Corporate Governance and Tax Avoidance in SRI-KEHATI Firms: The Mediating Role of Financial Performance

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Abstract

This study aims to examine the role of financial performance in mediating the effect of the proportion of independent commissioners and Big Four auditors on tax avoidance in SRI-KEHATI index companies. Secondary data collected from 25 companies, for the period of 2020 to 2024, were analyzed using SEM PLS to test seven research hypotheses. Results show that the proportion of independent commissioners and the Big Four public accounting firms have a significant positive effect on financial performance and a negative effect on tax avoidance, both directly and indirectly through financial performance. The findings support agency theory, signaling theory, and stakeholder theory, and provide policy implications for regulators and companies in strengthening tax governance and compliance. The novelty of this research lies not only in the use of financial performance as a mediating variable, but more importantly in highlighting the paradox that sustainability-labelled firms (SRI-KEHATI), which are expected to uphold transparency, responsibility, and good governance, may still engage in tax avoidance practices. This study thus provides new insights into the gap between sustainability image and fiscal behaviour, and the role of governance mechanisms in bridging that gap.

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Introduction

Indonesia's tax revenues differ from the government's target. It has prompted the government to enact regulations to maximize tax revenue. Tax revenue in a country can determine its prosperity and progress. Companies are taxpayers obligated to pay taxes to the state. Companies pay taxes to the state because taxes are mandatory, and failure to pay will result in sanctions that are detrimental to the company. One reason for the unattained tax revenue target is that taxpayers engage in tax avoidance to minimize their tax obligations. Reducing the amount of tax paid will increase company profits (Alstadsæter et al., 2022). Tax avoidance is a strategic issue that concerns the government, investors, and the public due to its direct impact on state revenue and fiscal fairness. Due to tax avoidance, the potential for lost tax revenue in Indonesia is quite high. According to Global Financial Integrity (2019) data, Indonesia loses approximately USD 6.5 billion annually due to tax avoidance practices. Several studies also indicate that companies with weak corporate governance practices tend to engage in aggressive tax avoidance (Lanis & Richardson, 2013). On the other hand, tax avoidance practices are not always illegal, but they still pose reputational and ethical risks to companies. Therefore, a comprehensive study is needed to explore the determinants of tax avoidance, particularly considering governance factors such as the proportion of

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independent commissioners, the role of Big Four public accounting firms, and how financial performance can mediate this relationship.

This research is based on agency theory (Jensen & Meckling, 1976), which explains the conflict of interest between managers and shareholders, including in strategic decisions such as tax avoidance. Independent commissioners, as a governance mechanism, play a role in overseeing management policies, including tax avoidance efforts (Fama & Jensen, 1983). The existence of Big Four public accounting firms is considered capable of exerting greater pressure and oversight on financial reporting transparency and tax compliance (Armstrong et al., 2015; Hartmann & Martinez, 2020). Furthermore, signalling theory (Spence, 1973) is relevant in explaining the role of financial performance as a signal that influences perceptions of tax avoidance decisions, where companies with high performance can reduce incentives to engage in aggressive tax avoidance. Therefore, financial performance is a mediating variable in this relationship model.

Companies included in the SRI-KEHATI index were selected as research objects because this index represents companies with social responsibility, good corporate governance, and environmental and social sustainability. However, several findings indicate that not all companies in the SRI-KEHATI index are free from tax avoidance practices. According to research by Okuyama et al. (2025) and Silva et al. (2024), there are indications that companies labeled as environmentally friendly and sustainable continue to engage in tax aggressiveness for efficiency. Therefore, it is interesting to test whether governance mechanisms such as independent commissioners and Big Four auditors can suppress tax avoidance practices in companies that are supposed to uphold sustainability principles, as in the SRI-KEHATI index.

Athira and Ramesh (2023) noted that the COVID-19 crisis pushed global companies to adopt greater tax avoidance as a survival strategy, indicating that weakened financial performance can heighten incentives to minimize tax burdens. Similarly, Compagnie et al. (2023) found that environmental regulations such as the EU ETS indirectly trigger tax avoidance, suggesting that external pressures, including regulatory requirements or sustainability expectations like SRI-KEHATI, may drive firms to exploit tax loopholes unless strong governance mechanisms are in place. Sánchez-Ballesta and Yagüe (2023) showed that tax avoidance reduces the cost of debt for Spanish SMEs, as creditors view tax savings as improving cash flow, implying a mediating role of financial performance in strengthening short-term positions. Xiang et al. (2023) revealed that unintentional political connections encourage private firms to engage in more aggressive tax avoidance, underscoring the importance of governance quality, such as independent commissioners and Big Four auditors, in curbing opportunistic behavior. Likewise, Zhang et al. (2023) reported that agricultural fiscal reforms in China spurred tax avoidance as firms reacted to tighter public budgets, highlighting the impact of fiscal policy changes and the need for governance oversight. Finally, Athira and Lukose (2023) found that activism by public institutional owners can suppress tax avoidance through effective monitoring, reinforcing the role of independent commissioners as a governance mechanism that deters such practices. While several previous studies have positioned financial performance as a mediating variable in the relationship between governance and tax avoidance, this study's contribution lies in the unique context of companies listed on the SRI-KEHATI Index. This index represents companies explicitly selected for their commitment to sustainability, social responsibility, and good governance. However, an interesting paradox exists: several empirical findings indicate that even companies labeled as sustainable continue to engage in tax avoidance practices. This raises fundamental questions about whether governance mechanisms (independent commissioners and Big Four auditors) can suppress tax avoidance, or whether the sustainability label is more symbolic (window dressing) than substantive practice. Thus, this study not only examines the mediating pathway of financial performance but also explores the ethical and practical contradictions in the behavior of SRI-KEHATI companies.

