Asian Journal of Management Entrepreneurship and Social Science
ISSN: 2808 7399
https://ajmesc.com/index.php/ajmesc Volume 04 Issue 01

The Effect of Environmental, Social and Governance (ESG) Business Strategy on Tax Aggressiveness with Corporate Social Responsibility (CSR) as a Moderation Variable

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Abstract

The primary purpose of this research is to find out how environmental, social, and governance issues (ESG) affect both prospector and defender corporate strategies as well as tax aggressiveness in the Consumer Non-Cyclicals and Basic Material sectors. Corporate social responsibility (CSR) will be used as a moderating variable. The researchers conducted a study on a selection of companies listed on the Indonesia Stock Exchange that were vulnerable between 2019 and 2021. They used purposive sampling approaches and acquired a total of 74 companies as samples. This study employed a random effect model approach to analyse the structure of panel data. Companies using both Prosfector and Defender business strategies have a direct impact on their level of tax aggressiveness. Nevertheless, companies that adopt a prospector business strategy and practice corporate social responsibility (CSR) moderation may reduce their ability to engage in aggressive tax practices. Conversely, companies that follow a Defender business strategy and practice corporate social responsibility (CSR) moderation may enhance their ability to engage in aggressive tax practices. The use of aggressive tax reduction methods has a negative influence on a company's sustainability, leading to a decline in share prices. This is due to the unfavourable perception of investors, who view the company's recorded earnings as being small. The government incurs losses while engaging in aggressive tax avoidance activities, as these practices might diminish state revenues derived from the tax sector. These findings offer compelling evidence regarding the significance of information sharing, particularly in relation to corporate sustainability. This *study enhances comprehension of corporate tax conduct and commercial tactics in emerging nations.*

Keywords: Business Strategy, Prospector, Defender, ESG, CSR, Tax Aggressiveness

1. INTRODUCTION

For starting operations, a business strategy is necessary, and managers typically develop it. This strategic plan has a pervasive impact on all facets of the organisation (Arieftiara et al., 2015). Implementing a well-designed business plan can enhance the efficiency of corporate processes and give a company a competitive edge over its rivals. The major objective of business decisions is to optimise corporate value, the following studies were conducted: Abbas et al., 2021; Mubeen et al., 2021b; Wang et al., 2021; Li et al., 2022; and Liu et al., 2022. Senior executives make advantageous judgements to enhance the performance of the company (Abbas et al., 2019c; Hussain et al., 2019, 2021; Mamirkulova et al., 2020; Mubeen et al., 2021a; Wang et al., 2021). The organisation prioritises promoting social welfare and fostering a feeling of social justice to benefit society, the references cited are Abbas et al. (2019b, 2020), Mubeen et al. (2020), Abbasi et al. (2021b), and Aman et al. (2021). The goal of organizations is to reach the highest possible degree of profitability (Hussain T. et al., 2017; Abbas et al., 2019a, b; Azadi et al., 2021; Azizi et al., 2021). In order to do this, organizations make use of creative approaches, information sharing, and corporate social responsibility (CSR). Any rise in tax costs resulting from transactions for a certain period signifies a cash outflow. Alternatively, it will result in a rise in cash and indicate a decrease in taxes.

According to the research conducted by Miles, Snow, Meyer, and Coleman in 1978, there are four distinct business strategies that companies might adopt: defender, prospector, analyser, and reactor. Business strategy encompasses not only efforts to increase the market, introduce new items, and offer discounts but also a range of measures aimed at ensuring survival. One commonly employed strategy is to augment revenue or diminish expenditures, which encompasses alleviating tax obligations. Dhamara and Violita (2018) claim that in order to pay less in taxes, businesses frequently use a variety of tax planning techniques to lower their pre-tax income.

The correlation between a corporation's tax planning and business strategy is examined using the business strategy framework that Miles and Snow (1978, 2003) worked on our initial enquiry focuses on the correlation between a company's business strategy and its degree of tax avoidance, namely the extent to which it evades taxes. This study's objective is to investigate the relationship between a company's business strategy and the degree to which its tax planning is aggressive, specifically the level of uncertainty in achieving tax reductions. This research is crucial as it aids in gaining a deeper comprehension of the characteristics that influence a company's inclination to participate in aggressive tax evasion practices (Hanlon & Heitzman, 2010).

