

THE EFFECT OF TAX AVOIDANCE, ESG, AND POLITICAL CONNECTION ON FIRM VALUE 2021 - 2023

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Abstract

This study aims to investigate whether tax avoidance, ESG, and political connections affect firm value under current conditions. The purpose of this research is to examine the effects of tax avoidance, ESG, and political connections on firm value. Data analysis was conducted using Gretl. The sample consists of publicly traded non-financial companies from 2021 to 2023. The study uses a purposive sampling technique, resulting in 159 observations. This quantitative research utilizes multiple linear regression. Data was obtained from the Refinitiv Database and Annual Reports. The results show that ESG and tax avoidance significantly affect firm value, whereas political connections do not have an impact on firm value. The expected contribution of this research is to enhance transparency among all stakeholders, demonstrating the company's commitment to tax compliance, ESG, implementation, and corporate governance, thereby increasing firm value.

Keywords : ESG, Firm Value, Political Connection, Tax Avoidance

1. INTRODUCTION

Indonesia's economic conditions during Covid-19 until 2023 began with uncertainty. However, as time goes by economic conditions are getting better. This can be seen through the following graph:



Source: (TradingView, Inc., 2024)

Figure 1. Growth of IHSG (Composite Stock Price Index)

The graph above shows the growth of the IHSG (Composite Stock Price Index) during the period from 2020 to 2023. At the beginning of 2020, the IHSG experienced a significant decline. This shows that at the beginning of 2020, many investors were reluctant to invest in any company due to various factors, such as the Covid-19 pandemic. The pandemic caused economic uncertainty and many limitations for companies, resulting in huge losses. The decline in share prices in 2020 also affected firm value. This decline made investors hesitant to invest in the company because share prices fell during the pandemic. However, during the period from 2021 to 2023, the IHSG value experienced a significant increase. This recovery was driven by the company's post-pandemic economic recovery, leading to rising share prices and increasing firm value. As a result, investors regained their optimism and confidence in investing during the 2021-2023 period.

Firm value reflects how investors respond to a company's performance and prospects. According to (Sembiring & Trisnawati, 2020), public companies strive to maximize their value to maintain and attract investors, as the market price of shares is closely monitored. Effective management of firm value encourages existing shareholders to retain their investments and attracts new investors. Tax avoidance positively impacts firm value by reducing tax burdens and increasing profits, which benefits both the company and its shareholders (Su & Deng, 2024; Firmansyah et al., 2022). Companies view the risks of tax avoidance as minimal and profitable, leading to more funds for expansion and dividend distribution (Drake et al., 2019).

Environmental, Social, and Governance (ESG) factors also enhance firm value by improving the company's reputation and supporting Sustainable Development Goals (Aydoğmuş et al., 2022; Astuti, n.d.). Additionally, political connections, particularly in Indonesia, can provide access to valuable resources and information, influencing firm value positively. Companies with strong political ties often experience improved returns, as seen with those connected to the Joko Widodo administration (Pratiwi & Aligarh, 2021; Pratama & Setiawan, 2019).

This research aims to provide the latest picture of whether tax avoidance, ESG, and political connections remain relevant and influence firm value. During the period from 2021 to 2023, stock performance in Indonesia is considered to continue to grow. This research does not use dummy variables like previous research (Patriarini, 2020; Fitriana & Muslim, 2022; Rijanto, 2022), but uses direct calculations for political connections.

2. LITERATURE REVIEW

Firm value is a reflection of the public's trust as consumers in the company's products and performance (Manysthigosa, 2022). Firm value serves as an important benchmark for measuring company performance and is a critical factor for investors in making their investment decisions (Yunita & Artini, 2019). Firm value can also be assessed through its share price indicators. If the share price is higher, the firm value is also greater. Firm value can be influenced by various company activities, such as tax avoidance activities, ESG activities, and whether a company has political connections or not.

Tax avoidance is an effort to minimize taxes that is in line with the provisions of tax legislation and can be considered correct because it exploits loopholes in it (Pardosi & Sinabutar, n.d.). Agency theory explains that there is an agreement or contract between the company owner and management which aims to run the company as well as possible (Rudyanto & Pirzada, 2020). With this agreement, management is encouraged to maximize company profits. Management is encouraged to avoid taxes that are still within reasonable limits. Thus, in line with several research by (Irawan & Turwanto, 2020; Ardillah et al., 2022) tax avoidance is considered to have a positive effect on firm value.