There are several gaps in the basis of this research: (1) the results of previous research related to the effect of independent commissioners and Big Four public accounting firms on tax avoidance are still inconsistent; and (2) the limitations of research on companies that focus on sustainability principles, such as the SRI-KEHATI index. The contribution of this research to companies listed on SRI-KEHATI is as input for companies to identify variables that can influence tax avoidance through financial performance, so that companies listed on SRI-KEHATI can determine policies related to tax reporting that can provide positive feedback on the company's sustainability. This research's unique contribution lies not simply in positioning financial performance as a mediator, but in exploring the paradox that companies that gain public legitimacy through sustainability labels (SRI-KEHATI) still have incentives to engage in tax avoidance. This research presents a conceptual framework demonstrating that strong governance improves financial performance and bridges the gap between a company's sustainability image and its actual fiscal practices. These findings are expected to enrich the literature on GCG, performance, and tax avoidance, while providing policy implications that sustainability labels cannot guarantee a company's fiscal ethics.

The novelty of this research lies in two important aspects. First, this study examines financial performance as a mediating variable in the relationship between governance and tax avoidance. It places it within an integrative framework that combines agency, stakeholder, and signaling theories. This integration provides a more comprehensive understanding of how oversight mechanisms (independent commissioners and Big Four auditors) function to suppress opportunistic management behavior, improve financial performance, and signal credibility to the market and regulators. Second, and most original, this study highlights the ethical paradox of companies listed in the SRI-KEHATI Index. Although these companies are officially selected for their commitment to sustainability, social responsibility, and good governance, some are still involved in tax avoidance practices. Thus, this study makes a novel contribution by demonstrating that a sustainability label does not automatically guarantee ethical fiscal practices and that governance mechanisms are crucial in bridging the gap between sustainability imagery and actual practices. This study aims to test and analyze the role of financial performance in mediating the proportion of independent commissioners and the Big Four public accounting firms on tax avoidance in companies listed on the SRI-KEHATI index.

Literature Review

This research is grounded in a theoretical framework that draws on agency, signalling, and stakeholder theories. Agency theory emphasizes the conflict of interest between managers (agents) and shareholders (principals). In this context, managers can potentially engage in tax avoidance to increase short-term profits or compensation, despite legal and reputational risks. Governance mechanisms, such as independent commissioners and Big Four auditors, are necessary to mitigate this conflict by strengthening oversight and enhancing the transparency of financial reporting (Jensen & Meckling, 1976). However, the stakeholder theory perspective expands on this issue, for companies labeled as sustainable, such as SRI-KEHATI, ethical orientation and accountability extend to shareholders, the government, the community, and social investors. Aggressive tax avoidance practices can potentially undermine a company's social legitimacy. Therefore, independent commissioners and internationally reputable auditors can be seen as a mechanism to ensure the company meets multi-stakeholder expectations regarding tax compliance (Freeman, 1984). Furthermore, signaling theory explains how financial performance is a credibility signal to the market, regulators, and stakeholders. High-performing companies tend to have less incentive to engage in tax avoidance because they can demonstrate added value without aggressive strategies. Conversely, low-performing companies may be motivated to reduce their tax burden to maintain their image. Thus, financial performance serves as a mediating variable linking governance effectiveness (independent commissioners and Big Four auditors) to the level of tax avoidance (Spence, 1973). Integrating these three theories provides a complete conceptual framework for understanding how governance, financial performance, and tax avoidance are interrelated in the context of companies labeled as sustainable.

Independent Commissioners and Financial Performance

The proportion of independent commissioners within the board of commissioners is considered a crucial mechanism for effective corporate governance. Based on agency theory (Jensen & Meckling, 1976), independent commissioners play a strategic role as objective monitors, safeguarding shareholder interests and reducing conflicts of interest between management and company owners. With a greater proportion of independent commissioners, companies are expected to improve transparency, accountability, and the quality of decision-making, thereby driving improved financial performance (Wang et al., 2023). Amin et al. (2023), Gu and Wang (2023), Haque et al. (2023), Mushtaq et al. (2022), and Qi et al. (2023) found that the proportion of independent commissioners influences financial performance.
H1. The proportion of independent commissioners influences financial performance.

