TAX AVOIDANCE: REPUTATIONAL MASK AND BOARD INFLUENCE

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A R T I C L E   I N F O

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A B S T R A C T

Research Purpose. *This study examines the relationships among sustainability reporting disclosure, board financial expertise, and tax avoidance practices in the Indonesian food and beverage sector listed on IDX.*
Research Methods. *The study uses a panel regression analysis using secondary data on listed food & beverage companies in IDX, including annual reports and sustainability reports, and director backgrounds from 2021 to 2023.*
Research Results and Findings. *The findings reveal that sustainability reporting disclosure has a significant negative effect on tax avoidance. This suggests that firms with higher levels of sustainability reporting are less likely to engage in tax avoidance activities. In contrast, the financial expertise of board directors does not significantly affect tax avoidance. This study contributes to the literature by providing empirical evidence on the role of sustainability reporting and board characteristics in influencing corporate tax planning strategies. The results indicate that firms that prioritize sustainability and transparency are less inclined to pursue aggressive tax avoidance practices, whereas directors' financial knowledge alone does not necessarily deter such behavior. These findings have important implications for policymakers, regulators, and corporate stakeholders in understanding the drivers of tax avoidance and promoting responsible corporate practice.*

A B S T R A K

Tujuan Penelitian. *Penelitian ini mengkaji hubungan antara pengungkapan laporan keberlanjutan, keahlian keuangan dewan direksi, dan praktik penghindaran pajak di sektor makanan dan minuman Indonesia yang terdaftar di IDX.*
Metode Penelitian. *Penelitian ini menggunakan analisis regresi panel dengan memanfaatkan data sekunder dari perusahaan makanan dan minuman yang terdaftar di IDX, yang meliputi laporan tahunan, laporan keberlanjutan, serta latar belakang para direktur dari 2021 hingga 2023.*
Hasil Penelitian dan Temuan Penelitian. *Temuan menunjukkan bahwa pengungkapan pelaporan keberlanjutan memiliki efek negatif yang signifikan terhadap penghindaran pajak. Hal ini menunjukkan bahwa perusahaan dengan tingkat pelaporan keberlanjutan yang lebih tinggi cenderung tidak terlibat dalam aktivitas penghindaran pajak. Sebaliknya, keahlian keuangan dewan direksi tidak memiliki dampak yang signifikan terhadap penghindaran pajak. Penelitian ini berkontribusi pada literatur dengan memberikan bukti empiris mengenai peran pelaporan keberlanjutan dan karakteristik dewan direksi dalam memengaruhi strategi perencanaan pajak korporasi. Hasil menunjukkan bahwa perusahaan yang memprioritaskan keberlanjutan dan transparansi cenderung tidak melakukan praktik penghindaran pajak yang agresif, sementara pengetahuan keuangan para direktur saja tidak selalu mencegah perilaku tersebut. Temuan ini memiliki implikasi penting bagi pembuat kebijakan, regulator, dan pemangku kepentingan korporat dalam memahami faktor pendorong penghindaran pajak dan mempromosikan praktik korporat yang bertanggung jawab.*

INTRODUCTION

Developing countries such as Indonesia need taxes to overcome the third-world barrier and build infrastructure and welfare. However, with apparent conditions, Indonesia seems to be in a slowly growing but stagnant position. The role of taxes is clear in this case, as they are a key source of a country's revenue. According to 2023 reports, Indonesia's tax revenue is on a streak of meeting its budgeted target, reaching 2.155,42 trillion rupiah and slightly exceeding the target at 101,75% (Kementrian Keuangan RI, 2023).

However, these statistical achievements by the Indonesian government cannot deny that Indonesia still faces a deficit between state revenue and state expenditure (Kementrian Keuangan RI, 2023). Putting that aside, despite meeting year-on-year targets from 2021 to 2023, Indonesia's position has not seen a breakthrough, indicating that the potential for tax revenues can still increase. One of many metrics used to assess discrepancies in tax revenue is a country's tax ratio. The tax ratio is a measure of a country's ability to collect taxes. It is expressed as the ratio of tax revenue to gross domestic product (GDP) (Fitriani et al., 2024) and based on published data from the Directorate General of Taxes of Indonesia (DGT), Indonesia's tax ratio decreased slightly from 10.39% in 2022 to 10.31% in 2023. In other words, Indonesia still has a non-compliance issue. This is also evident in the DGT's 2023 annual report, which shows Indonesia's compliance rate remains below 87%. Hence, the continued non-compliance indicates tax avoidance (Cobham & Janský, 2020).