Stakeholder theory, as proposed by (Rudyanto & Pirzada, 2020), clearly states that companies must not only focus on their own interests but must also provide benefits to stakeholders. According to research conducted by (Ademi & Klungseth, 2022), companies that engage in ESG activities are more valued in the market and perform better than those that do not engage in these activities. The benefits provided by companies through various ESG activities can be reviewed in the sustainability reports published by the company. (Dkhili, 2024) concluded that high overall ESG performance can improve a company's market performance. These benefits, which aim to meet stakeholder interests, also offer long-term value for the company (Triadha, 2022). (Melinda & Wardhani, 2020) found that companies that report their ESG activities demonstrate resilience and sustainability by providing transparent reports.

Political connections are perceived as enhancing a company's access to various governmental information. According to (Wati et al., 2020), firms with political connections can secure better investment opportunities and exhibit greater growth potential compared to those without such connections. (Hadi et al., 2023) define a company as having political connections if its top management holds positions as parliament members, ministers, or works within the government. Additionally, (Broadstock et al., 2020) note that the degree of direct political connections is determined by the extent to which members of a company's board of directors and commissioners have previously or are currently serving in political roles.

Hypotheses Development

Company profits increase as the tax burden decreases. According to (Irawan & Turwanto, 2020), tax avoidance allows companies to allocate more resources for investment and distribution to shareholders. As a company's profits increase, shareholder sentiment becomes more positive, attracting more investors to invest in profitable companies. (Tambahani et al., 2021) states that tax avoidance can increase investor interest by providing higher returns. This is in line with research (Manurung & Simbolon, 2020) which found that tax avoidance has a positive impact on firm value. Therefore, this study formulates the following hypothesis:

H1. Tax avoidance affects firm value.

According to (Deng & Cheng, 2019), disclosing ESG activities can enhance a company's stock market performance, particularly for private companies. Positive ESG practices help build a favorable image with stakeholders, and a reduction in these activities might lead to shareholder pessimism about the company's performance. ESG practices are especially crucial for companies with environmentally harmful production processes or negative impacts on social and corporate governance. (Perdana et al., 2023) highlight the importance of transparency in ESG reporting, noting that it can help reduce agency costs and increase firm value. Additionally, since 2022, the IDX has mandated ESG disclosure to promote sustainable investment in Indonesia (Sukmawijaya, 2021). By including ESG activities in sustainability reports, a company's image can be enhanced. Research by (Zaneta et al., 2023) indicates that ESG reporting sends positive signals to investors, a finding supported by (Rasyad et al., 2024), which shows that ESG practices can influence firm value. Therefore, this study proposes the following hypothesis:

H2. ESG scores affects firm value.

Political connections refer to the relationship between a company's top management and the government, especially if management members have held government positions (Maulana & Wati, 2019). Studies show that such connections positively impact firm value, with more extensive political ties generally leading to higher firm value (Maulana & Wati, 2019; Patriarini, 2020; Pratiwi & Aligarh, 2021). Political connections can boost firm value by enhancing legitimacy and trust with stakeholders and leveraging

government relationships to increase economic profits (Hadi et al., 2023; Rijanto, 2022). Investors often perceive companies with political ties as more valuable due to the additional benefits and profits these connections can generate (Bandiyono, 2019). Therefore, this study formulates the following hypothesis:

H3. Political connections affects firm value

3. RESEARCH METHODS

Sample Data

This study utilized all companies listed on the Indonesia Stock Exchange (IDX) as the sample data, excluding those operating in the financial sector from 2021 to 2023. The research also utilized companies' sustainability and annual reports as secondary data sourced from IDX's website. Additionally, secondary data from Refinitiv during the period of 2021 to 2023 was also used. Data collection was conducted on May 20, 2024. A purposive sampling technique was used by the researchers. The study adopted a quantitative approach using multiple linear regression. Several criteria were applied to select potential sample companies:

1. Companies listed on IDX consistently report annual reports from 2021 to 2023.
2. Companies listed on IDX with non-negative pre-tax profits.
3. Companies listed on IDX consistently reported sustainability reports from 2021 to 2023.
4. Companies listed on IDX with ESG scores from Refinitiv.
5. All sectors listed on IDX excluding those in the financial sector.

Thus, out of 816 non-financial sector companies listed on IDX during the period from 2021 to 2023, only 55 companies with a total of 159 company observations met these criteria and were selected for further investigation.