Big Four Public Accounting Firms and Financial Performance

Public accounting firms within the Big Four are known for their international reputation, greater resources, and higher audit standards than non-Big Four public accounting firms. A company's selection of a Big Four auditor is believed to reflect management's commitment to transparency, financial reporting quality, and compliance with accounting standards and regulations (Alexander & Pisa, 2023). Based on signalling theory (Spence, 1973), using Big Four audit services sends a positive signal to the market and stakeholders that the company's financial statements are trustworthy and have been audited by a reputable independent party. It can enhance investor perceptions and the company's credibility, ultimately driving increased value and financial performance. Empirically, several studies have found that companies audited by Big Four public accounting firms demonstrate better financial performance. It is due to the pressure exerted by auditors to maintain sound governance and financial reporting quality (Alexander & Pisa, 2023; Tiantian et al., 2023). The research results by Hamid and Purbawangsa (2022); İç et al. (2022), Kim and Yoo (2022), Sadiq and Gebba (2022); and Wu and Huang (2022) showed that the Big Four public accounting firms affect financial performance.
H2. The Big Four public accounting firms affect financial performance.

Independent Commissioners and Tax Avoidance

Independent commissioners are part of the corporate governance mechanism, playing a role in overseeing management performance to ensure compliance and shareholder interests. Based on agency theory (Jensen & Meckling, 1976), increasing the proportion of independent commissioners is expected to strengthen management's oversight function, including regarding tax management strategies. While not illegal, tax avoidance often falls within a grey area that can pose legal and reputational risks if not properly managed. Independent commissioners who are not affiliated with management are perceived as more objective and have an incentive to encourage sound governance practices, including curbing aggressive tax avoidance (Guo et al., 2023). With stronger oversight, independent commissioners can limit management's freedom to manipulate taxes, which could harm the company's and other stakeholders' long-term interests. Furthermore, they can also promote transparency in tax reporting and accountability in the company's fiscal strategy (Guo et al., 2023). The research results by Ali et al. (2022), Dopierała et al. (2022), Jawahar et al. (2022), Rodríguez-González et al. (2022), and Xie et al. (2022) show that the proportion of independent commissioners affects tax avoidance.
H3. The proportion of independent commissioners affects tax avoidance.

The Big Four Public Accounting Firms and Tax Avoidance

Based on stakeholder theory (Freeman, 1984), companies are responsible to shareholders and all stakeholders, including the government, employees, creditors, customers, and the wider community. In this context, aggressive tax avoidance practices can be viewed as detrimental to stakeholder interests, particularly the government as a tax recipient and the public who rely on public services funded by tax revenues. Therefore, companies that broadly consider stakeholders' interests tend to avoid aggressive tax

avoidance strategies. Within the framework of stakeholder theory, Big Four auditors function not only as supervisors of management but also as guardians of the interests of external stakeholders by ensuring that companies do not engage in practices that conflict with ethical values and social responsibility, including tax avoidance (Kim & Lee, 2023). Research results by Blaylock et al. (2024), Chen et al. (2021), Elbra et al. (2023), Gontara and Khlif (2021), Klassen et al. (2016) show that the Big Four public accounting firms influence tax avoidance.
H4. Big Four public accounting firms influence tax avoidance.

Financial Performance and Tax Avoidance

Based on agency theory (Jensen & Meckling, 1976), there is a conflict of interest between management (as agent) and company owners (as principal). In this context, management is incentivized to maximize its interests, which may differ from the interests of owners or other stakeholders. One form of opportunistic management behavior is engaging in tax avoidance practices to increase after-tax profits and demonstrate better financial performance, despite the legal and reputational risks associated with such actions (Khan et al., 2023). However, when a company's financial performance is good, management has a lower incentive to engage in aggressive tax avoidance, as the goal of increasing profits has been achieved without the need to take additional risks (Zhang et al., 2023). Furthermore, high-performing companies are typically in the public spotlight and subject to greater scrutiny. Therefore, management is more cautious about implementing strategies that could damage their image or attract regulatory attention, including tax matters. In other words, good financial performance can reduce managerial incentives to take aggressive actions in tax management (Zhang et al., 2023). The research results by Chen et al. (2022), Fagotti et al. (2022), Naeem et al. (2022), and Wu et al. (2022) show that financial performance influences tax avoidance.
H5. Financial performance influences tax avoidance.