The practice of tax avoidance is a form of tax planning that skims the edges of tax compliance to optimize and reduce tax payments for taxpayers. In simple terms, tax avoidance is another form of exploiting loopholes in the tax regulation (Payne & Raiborn, 2018). However, even if it is a legal practice, it raises ethical and moral questions, as it indirectly slows a country's advancement due to resource constraints. Hence, this research will focus on tax avoidance, specifically corporate tax avoidance among listed companies in Indonesia, as the transparency of their reporting makes it possible to observe and research. Aside from that, the practice of corporate tax avoidance has become craftier as the complexity and composition of public-private listed companies in Indonesia have been subject to regulatory changes and requirements (Barkoczy, 2022).

Recent studies identify that the inconsistent relationship between SR and tax avoidance is contextual, depending on institutional factors and industry characteristics (Kovermann & Velte, 2021). Rudyanto's (2025) research in the Indonesian market shows a negative correlation between the two: companies with strong CSR performance tend to be more tax-compliant. However, the opposite pattern is found in emerging markets such as Indonesia, where global competitive pressures and a loose regulatory framework encourage firms to use CSR as an "ethical mask" for problematic tax activities (Nasih et al., 2024; Susanto & Veronica, 2022). The methodological gap in previous research lies in the simplistic approach to measuring tax avoidance, such as reliance on the effective tax rate (ETR) without accounting for confounding variables, such as firm performance or capital structure. A comprehensive approach, such as TaxCompBTD (Dhawan et al., 2020), which integrates book-tax differences by removing the earnings management component, combined with the accrual model of Kothari et al. (2005) to filter for accounting manipulation, is needed to produce a more robust analysis. This is a novelty for the Indonesian market as well, as studies that observe tax avoidance specifically use normal ETR and BTD measures as proxies. In contrast, this study pursues a clearer definition of tax avoidance through its modified BTD measure and a specified earnings management formula.

The complexity of the SR-tax avoidance relationship further demands the exploration of variables within the corporate governance literacy that can explain variations in research results. The board of directors' financial expertise emerges as a critical variable in this context, especially in a civil law country like Indonesia, characterized by concentrated corporate ownership. A financially competent board is expected to establish a rigorous internal oversight mechanism, not only for SR disclosures but also for assessing the ethical implications of tax strategies.

Hence, this study aims to establish new empirical results to further determine the effect of the board's financial background as a sign of influence and the use of sustainability reporting towards tax avoidance. This will further contribute to tax avoidance studies and yield more specific observations, as it is set to use data only from the food and beverage sector in Indonesia.

LITERATURE REVIEW

Legitimacy Theory

Legitimacy Theory, founded by Dowling & Pfeffer (1975) and later developed by Suchman (1995), defines legitimacy as "a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". Under this lens, firms use nonfinancial disclosures, particularly sustainability reports, to manage stakeholder perceptions, maintain their "license to operate," and mitigate reputational risks associated with potentially controversial behaviors, such as tax avoidance. A study by Nasih et al. (2024) in Corporate Social Responsibility and Environmental Management examines nonfinancial firms listed on the Indonesia Stock Exchange over 2010–2018. It finds that firms with more extensive sustainability reports tend to exhibit higher

levels of tax avoidance—consistent with a "smokescreen" strategy—unless they participate in the government's tax-amnesty program, in which case reporting quality becomes negatively related to avoidance, reflecting a reputational-repair motive. In contrast, (Aresteria et al., 2023) document that higher CSR disclosure scores are associated with lower tax avoidance measures. They interpret this as evidence that, under legitimacy pressures—especially heightened by recent regulatory emphasis on ESG—firms proactively curb aggressive tax planning to reinforce stakeholder trust. Together, these studies illustrate the dual pathways predicted by Legitimacy Theory: sustainability reporting may serve either as a reputational "smokescreen" for opportunistic tax behavior or as a genuine compliance mechanism that constrains tax avoidance, depending on contextual pressures (e.g., participation in tax-amnesty programs, regulatory scrutiny) and firms' underlying strategic intentions.

Upper Echelon Theory

Upper-Echelons Theory (UET), pioneered by Hambrick & Mason (1984), posits that "organizations become reflections of their top managers" because strategic decisions are filtered through executives' cognitive frames, shaped by their experiences, values, and functional backgrounds. At the board level, directors' financial expertise serves as a critical proxy for their ability to interpret complex financial information and guide strategic choices, including tax-planning decisions.

Song et al. (2024) examine a large sample of firms with bank directors on their boards and find that the presence of affiliated banker directors—those with current or prior ties to lending institutions—significantly reduces corporate tax avoidance, while unaffiliated banker directors have no discernible effect. This suggests that directors whose professional backgrounds grant them privileged access to private information and a heightened incentive to protect debt holders' interests use their expertise to constrain overly aggressive tax strategies.

In contrast, Tanko et al. (2022) examine consumer goods firms listed on the Nigerian Stock Exchange and report a positive, significant relationship between the overall financial expertise of the board of directors and measures of tax avoidance. They interpret this finding through UET's lens of managerial discretion: in high-margin industries with greater complexity, financially expert boards may enable more sophisticated tax-minimization techniques as part of value-maximizing strategies.