Dependent Variables

This study uses Tobin's Q to measure firm value as the dependent variable. Tobin's Q has been employed in several studies (Aydoğmuş et al., 2022; Rudyanto & Pirzada, 2020; Hadi et al., 2023; Guedrib & Marouani, 2023) as a measurement tool. While other methods, such as the Price Earnings Ratio (PER) and Price to Book Value (PBV), are also used to assess firm value, Tobin's Q is preferred here because it incorporates both market and book values of a company's assets, offering a more comprehensive measure (PT ESGI Indonesia Berkelanjutan, 2021). Firm value measurement typically involves using various ratios. Therefore, Tobin's Q in this study is calculated as follows:

Tobin's Q = (Equity Market Value + Liabilities Market Value)/(Equity Book Value + Liabilities Book Value).

Independent Variables

Tax avoidance is assessed using the Cash Effective Tax Rate (ETR), which reflects the proportion of tax payments relative to the company's income (Kagan, 2021). The Cash ETR is determined by dividing the current tax expenses by the pre-tax income (Drake et al., 2019; Tebiono & Sukadana, 2019; Irawan & Turwanto, 2020). This measure emphasizes shareholders' interest in tax savings in cash terms, with a lower ETR suggesting greater tax avoidance. Tax avoidance is typically evaluated using ratios. Additionally, ESG is considered an independent variable and is evaluated through a combined ESG score, which integrates Environmental, Social, and Governance factors. ESG data are obtained from Refinitiv, a dataset commonly used by researchers (Aydoğmuş et al., 2022). The ESG score assesses the effectiveness of a company's ESG practices (Armanino LLP, 2022), with a higher score indicating more robust ESG performance.

Table 1. Refinitiv ESG Score Range

Score Range	Description	
From 0 until 25	First Quartile	Scores in this range reflect inadequate ESG performance compared to peers and a lack of transparency in publicly reporting material ESG information.
From 26 until 50	Second Quartile	Scores in this range suggest acceptable ESG performance relative to peers and a moderate level of transparency in publicly disclosing material ESG information.
From 51 until 75	Third Quartile	Scores in this range indicate strong ESG performance compared to peers and a higher-than-average level of transparency in publicly reporting material ESG data.

From 76 until 100	Fourth Quartile	Scores in this range indicate strong ESG performance compared to peers and a higher-than-average level of transparency in publicly reporting material ESG data.
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Source: (Refinitiv, n.d.)

Table 1 from Refinitiv provides a scale or range of ESG scores to evaluate the effectiveness of ESG activities implemented.

Political connections in this research are an independent variable that is measured using direct political connections. In this research, political connections are measured by looking at the career profile of the company's top management, namely the board of commissioners and board of directors, whether they currently or previously have served directly as political officials (Broadstock et al., 2020). Having been a political official means having served in a Ministry or state institution, police or military (Hadi et al., 2023). If the company's top management has one political connection, it will be given a value of 1, likewise if top management has 2 political connections, it will be given a value of 2. If the company's top management has no political connections at all, it will be given a value of 0.

Control Variables

Control variables in this research include ROA (return on assets) measured using ratios, firm size also measured using ratios, leverage measured using ratios, sales growth measured using ratios, and liquidity measured using ratios (Aydoğmuş et al., 2022; Rudyanto & Pirezada, 2020; All variables are summarized in figure 3.

Variables Summary

This study sampled 55 companies from 2021 to 2023, resulting in a total of 159 observations. The study incorporates variables (Tobin's Q, CETR, and Polcon) sourced from annual financial reports of companies listed on the Indonesia Stock Exchange (BEI), and variables (ESG Score, ROA, SIZE, LEV, Growth, LIQ) sourced from Refinitiv.