Independent Commissioners and Tax Avoidance: The Mediating Role of Financial Performance

Based on agency theory (Jensen & Meckling, 1976), a conflict of interest exists between management and company owners, which can encourage management to engage in opportunistic behavior, including tax avoidance. The presence of independent commissioners in the corporate governance structure serves as an objective oversight mechanism for management actions. The higher the proportion of independent commissioners, the stronger the oversight function over strategic decision-making, including tax management and the company's operational efficiency (Guo et al., 2023). Effective oversight by independent commissioners has the potential to suppress tax avoidance practices directly and can also improve a company's financial performance by encouraging management to focus on achieving company goals efficiently and ethically (Wang et al., 2023). Good financial performance can reduce management's incentive to engage in tax avoidance, as high profits no longer require the "assistance" of risky tax avoidance strategies. In other words, financial performance plays a mediating role in the relationship between the proportion of independent commissioners and tax avoidance practices, where good oversight improves financial performance, ultimately suppressing the tendency for tax avoidance (Wang et al., 2023). Research results by Alexander and Pisa (2023), Alstadsæter et al. (2022), Guo et al. (2023), Khan et al. (2023), and Kim and Lee (2023) show that the proportion of independent commissioners influences tax avoidance through financial performance.
H6. The proportion of independent commissioners influences tax avoidance through financial performance.

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Big Four Public Accounting Firms and Tax Avoidance: The Mediating Role of Financial Performance

Within the framework of agency theory (Jensen & Meckling, 1976), external auditors play a crucial role as a monitoring mechanism that helps mitigate conflicts of interest between management and company owners. High-quality audits conducted by the Big Four public accounting firms not only reduce management's opportunities for direct tax avoidance but also improve financial performance by increasing operational efficiency and increasing investor confidence (Tiantian et al., 2023). Improved financial performance can ultimately reduce management's incentives to engage in tax avoidance, as already high profits no longer need to be increased through legally and reputationally risky tax avoidance strategies (Alexander & Pisa, 2023). Thus, it can be assumed that financial performance mediates the effect of Big Four auditors on corporate tax avoidance practices, with audit quality contributing to improved financial performance, which in turn reduces the company's propensity to avoid taxes (Alexander & Pisa, 2023). The research results by Athira and Ramesh (2023), Compagnie et al. (2023), Sánchez-Ballesta and Yagüe (2023), Xiang et al. (2023), and Zhang et al. (2023) show that the Big Four public accounting firms influence tax avoidance through financial performance.
H7. Big Four public accounting firms influence tax avoidance through financial performance.

Research Method

This study employed a descriptive associative methodological approach. It examines a particular population or group by collecting and analyzing secondary data to test pre-existing hypotheses. Using sample data collected precisely as it is, descriptive research uses data collection techniques to explain or illustrate the object under study. Causality research aims to quantify the strength of the relationship between two or more variables and show how the independent and dependent variables are related. In other words, causality research draws attention to issues with the cause-and-effect relationship (Ghozali, 2021).

The population in this study is all companies listed on the SRI-KEHATI index from 2020 to 2024 (Bursa Efek Indonesia, 2024). The sample used is a saturated sample, in which all 25 companies in the index are included, yielding 125 firm-year observations (25 firms × 5 years). A saturated sample is justified by the limited number of firms consistently listed in the SRI-KEHATI index, an elite group selected based on sustainability criteria. While the sample size is relatively small for PLS-SEM, the approach remains appropriate given the exploratory nature of this research and the focus on a specific index with unique sustainability characteristics. Nonetheless, the results should be interpreted cautiously regarding generalisability beyond the SRI-KEHATI context.

Operational Definition of Variables

The proportion of independent commissioners (IC) is measured by dividing the number of independent commissioners by the total number of board members serving during the current period (Yan et al., 2023).

$$IC = \frac{Number\ of\ Board\ Independen\ Commissioners}{Number\ of\ Board\ of\ Commissioners}$$

Big Four public accounting firms are public accounting firms that are part of the four largest accounting firms in the world: PwC, Deloitte, Ernst & Young, and KPMG, measured with a dummy value of 1 for Big Four and 0 for Non-Big Four (Lu & Yang, 2023). Financial performance describes a company's financial condition, as evidenced by information in the form of financial statements, measured by ROA, because it reflects total assets as a whole (Wang et al., 2023).

$$ROA = \frac{Net\ Profit}{Total\ Assets}$$

Tax avoidance is measured using the Effective Tax Rate (ETR) model, which is expected to identify the aggressiveness of a company's tax planning using both permanent and temporary differences (Tiantian et al., 2023).

$$ETR = \frac{Total\ Tax\ Expense}{Profit\ Before\ Tax}$$

Data Analysis Technique

The data analysis technique used in this research is Structural Equation Modeling (SEM) analysis. Data management in this research will use smart PLS software. Structural Equation Modeling (SEM) is a method used to address the weaknesses found in the regression method (Ghozali, 2014; Hox & Bechger, 1998). SEM is a multivariate data analysis method for analyzing complex relationships among constructs and indicators. Researchers generally use two methods to estimate structural equation models: covariance-based SEM (CB-SEM) and partial least squares SEM (PLS-SEM). Whereas CB-SEM is primarily used to confirm theories, PLS represents a causal–predictive approach to SEM that emphasizes prediction in estimating models, whose structures are designed to provide causal explanations. PLS-SEM is also useful for confirming measurement models (Hair et al., 2021). According to Sudaryono (2017), there are two reasons underlying the use of SEM, namely, first, SEM can estimate relationships between variables that are multiple relationships. This relationship is formed in a structural model (the relationship between dependent and independent constructs). Second, SEM can describe the pattern of relationships between latent (unobserved) constructs and manifest variables (manifest variables or indicator variables).