Iazzi et al. (2023) study Italian listed firms and extend UET by examining how both board composition and external audit quality jointly shape tax-planning outcomes. They find that boards with stronger expertise and governance controls collaborate with auditors to implement tax strategies that balance compliance with efficiency, highlighting how expert directors coordinate oversight mechanisms to guide nuanced tax decisions.

Collectively, these recent empirical studies, spanning developed and emerging markets, demonstrate UET's core assertion: directors' functional backgrounds, particularly their financial expertise, impart distinct cognitive frames that drive variation in corporate tax avoidance behaviors. Whether acting as guardians against aggressive planning or as enablers of complex minimization, financially expert boards exert a strategic influence on firms' tax outcomes.

Corporate Tax Avoidance

Corporate tax avoidance, though legal, has been an unethical practice since the beginning of corporations. Wang et al. (2019), defined tax avoidance as reducing tax burdens through the legitimate use of tax rules or by violating tax laws. In the same vein,, Khelil & Khlif (2023) argued that tax avoidance is another form of tax management aimed at reducing tax payments. In the tax literature, many terms come to mind, such as management, sheltering, aggressiveness, evasion, and avoidance; however, the most common topic is tax avoidance. From a technical perspective, the most common measurements or proxies of tax avoidance are ETR and BTD (Wang et al., 2019). Although uncommon, this study uses a modified form of the book tax difference that eliminates earnings management through regression, as previously reported by Dhawan et al. (2020).

The Disclosure Quality of Sustainability Reporting

Sustainability reporting in Indonesia has evolved rapidly under both global frameworks and domestic regulations. The Global Reporting Initiative (GRI) Standards and the International Integrated Reporting Council (IIRC) provide widely accepted guidelines for disclosing firms' economic, environmental, and social

(EES) performance. Domestically, the Otoritas Jasa Keuangan (OJK) mandates publicly listed companies to publish sustainability reports under POJK 51/POJK.03/2017 (effective 2020), with detailed requirements in SEOJK 16/SEOJK.04/2021 covering sustainability governance, economic impact, environmental stewardship, and social initiatives. In parallel, the Indonesia Stock Exchange (IDX) has supported TCFD since June 2021, and a GRI–government collaboration to align disclosures with UN SDG targets has further strengthened the institutional push for robust sustainability reporting. An empirical study operationalizes reporting disclosure quality using POJK-based disclosure indices. Mutiha (2022) employs a composite "sustainability- disclosure quality" score derived from POJK and SEOJK metrics to examine public nonfinancial Indonesian firms (2019–2020). Likewise, a study of Indonesian mining firms reports that comprehensive sustainability reporting substantially increases firm value, underscoring stakeholders' growing emphasis on nonfinancial transparency. However, sustainability reports can also serve as a smokescreen, in other words, symbolic legitimacy. Companies use sustainability reports to signal alignment with global norms (e.g., the SDGs and climate action) and to mitigate reputational risks. Hahn & Lülfs (2014) found that firms in polluting industries enhance sustainability disclosures after environmental scandals to regain legitimacy. In the same context, Nasih et al. (2024) note that sustainability reporting often reflects "impression management," in which firms emphasize positive outcomes while omitting negative impacts.

Board of Director Financial Expertise

Financial expertise is commonly operationalized through directors' professional backgrounds (e.g., CPA, CFA), prior roles (e.g., CFO, auditor), or tenure in finance-related positions (Alshareef & Sulimany, 2024). In tax contexts, financial expertise enables boards to scrutinize aggressive tax strategies. Armstrong et al. (2015) found that tax-savvy directors reduce sheltering activities but may also facilitate legally complex tax planning, reflecting a tension between compliance and optimization. Hence, financial expertise is a factor that explains the dilemma between clean and unclean practices. Regarding positive alignment, Godemann et al. (2023) found that firms with financially expert boards exhibit stronger sustainability performance, as experts recognize the long-term financial risks associated with poor sustainability practices. Conversely, Dhiyaulhaq & Fadjarenie (2023) argue that financially expert directors may deprioritize sustainability practices to meet earnings targets, particularly in high-pressure institutional environments. This duality also shows that decision-making power is centralized in the board of directors, as explained by the upper-echelon theory. Financial expertise has been widely used as a main variable in research, such as its effect on tax avoidance (Huang et al., 2021).

Hypothesis Development

Sustainability Reporting and Tax Avoidance

Legitimacy theory posits that organizations undertake certain actions to demonstrate their alignment with societal values and stakeholder expectations (Emalia & Shauki, 2023; Hummel & Schlick, 2016; Zairin & Shauki, 2019) In this context, sustainability reporting serves an instrumental role in establishing and reinforcing a company's legitimacy. Firms that publish sustainability reports may seek not only to comply with regulations but also to enhance their public image, even if the disclosures do not reflect genuine corporate accountability. The premise is that firms may strategically use sustainability disclosures to legitimize their tax avoidance practices, which some might say is a "smokescreen".

