0.708)	(0.787)	(0.000)		
DER		-1.328***	0.249	-1.243*		
		(0.007)	(0.784)	(0.061)		
ROA		31.578***	-5.202	-0.025		
		(0.000)	(0.810)	(0.832)		
Overal R2		0.304	0.076	0.228		
Prob F		0.000	0.005	0.000		
N		296	296	296		
Panel Model		Common effect	Common effect	Common effect		

Note: The dependent variable in Model 1 is ESG. The dependent variable in Model 2 is TA. The dependent variable in Model 3 is firm value. Significant level at 1% (***); 5% (**); and 10% (*).

3.2 Model 2: Ownership, ESG, and Tax Behavior—What Is the Link? (H2a–H3b)

Next, we examined whether the presence of a dominant shareholder influences corporate tax avoidance practices (H2a, H2b), and whether ESG reporting when supervised by such shareholders has any impact on tax avoidance (H3a, H3b). Interestingly, we found no significant direct relationship between ownership concentration or ESG reporting and tax avoidance (indicating that H2a and H3a are not supported). However, the interaction

between ESG and country context reveals more nuanced dynamics (supporting H3b). In Indonesia, ESG reporting under the supervision of controlling shareholders is linked to higher levels of tax avoidance. This suggests that ESG disclosure may serve more as a symbolic gesture than a genuine commitment to ethical behavior, consistent with the notion of "symbolic compliance" discussed by [2]. In contrast, this pattern is not evident in Malaysia potentially due to stronger regulatory oversight and governance norms, which may limit the use of ESG as a superficial signal.

The model's R-squared value of 0.076 suggests that the independent variables explain approximately 7.6% of the variation in tax avoidance. While this indicates relatively low explanatory power, it is not uncommon in studies on corporate tax behavior, where multiple unobservable factors such as firm-specific tax strategies, regulatory enforcement, and managerial discretion play significant roles. Despite this limitation, the overall model remains statistically significant (Prob F = 0.005), indicating that the included variables collectively contribute to explaining tax avoidance behavior.

3.3 Model 3: Do ESG Practices and Tax Strategies Contribute to Firm Value? (H4a–H5b)

Finally, we assessed whether ESG reporting and tax avoidance, when overseen by the largest shareholders, contribute to firm value (H4a–H5b). Our findings indicate that ESG reporting overall is negatively associated with firm value (supporting H4a), particularly in Indonesia. This may be due to perceptions of ESG as a regulatory obligation rather than a value-creating initiative. However, when ESG initiatives are actively supported by strong ownership especially in Indonesia their impact on firm value becomes positive (supporting H4b). This highlights the importance of genuine, ownership-driven ESG strategies in creating long-term value. As for tax avoidance, our results show a positive association with firm value (supporting H5a), in line with earlier studies such as [67] and [68]. However, we found no significant difference between Indonesia and Malaysia in this regard, meaning H5b is not supported. This suggests that firms engaging in tax avoidance strategies tend to experience higher firm value, possibly due to cost savings and enhanced profitability. The model's R-squared value of 0.228 suggests that approximately 22.8% of the variation in firm value is explained by the independent variables. While this explanatory power is moderate, it indicates that firm value is influenced by multiple external and firm-specific factors beyond those captured in the model. The F-test (Prob F = 0.000) confirms the overall statistical significance of the model, reinforcing the robustness of these findings.

4. DISCUSSION

4.1 The Effect of Largest Ownership (LO) on ESG Reporting

The findings show that the prevailing form of ownership does not play an influential role in ESG reporting. This result can be explained in numerous ways. Companies may practice ESG reporting largely due to global sustainability campaigns, stringent regulatory pressures, and demands from diverse stakeholders like the public, media, and governments, rather than due to the ownership of the firm. In most locations and sectors, companies report their ESG performance primarily for mandatory disclosure required by law or for meeting market expectations, rather than as a strategic decision driven by leading shareholders. For example, [71] showed how firms operating in industries where they are subject to significant public scrutiny tend to have more extensive ESG disclosures, even in situations where the largest shareholders do not openly encourage such reporting.

A potential reason is that large shareholders may possess diverging and sometimes opposing interests that entail more than ESG issues. This is particularly frequent in emerging economies, where companies may be engaged in outlining and ranking their environmental and social agendas relative to their counterparts in advanced economies [70] . In this kind of setting, large shareholders will most likely prioritize short-term return on investment (ROI) and financial profits over ESG compliance, particularly when ESG initiatives do not yield immediate, palpable returns. This aligns with [71], who argue that large shareholders' interests are usually geared towards profitability and financial return instead of long-term sustainability goals.

Furthermore, institutional investors, even with their involvement in corporate governance, do not always demonstrate a strong commitment to ESG reporting. Study [54] point out that institutional ownership does not necessarily coincide with more ESG disclosures because various institutions place different values on ESG practices. Although some institutional investors strongly support disclosures of sustainability, others may remain indifferent or focus solely on profit. The differentiation in institutional participation also underscores the basis on which the largest ownership structures fail to equally affect ESG reporting across various firms.

Additionally, the regulatory environment plays a powerful impact on ESG reporting practices. Where ESG disclosure is legally enforced, ownership structure has minimal influence. Companies under such regulatory regimes are inclined to adhere to ESG reporting standards irrespective of shareholder pressure, thereby aligning

with international and local norms. This implies that policymakers and regulatory agencies, rather than the extent of ownership concentration, are the primary drivers of ESG disclosure in business environments.