Table 2. Variables Summary

Variables	Description/Formula	References
Dependent		
Tobin's Q	$(\text{Market Value Equity} + \text{Market Value Liability}) / (\text{Book Value Equity} + \text{Book Value Liability})$	(Aydoğmuş et al., 2022; Rudyanto & Pirezada, 2020; Hadi et al., 2023; Guedrib & Marouani, 2023)
Independent		
Cash Effective Tax Rate (CETR)	$(\text{Current Tax Expense} / \text{Income before Taxes})$	(Rudyanto & Pirezada, 2020; Irawan & Turwanto, 2020; Guedrib & Marouani, 2023)
ESG Combined Score (ESGScore)	ESG Combined Score. Retrieved from Refinitiv	(Aydoğmuş et al., 2022)
Political Connection (Polcon)	Number of Company Commissioners and Board of Directors Who Have Experience in Politics. Retrieved from the Annual Report	(Broadstock et al., 2020; Hadi et al., 2023)
Control		
Profitability (ROA)	$(\text{Net Income} / \text{Total Asset})$	(Rudyanto & Pirezada, 2020; Hadi et al., 2023; Irawan & Turwanto, 2020)
Firm Size (SIZE)	Natural Logarithm of Total Asset	(Rudyanto & Pirezada, 2020; Aydoğmuş et al., 2022; Irawan & Turwanto, 2020; Tebiono & Sukadana, 2019; Guedrib & Marouani, 2023)
Leverage (LEV)	$(\text{Total Liability} / \text{Total Asset})$	(Tebiono & Sukadana, 2019; Rudyanto & Pirezada, 2020; Aydoğmuş et al., 2022; Irawan & Turwanto, 2020; Guedrib & Marouani, 2023)

Sales Growth (Growth)	Percentage of Sales Growth for 2 Years	(Tebiono & Sukadana, 2019; Rudyanto & Pirezada, 2020; Irawan & Turwanto, 2020)
Liquidity (LIQ)	(Total Current Asset/Total Current Liability)	(Rudyanto & Pirezada, 2020)

Variables Measurement

This research uses Tobin's Q as the dependent variable to measure firm value (Aydoğmuş et al., 2022; Rudyanto & Pirezada, 2020; Hadi et al., 2023; Guedrib & Marouani, 2023). CETR as an independent variable to measure tax avoidance (Rudyanto & Pirezada, 2020; Irawan & Turwanto, 2020; Guedrib & Marouani, 2023). ESGScore as another independent variable to measure how well a company carries out its ESG activities (Aydoğmuş et al., 2022). Polcon as another independent variable to measure political connections (Broadstock et al., 2020; Hadi et al., 2023). ROA as a control variable to measure profitability (Rudyanto & Pirezada, 2020; Hadi et al., 2023; Irawan & Turwanto, 2020). SIZE, namely Firm Size, is another control variable to measure the size of the company (Rudyanto & Pirezada, 2020; Aydoğmuş et al., 2022; Irawan & Turwanto, 2020; Tebiono & Sukadana, 2019; Guedrib & Marouani, 2023). LEV, namely Leverage, is another control variable to control tax protection arising from debt (Tebiono & Sukadana, 2019; Rudyanto & Pirezada, 2020; Aydoğmuş et al., 2022; Irawan & Turwanto, 2020; Guedrib & Marouani, 2023).

GROWTH, namely Sales Growth, is another control variable because growth is closely related to firm value (Tebiono & Sukadana, 2019; Rudyanto & Pirezada, 2020; Irawan & Turwanto, 2020). LIQ, namely Liquidity, is another control variable to control shareholders' positive reactions when the company carries out its ESG activities (Rudyanto & Pirezada, 2020). ϵ is the error at company i in period t. The following is the model used by researchers to estimate results:

$$\text{Tobins'Q} = \beta_0 + \beta_1 \text{CETR}_{i,t} + \beta_2 \text{ESGScore}_{i,t} + \beta_3 \text{Polcon}_{i,t} + \beta_4 \text{ROA}_{i,t} + \beta_5 \text{SIZE}_{i,t} + \beta_6 \text{LEV}_{i,t} + \beta_7 \text{Growth}_{i,t} + \beta_8 \text{LIQ}_{i,t} + \epsilon_{i,t}$$

The following is an image of the research model:

