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The Role of Tax Avoidance and Sustainability Reporting in Mediating the Influence of Board Diversity on Financial Performance

Pande Kadek Vina Febrianti[1*], I Gusti Ayu Purnamawati[2], Nyoman Ari Surya Darmawan[3]
[1]Universitas Pendidikan Ganesha, Bali, Indonesia, pandekdvina@gmail.com
[2]Universitas Pendidikan Ganesha, Bali, Indonesia, ayu.purnamawati@undiksha.ac.id
[3]Universitas Pendidikan Ganesha, Bali, Indonesia, arisuryadharmawan@undiksha.ac.id

[*]Corresponding Author: pandekdvina@gmail.com[1]

Abstract: This study examines companies in Indonesia Stock Exchange (IDX), specifically those operating in the financial sector during the years 2020 to 2023. It offers an in-depth perspective concerning the correlation of board diversity and financial performance, considering tax avoidance and sustainability reporting as mediating factors. The study sample consists of 156 observations, selected through a purposive sampling method under a non-probability sampling approach. Secondary data were gathered through document analysis and literature review. Panel data was utilized for analysis, and carried out with the assistance of STATA software. It was found that board diversity does not play a significant role in influencing financial performance. Moreover, tax avoidance and sustainability reporting do not play a statistically significant mediating role in the correlation between board diversity and financial performance among financial sector companies listed on the IDX during the 2020-2023.

Keywords: Financial Performance, Board Diversity, Tax Avoidance, Sustainability Reporting.

INTRODUCTION

Financial performance reflects a company's financial health condition within a certain period, encompassing the accumulation and use of funds, it is assessed using various indicators (Fatihudin et al., 2018). Financial performance is a crucial factor in running and sustaining a business, as it serves as an evaluation of how the company utilizes its resources to generate financial impact in line with its objectives (Purnamawati, Yuniarta, Heryanda, et al., 2023). One approach that companies can take to achieve their objectives is by implementing good corporate governance practices (Roika et al., 2019).

Corporate governance relates to the management, direction, and control of a company, which is the responsibility of the board of directors in making decisions that affect the company's sustainability (Ouni et al., 2020). Good corporate governance enhances company performance by maximizing operational efficiency and fostering long-term growth (Guluma,

2021)(Purnamawati et al., 2017). In agency theory, board diversity is expected to enhance oversight, reduce agency conflicts, and ultimately improve company performance (Martinez-Jimenez et al., 2020). Furthermore, Stakeholder Theory and Resource Dependence Theory advocate for companies to establish effective interactions with the external environment to ensure optimal access to available resources (Purnamawati & Hatane, 2022). As a result, the structure of the board of directors is considered a key factor (Akims et al., 2023), and a diverse board tends to make better decisions due to its superior qualifications and experience (Dong et al., 2023).

A survey by the International Labour Organization involving more than 12,000 companies across 70 countries found that gender equality and diversity initiatives in the workplace enhance business outcomes (Yuniarta & Purnamawati, 2020b)(Purnamawati et al., 2020), including increased productivity and profitability (International Labour Organization, 2020). A study launched by the IFC, as a part of the World Bank Group, revealed that firms with a higher proportion of women on their boards demonstrate better financial performance. Companies with women occupy over 30% and have recorded an average Return on Assets (ROA) of 3.8%, which is higher compared to companies without any female representation on their boards (International Finance Corporation, 2019). Additionally, countries such as Canada, France, Spain, and Norway have introduced laws to promote diversity within corporate boards. Norway was the first to introduce a quota in November 2002, requiring at least 40% representation of directors from each gender (Terjesen & Sealy, 2016). Although Indonesia has not yet established clear regulations regarding the proportion of women on boards of directors, the current landscape—particularly in the financial sector, which has dominated the highest profit earnings from 2021 to 2023—shows that several companies with female directors on their boards have recorded profit growth from 2020 to 2023 Table 1. This raises the question of whether female representation on corporate boards has a meaningful impact on a company's financial performance.

