

# The Effect of Tax Avoidance, Environmental Performance, and Institutional Ownership on Firm Value with Profitability as a Moderator

## *Pengaruh Tax Avoidance dan Kinerja Lingkungan Terhadap Nilai Perusahaan dengan Profitabilitas Sebagai Pemoderasi*

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**Abstract** - This study analyses the factors affecting firm value in the extractive sector listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period, focusing on tax avoidance, environmental performance, and profitability as a moderating variable. Using purposive sampling, 37 companies were selected, resulting in 185 observations. Secondary data, including financial reports and PROPER ratings, were analysed using partial least squares-based structural equation modelling (PLS-SEM). The novelty of this research lies in integrating financial factors (tax avoidance and profitability) and environmental factors (environmental performance) into a single analytical model. The findings reveal that tax avoidance has no effect on firm value, suggesting investors do not prioritize tax strategies. In contrast, environmental performance has a significant negative effect, possibly due to concerns that environmental investments have not yet yielded sufficient financial returns. Profitability has a significant positive effect on firm value. Furthermore, profitability does not moderate the relationship between tax avoidance and firm value but significantly moderates the negative effect of environmental performance on firm value. This implies that highly profitable companies are better positioned to absorb environmental costs without significantly reducing their firm value, achieving a balance between environmental responsibility and value creation.

**Keywords:** Environment Performance, Extractive Industry, Firm Value, Profitability, Tax Avoidance.

**Abstrak** - Penelitian ini menganalisis faktor-faktor yang memengaruhi nilai perusahaan di sektor ekstraktif pada Bursa Efek Indonesia (BEI) periode 2020-2024, dengan fokus pada tax avoidance, kinerja lingkungan, dan profitabilitas sebagai variabel moderasi. Sebanyak 37 perusahaan dipilih melalui metode purposive sampling, menghasilkan 185 observasi. Data sekunder, seperti laporan keuangan dan peringkat PROPER, dianalisis menggunakan structural equation modeling (SEM) berbasis partial least squares (PLS-SEM). Kebaruan penelitian ini terletak pada integrasi faktor finansial (tax avoidance dan profitabilitas) dan faktor lingkungan (kinerja lingkungan) dalam satu model analisis, yang memperdalam pemahaman tentang bagaimana perusahaan sektor ekstraktif mengelola strategi keuangan dan tanggung jawab lingkungan secara bersamaan. Hasil penelitian menunjukkan bahwa tax avoidance tidak berpengaruh terhadap nilai perusahaan, menunjukkan bahwa investor kurang memprioritaskan strategi pajak. Sebaliknya, kinerja lingkungan berpengaruh negatif signifikan terhadap nilai perusahaan karena kekhawatiran biaya lingkungan belum sebanding dengan manfaat finansial. Profitabilitas berpengaruh positif signifikan terhadap nilai perusahaan. Selain itu, profitabilitas tidak memoderasi hubungan antara tax avoidance dan nilai perusahaan, namun secara signifikan memoderasi pengaruh negatif kinerja lingkungan terhadap nilai perusahaan. Artinya, perusahaan dengan profitabilitas tinggi lebih mampu menyerap biaya lingkungan tanpa mengurangi nilai perusahaan secara drastis.

**Kata Kunci:** Industri Ekstraktif, Kinerja Lingkungan, Nilai Perusahaan, Profitabilitas, Tax Avoidance.

## INTRODUCTION

Firm value is a reflection of a business entity's prospects and financial health, acting as a barometer of management success in the eyes of investors (Eugene F. Brigham, 2021). For investors, firm value is an indicator of potential investment returns, while for the company itself, a high value opens the door to funding access and strengthens its competitive position. In the stock market, the stock price reflects how the market views a company's performance and growth potential (Kusumawardhani et al., 2023). The extractive industry, which includes plantations and mining, is a unique and vital sector for the economy as it provides essential raw materials. However, operations in this sector often involve high environmental and social risks, such as deforestation, pollution, and social conflicts, making the issue

of environmental performance highly relevant (Schaltegger & Wagner, 2011). Furthermore, companies in this sector often have large assets and require significant capital investment, which can lead to complex tax avoidance practices that attract the attention of regulators and the public. The choice of the 2020-2024 research period is relevant because it covers the Covid-19 pandemic and post-pandemic era, which brought significant challenges and changes in the global business landscape, affecting tax avoidance, environmental investment, institutional ownership, and their impact on firm value.