Results and Discussion

Result

The SRI-KEHATI Index represents the stock prices of 25 listed companies selected based on criteria such as total assets, price-earnings ratio (PE), and free float. This index was created through a collaboration between the Indonesia Stock Exchange and the Indonesian Biodiversity Foundation (KEHATI). SRI stands for Sustainable Responsible Investment. This index is expected to provide additional information to investors seeking to invest in listed companies that demonstrate excellent performance in promoting sustainable business, demonstrate environmental awareness, and practice good corporate governance. After analyzing the research data, the next step is to process the descriptive statistics of the research variables. The results of the descriptive statistics processing for the research variables are shown in Table 1.

Table 1. Descriptive Statistics

	Min	Max	Mean	Std. Dev.
Proportion of Independent Commissioners	0.16	0.91	0.488224	0.233552
Big Four Public Accounting Firms	0	1	0.415592	0.172349
Financial Performance	-0.22142	0.6318	0.125198	0.117218
Tax Avoidance	0.020619	0.528247	0.208663	0.113789

Source: Secondary data processed (2025)

Table 1 shows that the proportion of independent commissioners varies considerably across companies, with an average of nearly 50%. It indicates that most companies have embraced good governance principles, but some still have a relatively low proportion. The use of Big Four public accounting firms is uneven; only about 41.6% of companies use audit services from the Big Four public accounting firms. It indicates significant variation in the audit quality received by companies. Financial performance is generally positive, but some companies experience losses (minimum negative value). It indicates that the financial condition of the sample companies is quite heterogeneous. Tax avoidance also

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varies considerably. The average effective tax payment rate is around 21%, indicating that tax avoidance practices are quite common among the sample, depending on how it is measured.

Table 2. Validity, Reliability, and Multicollinearity Test

Variable	CA	CR	AVE	VIF
Proportion of Independent Commissioners	0.81	0.86	0.62	2.15
Big Four Public Accounting Firms	0.79	0.84	0.60	1.98
Financial Performance	0.85	0.88	0.64	2.32
Tax Avoidance	0.83	0.87	0.61	2.20

Source: Secondary data processed (2025)

The validity and reliability tests show that all constructs meet the recommended thresholds. Cronbach's Alpha and Composite Reliability values range from 0.79 to 0.88, exceeding the minimum threshold of 0.70, which indicates strong internal consistency. The AVE values are above 0.50, confirming convergent validity. Cross-loadings for all indicators are higher on their respective constructs than on other constructs, supporting discriminant validity. Furthermore, the VIF values are below 5, which means there is no multicollinearity issue among the indicators. Therefore, the measurement model is reliable and valid for further analysis.

Table 3. Table of R^2, f^2, and Q^2 Test Results on Structural Models

Endogenous Construct	R^2	f^2	Q^2
Financial Performance	0.724	0.35	0.949
Tax Avoidance	0.818	0.15	0.949

Source: Secondary data processed (2025)

The R^2, f^2, and Q^2 test results indicate that the structural model has strong explanatory power and high predictive relevance. Governance mechanisms substantially explain financial performance, while combining governance and financial performance strongly influences tax avoidance. Governance mechanisms' effect on financial performance is strong, whereas their effect on tax avoidance is significant but more moderate. Thus, the research model is valid and provides a comprehensive understanding of the governance–performance–tax avoidance relationship in SRI-KEHATI firms.

Table 4. Goodness of Fit

	Saturated Model	Estimated Model
SRMR	0.066	0.066
D_ULS	3.748	3.748
D_G	2.555	2.555
Chi_Square	1.576.805	1.576.805
NFI	0.835	0.835

Source: Secondary data processed (2025)

The Goodness of Fit results indicate that the structural model has an adequate and acceptable fit. The SRMR value (<0.08) confirms a good fit, while the relatively low D_ULS and D_G values suggest model stability. The NFI score of 0.835 points to a reasonably good model fit, although there is room for improvement. Overall, the model is considered suitable for further analysis.

PLS-SEM

Figure 1 presents the results of the Partial Least Squares Structural Equation Modeling (PLS-SEM) analysis, illustrating the relationships among the variables examined in this study.