A study by (Hummel & Schlick, 2016) highlights that companies with lower sustainability performance tend to provide poorer disclosures, potentially as a strategy to obscure negative perceptions and maintain legitimacy. In other words, sustainability reporting disclosures could be an act of symbolic legitimacy. In line with this reasoning, it is hypothesized that higher levels of sustainability reporting will correlate with increased tax avoidance, as firms leverage these disclosures to counter potential reputational risks associated with aggressive tax strategies.

Tax avoidance is a strategic financial decision that companies may adopt to preserve resources. In this context, sustainability reporting serves as a dual mechanism: it offers transparency to stakeholders while potentially justifying or obscuring tax avoidance strategies. Mutiha (2022) asserts that comprehensive sustainability disclosures allow firms to portray a socially responsible image, thereby enhancing their ability to engage in aggressive tax strategies without incurring reputational damage. The disclosures can create a perception of ethical behavior among stakeholders, prompting organizations to leverage this reputation to optimize their overall tax liability.

Research has shown mixed results regarding the impact of sustainability reporting on tax practices. While some studies emphasize that higher levels of disclosure may lead to increased scrutiny and, consequently, reduced tax avoidance, others have indicated that well-disclosed sustainability reporting can serve as a shield against public criticism of tax avoidance strategies (Rudyanto, 2025). For instance, Elamer et al. (2024) illustrate how firms that engage actively in sustainability initiatives may rationalize their tax practices to stakeholders by aligning their tax strategies with broader corporate social responsibility goals.

Consequently, this study posits that a higher level of sustainability reporting disclosure is associated with greater tax avoidance, as disclosure may provide firms with a justification for their tax strategies and mitigate the resulting backlash.

This hypothesis proposes that as the level of sustainability reporting disclosure increases, so too does tax avoidance. Findings suggest that some companies may increase their sustainability disclosures to enhance their public image while engaging in tax avoidance, thereby leveraging transparency to justify their tax practices (Abd-Elmageed & Abo Ashour, 2021). However, there are contrasting perspectives indicating that high levels of sustainability disclosure can also attract regulatory scrutiny and challenge aggressive tax practices from stakeholders or tax authorities (Chouaibi et al., 2021; Santoso et al., 2021). Therefore, while evidence shows that companies often use sustainability disclosures to validate their tax avoidance strategies, it is essential to acknowledge that these disclosures can also create the risk of increased scrutiny.

H_1: The level of disclosure of Sustainability Reporting will significantly and positively affect corporate tax avoidance

Board of Director Financial Expertise and Corporate Tax Avoidance

Upper echelon theory suggests that a firm's outcomes and strategic choices are influenced by the backgrounds and experiences of its top executives (Ebimobowei, 2022). The financial expertise of board members is paramount when aligning corporate sustainability strategies with tax management practices. Boards composed of members with robust financial knowledge can navigate the complexities of tax legislation, ensuring compliance while optimizing tax liabilities.

Board financial expertise is theorized to enhance the effectiveness of sustainability disclosures in influencing tax behaviors. According to Minton et al. (2014), a board comprising members with robust financial backgrounds can better formulate and execute complex tax strategies while remaining compliant with regulatory frameworks. This financial acumen enables boards to interpret and use sustainability disclosures to optimize tax outcomes.

Research indicates that financially knowledgeable directors are likely to influence corporate governance practices positively (Khasanah et al., 2023; Rostami & Rezaei, 2022). When the board of directors possesses extensive financial expertise, it can align with the company's overall tax management objectives.

Furthermore, studies have indicated that the presence of financial experts on the board is positively associated with corporate transparency and long-term value creation, which may improve the firm's ability to balance its tax strategies (Reiter, 2020; Winanto et al., 2024). This implies that in firms with financially adept boards, the relationship with tax avoidance will be stronger, as the board's expertise enables a nuanced understanding of how financial reporting can align with tax optimization practices.

Given that board financial expertise plays a key role in enhancing the quality of sustainability reporting, it is posited that firms with more financially literate boards are better equipped to frame their financial disclosures to support tax avoidance objectives. Research by (Rostami & Rezaei, 2022) demonstrates that board expertise significantly affects firms' strategic financial decisions, including tax planning and avoidance. Therefore, it can be anticipated that the interaction between the board of directors' financial expertise and tax avoidance will be more pronounced in firms with a board that possesses considerable financial knowledge, thereby enabling a more strategic approach to taxation.