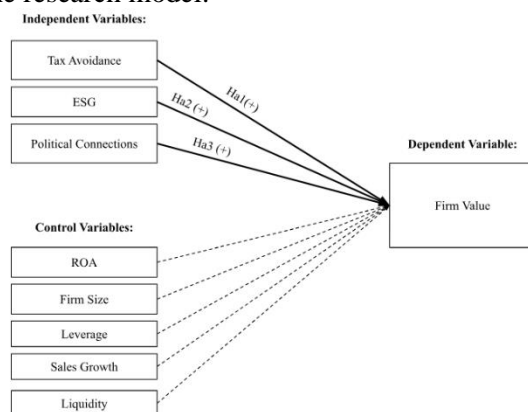


Figure 2. Research Model

4. RESULT AND DISCUSSION

Descriptive Statistics

Table 3. provides descriptive statistics. The average Tobin's Q is 1.6, suggesting that, on average, company shares are overvalued when the value exceeds 1. The average CETR is 0.2, with CETR values ranging from 0 to 1. A lower CETR indicates a higher level of tax avoidance by the company. This aligns with agency theory, which posits that management is incentivized to enhance company profits, leading to a relatively high average rate of tax avoidance. The average ESG Score is 50.8, indicating that most companies demonstrate relatively strong ESG performance. The average Polcon value is 2.31, signifying that, on average, companies have 2 political connections, with a range from 0 to 11. For the control variables, the mean ROA is 0.08, SIZE is 31.3, LEV is 0.25, Growth is 0.177, and LIQ is 2.21.

Table 3. Descriptive Statistics

Summary Statistics, using the observations 1:1 - 55:3
(missing values were skipped)

Variable	Mean	Median	S.D.	Min	Max
TobinsQ	1,60	1,15	1,39	0,336	10,6
CETR	0,202	0,213	0,142	0,000	0,913
ESGScore	50,8	49,7	18,4	15,2	87,6
Polcon	2,31	2,00	2,28	0,000	11,0
ROA	0,0872	0,0658	0,0931	-0,0467	0,583
SIZE	31,3	31,3	1,05	27,9	33,7
LEV	0,252	0,216	0,194	0,000	0,714
Growth	0,177	0,116	0,290	-0,354	1,49
LIQ	2,21	1,76	1,82	0,182	9,90

Source: Financial Reports and Refinitiv, Processed Using GRETL

Multicollinearity Test

Table 4. displays the outcomes of the multicollinearity tests conducted for each variable. These tests aim to identify whether any variables are interrelated. In this study, multicollinearity was evaluated using Variance Inflation Factor (VIF) values. According to Table 2, all variables have VIF scores below 10, suggesting that there are no significant relationships among the variables.

Table 4. Multicollinearity Test

Variance Inflation Factors	
Minimum possible value = 1.0	
Values > 10.0 may indicate a collinearity problem	
CETR	1,015
ESGScore	1,376
Polcon	1,212
ROA	1,465
SIZE	1,359
LEV	1,556
Growth	1,116
LIQ	1,228

VIF(j) = 1/(1 - R(j)²), where R(j) is the multiple correlation coefficient between variable j and the other independent variables

Source: GRETL

Model Specification Test for Panel Data

Table 5. outlines the process of determining the most appropriate panel data model before performing panel data regression. The three panel data models considered are pooled effect, random effect, and fixed effect. Initially, the fixed effect model is compared to the pooled effect model using the F test. The F test results yield very low probability values, indicating that the fixed effect model is more appropriate than the pooled effect model. Next, the Breusch-Pagan test is used to compare the random effect model with the pooled effect model. The results of the Breusch-Pagan test also show very low probability values, suggesting that the random effect model is more suitable than the pooled effect model, as this indicates the presence of heteroscedasticity with a p-value < 0.05 (Binus University, 2021). Finally, the Hausman test is conducted to compare the random effect model with the fixed effect model. The results of this test reveal a very small probability value, supporting the use of the fixed effect model as the more suitable choice.

Table 5. Panel Model Specification

Diagnostics: using n = 55 cross-sectional units

Fixed effects estimator
allows for differing intercepts by cross-sectional unit

	coefficient	std. error	t-ratio	p-value
const	34,0993	7,85984	4,338	3,55e-05 ***
CETR	-0,755432	0,447287	-1,689	0,0945 *
ESGScore	-0,0361518	0,0136732	-2,644	0,0096 ***
Polcon	-0,0164558	0,0541782	-0,3037	0,7620
ROA	3,75748	1,36467	2,753	0,0071 ***
SIZE	-0,989661	0,254787	-3,884	0,0002 ***
LEV	0,550425	0,941610	0,5846	0,5602
Growth	-0,0850667	0,147455	-0,5769	0,5654
LIQ	0,0325361	0,0788370	0,4127	0,6807

Residual variance: 14,9119/(159 - 63) = 0,155332

Joint significance of differing group means:
F(54, 96) = 23,8576 with p-value 2,48779e-037
(A low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favor of the fixed effects alternative.)