Firm value in the extractive industry showed an interesting trend throughout 2020-2024. The plantation sector maintained a value around 1.0, starting at 0.95 in 2020 and ending at 1.08 in 2024, showing stability despite a slight decline in 2023. On the other hand, the mining sector consistently showed a higher value, starting at 1.35 in 2020 and peaking at 2.17 in 2022, before slightly decreasing but remaining above 1.8. This was influenced by the dynamics of global commodity prices, government policies, and ESG issues. Tax avoidance practices also became a concern, where companies legally tried to reduce their tax burden to increase net profit. Research by Suci, (2018), Hidayah et al., (2022), Walah et al., (2023), Linantis, (2021), and Ishlah & Natsir, (2023) showed a positive correlation between tax avoidance and firm value, while Suryani et al., (2021) and Hulu & Santosa, (2023) found a negative correlation, signaling a loss of investor trust.

Environmental performance is also an important factor in assessing corporate responsibility. The government's company performance rating program in environmental management (PROPER) aims to motivate companies to improve their environmental management efforts. Improper management of hazardous and toxic (B3) waste from the extractive industry has serious impacts on the environment and human health (Surahmat et al., 2025). Although there was a significant increase in 3R (reduce, reuse, recycle) initiatives for B3 waste from 16,403 in 2020 to 106,793 in 2024, large investments in clean technology are often a barrier. Research by Firmanda & Wahyuni, (2024), Mardiana & Wuryani, (2019), and Wardani, (2020) supports the view that positive environmental performance affects firm value, but Kelly & Henny, (2023) found that environmental performance does not always have an effect. High profitability consistently correlates positively with firm value, indicating sound financial performance and growth potential (Purwaningsih, 2022). Nevertheless, profitability can worsen the negative relationship between tax avoidance and firm value Anggraini, (2023) or strengthen the negative correlation between environmental performance and firm value (Komalasari, 2017). This research seeks to fill the literature gap by simultaneously examining the influence of tax avoidance, environmental performance, and institutional ownership on firm value, with profitability as a moderator, specifically in the Indonesian extractive industry during the 2020-2024 period.

This study formulates the problem regarding the influence of tax avoidance and environmental performance on firm value, with profitability as a moderating variable, in extractive industry companies listed on the Indonesia Stock Exchange from 2020-2024. The main objective of this research is to analyze the relationship between these variables and test the moderating role of profitability on their influence. This research presents novelty by integrating financial factors (tax avoidance and profitability) and environmental factors (environmental performance) into a single analytical model. This combination deepens the understanding of how companies in the extractive sector simultaneously manage their financial strategies and environmental responsibilities.

## **LITERATURE REVIEW**

### **Agency Theory**

Agency theory explains the relationship between a principal (the owner or party granting authority, such as shareholders) and an agent (the party receiving that authority, such as company management). In this relationship, potential conflicts can arise due to the separation between ownership and management. Each party tends to seek to maximize their own personal interests or gains. As a result, there is a possibility that management may not always act in the best interest of the shareholders. To mitigate this, the principal can implement appropriate incentives and conduct monitoring to ensure the agent (management) does not deviate from the company's goals (Pratiwi & Reschiwati, 2022).

### **Signalling Theory**

Signaling theory explains how information asymmetry between a company (the agent) and investors (the principal) can be bridged. Companies send credible signals about their quality and prospects to reduce the information gap and build trust. These signals can be in the form of financial information, environmental performance, corporate governance, or reputation (Septiatul & Prayitmi, 2022).