H_2: Board of directors with financial expertise significantly and positively affect tax avoidance

Research Model

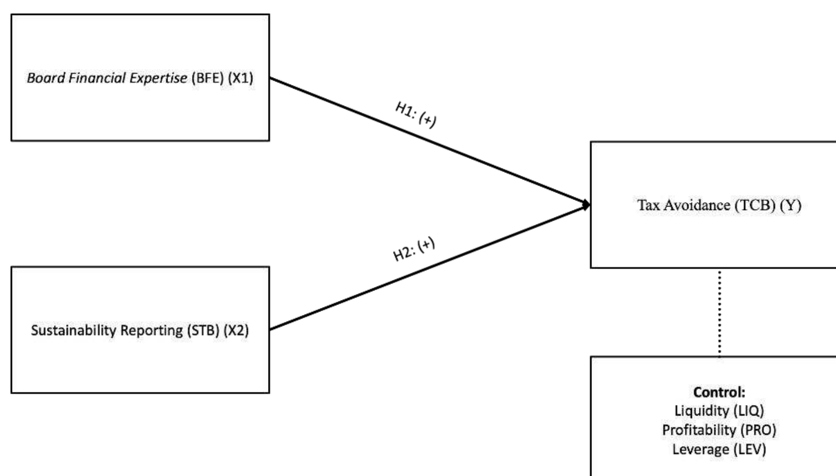

Figure 1. Research Model

RESEARCH METHODS

This research employs a quantitative method, utilizing secondary data sourced from a criteria-based selection of the food and beverage sector in Indonesia for the period 2021 to 2023. This method relies on pre-existing data collected from the annual reports of selected food and beverage companies in the food and beverage sector, which are publicly available on the Indonesian Stock Exchange and company websites. The food and beverage sector was chosen for its tendency to diversify its product line, which, in turn, increases its legitimacy. The period from 2021 to 2023 was selected due to the potential for post-regulatory changes from the Indonesian government regarding sustainability reports and the Law on the Harmonization of Tax Regulations. Furthermore, the Population of this study consists of 96 firms in the food and beverage sector in Indonesia, and the final sample of 82 firms is selected through purposive sampling based on an established criterion. After eliminating the specific criteria, the number of observations is narrowed down to 227.

Table 1. Research Sample

Description	Number of Observations
The firm is listed on the IDX Food and Beverage Sector from 2021 to 2023.	385
The firm did not publish any audited financial statements or annual reports.	(84)
The firm did not publish sustainability report for the year 2021, 2022, 2023	(150)
The firm did not publish complete information.	(139)
Final	227

Existing research observes sustainability reporting on either the quality of reporting or the disclosure of a sustainability report (Mutiha, 2022; Sebrina et al., 2023). In this research, the measurement used is the disclosure of reporting that utilizes the method of scoring based on the POJK standard guidelines.

The financial expertise of the board of directors will be assessed through a scoring system developed from established frameworks. This scoring system will consider various dimensions, including relevant academic qualifications, professional certifications, and practical experience within finance-related roles. Such a measure aims to capture the board's ability to influence tax-related strategies. The board's financial expertise is identified and measured through several layers of criteria, which at first determine whether the director has any financial or accounting-related degree, then whether the director has any certifications related to audit, tax, finance, or accounting, and lastly, whether the director has previous experience in the financial field (e.g., Taxation, Accounting, Audit, etc.). If the criteria match the conditions, the director in observation will be counted as 1 point for each classification of the criteria: certifications, education, and experience. Then, the points will be summed across all directors and scaled by the number of directors on

the board. In short, the variable will be measured as the percentage of directors who have either a finance or accounting degree or any form of certification that shows financial expertise.

Table 2. Sustainability Disclosure Criteria

Sustainability Reporting Disclosure	
Criteria	**Points**
Sustainability Strategy	1
Company Profile	6
Management commitment on sustainability policy, implementation, and strategy	11
Accessibility	1
Sustainability governance	3
Stakeholder engagement	3
Determination of report content and topic boundaries and list of material topics	2
Culture of sustainability	1
Performance overview of the sustainability aspect	1
Economic aspect	8
Environmental aspect	11
Social aspect (non-discrimination, minimum wage, health & safety, competence, grievance, etc.)	11
Responsibility for the development of sustainable financial products and/or services	4
Supply chain sustainability	1
Written verification from independent party	1
Feedback sheet for readers	2
Sustainability report index	1
Total	73

Source: Mutiha (2022)

On the other hand, the main proxies for tax avoidance are effective tax rates (ETR) and book tax differences (BTD). However, this research will employ 3 formulas, which consist of Manzon & Plesko's (2001) BTD, Kothari et al. (2005) Total Accruals, and Desai & Dharmapala (2006) TaxCompBTD (TCB).