Higgins et al. (2015) conducted a study on a global scale to examine the correlation between different strategies categorised by Miles and Snow (1978, 2003) and varying degrees of tax planning. The findings revealed that organisations adopting a prospector strategy are more inclined to take chances in the realm of taxation, while those following a defender strategy are more cautious. Typically, refrain from taking such risks. According to the previous author, tax aggression serves as an indicator of a prospector strategy.

Martinez, Al, and Ferreira, BA (2019) Examine the strategic classification and correlation between prospector and defender companies, as well as their tax aggression, for Brazilian corporations, with the exception of banking institutions. The majority of Brazilian corporations are characterised as analysts, whereas prospector companies are a minority. Defence companies make up approximately 21% of the total. In contrast with analysts and prospectors, defender firms are typically more tax-aggressive.

According to Gallego-Álvarez et al. (2014), sustainable practices can lead to differentiation and competitive market advantage for companies, something that can become part of the brand for now and the future, as well as influence company profits, especially since the issue of corporate sustainability is starting to become a focus for all business people in Indonesia at this time. This has made the campaign about ESG-based investment increasingly popular. The ESG-based-basedtment in question is an investment that pays attention to financial metrics in making investment decisions and ESG factors as non-financial factors. ESG, or "Environmental, Social, and Governance" itself, is a set of standards that refer to three main criteria in measuring aspects of sustainability. ESG is swiftly gaining traction in Indonesia, following the government's commitment to accomplishing the seventeen Sustainable Development Goals (SDGs) of the United Nations (UN) by 2030.

According to Amir and Serafeim (2018), there are various reasons why investors choose to invest in businesses that have adopted ESG: namely, ESG is material to investment performance, there is increasing client and stakeholder demand, there is a belief that ESG is effective in bringing about change in the company, ESG is part of the investment product strategy, and ESG is seen as an ethical responsibility.

The correlation between company sustainability performance and tax avoidance is both conceptually and empirically uncertain. According to traditional economic theory, corporations are inclined to engage in tax avoidance and enhance their sustainability performance in order to maximise shareholder profit. The potential harm to a company's reputation and the probability of being discovered and penalised act as a constraint on the financial worth of shareholders in relation to their corporate tax obligations. In this context, organisations prioritise sustainability performance as a means to establish a favourable reputation, which acts as a risk management strategy against corporate crises and minimises the adverse effects of such crises. Hence, conventional economic theory posits a direct correlation between the performance of sustainability and the practice of corporate tax avoidance. The stakeholder theory and corporate culture perspectives posit that corporate tax avoidance and sustainability performance are negatively correlated. As posited by stakeholder theory, organisations bear obligations to an extensive array of stakeholders, which comprise society, employees, and the environment.

Corporate social responsibility is always interesting to discuss. The MUI brought up the case of Ajinomoto, which contained bactosoytone, a bacterial growth nutrient made by hydrolyzing soybean enzymes against biocatalysts from pig pancreas. This reminded people of CSR once more. (People's Thoughts, June 2004). Apart from that, the emergence of the most horrendous cases of HIT, Nike, and the Lapindo case further emphasizes the need for real action from CSR. These cases triggered a critical attitude among the public to question corporate social responsibility as an ethical reference for companies in running their businesses.

According to research by Hanlon and Hietzman (2010), Landy et al. (2013), and Lanis and Richardson (2015), several previous researchers studied CSR and tax aggressiveness separately, and their findings on the relationship between the two were conflicting. Suastha (2016) cites a study conducted by the Centre for Governance, Institutions, and Organizations at the National University of Singapore (NUS) Business School that identifies potential areas for improvement in the execution of corporate social responsibility (CSR) initiatives in Indonesia. The information suggests a clear correlation between corporate social responsibility (CSR) and the act of reducing tax payments, commonly referred to as tax avoidance. There is a tendency for businesses with inadequate corporate social responsibility (CSR) to partake in tax avoidance practices. Zeng (2019) discovered a notable positive correlation between Corporate Social Responsibility (CSR) and the act of evading taxes, but Kim and Im (2017) observed a negative association between CSR and tax avoidance. The connection between tax avoidance and CSR still needs to be debated and concluded (Rensselaer, 2016). Therefore, this research must be conducted to verify existing research and provide evidence of whether low CSR indicates aggressive tax avoidance.