In conclusion, the lack of a significant correlation between the size of ownership and ESG reporting highlights the complexity of regulatory effects, market pressures, and shareholders' tastes. Though ownership structures define corporate governance, ESG (Environmental, Social, and Governance) reporting seems to be more deeply influenced by exogenous determinants. These determinants include the influence of institutions and regulations that encourage corporations to be more transparent about their sustainability efforts.

4.2 The Different Effect of Largest Ownership Structure on ESG Reporting Between Indonesia and Malaysia

The regression analysis provides critical insights into how the largest ownership structure (LO) affects ESG reporting differently in Indonesia and Malaysia. For Indonesia, the coefficient for LO is positive but not significant, while the interaction term LO*DC is both negative and significant. This suggests that the domination of family ownership as the largest ownership in Indonesia significantly reduces ESG transparency. In Indonesia, family-owned firms prioritize control and profitability over ESG transparency, often treating sustainability disclosures as a compliance burden rather than a strategic priority. This aligns with findings from [41] ho emphasize that Indonesian family businesses are typically more risk-averse and prefer opaque financial practices to safeguard family interests. Within the Indonesian context, larger ownership stakes held by family firms further reduce ESG reporting, potentially due to concerns over exposing governance vulnerabilities or limiting operational flexibility.

Moreover, family-owned businesses in Indonesia tend to operate in concentrated ownership structures with weaker investor protection, reducing the pressure to adopt ESG reporting as a governance mechanism. This finding agrees with, who say that institutional investors are in Indonesia but do not have enough power to change the hesitance of family-controlled companies when it comes to sharing information about their environmental, social, and governance practices.

In contrast, institutional investors dominate the largest ownership shares in Malaysia, leading to a different ESG reporting dynamic. Institutional ownership is linked to better ESG reporting. However, in Malaysia, the data does not show a strong relationship, meaning that even though institutional investors may help promote ESG reporting, they are not enough on their own to make it happen consistently. In Malaysia, companies face stricter rules and international sustainability standards, which push them to provide more information about their environmental, social, and governance (ESG) practices [36]. It suggests that in Malaysia, ESG reporting is seen as a value-enhancing activity rather than a strategic action from the owner. Unlike in Indonesia, institutional investors in Malaysia benefit from stronger governance frameworks and a more structured regulatory environment, making ESG reporting a more embedded practice. The overall regulatory and investor-driven environment fosters greater ESG disclosure. This supports the findings of [46], who discovered that Malaysian companies with a lot of institutional owners pay more attention to ESG expectations because of pressure from shareholders and rules on governance.

4.3 The Largest Ownership (LO) Affects Tax Avoidance Activities

The results indicate that the largest shareholding structure does not have a significant effect on tax avoidance. The largest shareholders often have a greater long-term interest in maintaining a company's reputation than in maximizing short-term tax savings. Based on the study by [74], owners with large ownership tend to avoid tax avoidance practices because they are worried about the negative impact on a company's value and reputation, which can be detrimental in the long term. Therefore, by focusing on long-term interests, the largest ownership structure does not consider tax avoidance in short-term decisions. In other words, the existence of the largest ownership structure does not influence companies' tax avoidance actions.

Companies with the largest shareholders are often under stricter supervision from tax authorities and regulators, which reduces their ability to avoid taxes aggressively. Study [31] show that companies with large owners tend to be more careful in taking tax risks because of the higher detection risks. This result may also support the results of the study, rejecting the initial hypothesis so that the largest shareholders focus more on other factors (besides tax avoidance) that can optimize company profits.

4.4 The Different Effect of Ownership Concentration on Tax Avoidance Between Indonesia and Malaysia

The regression analysis shows that business tax avoidance tactics are not much influenced by variances in the largest ownership structures between Indonesia and Malaysia, notwithstanding their discrepancies. This result implies that in both nations company tax behavior is shaped by larger institutional and regulatory frameworks rather than ownership concentration by itself.

Although Indonesia and Malaysia have different legal and political systems, both countries are under similar worldwide demand to improve tax openness. Introduced by the OECD, global projects including the Base Erosion and Profit Shifting (BEPS) framework have spurred tax policy changes meant to reduce aggressive tax avoidance

tactics. By imposing higher compliance rules across companies, regardless of ownership type, these legislative changes have probably lessened the influence of ownership concentration on tax procedures.

Furthermore, important in explaining this result is the degree of corporate governance in both nations. Previous studies [40] show that good corporate governance systems lower tax avoidance since companies with good governance structures usually are more open and compliant with tax laws. Should Indonesia and Malaysia uphold similar governance standards that is, enforceable regulatory control and investor protection then ownership concentration might not be a major determinant of corporate tax avoidance tactics.

Furthermore, whereas institutional owned companies in Malaysia and family-owned companies in Indonesia show different governance dynamics, the general legal environment guarantees a leveling impact that reduces tax avoidance risks. Family-owned businesses in Indonesia might be motivated to use tax minimizing techniques, but rising regulatory scrutiny and investor demands for openness work as deterrents. In Malaysia, too, institutional investors usually support adherence to international tax standards, hence strengthening a company culture that deters aggressive tax avoidance.

These results imply generally that rather than ownership concentration alone, legislative harmonization, international tax reforms, and corporate governance quality impact tax evasion behavior in Indonesia and Malaysia. Policymakers in both nations should keep enhancing tax compliance systems and governance criteria going forward to further lower chances for tax avoidance and guarantee that companies operate under a transparent and equitable tax system.