Relevant, accurate, and reliable signals, such as high institutional ownership or a good company reputation, can influence investor perception, reduce risk, and increase firm value. Good environmental performance can also serve as a positive signal. Tax avoidance practices, while controversial, can temporarily increase after-tax profits and act as a signal to investors, but their reputational risks must be considered. High profitability can strengthen positive signals from environmental performance, showing stability and bright prospects. Empirical research supports the influence of corporate signals on investor decisions and firm value.

### **Firm Value**

Firm value is a reflection of how investors view a company's performance, most tangibly seen in its stock price. Achieving high firm value is a fundamental goal for owners and management, as it indicates significant investor confidence in the company's potential and future. Internal factors such as financial performance, management quality, and business strategy, as well as external factors like macroeconomic conditions and government regulations, significantly influence this value. Various approaches such as asset, income, and market methods (through valuation ratios like PER or PBV) are used to assess a company, each with a different focus on determining the essence of its value.

The use of Tobin's Q as an indicator of a company's efficiency in creating value emphasizes the importance of market perception. A Q value above 1 indicates that the company is valued higher than its assets, signifying efficient value creation. Conversely, a Q below 1 reflects potential undervaluation or suboptimal performance, which requires more attention from management to enhance the company's appeal to investors (Cardao-Pito, 2022).

### **Tax Avoidance**

Tax avoidance is a company's legal effort to reduce its tax burden by exploiting loopholes or provisions in tax regulations, which is different from tax evasion that is illegal. The primary motivation behind this practice is to maximize after-tax profits, which in turn can increase the company's value in the eyes of investors. Various strategies, ranging from tax planning to corporate restructuring, are used to achieve this goal, although the practice often sparks ethical controversy.

Factors that influence tax avoidance are diverse, stemming from both internal sources (company size, profitability, leverage) and external ones (tax regulations, regulatory oversight). It is important to note that although tax avoidance aims to increase profit, investor interests must be considered, as companies that are too aggressive in avoiding taxes may be viewed negatively by investors (Septyaningrum, 2020). Cash effective tax rate (CETR) is one method used to measure the extent to which a company engages in tax avoidance, but it needs to be analyzed with other information because a low CETR can also be caused by other legitimate factors.

According to agency theory, tax avoidance can be a tool for management to increase after-tax profits, which in turn can increase firm value and benefit shareholders, aligning with the goal of maximizing shareholder wealth. Meanwhile, signaling theory states that successful and legal tax avoidance practices can send a positive signal to the market that company management is highly efficient in managing finances and seeking profits, thereby attracting investors and potentially increasing firm value. Therefore, the first hypothesis in this study is formulated as follows:

H<sub>1</sub>: Tax avoidance has a positive effect on firm value.

### **Environmental Performance**

Companies' environmental management can serve as a positive signaling tool for the public and investors. By improving environmental performance, a company aims to build a good image and create added value. This performance also reflects the extent to which a company fulfills its social responsibility. Nevertheless, in practice, companies tend to only disclose information that can enhance their reputation and attract investors, while information that could potentially damage their image or trust is not revealed transparently (Indrasari & Suka, 2021).

PROPER (company performance rating program in environmental management) by the ministry of environment and forestry (KLHK) is a crucial initiative that evaluates and ranks the environmental performance of companies in Indonesia. This program plays a vital role in shaping a company's image and reputation, with a high rating providing appreciation and market trust, while a low rating prompts pressure for improvement (Wardani, 2020). Transparency and accountability through the publication of PROPER results allow the public to monitor and provide input, and it involves various stakeholders to ensure the objectivity of the assessment.

H<sub>2</sub>: Environmental performance has a positive effect on firm value.

### **Profitability**

Profitability is a key indicator of financial performance that shows a company's ability to generate profit. Theoretically, profitability has a strong positive relationship with firm value, as companies that consistently achieve high profits tend to be viewed as more valuable by investors, signaling financial health and future growth potential (Cahyani, 2024).