Variance estimators:
between = 1,42196
within = 0,155332
Panel is unbalanced: theta varies across units

Random effects estimator
allows for a unit-specific component to the error term

	coefficient	std. error	t-ratio	p-value
const	19,4846	4,61746	4,220	4,22e-05 ***
CETR	-0,688440	0,438423	-1,570	0,1185
ESGScore	0,000841212	0,00836390	0,1006	0,9200
Polcon	0,0197879	0,0468007	0,4228	0,6730
ROA	3,91407	1,20267	3,254	0,0014 ***
SIZE	-0,573651	0,151153	-3,795	0,0002 ***
LEV	-0,147476	0,726910	-0,2029	0,8395
Growth	-0,113171	0,149369	-0,7577	0,4498
LIQ	-0,0560468	0,0648249	-0,8646	0,3886

Breusch-Pagan test statistic:
LM = 98,0958 with p-value = prob(chi-square(1) > 98,0958) = 3,98618e-023
(A low p-value counts against the null hypothesis that the pooled OLS model is adequate, in favor of the random effects alternative.)

Hausman test statistic:
H = 24,6044 with p-value = prob(chi-square(8) > 24,6044) = 0,00181347
(A low p-value counts against the null hypothesis that the random effects model is consistent, in favor of the fixed effects model.)

Source: GRETL

Heteroskedasticity Test

Considering that the probability results from the Breusch-Pagan test are <0.05 , it can be concluded that heteroscedasticity occurs. Therefore, the researcher proceeded to carry out a heteroscedasticity test to confirm and verify whether the variances of the residuals were indeed unequal. The results, as shown in table 6, confirm the existence of heteroscedasticity. So, researchers overcome heteroscedasticity by using the Weighted Least Squared Model.

Table 6. Heteroskedasticity Test

Distribution free Wald test for heteroskedasticity:
Chi-square(54) = 352822, with p-value = 0

Source: GRETL

Weighted Least Squared Test

A company's value can increase independently of other variables, as evidenced by the coefficient of 10.2492 and a p-value of <0.0001 shown in Table 7. This indicates that firm value is influenced by various factors beyond those considered by the researchers (Wilfridus & Susanto, 2021).

Tax avoidance, as indicated by the CETR (Cash Effective Tax Rate), has a notable effect on firm value. The coefficient of 0.760068 and a p-value of 0.0003, as shown in Table 5, demonstrate a significant impact. By reducing tax liabilities, a company retains more cash, which can be used for dividends or other investments. This reduction in agency conflicts allows management to focus more on boosting company profits, attracting

investors, and enhancing share value. This finding aligns with research by (Marwat et al., 2023), which suggests that tax avoidance aids in managing income to mitigate negative market sentiment and positively affects current stock returns. Therefore, tax avoidance can enhance firm value through improved investor sentiment.

Similarly, overall ESG activities affect a company's value. The ESG Score has a coefficient of 0.00948344 and a p-value of <0.0001 , as presented in Table 5, indicating a significant impact. This result suggests that ESG activities generate positive responses from stakeholders, such as the government and society. It implies that stakeholders react to the company's actions, and these impacts are noticeable or felt by them. This aligns with the findings of (Aydoğmuş et al., 2022), which show that ESG activities enhance firm value because they attract support from shareholders, investors, and other stakeholders, potentially leading to increased firm value.

In contrast, political connections do not affect firm value. The coefficient for political connections is -0.00237881 with a p-value of 0.8447 in Table 7, indicating no significant impact. This lack of influence may be attributed to how political connections can sometimes overlook the interests and needs of investors. Additionally, investors might not view political connections as crucial since their effects can be unclear or unstable (Hadi et al., 2023). This finding supports previous research by (Haryati et al., 2021) and (Fitriana & Muslim, 2022), which suggests that a company's success is not determined by its political relationships with political parties or government officials. This conclusion is also consistent with (Kholid & Rahmawati, 2023), which found that political connections do not impact firm value.

ROA impacts firm value. The ROA coefficient is 4.31728 with a p-value of <0.0001 in Table 7, indicating a significant effect. High profits enable a company to optimize its management, which positively influences firm value. This finding aligns with research by (Nailufaroh, 2023), which suggests that high profits reflect strong company performance. Consequently, investors view the company more favorably, leading to an increase in its share price.