Table 1 Earning after Tax Emiten in Financial Sector

Emiten	Earning After Tax (in million rupiah)			
	2020	2021	2022	2023
BMRI	18.398.928	30.551.097	44.952.368	60.051.870
AGRS	(176.863)	12.770	103.454	183.925
ADMF	1.025.573	1.213.316	1.605.555	1.944.047
ASJT	(7.767)	345.717	574.003	4.019.556
BABP	10.414	12.868	52.505	77.916
BBCA	27.147.109	31.440.159	40.755.572	48.658.095
BBLD	20.053	28.703	87.460	105.013
BBNI	3.321.442	10.977.051	18.481.780	21.106.228
BBTN	1.602.358	2.376.227	3.045.073	3.500.988
BGTG	3.198	10.866	46..043	103.965
BDMN	1.088.942	1.667.687	3.429.634	3.658.045
BINA	19.376	39.748	157.048	207.876
BNLI	721.587	1.231.127	2.013.413	2.585.218
MCOR	49.979	79.392	135.959	241.291
NISP	2.101.671	2.519.619	3.326.930	4.091.043

Emiten	Earning After Tax (in million rupiah)			
	2020	2021	2022	2023
TIFA	14.885	26.732	56.904	59.896

Earlier studies have demonstrated that demographic diversity of the board of directors—specifically in terms of gender, age, and educational background—positively influences corporate financial outcomes in India (Aggarwal et al., 2019). However, according to Hassan et al. (2020)Different dimensions, including gender, age, tenure, educational background, and professional memberships, do not appear to affect corporate financial performance in Malaysia. In contrast, (Lim et al., 2019) concluded that the decline in financial performance due to gender diversity is linked with issues of tokenism and gender stereotypes. As mentioned in Ouni et al., (2020) The mixed findings in prior literature on the connection of board gender diversity and financial performance reflect the intricate nature of this relationship and point to potential indirect mechanisms at play. In response, this study examines the impact of gender diversity on financial performance, considering tax avoidance and sustainability reporting as potential mediating factors.

Focusing on financial companies registered on the Indonesia Stock Exchange (IDX) from 2020 to 2023, this research offers a distinct perspective on the correlation between board diversity and financial performance. The financial sector, particularly banks, is of interest, as they were among the leading profit earners between 2021 and 2023. This research holds significant urgency, as the financial sector is often regarded as a key player in the economy (Supartoyo et al., 2018). The findings of this research are expected to enhance the understanding of how board gender diversity relates to corporate financial performance, with tax avoidance and sustainability reporting serving as mediating factors in the context of Indonesia's financial industry.

Hypothesis

The Influence of Board Diversity on Financial Performance

Female members on the board who can align differing opinions enhance communication and facilitate swift and accurate strategic decision-making in response to dynamic business changes (Song et al., 2020). Dong et al. (2023) states that there is a positive and significant relationship between board diversity and company success, as measured in part by Return on Assets (ROA). According to Hassan et al. (2020)Board diversity, measured by gender, age, tenure, educational background, and professional membership, appears to have no significant impact on a company's financial performance. The dominance and aggressiveness of male directors may also hinder women from fully participating in decision-making.

H1: Board diversity positively influences financial performance

The Influence of Board Diversity on Tax Avoidance

Tax avoidance strategies can play a role in shaping a company's cost composition and ultimately impact its financial performance; companies have the opportunity to improve financial performance if costs are minimized (Kyere & Ausloos, 2021). Razali et al., (2023) found that there is a positive linkage between board gender diversity and tax planning, as the participation of female board members tends to encourage the implementation of strategies designed to minimize the company's tax burden. Hoseini & Gerayli (2018) concluded that women help reduce tax avoidance due to their higher efficiency in balancing the interests of shareholders and managers, as well as enhancing trust among shareholders. In contrast, Jevfri et al. (2024) found that the proportion of women in a company does not affect tax avoidance, as their presence on the board of directors is not yet dominant in decision-making processes

H2: Board diversity positively influences tax avoidance

The Influence of Board Diversity on Sustainability Reporting

In the context of sustainability reporting, a diverse board enhances oversight and monitoring of a company's non-financial disclosures, as diversity improves the quality of strategic decision-making and facilitates the identification and fulfillment of stakeholder needs (Michelon & Parbonetti, 2012). Gender diversity on the board leads to more balanced decisions, as women offer different perspectives from men, are more sensitive to sustainability issues, show greater empathy toward society, and focus more on addressing stakeholders' expectations, particularly communities, employees, and the environment (Bakar et al., 2019). However, Hassan et al. (2020) concluded that gender diversity has insignificant implications on CSR disclosure (Purnamawati, Yuniarta, & Jie, 2023). The limited number of women in top management positions restricts their role in policy-making (Werastuti et al., 2022).
H3: Board diversity positively influences sustainability reporting