4.5 The Strategic Decision of ESG Reporting, as Influenced by The Largest Ownership Structure, Affects Tax Avoidance

The results of the regression show that tax avoidance is not significantly influenced by the strategic decision of ESG reporting based on the largest ownership structure. This result implies that, in the case of Indonesia and Malaysia, ESG reporting's direct impact on tax avoidance is not clear even if it is typically viewed as a means of improving business transparency and cutting unethical financial activities. The disparity between ESG disclosure and corporate tax strategies might serve to explain this outcome. The implementation of ESG in developing countries is slower than that in developed countries [70], so the impact of ESG on financial practices, including tax avoidance, may not be significant. A study by [2] also shows that regulations and governance structures in developing countries do not fully support effective ESG supervision, so their impact on fiscal policy, such as tax avoidance, also tends to be limited. While tax avoidance decisions are usually motivated by financial incentives, legal structures, and fiscal policies, ESG reporting mainly helps to engage stakeholders and comply with regulations. Agency Theory [23] holds that companies with concentrated ownership like family-owned businesses in Indonesia may give financial performance first priority above non-financial disclosures including ESG reporting. As such, even if these companies follow ESG reporting, it could not always result in less tax avoidance.

Furthermore, Legitimacy Theory [60] contends that rather than changing fundamental financial strategies like tax planning, businesses adopt ESG reporting procedures to fit society expectations. Stated differently, companies could participate in ESG reporting as a symbolic gesture to improve company reputation rather than as a mechanism of change in tax policies. Previous study, [73] shows that companies sometimes utilize ESG disclosure to keep credibility among investors and authorities without necessarily modifying their tax-related activities.

Stakeholder Theory [24] offers another viewpoint whereby businesses balance the needs of several stakeholders, including consumers, regulators, and investors. Although institutional investors in Malaysia may demand better ESG reporting, this has little direct bearing on tax avoidance since tax policies are developed more typically based on profit-maximizing goals than on stakeholder pressure [31] . This difference clarifies why tax evasion across ownership structures is not much influenced by ESG reporting.

Moreover, past studies [5] indicate that companies with strong ESG commitments are less likely to use aggressive tax avoidance given more monitoring and control of their governance. Nevertheless, this link seems to be context-dependent. Regulatory systems in developing countries like Indonesia and Malaysia might not be enough strong to enforce a close relationship between tax compliance and ESG reporting [39, 6] . As such, businesses might disclose ESGs while still using aggressive tax planning techniques free from legal consequences.

The results imply that, driven by different reasons and outside pressure, ESG reporting and tax avoidance function as independent company strategies. Although ESG reporting improves investor confidence and openness, tax avoidance is still mostly shaped by fiscal policies, legal systems, and profit-oriented goals. Policymakers and authorities trying to integrate ESG practices with responsible tax conduct should concentrate on enhancing enforcement systems and merging ESG performance with tax incentives to establish a more relevant link between sustainability reporting and business financial practices.

4.6 The Different Effect of ESG Reporting, As Supervised by The Largest Ownership Structure, on Tax Avoidance Between Indonesia and Malaysia

The results show that tax avoidance vary greatly between Indonesia and Malaysia depending on the degree of ESG reporting under monitored by the largest ownership structure. Stronger ESG reporting where observed by those with the largest ownership correlates with greater tax avoidance, according to the significant coefficient for ESGfv*DC for Indonesia. But this effect is absent from Malaysia.

The large percentage of ownership in Indonesia is a major contributing reason to this result. This large ownership mostly owned by family, in accordance with Agency Theory [23], family-owned companies sometimes act self-servingly, balancing compliance with ESG reporting with concurrently pursued financial interests including tax minimization. In such companies, ESG reporting might serve more as a reputation-building tool than a sincere dedication to sustainability. This is consistent with earlier research showing that family-owned companies in developing countries often deliberately employ ESG disclosures to control outside impressions while implementing aggressive financial tactics [49] . According to [74], family ownership leads to more rational management such as recruiting independent and professional top management. Thus, the Company will be willing to disclose more information to stakeholders [75], because they feel that good governance will also have a positive impact on the company's survival in the future. Family ownership increases ESG disclosure [32] . ESG disclosure is expected to play an important role in demonstrating transparency and responsibility to the community, including tax payments [76] . The research of [76] states that ESG disclosure is a form of good governance that will lead to fair tax payments to improve services to the community. Companies that have good ESG performance and are socially responsible are less likely to be involved in controversies over their tax obligations and limit tax avoidance behavior [4-5, 77] . From the standpoint of Legitimacy Theory [60], Indonesian family-owned companies might use ESG reporting as a symbolic instrument to match stakeholder expectations and regulatory requirements. This dedication to ESG does, however, not often translate into business financial plans, especially with regard to tax planning. Stronger ESG disclosure seems to offer a veneer of legitimacy that lets companies keep their aggressive tax dodging practices free from government scrutiny. Previous studies [5] confirm this theory by showing that companies in less transparent governance settings could use "greenwashing" ESG techniques with keeping aggressive financial tactics.

By contrast, in Malaysia where corporate governance systems are more advanced, institutional ownership rules control the biggest shareholding arrangements. According to [24] Stakeholder Theory, institutional investors give long-term value creation top priority, which typically prevents aggressive tax planning in companies with high ESG commitments [31] . Given institutional owners demand stronger compliance with both sustainability and tax transparency programs, Malaysian companies are less likely to show the ESG-tax avoidance conundrum reported in Indonesia [36] .

Moreover, the regulatory environment is rather important in forming these variations between different countries. Malaysia's corporate governance structure lessens the motivation for companies to act in contradicting ways by more closely matching international ESG and tax compliance criteria. Companies have more freedom in Indonesia, where regulatory enforcement systems are rather weaker, to simultaneously seek ESG reporting and tax avoidance.