In Indonesia, there are only two efforts that taxpayers can take to influence the amount of tax that must be paid: legally (through effective tax planning, often called tax avoidance) and illegally (through tax evasion) (Santoso & Rahayu, 2013). In Indonesia, no law regulates acceptable and unacceptable tax avoidance, so there are often differences in interpretation between taxpayers and tax officers (Darussalam & Septriadi, 2009).

This research sample of companies is based on the primary consumer goods sector (consumer non-cyclicals). Companies produce or distribute anti-cyclical or primary goods and services, where demand for goods and services is unaffected by economic growth. (Kayo, 2021), so that most expectations reflect profits. Essential Materials sector companies sell products and services that other industries use as raw materials to produce final goods. The raw materials sector is the first-best sector in terms of stock investment, so it can compare the business strategies of the two sectors in terms of tax avoidance and sustainability aspects.

This study measures tax aggressiveness using ETR stands for effective tax rate. Divided by pre-tax income is the calculation. (Bradshaw et al., 2019). ESG disclosure is the most recent evolution of voluntary information reporting, which began with standalone CSR reporting and sustainability reporting and progressed to integrated reporting (Faisal et al., 2018). Dummy variables are employed to assess ESG disclosure and corporate social responsibility (CSR). Companies that include information in their annual reports and sustainability reports are assigned the value 1, while companies that do not do so are assigned the value 0. ESG stands for the Global Reporting Index, which encompasses a total of 91 indicators. A total of forty-eight social indicators, thirty-four environmental indicators, and nine economic indicators comprise these metrics.. The subject for CSR is based on Sembiring's work from 2005.

This research also uses control variables, including profitability and company size. Control variables are employed to mitigate the impact of biased information and ensure an impartial assessment of their influence (Afrika, 2021). Profitability is measured using the return on assets (ROA) ratio, which demonstrates a company's ability to make profit from its assets (Andikaningprang et al., 2017). When a corporation generates substantial profits, the corresponding income tax liability will increase. However, the firm may employ strategies to minimize its tax burden since its primary objective is to maximize profits (Andikaningprang et al., 2017). Profitability is considered a control variable due to its beneficial impact on tax evasion. The size of a company is directly correlated to its total assets. According to Mariani & Suryani (2021), the company's selling ability will improve as its assets expand. This phenomenon enables corporations to generate substantial profits, while the adoption of tax evasion strategies aids in minimizing the amount of tax paid. As a result, studies by Afrika (2021), Diantari and Ulupui (2016), and Mariani and Suryani (2021) show that a company's size has has a favourable impact on tax evasion.

The research enhances comprehension of corporate tax behavior and business strategy in emerging nations. This shows excessive corporate responsibility (CSR) costs, resulting in reduced income subject to corporate income tax. Furthermore, the Indonesian Tax Authority offers reference materials as a means to enhance policies and reduce loopholes exploited by corporations engaging in tax avoidance.

This research is a development of research by Higgins et al. (2015), Martinez, Al, and Ferreira, BA (2019), and Pratiwi, AW, and Kiswara, E (2019). This research distinguishes itself from prior studies by establishing a connection between ESG characteristics and aggressiveness. Tax. This research modifies the business strategy criteria by adding dividend payments (Purba AR et al., 2019).

2. LITERATURE REVIEW

Jensen and Meckling (1976) propose agency theory offer a definition of an agency relationship as a contract in which one or more principals (shareholders) employ another party (manager) to run the organisation. Principals and agents have their own interests, which in turn creates an information asymmetry that influences the decision-making of financial report users. Eisenhardt (1989) defines agency theory as being based on three human nature assumptions: self-interest, bounded rationality, and risk avoidance. The assumption of self-interest explains that the principle is motivated to improve his welfare with the prospect of receiving dividends or an increase in share prices. This is also known as the self-interest assumption. On the other hand, the agent is motivated to improve his social welfare by raising the amount of remuneration he receives. Conflicts of interest make agents try to maximize profits.

Based on a company's level of aggressiveness in introducing new products and entering new markets, the Miles and Snow (1978, 2003) strategy framework categorizes

Asian Journal of Management Entrepreneurship and Social Science
ISSN: 2808 7399
https://ajmesc.com/index.php/ajmesc Volume 04 Issue 01

various strategies. This concept defines company strategy as a sequence of strategies. On one end of the strategy continuum lies the prospector strategy, which actively engages in the the creation of new products and the exploration of new market opportunities. The defender strategy is focused on protecting existing products and markets, positioned at the other end of the strategy spectrum. The analyzer strategy, situated in the midst of the sequence of strategies, exhibits a combination of qualities from both.