The Influence of Tax Avoidance on Financial Performance

Tax avoidance strategies may contribute to shaping a company's cost composition and ultimately impact its financial performance; companies have the opportunity to improve financial performance if costs are minimized (Kyere & Ausloos, 2021). Khuong et al. (2020) A positive correlation was found between tax avoidance and accounting performance measures, including return on assets (ROA) and return on equity (ROE), suggesting that lower tax expenses or more aggressive tax avoidance strategies can improve a firm's financial outcomes. Tax avoidance often receives a negative response due to information asymmetry, which can impact company performance (Desai and Dharmapala, 2009). Rokhmah, 2020).
H4: Tax avoidance positively influences financial performance

The Influence of Sustainability Reporting on Financial Performance

Inawati & Rahmawati (2023) stated that enhanced ESG disclosure is linked with improved financial performance (ROA) by reducing information asymmetry, enhancing transparency, and increasing openness, which attracts investor interest and helps optimize company profitability. Buallay (2019) revealed that, according to the cost-of-capital reduction theory, ESG practices can negatively impact both financial and operational performance, as ESG investments raise costs and may lead to adverse economic outcomes.
H5: Sustainability reporting positively influences financial performance

The Role of Tax Avoidance in Mediating the Influence of Board Diversity on Financial Performance

Women tend to implement more conservative cash policies, increasing cash holdings through tax avoidance strategies that comply with regulations (Bana & Ghozali, 2021). Different studies indicate that tax management, represented by the Effective Tax Rate (ETR), fails to mediate the correlation between board gender diversity and a company's financial performance (Zaqeeba & Iskandar, 2020).
H6: Tax avoidance mediates the relationship between board diversity and financial performance

The Role of Sustainability Reporting in Mediating the Influence of Board Diversity on Financial Performance

Ouni et al., (2020) revealed that the influence of female presence on corporate boards in Canadian firms on financial performance is mediated by their focus on ESG initiatives, while Cahyaningtyas et al., (2022) concluded that sustainability reporting does not mediate the

relationship between board characteristics and accounting performance due to its voluntary nature and limited disclosure (Purnamawati, 2018).
H7: Sustainability reporting mediates the relationship between board diversity and financial performance.

METHOD

This research applies a quantitative approach to analyze the data. Quantitative research is structured research that quantifies data to allow for generalization (Kurniawan & Puspitaningtyas, 2016). This study focuses on a population consisting of financial sector firms registered on the IDX between 2020 and 2023. The financial sector, which includes banking, is exciting to study because banks were the issuers that generated the highest profits from 2021 to 2023. Additionally, the financial sector is often considered a sector that plays a crucial role in the economy (Supartoyo et al., 2018). By facilitating the flow of funds into productive investments, the financial sector ensures the efficient allocation of resources, which is fundamental to supporting and driving economic growth (Adjei et al., 2021)

This study employs purposive sampling, a type of non-probability sampling technique, to select its sample. More specifically, the sample criteria for this study are: (a) Financial sector registered on the IDX during the 2020-2023 period. This period is chosen in line with the initial implementation of sustainability reporting requirements and to enhance the novelty of the study, making it more relevant to readers or stakeholders as it relates to current conditions and (b) Companies that have female directors, publish audited financial statements, and issue annual and sustainability reports containing the information required for this study. Based on the criteria mentioned above, the sample used in this study comprises 156 companies.

RESULTS AND DISCUSSION

Descriptive Statistic

The results of the descriptive statistics are stated in Figure 1.

```
. summarize BD TA SR ROA Size Lev
```

Variable	Obs	Mean	Std. Dev.	Min	Max
BD	156	.3035428	.1584732	.0333333	.75
TA	156	.2668679	1.397176	-8.417999	14.8524
SR	156	.3846924	.163327	.130137	.9016393
ROA	156	.0141394	.0473069	-.1992603	.4070516
Size	156	16.90115	2.536181	11.8588	21.49994
Lev	156	.6449356	.2617891	.008058	.9122553

Source: Research Results

Figure 1. Descriptive Statistic

Model for Estimating the Regression Model

The analysis, as reflected in Table 2, suggests that the Common Effect Model (CEM) is the most suitable for estimating the regression examining the impact of board diversity (BD) on financial performance (ROA), through the mediating effects of tax avoidance (TA) and sustainability reporting (SR), therefore this model will need to undergo classical assumption tests.