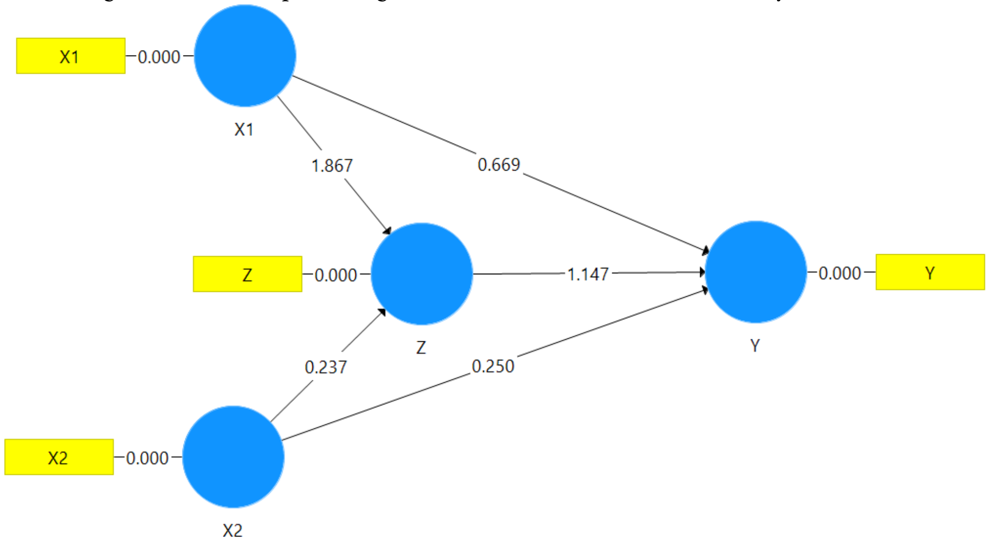

Figure 1. PLS-SEM Result
Source: Secondary data processed (2025)

Figure 1 shows the structural relationships between the variables used in this research. X1 represents the proportion of independent commissioners, and X2 denotes the involvement of Big Four public accounting firms. Financial performance (Z) is the mediating variable linking these independent variables to the dependent variable, tax avoidance (Y). The path coefficients indicate the strength and direction of the relationships, suggesting how governance mechanisms and auditor quality influence financial performance and, subsequently, tax avoidance behavior. This visualization provides a comprehensive overview of the hypothesized pathways tested in the model.

Hypotheses Testing Results

Table 5 presents the results of the hypothesis testing. Based on Table 5, it can be concluded that all hypotheses are supported with a p-value <0.05. It indicates that all relationships between variables in this model are statistically significant.

Table 5. Hypotheses Testing Results

Hypo-thesis	Variable	Path Coefficients	*p*-value	Result
	Direct Effect			
H1	Independent Commissioners → Financial Performance	0.069	0.002	Supported
H2	Big Four Public Accounting Firms → Financial Performance	0.027	0.018	Supported
H3	Independent Commissioners → Tax Avoidance	-0.144	0.004	Supported
H4	Big Four Public Accounting Firms → Tax Avoidance	-0.019	0.013	Supported
H5	Financial Performance → Tax Avoidance	-0.115	0.022	Supported
	Indirect Effect			
H6	Independent Commissioners → Tax Avoidance → Financial Performance	-0.016	0.019	Supported
H7	Big Four Public Accounting Firms → Tax Avoidance → Financial Performance	-0.002	0.015	Supported

Source: Secondary data processed (2025)

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The proportion of independent commissioners and the use of Big Four auditors significantly influence financial performance and tax avoidance practices, both directly and through mediation. The negative direction of the effect on tax avoidance (both direct and indirect) indicates that monitoring mechanisms and audit quality can reduce tax avoidance practices. Financial performance is a mediator, although the mediation (indirect) effect is relatively small. It means that the main influence remains on the direct relationship.

Discussion

The Effect of the Proportion of Independent Commissioners on Financial Performance

The results of the research hypothesis testing indicate that the proportion of independent commissioners positively affects financial performance. It means that a higher proportion of independent commissioners will improve financial performance. Independent commissioners do not have personal relationships or direct interests with management, thus providing more objective oversight. They can detect and prevent opportunistic behavior in management, ensuring that management practices align with shareholder interests. It also increases transparency and accountability in financial reporting (Guo et al., 2023). The presence of independent commissioners demonstrates a company's commitment to good governance, increases investor and stakeholder confidence, lowers the cost of capital, and encourages better financial performance. These results are highly relevant to agency theory (Jensen & Meckling, 1976), which states a conflict of interest between managers (agents) and company owners (principals). Independent commissioners act as an external oversight mechanism tasked with mitigating these conflicts. Companies need to consider the structure of their boards of commissioners and encourage an increase in the number of independent commissioners as part of their performance improvement strategies. Regulators may mandate a minimum proportion of independent commissioners to encourage better governance. The results of this study align with research by Hamid and Purbawangsa (2022), İç et al. (2022), Kim and Yoo (2022), Sadiq and Gebba (2022), and Wu and Huang (2022), which shows that the proportion of independent commissioners positively affects financial performance.