4.7 The Strategic Decision of ESG Reporting, as Supervised by the Largest Ownership Structure, Affects Firm Value.

Under the direction of the largest ownership structure, the strategic choice of ESG reporting seems to have a negative and notable impact on firm value in both Indonesia and Malaysia. This implies that, under the control of dominant shareholders, ESG reporting may, in these circumstances, be seen as a cost burden rather than a value-generating activity, therefore undermining rather than improving corporate value.

This result fits Agency Theory [23], which holds that controlling owners could behave in ways that profit themselves but do not always maximize general business value. The biggest ownership structures in both Indonesia and Malaysia family ownership in Indonesia and institutional ownership in Malaysia may deliberately exploit ESG reporting to prioritize compliance or reputation enhancement over real long-term value development. This is consistent with results of earlier research [49], which imply that occasionally ESG reporting functions as a symbolic exercise rather than a meaningful change toward sustainability. ESG reporting is sometimes viewed in various markets as a compliance tool that causes expenses without immediate financial rewards, therefore affecting company value. The general negative coefficient of ESGfv shows that ESG reporting could be seen as a financial burden rather than a value-enhancing habit. However, ESG emphasizes quantifiable variables that direct financial decisions [78]. ESG measurements are being more and more used by corporate stakeholders to evaluate a company's ethical commitment and long-term sustainability dedication [79-81]. Key indicators of business strategy, ESG elements are taken under consideration by investors and stakeholders, therefore impacting financial decisions and

investment distribution [36]. For companies implementing sustainable strategies, ESG projects have become a basic part of corporate social responsibility (CSR), therefore influencing their financial situation [82] .

Additionally, the Legitimacy Theory [60] suggests that firms engage in ESG reporting to maintain social and regulatory legitimacy rather than to drive financial performance. Companies may commit large resources toward compliance in environments where ESG reporting is perceived as a regulatory need rather than a competitive advantage without appreciable financial return. Previous studies [73] confirm this idea by showing that ESG initiatives motivated by ownership structures that give short-term financial performance top priority could not produce favorable results for the business value. Many studies have shown the link between ESG practices and firm value; [83] investigate the stock prices and corporate environmental performance from 1995–2003 and discovered that companies with better corporate environmental performance produced more profits. Strong sustainability performance companies often have better profits, according to [84], mostly because more investors trust companies that follow ESG reporting. Further bolstering the theory that ESG integration raises investor and market confidence, thereby boosting firm value, are [85-88] .

In Indonesia, where family ownership is dominant, the negative impact of ESG reporting on firm value suggests that controlling families may view ESG disclosures as a regulatory cost rather than a strategic tool for long-term growth. Control retention and short-term financial gains are generally given top priority by family-owned companies, which can result in less integration of sustainability projects producing long-term value [41]. This is consistent with results from earlier research showing family-owned companies might be resistant to ESG expenditures meant to compromise family control or raise operational costs [89, 73].

In Malaysia, where institutional investors have majority ownership stakes, the negative effect of ESG reporting on company value points to institutional investors perhaps stressing compliance-driven ESG disclosures above value-driven sustainability plans. Unlike in developed markets where institutional investors actively seek for sustainability integration as a competitive advantage, in Malaysia ESG reporting may be seen as a mandated disclosure rather than a method for financial growth [36]. This could explain why institutional ownership does not mitigate the negative effect of ESG reporting on firm value.

4.8 The Different Effect of ESG Reporting, As Supervised by The Largest Ownership Structure, on Firm Value Between Indonesia and Malaysia

The results show that, under supervised by the largest ownership structure, the influence of ESG reporting on firm value differs notably between Indonesia and Malaysia. Positive and significant, the coefficient for ESGfv*DC—which represents for Indonesia indicates that ESG reporting under ownership control improves company value in Indonesia. This distinction implies that, whereas ESG reporting could usually be seen as a cost burden, in Indonesia it can have a good impact when matched with ownership interests. Indonesia's notable positive interaction effect (ESGfv*DC) points to family-owned companies using ESG reporting to raise investor trust and corporate legitimacy.

Investors in developing countries such as Indonesia can experience more information asymmetry, so ESG disclosure is a useful indicator of governance quality [41] . Unlike in markets where ESG reporting is required as a normal practice, in Indonesia voluntary ESG reporting can be a competitive advantage, therefore enhancing firm value. Moreover, family-owned companies in Indonesia could deliberately include ESG into their long-term plans by leveraging sustainability pledges to improve company brand and draw funding. Prior research [46] suggests that firms in emerging markets that voluntarily engage in ESG practices tend to experience higher investor trust and improved financial performance.

The findings reveal that ESG reporting improves firm value even if the largest percentage of ownership is differing between Indonesia and Malaysia, family ownership in Indonesia and institutional ownership in Malaysia differ in terms of composition. An detailed ESG report helps investors assess a company's sustainability practices, hence building their confidence in future purchase of its shares [33] . This is consistent with Legitimacy Theory [60], which holds that via open sustainable practices, businesses participate in ESG disclosures to improve stakeholder relations, get legitimacy, and raise company worth.

Many empirical research show that ESG performance and firm value have a positive correlation, meaning that companies who practice social responsibility successfully serve stakeholder interests and create fresh chances for risk diversification and development [90] .While [91] found that, from a sample of 53 countries, ESG activities favorably impact company value, particularly in nations with less developed financial systems, [3] found that ESG performance is vital for increasing company value in Chinese-listed manufacturing companies. [92] revealed that ESG involvement promotes sustainable development and higher market values.