Table 2 the best model for estimating the regression

Test	P value	Result
Chow Test	0.5291	CEM is better than FEM.
Hausman Test	0.7918	REM is better than FEM
LM Test	0.3729	CEM is better that REM

Autocorrelation Assumption Test

The autocorrelation test is intended to examine whether there is a correlation between a series of observational data over time (time series) and across individuals (cross-section) (Muhammad Syukron & Hafidz Muhammad Fahri, 2018). The results of the autocorrelation assumption test using the Wooldridge test in Figure 2 show a Prob > F value of less than 0.05, indicating that the autocorrelation assumption is not met (Purnamawati et al., 2024).

```
Wooldridge test for autocorrelation in panel data
H0: no first-order autocorrelation
    F(  1,      38) =     24.676
           Prob > F =      0.0000
```

Source: Research Results

Figure 2. Wooldridge test

Multicolinearity Assumption Test

o identify potential relationships between independent variables, a multicollinearity assumption test was conducted. As presented in Figure 3, it can be concluded that no multicollinearity exists, as the Variance Inflation Factor (VIF) values are all less than 10, indicating that the assumption is met.

Variable	VIF	1/VIF
Size	2.14	0.467864
SR	1.63	0.613910
Lev	1.58	0.632624
BD	1.15	0.866220
TA	1.03	0.967399
Mean VIF	1.51	

Source: Research Results

Figure 3. Variance Inflation Factor (VIF)

Heteroskedasticity Assumption Test

This test for heteroscedasticity aims to determine whether the residuals maintain a constant variance. In an ideal scenario, residuals should demonstrate homoscedasticity, indicating uniform variance across observations. The results of the heteroscedasticity assumption test using the Breusch–Pagan Test in Figure 4 show a Prob > chi2 value of less than 0.05. Therefore, the heteroscedasticity assumption is not met

```
Breusch-Pagan/Cook-Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of ROA

H0: Constant variance

    chi2(1) = 369.50
Prob > chi2 = 0.0000
```

Source: Research Results

Figure 4. Breusch–Pagan Test

Normality Assumption Test

The objective of the normality assumption test is to determine whether the residuals of the regression model follow a normal distribution. Based on the results of the kurtosis and skewness tests for normality (Figure 5), the test yields a statistic of 90.26 with a p-value greater

than chi2 of 0.0000. This result indicates that the probability (p) is less than the chi-squared value (p> chi2), meaning the residuals are not normally distributed.

Skewness and kurtosis tests for normality

Variable	Obs	Pr(skewness)	Pr(kurtosis)	Joint test Adj chi2(2)	Joint test Prob>chi2
residual	156	0.0000	0.0000	90.26	0.0000

Source: Research Results

Figure 5. Skewness and Kurtosis Test

Violations of classical assumption tests will be addressed using the robust standard error method, which involves calculating the variance-covariance matrix of the estimators.

Determination Test Results (R2)

This test evaluates how effectively the independent variables account for the variation in the dependent variable, as measured by the coefficient of determination (Muhammad Syukron & Hafidz Muhammad Fahri, 2018). Based on Figure 6, the R-squared value is 0.0591, indicating that 5.91% of the variance in the dependent variable is explained by the independent variables included in this study, while the remaining 94.09% is attributed to other variables beyond the scope of this research.

```
. reg ROA BD TA SR Size Lev, vce(robust)

Linear regression                               Number of obs     =        156
                                                F(5, 150)         =       1.27
                                                Prob > F          =     0.2820
                                                R-squared         =     0.0591
                                                Root MSE          =     .04665
```

ROA	Coefficient	Robust std. err.	t	P>|t|	[95% conf.	interval]
BD	-.0023799	.0191787	-0.12	0.901	-.0402753	.0355155
TA	-.0009345	.001263	-0.74	0.461	-.0034301	.0015612
SR	-.0374784	.0302428	-1.24	0.217	-.0972354	.0222785
Size	.0052996	.003907	1.36	0.177	-.0024203	.0130194
Lev	-.0451503	.0460022	-0.98	0.328	-.1360462	.0457457
_cons	-.0309206	.0293337	-1.05	0.294	-.0888812	.0270399

Source: Research Results

Figure 6. T Test (BD + TA + SR > ROA)

F Test

The F-test evaluates the overall significance of the regression model by testing whether the set of independent variables collectively influences the dependent variable (Muhammad Syukron & Hafidz Muhammad Fahri, 2018). Based on Figure 6, the results show that the Prob > F value is 0.2820. This indicates that the independent variables, collectively, do not show a statistically significant relationship with the dependent variable.