Bentley et al. (2013) conducted a study to see if organizations that use different business strategies exhibit variations in the occurrence of financial reporting abnormalities. It was discovered that prospectors were more commonly engaged in legal disputes, irregularities, and revisions compared to defenders. The uncertainty of extensive innovation efforts in prospectors (Miles & Snow, 1978, 2003) is attributed to being the cause of increased firm risk. The auditor is drawn to the danger associated with the prospector. In their study, Chen et al. (2017) discovered that those with a propensity for taking risks were more inclined to accept judgments regarding the viability of a business and the presence of significant weaknesses, compared to individuals who were more cautious and defensive in their decision-making.

Additionally, the prospector's risk tolerance and the clarity of the financial statements can both have an impact on the auditor's concerns about the company. Limet et al. (2018) discovered that the prospectors' reading was notably inferior to that of the defenders. Prospectors possess a broader assortment of products and market sectors compared to defenders. In addition, it was discovered that company strategy had an impact on corporation tax filing behavior. A study that was carried out by Higgins et al. (2015) investigates the impact of company strategy on corporation tax behavior. Prospectors showed a higher level of assertiveness in seeking tax savings and hence had a lower tax burden compared to defenders. Their justification for the findings encompasses four different approaches. Prospectors possess a greater number of tax-planning alternatives compared to enterprises employing alternative company techniques. Research and development efforts might result in tax advantages or government grants, while different geographical markets can create potential for transferring global wealth. Furthermore, the result of the prospector possesses distinct characteristics and exhibits a limited number of feasible alternatives. Therefore, when compared to other company methods, potential clients are less worried if aggressive tax practices are disclosed to the public. Furthermore, the prospector has a higher degree of adaptability towards embracing risk and uncertainty compared to other organizations. Consequently, prospectors are better equipped to confront the unpredictability arising from assertive tax planning. Furthermore, the decentralized organizational structure of the prospector effectively synchronizes the tax department and business units. This results in improved tax planning as the tax department is regarded as a revenue-generating division.

Collaboration with business units. Prospectors and defenders have distinct organizational structures and methods of increasing collaboration among their company divisions, which prior research indicates is crucial for facilitating tax planning endeavors. According to Phillips (2003), providing business unit managers with compensation after tax has been shown to enhance coordination between a company's business units and its tax department, resulting in a decrease in the book effective tax rate (ETR). In addition, the study conducted by Robinson, Sikes, and Weaver (2010) reveals that organizations that operate in a decentralized manner are more inclined to see their tax departments as profit centers, resulting in a reduction in the effective tax rate shown in their financial statements. The study is now assessing the degree to which the company's business plan fosters collaboration between the tax department and other units within Prospector Company. Adopt assertive tax strategies. Alternatively, individuals who are open to taking risks are more equipped to handle the uncertainty that arises from engaging in aggressive tax avoidance tactics. As a result of this variation in risk tolerance, prospectors will engage in more assertive methods of tax avoidance. Thus, we present the subsequent hypothesis:

H1.a: Companies with a Prospector Strategy have a positive impact on tax aggressiveness.

H1.b: Companies with a Defender Strategy have a positive impact on tax aggressiveness

Legitimacy is a harmonious condition between the company's value system and society. In contrast, differences in value systems create a legitimacy gap, so that the company's existence and value are threatened. To overcome the legitimacy gap, companies provide the highest quality information to inform company performance (Dowling & Pfeffer, 1975; Lindblom, 1994). According to legitimacy theory, companies try to ensure that their company's industrial activities are still within existing circles and norms and that the surrounding community receives the company's industrial activities legally without being harmed (Eriyanti & Fitri, 2022). Legitimacy theory can explain ESG, CSR, and tax aggressiveness. According to legitimacy theory, companies want the public to assess their performance, which can be seen from the company's actions and concerns about sustainability. Companies want to maintain the trust they have gained from the public by taking discretionary actions, such as tax aggressiveness.

Corporate taxes can be linked to social responsibility if paying these taxes has implications for the wider community. Therefore, in paying taxes, companies must consider ethics, society, and other stakeholders (Lanis & Richardson, 2012). Companies' attitudes toward social responsibility, legality, and ethics can have an impact on their decisions regarding the extent to which they wish to engage in tax reduction activities (Christensen & Murphy, 2004). Hoi et al. (2013) added that to reduce the negative impact of tax avoidance, companies can increase their social responsibility activities to build their reputation.