ESG reporting is seen as essential in Indonesia, where the largest ownership is from family in keeping a good reputation and building investor trust. Family-owned companies are highly protective of their reputation and give

external evaluations especially from investors top priority. This drives more attempts to improve ESG activity [33] . This is consistent with Stakeholder Theory [24], which holds that businesses participating in ESG projects enhance connections with investors, consumers, and authorities, therefore enhancing the value of the company. Given Indonesia's changing corporate governance scene, ESG reporting serves as a credibility building tool, thereby strengthening company value and legitimacy.

By contrast, institutional investors in Malaysia give long-term sustainability targets and ESG openness top priority. The research [35] contends that institutional investors stress ESG and environmental responsibility performance, which drives the creation of ESG investment frameworks and tools impacting shareholder decisions. This is consistent with studies by [36], which show institutional investors see ESG techniques as crucial in reducing risks and enhancing long-term company success.

Increasing developed financial markets in Malaysia and increasing institutional investor involvement guarantee that ESG initiatives are not only symbolic but also very essential for company strategy. Often pushing for ESG disclosures in line with worldwide best practices, institutional investors make sure companies implementing ESG strategies gain from more investor trust and financial success [83, 86] .

Despite differences in ownership structure, ESG reporting enhances firm value in both countries, but through different mechanisms, for instance, Family-owned companies in Indonesia use ESG reporting as a reputational protection, therefore boosting investor trust and changing market impression. Institutional investors include ESG into long-term investment plans in Malaysia so that companies satisfy sustainability criteria and draw more cash from ESG-minded investors.

4.9 Tax Avoidance Activities, as Supervised by The Largest Ownership Structure, Affect Firm Value

Under the largest ownership structure, the results show that tax avoidance efforts have a positive and notable impact on firm value. This result implies that by maximizing tax efficiency and cash flow management, tax planning techniques under supervision by controlling owners can increase firm value in both Indonesia and Malaysia. This result is consistent with Agency Theory [23], which holds that controlling owners follow financial practices aiming at maximizing shareholder wealth. Through tax avoidance, companies can lower their tax obligations and boost retained earnings which might be used toward operations, dividends, or investments. Previous research shows that when effective tax avoidance techniques help to improve financial performance without increasing regulatory concerns, investors may view them favorably [31] . Furthermore, political cost theory [25] contends that companies using aggressive tax policies could draw unwelcome government interference and legal repercussions, therefore reducing the value of the company. Tax-efficient companies may be seen as more suited of negotiating fiscal complexity in both Indonesia and Malaysia, where tax rates and regulatory environments can affect business financial decisions, thereby strengthening investor trust [51] .

According to the findings, operations of tax avoidance help to increase the worth of companies. Tax avoidance is the process of lowering a company's tax load within the confines of tax law so that businesses may maximize their financial accountability while following legal obligations. This approach aims to lower running costs, boost earnings, and favorably impact investor assessments so raising the value of the company [93] . Numerous research has shown a positive relationship between firm value and tax avoidance. Using tax avoidance strategies, businesses can lower their tax liabilities, therefore improving their net profits. Corporate tax avoidance, according to [68], improves cash flow, which drives more investments and finally higher company value. The result of [67] strengthens this case even further by pointing out that tax avoidance raises after-tax income, so influencing company valuation directly.

Effective tax management practices also help companies have more financial flexibility, which lets them better allocate funds toward capital expansion, research and development, and investment possibilities. Within legal limits, this capacity to maximize tax obligations builds investor trust and improves market impression [68] . Although largest ownership is different, however in both Indonesia and Malaysia, the supervision from largest ownership is extremely significant in monitoring tax avoidance practices. Tax avoidance is sometimes found in Indonesia, where family-owned businesses predominate, as a strategy to safeguard family wealth and ensure business continuity over generations. Excessive tax avoidance, however, might generate questions about business governance and regulatory scrutiny, therefore affecting long-term value and perhaps firm reputation.

Institutional investors in Malaysia typically support clear, open tax plans fit for long-term financial sustainability. While keeping efficiency in tax planning and promoting conformity with international tax rules, institutional ownership helps to sustain company value without generating regulatory reaction. Although tax avoidance lowers tax costs and improves accessible cash flow, its long-term effects rely on the degree of law enforcement and regulatory control. Should the biggest owners support aggressive tax evasion, it could result in

temporary financial gains but, over time, it could damage the company owing to reputational damage, regulatory fines, and more tax authority attention [67, 70] .

As long as companies do not draw too much regulatory attention, the results line up with research of [5] showing that companies engaged in modest tax evasion actions typically have greater firm value because of better cash flow availability. Particularly in developing markets where financial resource allocation is crucial, [94] offered empirical data showing companies who practice strategic tax management perceive higher valuation. In line with this with controlling owners generally using tax policies to improve company performance while balancing reputational concerns, [57] argued that ownership patterns significantly affect tax strategies. [95] found that, providing they do not compromise business social responsibility and regulatory compliance, institutional investors generally support effective tax planning tactics.

The consistent effect seen in Indonesia and Malaysia implies that, despite variations in ownership composition family-owned in Indonesia and institutionally dominated in Malaysia the largest shareholders actively monitor tax policies to improve company value. Controlling families may use tax efficiency strategies in Indonesia, where family businesses are more common to keep cash flow control and continue intergenerational corporate development [41] . On the other hand, in Malaysia, where institutional investors rule, tax efficiency could be seen as a major financial indicator affecting investor confidence and corporate governance standards [36] .