T Test

The Influence of Board Diversity on Financial Performance

As shown in Figure 7, the test for the effect of the Board Diversity (BD) variable on financial performance (ROA) yielded a t-statistic of -0.05 with a p-value of 0.963. The test results indicate that the t-statistic value of |-0.05| is less than the t-table value of 1.96, with a significance p-value of 0.963, which is greater than the level of significance (alpha = 0.05). This means that at a 5% significance level, there is no significant effect of board diversity on

financial performance. Statistically, this proves that the first hypothesis (H1), which states that "Board diversity positively influences financial performance," is **rejected**.

Stakeholder Theory suggests that a company's success depends on fulfilling the diverse needs of stakeholders, which can be effectively achieved through a board diversified in background and expertise (Song et al., 2020). However, the dominance and aggressiveness of male directors may hinder women from fully participating in decision-making (Hassan et al., 2020). According to Nature Theory, biological differences between men and women result in inherent traits, where female board members tend to be more nurturing, possess sharp business intuition, and are more detail-oriented in risk analysis. This can balance male leadership (Purnamawati, Hock, & Yuniarta, 2023), which may be less risk-conscious, thereby fostering diverse perspectives in strategic decision-making (Maghfiroh & Utomo, 2019).

However, based on Double Bind Theory, women on boards face a complex dilemma. They are expected to exhibit feminine traits, such as gentleness and empathy, while simultaneously demonstrating more traditionally masculine leadership qualities, which often conflict with traditional notions of femininity. In boardroom environments, these stereotypes can hinder women's recognition as effective leaders. Consequently, they may not receive equal opportunities to exert significant influence on corporate performance (Sabina & Sukmasari, 2024). Additionally, women are sometimes perceived as having similar viewpoints to men due to receiving the same education (Giannarakis, 2014), leading to less emphasis on the existence of women on the board of directors.

```
. reg ROA BD Size Lev, vce(robust)

Linear regression                               Number of obs     =        156
                                                F(3, 152)         =       0.76
                                                Prob > F          =     0.5177
                                                R-squared         =     0.0481
                                                Root MSE          =     .04661

------------------------------------------------------------------------------
             |               Robust
         ROA |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          BD |  -.0008749   .0186693    -0.05   0.963    -.0377596    .0360098
        Size |   .0039062   .0029881     1.31   0.193    -.0019975    .0098098
         Lev |  -.0460116   .0451581    -1.02   0.310    -.1352303     .043207
       _cons |  -.0219394   .0238988    -0.92   0.360    -.0691562    .0252773
------------------------------------------------------------------------------
```

Source: Research Results

Figure 7. T Test (BD > ROA)

The Influence of Board Diversity on Tax Avoidance

The test of the effect of the Board Diversity (BD) variable on tax avoidance (TA) in Figure 8 resulted in a t-statistic of 0.74 with a p-value of 0.458. The test results indicate that the t-statistic value of 0.74 < t-table 1.96, with a significance p-value (0.458) > level of significance (alpha = 0.05). This means that at a 5% significance level, there is no significant effect of board diversity on tax avoidance. Statistically, this proves that the second hypothesis (H2), which states that "Board diversity positively influences tax avoidance," is **rejected.**

Jevfri et al. (2024) conclude that having female members on the board of directors does not alter the firm's approach to tax avoidance, as women have yet to hold a dominant position in decision-making processes. Based on the descriptive statistical analysis presented in Figure 1, the mean percentage of female representation on the boards of directors within financial sector companies registered on IDX from 2020 to 2023 was 30.4% of the total number of directors. This suggests that the presence of female directors on the board is insufficient to influence decision-making.