The Effect of Big Four Public Accounting Firms on Financial Performance

The dummy variable for Big Four public accounting firms, coded as 1 for Big Four and 0 for non-Big Four, shows a positive and significant effect on financial performance. It indicates that, on average, firms audited by a Big Four accounting firm have better financial performance than those audited by non-Big Four firms. The Big Four are known for their stringent audit standards and robust internal control procedures. It makes financial reports more accurate and reliable, making them more credible in the eyes of investors, creditors, and other stakeholders. It can increase market confidence, lower the cost of capital, and increase the opportunity for investment or financing, ultimately driving better financial performance (Alexander & Pisa, 2023). With audits from Big Four accounting firms, management will be more careful in preparing financial reports due to tighter supervision and control. It will reduce the opportunity for financial report manipulation (earnings management) and encourage operational efficiency and increased profitability. These results are relevant to signaling theory (Spence, 1973). According to this theory, companies send positive signals to the market through certain actions, including selecting auditors from the Big Four accounting firms. Therefore, companies are advised to consider using Big Four accounting firms to increase the credibility of financial reports and attract more investors. Investors can use Big Four accounting firms to indicate good governance when assessing a company's potential performance. The results of this study are in line with research by Alsmady (2022), Becerra-Vicario et al. (2022), Chen and Xie (2022), Jayeola et al. (2022), and Kanzari et al. (2022), which shows that Big Four public accounting firms positively affect financial performance.

The Effect of the Proportion of Independent Commissioners on Tax Avoidance

The results of the research hypothesis testing indicate that the proportion of independent commissioners engages in tax avoidance. It means that a higher proportion of independent commissioners will reduce tax avoidance. In other words, independent commissioners play an active role in controlling a company's tax policy, and their presence can suppress aggressive tax avoidance practices. Independent commissioners function as external parties with no direct interest in management, so they tend to monitor management actions to ensure they adhere to the principles of prudence and compliance and reduce opportunistic managerial practices, including aggressive tax strategies (Wang et al., 2023). Independent commissioners are typically more oriented towards good corporate governance (GCG), including compliance with tax regulations, thus encouraging companies to implement legal and fair tax strategies and avoid the risk of fines or reputational damage resulting from unethical tax avoidance (Guo et al., 2023). These results are relevant to agency theory (Jensen & Meckling, 1976), which states that management (agents) tend to act in their interests by engaging in tax avoidance that can increase their short-term profits. However, due to legal and reputational risks, this action can be detrimental to the owners (principals). Companies should increase the proportion of independent commissioners to suppress tax avoidance practices that can harm the company in the long run. Regulators can encourage a minimum requirement for the proportion of independent commissioners as part of efforts to improve corporate tax compliance. Investors can use the proportion of independent commissioners to indicate ethical and legal risk in making investment decisions. The results of this study are consistent with research by Amin et al. (2023), Gu and Wang (2023), Haque et al. (2023), Mushtaq et al. (2022), and Qi et al. (2023), which shows that the proportion of independent commissioners has a negative effect on tax avoidance.

The Effect of Big Four Public Accounting Firms on Tax Avoidance

The results of the hypothesis testing show that Big Four public accounting firms have a negative effect on tax avoidance. It indicates that firms audited by a Big Four auditor are less likely to engage in aggressive tax avoidance practices. It can be justified for several reasons. First, Big Four auditors have strong global reputational capital and are unwilling to risk their credibility by tolerating aggressive tax practices. Second, they possess superior technical expertise and international networks, enabling them to detect complex tax avoidance schemes more effectively than non-Big Four auditors. Third, Big Four auditors are under greater scrutiny from regulators and the public, which creates stronger incentives to ensure compliance with financial reporting and tax regulations (Tiantian et al., 2023). This finding is consistent with stakeholder theory (Freeman, 1984), which emphasizes that companies must consider the interests of broader stakeholders, including governments and society, who view aggressive tax avoidance as socially irresponsible. Thus, engaging a Big Four auditor serves both as a monitoring mechanism and as reputational protection against tax avoidance practices. The results of this study are in line with research by Blaylock et al. (2024), Chen et al. (2021), Elbra et al. (2023), Gontara and Khlif (2021), and Klassen et al. (2016) showing that the Big Four public accounting firms have a negative effect on tax avoidance.