BTD is measured by the following formula Manzon & Plesko (2001):

$$BTD = \frac{(Firm's\ book\ income - taxable\ income)}{Total\ assets} \quad \text{...} \quad (1)$$

Total Accural is measured by the following formula Kothari et al. (2005):

$$TA = \frac{(\Delta NCCA - (CL - CPLTD) - DEP - A)}{TA_{t-1}} \quad \text{...} \quad (2)$$

NCCA : Non-current cash assets
CL : Current liabilities
CPLTD : Current portion of long term debt
DEP : Depreciation
TA_{t-1} : Lagged total assets
TA : Total Accruals
A : Amortization

TaxComBTD is measured by the following formula Desai & Dharmapala (2006):

$$BTD = TA + \varepsilon \quad \text{...} \quad (3)$$

The reasoning behind combining the three equations is to have the Manzon & Plesko (2001) BTD and Kothari et al. (2005). total accruals regressed, to gain the TaxCompBTD (TCB) of Desai & Dharmapala (2006)

from the residual values of the regression, which aims to exclude earnings management and only display information containing the tax avoidance.

Lastly, the control variables used in this research comprise liquidity (LIQ), profitability (PRO), and leverage (LEV), all of which are financial ratios commonly used in tax avoidance literature (Dhawan et al., 2020; Stanley & Widianingsih, 2024). Liquidity is measured by the firm's current ratio (current assets divided by current liabilities), profitability by ROA (net income scaled by total assets of the firm), and leverage by the debt-to-equity ratio (total debt divided by total equity of the firm).

This research uses panel data regression, a method that analyzes multiple observations, to examine how sustainability reporting influences corporate tax avoidance. Panel regression has three key estimation approaches: pooled least squares (PLS), fixed effects (FE), and random effects (RE). Hence, to determine the model fit for this research, the Hausman and Chow tests are combined. Other than that, classical assumption tests for panel data regression analysis, such as tests for multicollinearity, heteroscedasticity, and autocorrelation, are also employed to ensure the integrity and reliability of the analysis (Athey et al., 2019).

RESULTS AND DISCUSSION

Results

Table 3. Descriptive Statistics Results

Variable		Mean	Std. Dev.	Min	Max
TCB	Overall	-.001246	.0873973	-.3971276	.7697125
	Between		.0603688	-.2432814	.2306865
	Within		.061674	-.2969537	.5573919
STB	Overall	.7750287	.1157406	.0136986	.9178082
	Between		.1072314	.445255	.9178082
	Within		.0462049	.3435218	1.206536
FER	Overall	.2427071	.203488	0	1
	Between		.1846934	0	1
	Within		.0940177	-.2572929	.9093737
LIQ	Overall	12.38068	144.0484	.0851746	2172.55
	Between		80.06913	.1000577	727.3351
	Within		117.744	-710.3905	1457.595
PRO	Overall	.0585761	.1112465	.3996737	.9435689
	Between		.0840573	-.2510166	.3458801
	Within		.0709036	-.3200887	.7379994
LEV	Overall	1.417097	3.564601	-4.862583	38.61143
	Between		2.541968	-1.909631	16.02076
	Within		2.607968	-11.87883	26.95838
Firm (i)					
Year (t)					

There are a total of 227 observations (N = 227), consisting of 82 firms (n = 82), with an average of 2 observations per firm (T-bar = 2.76829). Based on the results in Table 3, TaxCompBTD (TCB) has a mean of -0.001246, a minimum of -0.3971276, and a maximum of 0.7697125. Sustainability Disclosure (STB) has a mean of 0.7750287, a minimum of 0.0136986, and a maximum of 0.9178082. The mean value indicates that, on average, the firms have a high level of sustainability disclosure. The board of directors' financial expertise (FER) has a mean of 0.2427071 and a maximum of 1. The minimum value of 0 indicates that the board of directors of several firms in the food and beverage sector does not have any financial expertise background, and that the amount of financial expertise in the food and beverage sector shown by the mean value is not at a high level, or it can be assumed that only 24% of most company boards consist of directors with financial expertise. Liquidity (LIQ) has a mean of 12.38068, a minimum of 0.0851746, and a maximum of 2172.55. Profitability (ROA) has a mean of 0.0585761, a minimum of -0.3996737, and a maximum of 0.9435689. Leverage (LEV) has a mean of 1.417097, a minimum of -4.862583, and a maximum of 38.61143. The mean value suggests that many firms rely more on debt than on equity.

Table 4. Estimation Model Results

Test	Description
Chow Test	0.0000
Hausman Test	0.0000
Result	FE

Table 4 shows the results of the estimation model. The Chow test yielded a p-value of 0.0000; hence, the fixed-effect model is more suitable for this research than the ordinary least squares model. The Hausman test showed significant results as well, leaning this research model to choose the fixed effect model over the random effects model.