In addition to its direct effect, profitability also acts as a moderating variable that can strengthen or weaken the relationship between other variables and firm value. For example, high profitability allows a company to invest in environmentally friendly practices, which ultimately increases its value. However, low profitability can make sustainable investments difficult, negatively impacting a company's image and decreasing its value. In the context of tax avoidance, high profitability might encourage such practices, but companies must be careful because overly aggressive tax avoidance can increase reputational and legal risks, ultimately harming firm value. Maintaining healthy and sustainable profitability is crucial not only for direct value but also for enabling investments in socially responsible business practices and creating long-term value.

Based on previous theories and research, several factors are identified that influence firm value, namely tax avoidance and environmental performance. These factors are also suspected to be moderated by profitability. Therefore, this study will examine the extent to which these independent variables influence firm value, as well as the ability of profitability to moderate the relationship between these variables.

H<sub>3</sub>: Profitability moderates the positive relationship between tax avoidance and firm value.

H<sub>4</sub>: Profitability moderates the positive relationship between environmental performance and firm value.

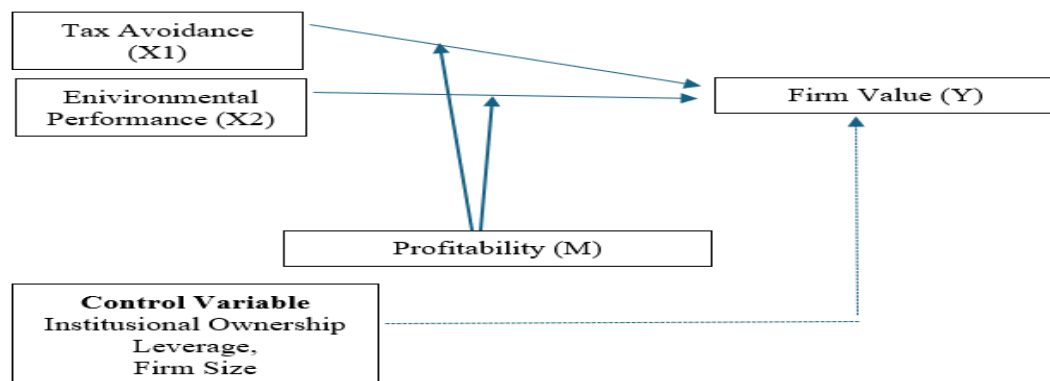


Figure 1. Conceptual Framework

## **RESEARCH METHOD**

The objective of this study is to test the causal relationship between tax avoidance, environmental performance, profitability, and firm value using a quantitative research design with an ex post facto methodology. The research population includes all companies in the extractive sector, specifically the plantation and mining sub-sectors, listed on the Indonesia Stock Exchange (IDX) during the 2020-2024 period. The sample was selected using a purposive sampling technique, with criteria that the companies had complete financial reports for five consecutive years and did not incur losses during that period. From 58 listed extractive industry companies, after excluding 6 companies with incomplete

financial reports and 15 companies that were unprofitable, a total of 37 companies were obtained as the qualified sample.

This study uses secondary data obtained from audited annual financial reports published on the official IDX website via the IDX Channel platform or the companies' own websites. The environmental performance data is sourced from the official announcements of the PROPER rating by the ministry of environment and forestry (KLHK). To ensure data accuracy and reliability, a number of validation and cross-checking steps were taken, including verifying data consistency across sources, examining abnormalities and outliers, validating variable measurement formulas, and checking data completeness. The secondary data used includes firm value (Tobin's Q), tax avoidance (cash effective tax rate/CETR), environmental performance measured using the PROPER rating for the 2020-2024 period, and profitability measured by return on asset (ROA).