4.10 The Different Effect of Tax Avoidance Activities, As Supervised by The Largest Ownership Structure, on Firm Value Between Indonesia and Malaysia

The results show that, under the direction of the largest ownership structure, tax avoidance activities have no appreciable influence on business value either in Indonesia or Malaysia. This implies that, in spite of differences in ownership structures family-owned companies in Indonesia and institutionally controlled companies in Malaysia the general effect of tax avoidance on company value stays same across both economies.

This result is consistent with Agency Theory [23], which holds that, whether family-owned or institutional investors, dominant shareholders use tax techniques maximizing shareholder wealth without appreciably changing the dynamics of firm value between markets. Tax planning is a financial optimization method used in both Indonesia and Malaysia that improves cash flow and lowers tax obligations therefore enhancing the performance of the companies [31]. The lack of significant differences between the two countries suggests that, in cases when more general fiscal policies and investor expectations remain identical, ownership structures may play a secondary role in determining tax avoidance results.

Furthermore, [96] holds that companies in the same regional regulatory context often follow similar financial patterns because of mimetic isomorphism that is, businesses that copy successful practices of others. Companies in both Indonesia and Malaysia may follow similar tax planning strategies regardless of ownership composition since both countries have undergone tax reforms in line with international standards including the OECD's Base Erosion and Profit Shifting (BEPS) initiative [21, 51] .

In our sample design, we included firms from a wide range of non-financial industries based on GICS classification and ensured that the sectoral distribution between Indonesia and Malaysia was balanced to minimize industry-specific bias in our findings. However, industry-level analysis was beyond the scope of this study and would be an excellent direction for future research. We believe that examining how ESG and tax strategies interact across sectors particularly between high-impact industries (like energy and manufacturing) and lower-impact ones (like technology or retail) could offer valuable insights into sector-specific regulatory needs and best practices

ESG and tax strategies vary significantly across industries, such as, with companies in energy or manufacturing facing increased environmental scrutiny and greater transparency in their reporting. Technology or retail sectors may emphasize specific aspects of ESG, while global operations or complex supplier chains may employ more sophisticated tax planning. The analysis included a diverse range of non-financial sectors, but further investigation into specific business implementation is recommended to optimize effectiveness and tailor rules or reporting frameworks for each industry.

5. ROBUSTNESS CHECK ANALYSIS

Robustness checks are essential in empirical research to ensure that the main findings are not driven by specific model specifications or measurement choices. Using different proxies or estimating methods helps researchers confirm the consistency and dependability of their findings [40, 31]. Robustness testing employing several tax evasion strategies assist verify whether results hold under several operational definitions in tax avoidance studies [45] .

5.1 Book-Tax Difference (BTD) as an Alternative Measure of tax avoidance

Differential Effective Tax Rate (ETR) has been used mostly in this study to measure tax avoidance. Due to variations in statutory tax rates, industry-specific tax incentives, and deferred tax methods, this proxy may not fully reflect the extent of tax avoidance though. Alternatively, as advised in previous research [74, 31, 7]. we do a robustness assessment utilizing Book-Tax Difference (BTD). BTD calculates the difference between taxable income reported to tax authorities and book income shown to financial regulators. More important tax-saving techniques including aggressive tax planning, profits management, or tax sheltering activities including BTD suggest since BTD captures both temporary and permanent tax differences, several studies have shown that it is a more useful indication of tax avoidance than ETR-based metrics [56, 65]. Large positive BTD values especially point to aggressive tax avoidance; lesser or negative BTD values could point to conservative tax reporting or tax overpayments [4].

5.2 Market to Book Value as an Alternative Measure of Firm Value

Robustness checks are crucial in empirical research to ensure that findings are not driven by a specific measurement choice. Firm value is commonly measured using Tobin's Q, which captures the market's valuation of a company relative to its asset replacement cost. However, Tobin's Q can be influenced by accounting choices, intangible assets, and industry-specific factors, making it necessary to validate the findings using an alternative measure. One commonly used alternative measure is Market-to-Book Value (M/B ratio), which compares a firm's market capitalization to its book value. The Market-to-Book ratio is widely recognized as an indicator of growth opportunities, market expectations, and the firm's overall valuation in financial markets [97-98]. The using of Market to Book Value Reflects Market Perceptions: Unlike book-based measures, M/B incorporates investor expectations, growth potential, and future earnings forecasts [97]. Since M/B is a market-driven measure, it allows for easier comparisons between firms in different industries, whereas Tobin's Q might be affected by variations in asset composition. A higher M/B ratio suggests that investors anticipate strong future earnings, making it a useful proxy for firms pursuing sustainable growth through ESG initiatives and tax strategies [99]. To test the robustness of our findings, we re-estimate Model 2, replacing differential ETR with BTD as the dependent variable, and the Market to Book value as robustness test for Model 3, replacing the Tobins' Q measures, the result is as follows:

Tabel 6. Robustness test.

Variables	Expected sign	Model 2	Model 3	Robust	
LO	+/-	-0.140	-15.324***		
		(0.275)	(0.005)		
DC		-7.745	2.120		
		(0.114)	(0.623)		
LO*DC	+/-	-9.126	5.341**		
		(0.114)	(0.060)		
ESGfv	+/-	0.046	-0.574*	H4a	√
		(0.488)	(0.085)		
BTDfv	+/-		50.556**	H5a	√
			(0.014)		
ESGfv*DC	+/-	-10.857*	0.226***	H3b	√
		(0.059)	(0.000)	H4b	√
BTDfv*DC	+/-		-4.283		
			(0.273)		
SIZE		-0.101	0.295		
		(0.497)	(0.380)		
AGE		-0.041*	0.339		
		(0.051)	(0.240)		
DER		-1.505	-1.660***		
		(0.057)	(0.007)		
ROA		-0.029	0.029		

https://doi.org/10.48161/qaj.v5n2a1682

	(0.813)	(0.738)
Overal R2	0.229	0.386
Prob F	0.000	0.000
N	296	296
Panel Model	Common effect	Common effect

Note: The dependent variable in Model 1 is ESG. The dependent variable in Model 2 is BTD. The dependent variable in Model 3 is firm value (Market to Book Value). Significant level at 1% (***); 5% (**); and 10% (*).