Table 5. Classical Assumption Test

Test	Description
STB	2.82
FER	2.32
LEV	2.28
LIQ	1.79
PRO	1.33
Mean VIF	2.15
Modified Wald Test	0.0000
Wooldridge Test	0.7548

The classical assumption tests incorporated in this research include tests for multicollinearity, autocorrelation and heteroscedasticity, as the model assumes a fixed-effects model. The multicollinearity test shows a mean VIF of 1.95, indicating no multicollinearity. The same goes for the autocorrelation test, which shows insignificant values, indicating no autocorrelation. On the other hand, the heteroscedasticity test displays a significant value and indicates that there are heteroscedasticity issues, thus this research resorts to a robust regression.

Table 6. Panel Data Regression Test Results

Description	TCB
STB	-.0897607
	(0.000)
FER	.0107709
	(0.811)
LIQ	-6.60e-06
	(0.818)
PRO	.7844144
	(0.000)
LEV	.0006715
	(0.688)
Constant	.0188892
	(0.003)
Prob > F	0.0000
R-Squared	0.6286

Sustainability disclosure (STB) has a significant effect on the TaxCompBTD (TCB) shown by the p value of 0.000 with a coefficient of -0.0897607. This result translates that, the higher the level of sustainability of disclosure will result in lower value of TCB. A lower number of TCB means there is a lower level of tax avoidance, for which in this case could be translated into, sustainability disclosure has a significant negative impact towards tax avoidance. On the other hand, board of director financial expertise (FER) shows no significant effect on TCB. Liquidity (LIQ) and Leverage (LEV) also show the same level of significance towards TCB, where both controls do not have any significant effect. However, profitability (PRO)

represented by ROA has a significant negative effect on TCB. Hence, this could be concluded that when the firm is profitable the level of tax avoidance is lower. The result of the F-test shows a significant value of 0.0000 which means that the research model can be used to explain the dependent variable, which is tax avoidance. Other than that, the R-squared value implies that the research model can explain corporate tax avoidance by 62.86%, whereas the rest of the percentage is explained by other variables not accounted for in this research.

Discussion

In the context of the statistical results, the effect of sustainability reporting on corporate tax avoidance is significant. Although the effect's significance does not align with the hypothesis, the results are still consistent with the proposed legitimacy theory. While proposed by Dowling & Pfeffer (1975), a later study introduced the distinction between substantive and symbolic legitimacy (Ashforth & Gibbs, 1990). The significantly negative relationship between sustainability reporting and tax avoidance shows that sustainability reporting serves a substantive legitimacy function, as results suggest that more disclosures are associated with lower tax avoidance. This aligns with previous research by Velte (2023); Rudyanto (2025); Lanis & Richardson (2012). Furthermore, the insinuation of lower tax avoidance due to higher-level sustainability disclosures suggests that firms in the food and beverage industry prioritize reputational benefits and building a good image with their stakeholders rather than focusing on short-term benefits such as tax avoidance. This is supported by the fact that, on average, firms have a high level of sustainability reporting disclosure. The effect is significant, leading to the assumption that food and beverage companies will prioritize improving their firm's reputation, as their products engage directly with customers and are heavily reliant on public opinion. Moreover, a company's ethical stance can significantly affect stakeholder relationships, particularly in industries sensitive to public opinion. Empirical research found that companies integrating sustainable tax strategies into their broader CSR initiatives are often more inclined to avoid excessive tax avoidance, recognizing the interplay between ethical business practices and stakeholder trust (Ma & Park, 2021).

On the other hand, several studies have challenged this research's results, as shown by Elamer et al. (2024); Hummel & Schlick (2016), who argue that sustainability reports are just a smokescreen and a form of symbolic legitimacy to mitigate reputational damage risk. Hence, implying that sustainability reports are just used as a tool for formality and double-sided intentions. The mixed results in the sustainability reporting and tax avoidance literature may be due to several factors that are not accounted for. Kovermann & Velte (2021) argue that the ambiguous results in the literature are dependent on factors such as industry characteristics and geographical conditions. In the context of this research, the food and beverage sector is associated with the results, as it is sensitive to public opinion and always strives to build a company that produces a good reputation product to meet customer demands; actions of tax avoidance could tarnish its reputation.

The results show that the financial expertise aspect does not have a significant effect on corporate tax avoidance. This finding is not in line with the upper echelons theory, as, statistically, the board characteristics defined by their financial expertise could not explain the effect of board directors' influence on tax avoidance. On the other hand, this result may suggest that the scope of board characteristics is too narrow to be explained solely by financial expertise, as other characteristics may be at play. In the tax avoidance literature, board characteristics have been widely explored, as in Doho & Santoso (2020); Stanley & Widianingsih (2024). These studies observe board characteristics through board gender diversity, CEO narcissism and CEO tenure and have proven to result in a significant effect on tax avoidance. Furthermore, the board of directors' financial expertise may have focused on the firm's overall finances rather than tax avoidance strategies. On that note, board members with financial backgrounds do not guarantee they can apply their financial knowledge to strategize tax avoidance.