ESG disclosure is the disclosure by a company of information about the impact of business activities on the environment, society, and governance (ESG) (Almeyda & Darmansya, 2019). According to research (Nurrahman et al., 2019), ESG performance results that measure sustainability performance harm sustainability performance. Supported research (Chen & Hung, 2021) found that CSR harms accrual and natural earnings management. According to the previous explanation, a research hypothesis can be prepared, namely:

H2: Environmental, Social, and Governance (ESG) has a positive effect on tax aggressiveness.

According to earlier empirical investigations, there is still a need for more clarification regarding the relationship between corporate environmental performance in CSR and corporate aggressiveness. For example, Jos van Rensselaer (2016) and Marsdenia and Dwi Martini (2018) show the same results: there is a strong correlation between environmental performance and the practice of minimizing tax payments.. Meanwhile, recent research by Sari and Tjen (2016) revealed that environmental performance has a significant negative impact on tax aggressiveness. Meanwhile, Laguir et al. (2015) have tested and found no significant results regarding the relationship between environmental performance and tax aggressiveness. Based on the explanation above, a research hypothesis can be prepared, namely:

H.3a: Corporate Social Responsibility (CSR) Strengthens the Positive Influence of Prospector Strategy on Tax Aggressiveness.

H.3b. Corporate Social Responsibility (CSR) Strengthens the Positive Influence of Defender Strategy on Tax Aggressiveness.

3. RESEARCH METHOD

This research employs a quantitative technique. The research data are derived from the financial reports of companies in the consumer non-cyclical and basic materials sectors that are publicly traded on the Indonesia Stock Exchange (BEI) via the website www.idx.co.id. The financial reporting period for research is from 2019 to 2021. A selection of the companies are in the Consumer Non-Cyclical and Basic Materials sector because these companies require many business strategies to be competitive and sustainable. Researchers excluded companies that experienced losses before tax, companies that presented financial reports in foreign currency, and companies that did not have complete data.

Purposive sampling was used to choose a sample for this study, which 209 basic materials and non-cycle consumer sector companies registered on the IDX in 2021. 77 companies registered in the Non-Cycle Basic Materials and Consumer Sector in 2019. Seventy-seven companies use foreign currency. 16, and companies that did not have complete data were 42, so the number of sample companies that had complete data was 74 with a period of 3 years, bringing the total observations to 222.

This study employs Mile and Snow's (1978) business strategy typology as a framework to assess a company's business strategy. However, it uses an index for the criteria for a prospector company strategy and a defender company strategy, with seven prospector criteria, namely 1. There is product innovation. There is product variety. There is investment in employee development. R&D costs, 5—company growth, 6. vast market share, 7. no dividend distribution. For defenders, there are seven criteria; in this case, the opposite criteria for prospectors are 1. no R&D costs, 2. no promotion costs, 3. Focus on existing products. Focus on existing markets. make efficiency, 6. no growth, 7. no dividend distribution. These criteria are calculated using dummy variables, with a value of 1 if there is a matching criterion and 0 if there is no criterion. The higher the criterion value, the more the company reflects the strategy with the highest value between the two criteria, and vice versa. Pohan and Dwimulyani (2017) stated that companies can disclose non-financial information by disclosing sustainability issues, including activities related to the environment. Currently, many studies focus not only on social aspects measured by CSR but also increasingly on environmental and governance aspects measured by ESG (Nurrahman et al., 2019). ESG has become the most widely used sustainability standard for corporate accountability (Howard-Grenville, 2021). The ESG score is calculated using the average of the total indicator ratings expressed against the total ESG assessment indicator items (Husada & Handayani, 2021). The number of indicator assessments is calculated using a dummy variable, with one if the company discloses each item and 0 if there is no disclosure. The quality of the non-financial information that the company discloses is higher the higher the ESG value, and vice versa. ESG refers to the Global Reporting Index, which has 91 indicators (9 indicators related to the economy, 34 to the environment, and 48 to society). The formula for measuring ESG disclosure is:

$$\text{ESG Score} = \frac{\text{ESG Disclosure Value}}{\text{Total Maximum Disclosure}}$$