The robustness test result shows that both Model 2 and Model 3 are robust. This result indicates that consistent with the main findings that ESG that supervised by largest stakeholder has effect on tax avoidance, and the effect is differ between Indonesia and Malaysia. ESG reporting and tax avoidance are documented to affect firm value, which measured by Market to Book Ratio, and both effects are different between Indonesia and Malaysia.

The robustness findings demonstrate that Environmental, Social, and Governance (ESG) practices, when supervised by the largest shareholder, influence tax avoidance. The effect of ESG supervision on tax avoidance differs between Indonesia and Malaysia, reinforcing the argument that corporate governance structures, ownership concentration, and regulatory environments shape corporate tax strategies differently in emerging markets [56, 63]. This aligns with Agency Theory, which suggests that majority shareholders have strong incentives to influence managerial decisions, including tax planning, either towards compliance or aggressive avoidance [74].

The robustness check using Market-to-Book Ratio (M/B) as an alternative firm value proxy confirms that ESG reporting and tax avoidance both significantly affect firm value, supporting the main findings. The effect of ESG reporting and tax avoidance on firm value differs between Indonesia and Malaysia, highlighting country-specific governance dynamics, investor expectations, and regulatory frameworks. This variation aligns with the Institutional Theory, which posits that firms in different regulatory and economic contexts will adopt distinct strategies regarding sustainability and tax management [98].

VI. CONCLUSION

This study aims to examine how the largest ownership structure shapes ESG reporting, tax avoidance practices, and firm value in emerging markets, specifically Indonesia and Malaysia. To address this, five research objectives were formulated, each aligned with specific hypotheses. The findings provide meaningful insights into how ownership characteristics influence corporate strategies in sustainability and taxation. First, we explored whether the largest ownership structure influences ESG reporting. While the overall effect was not significant, the interaction between ownership and country context was. In Indonesia, where family ownership dominates, concentrated control tends to reduce ESG transparency. In contrast, Malaysia's institutional ownership, supported by stronger governance frameworks, contributes to more consistent ESG disclosure. This highlights that ownership type alone does not determine ESG behavior its impact depends on the broader institutional environment. Second, we examined the relationship between ownership and tax avoidance. The results showed no direct link, nor any significant difference between the two countries. This suggests that tax strategies are shaped more by national regulatory frameworks than by who owns the company. Third, we assessed whether ESG reporting under the supervision of dominant owners influences tax avoidance. The findings suggest no universal relationship, but the effect varies by country. In Indonesia, ESG may be used more symbolically presented to gain legitimacy while allowing space for aggressive tax planning. This pattern was not evident in Malaysia, where institutional investors and regulatory enforcement appear to reduce such opportunistic behavior. Fourth, the study analyzed how ESG reporting under ownership supervision affects firm value. ESG activities, when perceived as compliance-driven rather than strategic, may not lead to immediate financial gains. However, in Indonesia, ESG efforts under family ownership were associated with increased firm value possibly due to their role in signaling credibility and attracting investor trust. This contrast with Malaysia emphasizes the role of perception and intention behind ESG disclosure. Finally, we looked at the effect of tax avoidance, when overseen by the largest shareholders, on firm value. The results show that tax avoidance is positively associated with firm value in both countries, suggesting that, within legal boundaries, investors appreciate efficient tax planning. This effect, however, did not significantly differ between Indonesia and Malaysia.

VII. IMPLICATION

Taken together, these findings suggest that ownership structure alone does not determine ESG or tax behavior but its influence is mediated by country-specific institutions, governance practices, and market expectations. In Indonesia, family owners play a dual role curbing transparency in some cases, while leveraging ESG and tax strategies to enhance value. In Malaysia, institutional ownership encourages more structured ESG practices but does not guarantee immediate financial benefits. These findings indicate that ESG reporting, when supervised by the largest ownership structure, may not translate into immediate firm v alue gains, especially in emerging markets where investors and stakeholders still perceive sustainability initiatives as compliance-driven rather than value-enhancing. This supports the argument that ESG reporting alone does not automatically generate financial benefits unless it is strategically integrated into business models and investor expectations specifically if the company owned by family as largest stakeholders as in Indonesia

These findings highlight the strategic role of tax avoidance in corporate financial management, in both Indonesia and Malaysia, tax avoidance is leveraged as a financial optimization tool to enhance firm value. Tax strategies are not necessarily perceived negatively by investors as long as they align with governance and compliance standards. The presence of strong ownership oversight ensures that tax planning is executed efficiently without elevating regulatory risks.

The findings suggest that firms with concentrated ownership structures, particularly those where the largest shareholders exercise significant control, exhibit different ESG-reporting behaviors that shape tax avoidance strategies. This confirms prior research indicating that institutional and family ownership can drive ESG commitments or influence tax-motivated earnings management differently across jurisdictions The consistency of results between Tobin's Q and Market-to-Book Ratio (M/B) validates that investors incorporate ESG practices and tax strategies into firm valuation, though the magnitude of their effect varies depending on the country context. The differential impact of ESG and tax avoidance on firm value between Indonesia and Malaysia underscores the role of institutional frameworks, enforcement mechanisms, and investor perceptions in shaping corporate financial decisions. Policymakers in both countries should consider how ownership structures influence ESG adoption and tax strategies when formulating governance reforms.