This study contributes to the tax avoidance literature by examining how sustainability report disclosures and board financial expertise influence corporate tax avoidance, grounded in legitimacy theory and upper-echelons theory. Drawing on data from the Indonesian food and beverage (F&B) sector, the study offers several theoretical insights. On a note, this study makes important theoretical contributions to the application of legitimacy theory to corporate tax behavior. Specifically, the findings challenge the view that sustainability reporting is primarily used as a symbolic tool or reputational smokescreen to conceal aggressive tax strategies (Fuadah et al., 2022; Nasih et al., 2024). Instead, the evidence suggests that firms with more extensive sustainability disclosures are less likely to engage in tax avoidance, implying a more substantive commitment to legitimacy than previously assumed.

By empirically rejecting the "decoupling" hypothesis, that firms project a sustainable image while engaging in socially undesirable behavior like tax avoidance, this study adds nuance to legitimacy theory. It suggests that in certain contexts, especially where stakeholder scrutiny and regulatory pressures are high, firms internalize legitimacy norms and align their financial and non-financial practices accordingly. This contributes to a growing body of literature that views legitimacy not merely as a reactive facade but as a driver of genuine behavioral change. Furthermore, the results highlight that sustainability reporting can function as an internal governance and accountability mechanism, constraining opportunistic behavior such as tax avoidance. This expands the scope of legitimacy theory by linking external legitimacy-seeking actions (e.g., sustainability disclosures) with internal ethical and strategic choices, suggesting a deeper institutionalization of normative expectations. Hence, the findings contribute to theoretical debates about the role of nonfinancial disclosures in shaping financial conduct, reinforcing the notion that firms operate not only under economic rationality but also under social and institutional logics. In doing so, the study invites further research into the conditions under which symbolic actions evolve into substantive organizational practices. This reinforces the idea that legitimacy-seeking behaviors, under certain institutional and cultural contexts, may constrain opportunistic practices rather than facilitate them (Cho et al., 2015).

Second, the non-significant relationship between board financial expertise and tax avoidance presents a boundary condition for upper echelon theory (Hambrick & Mason, 1984). While prior research has suggested that financial expertise among directors enhances oversight and may enable more strategic decision-making in areas such as tax planning (Alshareef & Sulimany, 2024; Armstrong et al., 2015), this study finds no such effect in the Indonesian context. One possible explanation is that sectoral norms, regulatory oversight, or risk-averse governance cultures may moderate the influence of individual board attributes. This finding calls for more nuanced applications of upper echelon theory that account for institutional embeddedness and cultural context.

CONCLUSION

Overall, the literature converges on the notion that companies are increasingly recognizing and responding to the dual pressures of tax management and reputational risk. As firms navigate the complexities of stakeholder expectations and corporate governance, the emphasis on maintaining a strong reputation is likely to outweigh the short-term financial benefits gained from tax avoidance strategies. Furthermore, the study advances theoretical understanding by illustrating how context-specific factors interact with corporate governance and disclosure practices to shape tax avoidance behavior. It highlights the need for future research to incorporate institutional, cultural, and industry-level variables when applying general theories such as legitimacy and upper-echelon perspectives in emerging markets.

This study identifies some limitations, one of which is that its results cannot be generalized to represent Indonesia or tax avoidance activities in a universal context, as the scope of this research is the food and beverage sub-sector. The other is the clarity of effect through the relation of only one tax-avoidance proxy. Future research could further investigate the effects of sustainability reporting disclosure and board financial expertise on corporate tax avoidance, with a different scope that can be examined across other sectors or countries. Furthermore, using additional proxies, such as CashETR and GaapETR, can help clarify its effects. The findings also have several practical implications for regulators, corporate decision-makers, and stakeholders in Indonesia and similar emerging economies. For Policymakers and Regulators, the negative relationship between sustainability reporting and tax avoidance suggests that enhanced, standardized disclosure requirements could serve as an effective policy tool to improve tax compliance (OECD, 2021). Encouraging or mandating transparent sustainability disclosures can indirectly reduce aggressive tax practices by increasing public accountability and investor scrutiny. Aside from that, corporate boards and governance professionals could observe that the lack of a significant relationship between board financial expertise and tax avoidance implies that technical expertise alone is insufficient to influence ethical corporate behaviors. Hence, boards may need to embed stronger governance frameworks and ethical oversight mechanisms, especially in sectors like F&B that are highly visible to consumers and regulators. Lastly, given the sector's high public exposure and vulnerability to reputational damage, F&B firms may benefit from viewing sustainability practices not only as a compliance requirement but also as a strategic tool for risk management and stakeholder engagement. Transparent sustainability efforts may simultaneously enhance legitimacy and constrain ethically questionable tax strategies.

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