CSR refers to the responsibility of an organization to assess the societal and environmental effects of its decisions and operations. This should be done in a transparent and ethical manner, while also contributing to sustainable development, as defined by ISO 26000 in 2017. The company's CSR disclosure clearly demonstrates its commitment to Corporate Social Responsibility (CSR). The study conducted by Nazari et al. (2017) demonstrated a clear and direct association between the implementation of corporate social responsibility (CSR) practices and the communication of CSR activities. In measuring CSR, the author uses a formula from previous researchers, namely Sembiring (2005), Andrian, T, and Sudibyo, YA (2019). By changing the number of items from 91 to 78 indicators (13 environmental indicators, seven energy indicators, 37 health and safety indicators, 10 product indicators, nine indicators of community involvement, and two general indicators), the formula for measuring CSR disclosure is:

$$CSRIj = \frac{\Sigma Xij}{NJ}$$

Information:
CSRIj: CSR disclosure index
ΣXij: If the item i is disclosed, the value is 1; otherwise, it is 0.
NJ: Number of companies i

In this study, the author employs ETR as a surrogate for tax avoidance. The application of this proxy is consistent with the findings of Dyreng et al. (2010).

$$ETR = \frac{\text{tax burden}}{\text{profit before tax.}}$$

A valuation of the organization's profitability using the ROA formula was conducted by Africa (2021). The company's operations can be assessed by examining its performance, independent of any impact from tax management practices (Andawiyah et al., 2019). According to research by Africa (2021), Andawiyah et al. (2019), and Andikaningprang et al. (2017), it is possible to estimate profitability by using the return on assets (ROA) metric.

$$\text{Return on Assets (ROA)} = \frac{\text{Net Profit}}{\text{Total Assets}}$$

The capacity of the organization to ascertain its size in order to ascertain its classification as either large, medium, or minor. The overall value of the company's assets determines its size. The company's size influences its desire to undertake tax evasion decisions; hence, it is classified as a control variable (Mariani & Suryani, 2021). The formula for calculating business size is based on studies conducted by Africa (2021), Andawiyah et al. (2019), and Andikaningprang et al. (2017).

Company Size (SIZE) = Ln (Total Assets)

Utilized is panel data regression analysis as the methodology. An examination of the relationship between independent and dependent variables is the objective of this research. STATA 15 software was utilized in this study. The stages of data analysis include a variety of tests, including the outlier test, descriptive statistical analysis, pooled least squares (PLS) test, fixed effect model (FEM) test, Chow test, random effect model (REM) test, and Hausman and Lagrange multiplier tests.

$ETR = \beta0 + \beta1BSP + \beta2BSD + \beta3ESG + \beta4BSP*CSR + \beta5BSD*CSR + \beta6ESG*CSR + \beta7SIZE + \beta8Profit + \varepsilon$

Information:

ETR: Tax Aggressiveness

BSP: Prospector Business Strategy

BSD: Difendor Business Strategy

ESG: GRI Index

CSR: CSR theme

Size: Company size

Profit: Profitability

$\beta0$: Constant

ε: error

4. RESULT

In this research, a discussion of descriptive statistical analysis was carried out for average data. The manufacturing companies that meet the research sample criteria are 231 companies with a research period of 2019 to 2021. However, from the data of 231 manufacturing companies that have met the criteria in this research, it turns out that some data has not passed the classic normality assumption test, so some of the data outliers need to be removed first so that the data becomes normal. After deleting nine extreme data points (outliers), we obtained average data for 222 companies. Based on descriptive statistical tests, it can be concluded that the average effective tax rate (ETR) is 32%, the average prospector is 47%, and the average defender is 63%. ESG disclosure in corporate sustainability reports in Indonesia is still relatively low, at 29.53%. On average, companies that publish sustainability reports are large companies. Profitability has the lowest possible value -0.0203, greatest possible value of 5.6095, with an average profitability value of 0.1648 (16.5%). The comparison of the standard deviation and the average value is 370.7%. Based on a comparison of the minimum and maximum values, the profitability value has a huge gap. On average, Indonesian companies can conclude that the companies that are the object of research have varying profits and are manageable.

4.1 Panel Regression

To determine which of the PLS and FEM models was the best, a panel regression chow test was used. The cross-section food test showed a chi-square probability of 0.6462 or above 0.05. It can be concluded that the best model for this proxy is FEM. The Hausman test was performed to determine the superior model between the Fixed Effects Model (FEM) and the Random Effects Model (REM). The Hausman test shows that the probability value of the chi-square prob value is 0.1955, or less than 5%. The best model for this proxy is REM. The LM test was carried out to compare the best model between REM and PLS. LM test: The test shows that the probability value of the cigar box is 0.0000, or below 0.05. The best model for this proxy is REM.