In the Policy and Strategic aspects, the study suggests that regulator parties in both countries should Strengthen governance mechanisms that encourage firms to move beyond compliance-based ESG reporting toward strategic sustainability initiatives. Recommendation for investor to consider the ESG-driven financial incentives, such as sustainability-linked financing, to align ESG efforts with firm value creation. Lastly, for managers, as ESG behavior has significant effect on firm value, whether negatively and positively, managers have to shift ESG reporting from a compliance obligation to a strategic advantage by integrating sustainability into business models in ways that enhance profitability and competitive positioning.

Regarding the tax strategies, the study suggest that regulator should ensure that corporate tax policies balance fiscal efficiency with transparency, discouraging aggressive tax avoidance while allowing for strategic tax planning. For Investors, to evaluate tax strategies as part of overall corporate financial health, ensuring that tax efficiency aligns with long-term firm sustainability. For Firms, should Integrate tax planning within broader financial management strategies, ensuring compliance while maximizing shareholder value.

As ESG norms gain prevalence and become anticipated by investors and regulators, smaller enterprises may soon recognize the necessity of implementing fundamental ESG principles, particularly if they seek finance or intend to pursue public offerings. Undoubtedly, the issues faced by SMEs are distinct, and they frequently lack the resources available to huge organizations. Consequently, it is essential for next policy and regulatory initiatives to contemplate streamlined ESG frameworks and effective tax incentives for smaller enterprises. Future study could investigate how ownership and governance in SMEs influence initial ESG initiatives and financial measures such as tax planning

VIII. LIMITATION AND SUGGESTION FOR FUTURE STUDIES

The study does not account for external factors like industry-specific effects, macroeconomic conditions, or global sustainability trends. The measurement of ESG reporting and tax avoidance relies on secondary data, which may not fully capture the depth of ESG integration within firms, so that future study can elaborate with the interviews or Focus Group Discussion for enhancing the results. The study primarily uses short-term firm value indicators, which may not fully reflect the long-term impact of ESG and tax strategies on financial performance. Additionally, the study does not account for variations in regulatory enforcement across industries or firm sizes, which could be explored in future research. The study also does not examine the potential impact of board diversity, managerial incentives, or corporate culture on ESG and tax strategies.

The research on ESG reporting and tax avoidance in enterprises is constrained by its failure to account for external factors, including industry-specific influences, macroeconomic conditions, and worldwide sustainability trends. It also lacks a sophisticated comprehension of business sustainability measures beyond mere regulatory compliance, as it depends on secondary data. The study's short-term metrics of firm value may not adequately capture the long-term financial consequences of ESG and tax initiatives. Longitudinal analysis may be employed to assess the cumulative effects of ESG adoption and tax strategies on corporate value over prolonged durations. The study neglects to account for disparities in regulatory enforcement among industries or company sizes, which could substantially affect corporate ESG and tax practices. The study neglects to investigate the influence of board diversity, managerial incentives, or corporate culture on ESG reporting and tax strategies. Future research should investigate the interplay between leadership structures, executive compensation models, and corporate governance systems and ownership structures in influencing sustainability and tax behaviors. Comparisons between emerging and developed market may yield profound insights into the correlation among ESG practices, tax avoidance, and firm value.

This study also lays the groundwork for future research in corporate governance and sustainability. One promising avenue is to explore how concentrated ownership interacts with other governance tools, such as board independence, audit committee effectiveness, or executive compensation structures. These internal mechanisms may either reinforce or counterbalance the influence of dominant shareholders on ESG reporting and tax strategies. Additionally, there is value in investigating the role of external pressures such as institutional investors, stakeholder activism, and regulatory enforcement in shaping the behavior of firms with varying ownership structures. Comparative studies across different jurisdictions, especially among other emerging economies, can offer broader insights into how local institutions mediate these relationships. Longitudinal research would also be valuable to capture how these dynamics evolve over time, particularly as ESG expectations and governance standards continue to mature. Together, these directions offer a rich landscape for advancing our understanding of sustainable corporate behavior within diverse ownership and governance contexts.

Funding Statement

This research was funded by The Ministry of Education, Culture, Research, and Technology-Republic of Indonesia, grant number 078/E5/PG.02.00. PL/2024.

Author Contributions

Conceptualization, Dianwicaksih Arieftiara; methodology, Dianwicaksih Arieftiara; software, Dianwicaksih Arieftiara; validation, Masripah and Shinta Widyastuti; formal analysis, Shinta Widyatuti.; investigation, Dianwicaksih Arieftiara; resources, Shinta Widyastuti; data curation, Masripah; writing—original draft preparation, Dianwicaksih Arieftiara; writing—review and editing, Munasiron Miftah and Suparna Wijaya; visualization, Dianwicaksih Arieftiara; supervision, Masripah; project administration, Shinta Widyastuti; funding acquisition, Dianwicaksih Arieftiara. All authors have read and agreed to the published version of the manuscript.

Conflicts of Interest

The authors declare no conflicts of interest.

Data Availability Statement

Data are available from the authors upon request.

Acknowledgments

The authors would like to acknowledge the assistance of the Research and Community Service Institution of Universitas Pembangunan National Veteran Jakarta for administrative support.

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