This study uses descriptive statistical analysis to characterize and summarize the existing data set. This approach aims to provide a concise overview of the collected data. To analyze the relationships between variables, the study uses structural equation modeling based on partial least squares (PLS-SEM) processed through the smartPLS4 software. The choice of this method is based on several methodological considerations: PLS-SEM is suitable when data does not meet the assumption of multivariate normality, is more oriented towards predicting causal relationships, and is more flexible with small sample sizes as in this study, which involves 37 companies. This approach is considered relevant to the research objective of testing the influence of tax avoidance, environmental performance, and institutional ownership on firm value.

Descriptive statistics in smartPLS include important parameters such as the mean, standard deviation, minimum value, and maximum value. These parameters help researchers identify the data distribution, variability, and the presence of potential outliers. In addition to numerical parameters, data visualizations such as histograms and boxplots also play a vital role. These visualizations provide a graphical representation of the data distribution, making it easier for researchers to understand patterns and trends that might not be apparent from numerical parameters alone.

The stages of analysis in SEM-PLS are carried out through three main steps. First, the outer model is evaluated to test the validity and reliability of the indicators through convergent and discriminant validity tests. Convergent validity is met if the loading value exceeds 0.70 or the average variance extracted (AVE) value reaches or exceeds 0.50 (Ghozali, 2015). Second, the inner model is analyzed to assess the significance of the relationships between latent variables using metrics such as R-square ( $R^2$ ), Q-square predictive relevance ( $Q^2$ ), and the goodness of fit (GoF) index. Third, hypothesis testing is performed by reviewing the path coefficient values and significance levels (p-value) in the total effects. The hypothesis is accepted if the p-value  $\leq 0.10$ , indicating a 10% error tolerance in statistical decision-making. This study uses multiple linear regression with the following model:

$$\text{Tobin's Q} = \alpha + \beta_1 \text{TA} + \beta_2 \text{EP} + \beta_3 \text{TA} \times \text{P} + \beta_4 \text{EP} \times \text{P} + \beta_5 \text{IO} + \beta_6 \text{L} + \beta_7 \text{FS} + \varepsilon \quad (1)$$

The independent variables are tax avoidance (TA) and environmental performance (EP), the moderating variable is profitability (P), and institutional ownership (IO), leverage (L), and firm size (FS) are control variables.

## **FINDINGS AND DISCUSSION**

### **Findings**

#### **Descriptive Statistics**

This study uses secondary data sourced from the annual and financial reports of companies on the official website of the Indonesia Stock Exchange (IDX) for the period 2020-2024. The research object is companies in the extractive sector, specifically the plantation and mining sub-sectors. Through a purposive sampling method, 37 companies were selected that met the criteria, resulting in a total of 185 observations (37 companies x 5 years).

Descriptive statistical analysis was conducted to describe the characteristics of the research variables' data. Firm value (Tobin's Q) showed an average of 1.511, with a range from 0.300 (PT. Harum Energy, 2020) to 12.920 (PT. Bayan Resources, 2023), indicating significant variation and growth prospects in the market's view. The tax avoidance variable (CETR) had an average of 0.357, showing that an

average of 35.7% of accounting profit was allocated as cash tax expense. The range was wide, from 0.000 (PT. Bumi Resources, 2021) to 4.980 (PT. Merdeka Copper Gold Tbk, 2023), indicating varied levels of tax avoidance among companies. For environmental performance (PROPER), the average of 3.486 shows that most companies are in the green or near-green category (compliant), with a range from 3.000 (blue) to 5.000 (gold, by PT. Adaro Energy Indonesia Tbk).

Table 1. Descriptive Statistical Results

	Mean	Min	Max	Standard Deviation
Q (Y)	1.511	0.300	12.920	1.603
TA (X <sub>1</sub> )	0.357	0.000	4.980	0.483
EP (X <sub>2</sub> )	3.486	3.000	5.000	0.698
P (M)	0.121	-0.020	0.620	0.122
IO (C)	0.700	0.000	1.000	0.213
SF (C)	29.802	24.930	32.760	1.445
L (C)	0.905	0.000	6.350	0.915

Source: Processed data (2025).