The Effect of Financial Performance on Tax Avoidance

The results of the research hypothesis testing indicate that Financial Performance negatively affects Tax Avoidance. It means that higher financial performance reduces tax avoidance. Companies with high profits and strong cash flow are less likely to avoid taxes because they can pay their tax obligations without sacrificing liquidity or profitability, and they are more focused on long-term growth and maintaining their reputation (Zhang et al., 2023). High financial performance is often accompanied by pressure to maintain a positive image among investors, the public, and regulators, tax compliance as part of a corporate social responsibility (CSR) strategy, and avoiding legal or reputational risks resulting from aggressive tax avoidance practices. Companies experiencing declining profits or financial pressure may be more motivated to reduce their tax burden to maintain profit margins and engage in tax avoidance strategies for short-term cost efficiency (Khan et al., 2023). According to agency theory (Jensen &

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Meckling, 1976), there is a potential conflict between management (agents) and owners (principals). Management with poor performance may be motivated to avoid taxes to cover declining profits and increase performance-based compensation (e.g., bonuses). Companies need to recognize that good financial performance is the foundation for building ethical and compliant governance, including in taxation. For investors, the level of tax avoidance can indicate potential ethical and legal risks, especially in companies with low performance. The results of this study are in line with research by Chen et al. (2022), Fagotti et al. (2022), Naeem et al. (2022), and Wu et al. (2022) showing that financial performance has a negative effect on tax avoidance.

The Effect of the Proportion of Independent Commissioners on Tax Avoidance through Financial Performance

The results of the research hypothesis testing indicate that the proportion of independent commissioners negatively influences tax avoidance through financial performance. A higher proportion of independent commissioners will reduce tax avoidance through financial performance. Independent commissioners' primary function is to act as objective supervisors, free from internal management interests, thereby promoting good corporate governance. This effective oversight encourages management to operate efficiently, transparently, and accountably, ultimately improving the company's financial performance. When financial performance improves, companies tend to have less incentive to engage in tax avoidance because they have sufficient financial capacity to meet their tax obligations and prefer to maintain a good reputation with stakeholders, including the government and the public. Therefore, the proportion of independent commissioners indirectly reduces tax avoidance through its role in driving improved financial performance. This finding aligns with agency theory (Jensen & Meckling, 1976), which states that independent oversight can suppress opportunistic behavior in managers, and also supports stakeholder theory (Freeman, 1984), as well-performing and tax-compliant companies demonstrate responsibility towards all stakeholders. This finding aligns with research by Alexander and Pisa (2023), Alstadsæter et al. (2022), Guo et al. (2023), Khan et al. (2023), and Kim and Lee (2023) that shows that the proportion of independent commissioners negatively impacts tax avoidance through financial performance.

The Effect of Big Four Public Accounting Firms on Tax Avoidance through Financial Performance

The results of the hypothesis testing also indicate that the Big Four public accounting firms influence tax avoidance indirectly through financial performance. The dual role of Big Four auditors can explain it. On the one hand, their high audit quality pressures management to present transparent and reliable financial reports, thereby reducing opportunities for earnings management and aggressive tax avoidance. On the other hand, their presence enhances investor confidence, lowers the cost of capital, and improves financial performance. Better performance reduces managerial incentives to engage in tax avoidance, since profitability can already be achieved without risky tax strategies. This mechanism is consistent with agency theory (Jensen & Meckling, 1976), which argues that external monitoring reduces opportunistic behavior, and with Signalling Theory (Spence, 1973), in which the use of Big Four auditors signals credibility and compliance to investors and regulators. Therefore, Big Four auditors not only directly constrain tax avoidance but also indirectly reduce it through their role in improving financial performance. The results of this study align with research by Athira and Ramesh (2023), Compagnie et al. (2023), Sánchez-Ballesta and Yagüe (2023), Xiang et al. (2023), and Zhang et al. (2023), which shows that the Big Four public accounting firms negatively impact tax avoidance through financial performance.

Conclusion

The results of SEM PLS analysis indicate that the proportion of independent commissioners and the use of Big Four auditors influence both financial performance and tax avoidance levels, directly and indirectly. Among these, the proportion of independent commissioners has the strongest direct effect on reducing tax avoidance, emphasizing the crucial role of internal oversight. Although the indirect effect coefficients are relatively small, both mediation pathways through financial performance are significant, reinforcing the role of financial performance as a mediator in this model.

This study strengthens agency theory and stakeholder theory by demonstrating that independent commissioners and Big Four auditors can reduce tax avoidance through improved financial performance. It also supports signaling theory by positioning financial performance as a mediating variable, offering new insights that financial performance can serve as a signal to investors and tax authorities regarding the ethical conduct of corporate management. Furthermore, this study contributes to the limited literature on tax avoidance behavior among companies regarded as committed to sustainability and good governance, highlighting that a sustainability label does not necessarily guarantee the absence of tax avoidance practices. The findings provide a practical basis for companies to increase the proportion of independent commissioners and consider engaging Big Four auditors to enhance governance and mitigate tax risk. Investors can also use governance structure and audit quality as key indicators when assessing corporate compliance and reputational risk in investment decisions.

A limitation of this study is the inclusion of only one mediating variable. Other factors, such as management incentive structures, institutional ownership, or CSR practices, may mediate the relationship between governance and tax avoidance. Future research could incorporate additional mediating or moderating variables, including CSR, management incentives, internal governance mechanisms, or public and media pressure, to provide a more comprehensive understanding.

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