Hypothesis testing

Table 1. Hypothesis Test Table

Variable	Coef	Z	P>Z	Decision
Prospector	0.99516	3.35	0.001	H1a is accepted
Defender	0.77015	2.71	0.007	H1b accepted
Esg	0.048654	0.23	0.816	
ProsCsr	-0.54239	-1.02	0.306	
DefenCsr	1.03141	2.20	0.028	H3a accepted
EsgCsr	-0.58017	-0.80	0.423	
Size	-0.00479	-0.44	0.658	
Probability	-0.04052	-0.97	0.334	
C	-0.8076	-2.06	0.039	
R-Squared				0.0999
Adjusted R-squared				0.0791

Prob F-Stat				0.0004

Source: STATA 15 data processing results *>1.96 **<0.05

5. DISCUSSION

The Influence of Prospector & Defender Business Strategy on Tax Aggression

The types of prospector and defender strategies show significant value, so the prospector-defender business strategy positively influences tax aggression. We can conclude that companies with prospector and defender characteristics engage in aggressive tax planning. This is consistent with previous studies by Higgins et al. (2015) who came to the conclusion that tax aggressiveness produces significant results for the business strategy of prospector-type companies. Likewise, research conducted by Martinez, Al, and Ferreira, BA (2019) states that companies with a Defender Business Strategy are more aggressive towards tax avoidance than other strategies. Why is it significant and not significant?

These results validate Hypotheses 1a and 1b: in order to preserve their market position, sustainability, and competitiveness, businesses with defender characteristics can adopt an aggressive tax planning strategy. Companies exhibiting prospector qualities possess greater tax planning prospects and have a higher level of assertiveness in capitalizing on these prospects. Prospectors tend to choose tax havens as their preferred locations for international activities. Additionally, prospectors experience greater fluctuations in the outcomes of their tax planning techniques.

The Influence of Environmental Social Governance (ESG) on Tax Aggression

ESG Disclosure is the disclosure by companies of information regarding the environment, society, and governance (ESG) on the impact of business activities (Almeyda & Darmansya, 2019). This research shows that ESG has a value of 0.23 <1.96 and an insignificant effect on tax aggressiveness. The computed t value is 0.816 > 0.05, indicating that ESG has no positive effect on tax aggressiveness. The findings align with earlier research by Sari and Tjen (2016), who discovered that environmental performance significantly affected tax aggressiveness.

From Hypothesis 2, ESG positively affects tax aggressiveness and is rejected. The absence of a significant influence of ESG and tax aggressiveness is due to the relatively high average ESG obtained from ESG research data, which has an average value of 4.9%. According to Watson (2015), companies that are active or even implementing ESG disclosures will not carry out more tax aggressiveness.

5.1 The Influence of Prospector and Defender Business Strategy on Tax Aggressiveness Moderated by Corporate Social Responsibility (CSR)

An effective corporate social responsibility (CSR) strategy is unquestionably essential for every organization. According to Business News Daily, CSR is a business strategy that integrates sustainable development into the company's business model. CSR, or Corporate Social Responsibility, is a means by which companies can have a positive impact on society. This impact can manifest within the realms of the economy, society, and environment, sometimes referred to as the ESG (economic, social, and environmental) scope.

CSR is also an embodiment of the quadruple bottom line, namely that companies must excel in people (employees), planet (environment), profit (financial and profit), and prosperity (welfare for society), as quoted from Forbes. Therefore, companies need to create a CSR strategy that suits their goals. The five corporate social responsibility strategies are: adjusting to the company's vision and mission; finding customer issues; determining targets; finding opportunities; and measuring company profits. Many companies conduct CSR programs to create sustainability and close relationships with beneficiaries.

The type of interaction of prospector strategy with corporate social responsibility (CSR) shows an insignificant value, so CSR does not strengthen the influence of prospector business strategy on tax aggressiveness. These results align with research conducted by Zeng (2019) in 35 countries, providing evidence that CSR correlates positively with tax avoidance. Mouakhar et al. (2020) also conducted research and concluded that companies with activities related to sustainability performance can produce lower tax avoidance. Research by Mao and Wu (2019) proves that CSR performance reduces company profitability and leads to lower corporate tax avoidance. This evidence shows that sustainability performance indirectly influences the level of tax avoidance. These results confirm Hypothesis 3a: Corporate social responsibility (CSR) moderates companies with prospector business characteristics towards aggressive tax planning, with the results being rejected.