Firm size significantly affects firm value. The SIZE coefficient is -0.307618 with a p-value of <0.0001 , indicating a notable impact. A company's size influences stakeholder expectations and their perception of the firm. This finding aligns with research by (Juhandi et al., 2019), which shows that larger firms have an easier time accessing capital markets and securing external funding for investments. Such investments enhance the company's reputation, leading to an increase in its value.

Leverage does not affect firm value. The Leverage coefficient is 0.231282 with a p-value of 0.2227, indicating no significant impact. Leverage measures the extent to which a company uses debt to finance its investments (Tebiono & Sukadana, 2019). High levels of leverage can lead to negative perceptions among investors (Amrulloh & Muis, 2019). This supports the view that higher leverage levels are associated with lower firm value (Nailufaroh, 2023).

The Growth coefficient is -0.172360 with a p-value of 0.1425, indicating that it has no significant effect. This study includes the year 2021, a period when many companies were still in the process of recovering from the impacts of Covid-19. As a result, sales growth did not significantly affect firm value. This is consistent with findings from (Hadiwibowo & Sufina, 2022), which suggest that a decline in product quality can lead to reduced company growth and, consequently, decreased market demand.

Liquidity impacts firm value. The LIQ coefficient is -0.0874050 with a p-value of <0.0001 , indicating a significant effect. This suggests that higher liquidity is associated with greater firm value. This finding aligns with research by (Iman et al., 2022), which asserts that better liquidity enhances a company's ability to meet upcoming debt obligations and is viewed favorably by investors, leading to increased investment in the company.

There is an adjusted r-squared value of 0.520271, meaning that all variables can explain firm value up to 52%. Meanwhile, the remaining 48 percent is explained by other variables not used in the research.

Based on the results of the structural model evaluation (outer model), it shows that the loading factor value of each indicator in each variable has not fully met the value that must be achieved to be considered valid, which must be above 0.7. If the data is invalid, the way to overcome this is to delete the indicators whose loading factor value does not reach 0.6 (Ghozali, 2021). The study used the deletion method on indicators whose loading factor values were below 0.6 and the data could be said to be valid after eliminating 6 indicators from the 19 indicators to be studied. The following are the results of the structural model evaluation (outer model) after eliminating the indicators:

Table 7. Weighted Least Square Test

Model 2: WLS, using 159 observations					
Included 55 cross-sectional units					
Dependent variable: TobinsQ					
Weights based on per-unit error variances					
	Coefficient	Std. Error	t-ratio	p-value	
const	10,2492	1,20797	8,485	<0,0001	***
CETR	0,760068	0,206203	3,686	0,0003	***
ESGScore	0,00948344	0,00182496	5,197	<0,0001	***
Polcon	-0,00237881	0,0121243	-0,1962	0,8447	
ROA	4,31728	0,648199	6,660	<0,0001	***
SIZE	-0,307618	0,0380087	-8,093	<0,0001	***
LEV	0,231282	0,188905	1,224	0,2227	
Growth	-0,172360	0,116908	-1,474	0,1425	
LIQ	-0,0874050	0,0157234	-5,559	<0,0001	***
Statistics based on the weighted data:					
Sum squared resid	113,8247	S.E. of regression		0,871109	
R-squared	0,544561	Adjusted R-squared		0,520271	
F(8, 150)	22,41905	P-value(F)		3,06e-22	
Log-likelihood	-199,0388	Akaike criterion		416,0775	
Schwarz criterion	443,6977	Hannan-Quinn		427,2938	
Statistics based on the original data:					
Mean dependent var	1,603253	S.D. dependent var		1,386893	
Sum squared resid	228,8662	S.E. of regression		1,235223	

5. CONCLUSION

Tax avoidance and ESG activities significantly affect firm value, whereas political connections do not. Tax avoidance and ESG initiatives receive positive responses from investors. Public attention and sympathy toward companies are higher when they contribute significantly to society. Conversely, investors do not prioritize political connections when deciding to invest in companies that have effectively implemented ESG practices.

Through this research, it is hoped that companies engaging in tax avoidance will become more transparent to garner positive sentiment and increase firm value. Furthermore, governments can incentivize ESG activities by mandating ESG disclosures in sustainability reports, encouraging companies to enhance their value through ESG initiatives.

A limitation of this study is the restricted sample size, which focused on non-financial publicly listed companies from 2021 to 2023 with ESG scores from Refinitiv. Future studies could expand their samples to include publicly listed companies over a broader timeframe.

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