According to the Double Bind theory, women on boards of directors face a complex dilemma (Yuniarta & Purnamawati, 2020a). They are expected to possess feminine

characteristics, such as gentleness and empathy; yet, at the same time, they are required to demonstrate more masculine leadership traits, which often conflict with these traditional feminine stereotypes. In the boardroom environment, these stereotypes can hinder women from being recognized as effective leaders. As a result, they may not receive equal opportunities to exert significant influence (Sabina & Sukmasari, 2024).

```
. reg TA BD Size Lev, vce(robust)

Linear regression                               Number of obs     =        156
                                                F(3, 152)         =       2.37
                                                Prob > F          =     0.0727
                                                R-squared         =     0.0324
                                                Root MSE          =     1.3879

------------------------------------------------------------------------------
             |               Robust
          TA |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          BD |   .3792087   .5101051     0.74   0.458    -.6286029    1.38702
        Size |   -.084534   .0617952    -1.37   0.173    -.2066224    .0375544
         Lev |   1.151978   .6554832     1.76   0.081     -.143056    2.447012
       _cons |   .8375318   .8448086     0.99   0.323    -.8315514    2.506615
------------------------------------------------------------------------------
```

Source: Research Results

Figure 8. T Test (BD > TA)

The Influence of Board Diversity on Sustainability Reporting

The test of the effect of the Board Diversity (BD) variable on sustainability reporting (SR) on Figure 9 resulted in a t-statistic of -0.73 with a p-value of 0.465. The test results indicate that the t-statistic value of |-0.73| < t-table 1.96, with a significance p-value (0.465) > level of significance (alpha = 0.05). This means that at a 5% significance level, there is no significant effect of board diversity on sustainability reporting. Based on these results, it is proven that the third hypothesis (H3), which states that "Board diversity positively influences sustainability reporting," is **rejected**.

According to Khan (2010) and Wahyudi & Mayasari (2023)One possible explanation for these research findings is the still limited role of women, as the number of women holding executive positions remains small. As a result, their involvement in CSR issues tends to be limited or even overlooked in many cases. A similar view is expressed by Bristy (2016) who concludes that there is no meaningful connection between the presence of female directors and corporate social responsibility (CSR) in U.S. companies. Female directors often encounter barriers in the decision-making process on such matters, which restrict their influence (Bristy, 2016).

```
. reg SR BD Size Lev, vce(robust)

Linear regression                               Number of obs     =        156
                                                F(3, 152)         =      36.39
                                                Prob > F          =     0.0000
                                                R-squared         =     0.3860
                                                Root MSE          =     .12924

------------------------------------------------------------------------------
             |               Robust
          SR |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          BD |  -.0496115   .0677495    -0.73   0.465    -.1834638    .0842409
        Size |   .0392856   .0044337     8.86   0.000     .0305259    .0480453
         Lev |   -.005739   .0509319    -0.11   0.910    -.1063647    .0948868
       _cons |  -.2605187   .0706445    -3.69   0.000    -.4000907   -.1209468
------------------------------------------------------------------------------
```

Source: Research Results

Figure 9. T Test (BD > SR)

The Influence of Tax Avoidance on Financial Performance

The test of the effect of the Tax Avoidance (TA) variable on financial performance (ROA) on Figure 10 resulted in a t-statistic of -0.77 with a p-value of 0.445. The test results indicate that the t-statistic value of |-0.77| < t-table 1.96, with a significance p-value (0.445) >

level of significance (alpha = 0.05). This means that at a 5% significance level, there is no significant effect of tax avoidance on financial performance. Therefore, it is proven that the fourth hypothesis (H4), which states that tax avoidance has a positive influence on financial performance, is **rejected**.

These findings suggest that the tax avoidance strategies employed by the company do not have a direct impact on efficiency or profitability, as reflected in the return on assets (ROA). Surjandari et al., (2024) concluded that tax avoidance is generally an activity undertaken by companies experiencing financial difficulties. Accordingly, tax avoidance does not significantly impact firm performance. The influence of external factors, such as regulations, reputation, or other corporate strategies, including operational management, innovation, and business strategy, may play a more significant role in affecting profitability. Moreover, the implementation of tax avoidance may also incur additional costs, considering that the financial sector is the most heavily regulated sector (Supartoyo et al., 2018).

The Influence of Sustainability Reporting on Financial Performance

The test of the effect of the Sustainability Reporting (SR) variable on financial performance (ROA) on Figure 10 resulted in a t-statistic of -1.25 with a p-value of 0.213. The test results indicate that the t-statistic value of |-1.25| < t-table 1.96, with a significance p-value (0.213) > level of significance (alpha = 0.05). This means that at a 5% significance level, there is no significant effect of sustainability reporting on financial performance. Statistically, this proves that the fifth hypothesis (H5), which states that "Sustainability reporting positively influences financial performance," is **rejected**.