Meanwhile, the interaction between defender strategy and corporate social responsibility (CSR) shows significant value, so CSR can strengthen the influence of defender business strategy on tax aggressiveness. The findings are consistent with research by Jos van Rensselaer (2016), who discovered that a company's tax evasion increases as its CSR environmental performance increases. Furthermore, recent research by Marsdenia and Dwi Martini (2018) discovered a substantial positive association between environmental performance and tax evasion, implying that the higher a company's CSR environmental performance, the greater its tax avoidance. These results confirm Hypothesis 3b: Corporate social responsibility (CSR) moderates companies with defender business characteristics towards aggressive tax planning, with acceptable results.

5.2 The Moderation of the Influence of Corporate Social Responsibility (CSR) on Tax Aggressiveness in Situated Environment and Governance (ESG)

Prior studies emphasize the significance of corporate social responsibility (CSR) and the governance of countries in influencing tax avoidance practices. These findings have substantial ramifications for legislators, corporate executives, and academia. This indicates that improvements in country-level governance will result in reduced corporate tax avoidance when CSR is positively associated with tax evasion. In recent years, there has been a growing interest in CSR from academia, businesses, and governments. It would be helpful to do a study to explore the connection between CSR and other corporate operations in different nations.

Substantive sustainability reports will likely improve sustainability performance by reducing aggressive tax avoidance. Moving on from this problem, this research examines the negative influence of aggressive tax avoidance on people's welfare. The goal is to prove that reducing aggressive tax avoidance means increasing corporate ethics and its impact on community welfare. "Research shows that sustainability performance has a positive effect on community welfare. This is by the invisible hand theory, which states that company profits can improve community welfare by reducing negative externalities.

The type of interaction between the economic, social, and environmental (ESG) spheres with Corporate Social Responsibility (CSR) shows an insignificant value with negative results, so CSR does not strengthen the influence of the economic, social, and environmental spheres (ESG) on Tax Aggressivity. Consistent with the findings of Laguir et al. (2015), which indicate that corporate social responsibility (CSR) negatively affects tax aggression, these results support this notion. In line with Lanis and Richardson (2012), they found that more disclosure of social investments made by companies was significantly related to lower company aggressiveness. Based on legitimacy theory this research correlates with legitimacy theory. In legitimacy theory, companies will attempt to establish and sustain links with the social and political environment in which the company operates. Companies do this to gain legitimacy so that the company can continue to live regardless of the company's financial performance (Gray et al., 1995).

6. CONCLUSION

This research can prove empirically that implementing business strategies in companies with both the prospector and defender types has a significant positive effect on tax aggressiveness; not only do they have more significant opportunities for tax planning, but they seem to be more aggressive in exploiting these opportunities. Although from the six hypotheses tested, the researcher can only empirically prove three hypotheses: The Business strategy of a prospector-type company, the business strategy of a defender-type company, and the interaction of defender business strategy with CSR. At the same time, the researchers could not empirically prove the other three hypotheses. Research Implications Tax Aggressiveness Is Legal or Illegal Tax Planning to Reduce Taxable Profits. Companies usually carry out excessive CSR so that the income subject to corporate income tax is reduced. More aggressive tax reduction measures will result in a company needing to be more sustainable. The decline in share price may be attributed to a deterioration in the company's reputation among investors. After all, its profits are recorded as small. Meanwhile, company management feels the need to make company profits small so that the taxes must be paid are also small. This study adds to what is known about aggressiveness and tax avoidance in accounting as well as organizational theory in management by showing that certain businesses are more likely to engage in aggressive tax planning because of how their business is set up. Research Suggestions The advice that can be given is that this research does not separate the periods before the pandemic and after the pandemic. Future research is expected to compare companies before, during, and after the Covid-19 pandemic. Through this research, we can find out whether or not there is an influence of Covid-19 on tax aggression. Further research is expected to analyze the influence of all business strategy criteria consisting of 4 prospects, defenders, analyzers, and reactors, and add more company sectors to determine which components significantly influence tax aggression.

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