Wahyuningtyas et al. (2022) highlighted the current situation in Indonesia, where if a company aims to achieve good financial performance, sustainability reporting is often placed as a second or third priority. Even with the government's mandate for sustainability report preparation, the general awareness and understanding of these reports in Indonesia remain insufficient. Stakeholders in Indonesia still tend not to review the items disclosed in sustainability reports as a basis for decision-making (Wahyuningtyas et al., 2022). In addition, the lack of legal pressure and regulation from authorities such as the central bank, securities commission, and other environmental and social institutions in banks across emerging markets has led to corporate governance, as one of the ESG dimensions, having no significant impact on firm performance (Shakil et al., 2019).

```
. reg ROA TA SR Size Lev, vce(robust)

Linear regression                               Number of obs     =        156
                                                F(4, 151)         =       1.60
                                                Prob > F          =     0.1770
                                                R-squared         =     0.0590
                                                Root MSE          =     .04649

------------------------------------------------------------------------------
             |               Robust
         ROA |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------+----------------------------------------------------------------
          TA |  -.0009446   .0012328    -0.77   0.445    -.0033804    .0014911
          SR |  -.0373232   .0298272    -1.25   0.213    -.0962558    .0216094
        Size |   .0053191   .0039398     1.35   0.179    -.0024651    .0131033
         Lev |  -.0448126   .0448619    -1.00   0.319    -.1334507    .0438255
       _cons |  -.0322483   .0298539    -1.08   0.282    -.0912335    .0267369
------------------------------------------------------------------------------
```

Source: Research Results

Figure 10. T Test (TA + SR > ROA)

The Role of Tax Avoidance and Sustainability Reporting in Mediating the Influence of Board Diversity on Financial Performance

According to the previous analysis, neither the direct effect (excluding the mediator variables) nor the indirect effect was significant. Therefore, tax avoidance and sustainability

reporting are not considered mediators in the linkage between board diversity and financial performance. Consequently, the sixth hypothesis (H6), which states that "Tax avoidance mediates the relationship between board diversity and financial performance," is **rejected**. Similarly, the seventh hypothesis (H7), which states that "Sustainability reporting mediates the relationship between board diversity and financial performance," is also **rejected**.

This result supports the conclusions drawn by Zaqeeba & Iskandar (2020), who demonstrated that the tax management efforts undertaken by companies to reduce corporate taxes do not mediate the linkage between board gender diversity and financial performance. According to Hidayati (2021) The limited presence of female board members in the sampled companies in Indonesia results in tax-related decision-making having no significant effect. This limitation of female board representation is linked to liberal feminist theory, which argues that women deserve equal participation in all roles, with no separation or differentiation from the roles of men (Prasetyo, 2019). Therefore, gender diversity does not lead to a reduction in tax avoidance efforts, as both male and female directors share the same level of professionalism and responsibility as board members (Kurnia & Wagisuwari, 2023).

Cahyaningtyas et al. (2022) stated that sustainability reporting does not serve as a mediator in the correlation between board characteristics and accounting performance. Based on legitimacy theory, companies are able to make strategic choices to alter their legitimacy status and develop resources through corporate actions by adjusting their activities (Crossley et al., 2021). As a result, companies tend to use sustainability reports primarily to gain legitimacy from society and stakeholders, rather than as a direct effort to improve financial performance.

CONCLUSION

The analysis's outcomes provide evidence that board diversity does not have a significant impact on corporate financial performance. Moreover, tax avoidance and sustainability reporting are not found to have a statistically significant mediating role in the relationship between board diversity and financial performance among financial sector companies registered on the IDX during the 2020–2023 period. Although gender diversity within the board of directors has become an increasingly focal point for many organizations, empirical evidence suggests that such diversity does not significantly enhance financial performance, as measured by Return on Assets (ROA). In light of these findings, it is recommended that companies reevaluate their strategies concerning board composition. Rather than focusing solely on achieving quantitative gender representation, greater emphasis should be placed on fostering meaningful participation, enhancing strategic contributions, and encouraging the active engagement of women on the board in organizational decision-making.

Several limitations exist in this study. Financial performance is assessed exclusively through Return on Assets (ROA), and board diversity is evaluated only by the proportion of female members on the board of directors. Further research is recommended to include more comprehensive measures of financial performance, incorporating both accounting-based and market-based indicators, such as ROE, EPS, and additional financial ratios.

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