Keterangan: Q: firm value, TA: tax avoidance, EP: environmental performance, P: profitability, IO: institutional ownership, FS: firm size, L: leverage.

### Outer Model Test

To ensure the quality of the data and the feasibility of the variables in the study, a measurement model (outer model) test was conducted through validity and reliability tests. Convergent validity is measured by the loading factor value, which shows how strongly an indicator represents its variable. The following is an image of the outer model test results in this study:

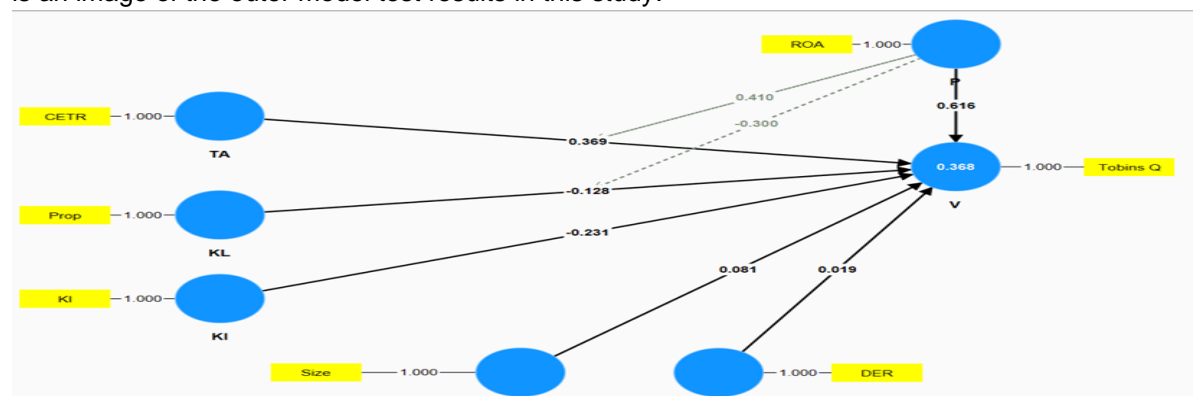


Figure 2. Outer Model Test Result

Based on the results of the outer model test, it can be concluded that the variable measurements in this study demonstrate good construct validity and reliability. Convergent validity is met because all indicators have an outer loading value of 1.000 or > 0.7, meaning that each indicator is strongly capable of explaining its variable.

### Cronbach's Alpha & Composite Reliability Test

The data processing results using smartPLS 4 show that all variables have cronbach's alpha and composite reliability values above 0.70. Thus, the instruments in this study are declared reliable. The following table presents the reliability test results for each variable:

Table 2. Cronbach's Alpha & Composite Reliability Result

	Cronbach's Alpha	Composite Reliability
V (Y)	1.000	1.000
TA (X <sub>1</sub> )	1.000	1.000
EP (X <sub>2</sub> )	1.000	1.000
P (M)	1.000	1.000

Source: Processed data (2025).

### Test of Determination Coefficient

The results of the analysis with smartPLS 4 show that the adjusted R-squared value is 0.339. This means that the combination of the variables for tax avoidance, environmental performance, profitability,

institutional ownership, leverage, and firm size can explain 33.9% of the variation in firm value. The remaining 66.1% is influenced by other factors outside of this research model.

Table 3. Test of Determination Coefficient Result

	R-square	R-square adjusted
V	0.368	0.339

Source: Processed data (2025).

### Hypothesis Test

Hypothesis testing in this study was conducted by referencing the T-statistics and P-values from the SEM-PLS analysis results. The following table presents a summary of the hypothesis test results used to evaluate the relationships between variables in the research model:

Tabel 4. Hypothesis Test Result

	Original sample (O)	Sample Mean (M)	Standard Deviation (STDEV)	T statistics ( O/STDEV )	P values
TA -> V	0.369	0.407	0.321	1.148	0.251
EP -> V	-0.128	-0.109	0.073	1.747	0.081
P -> V	0.616	0.629	0.141	4.365	0.000
P x TA -> V	0.410	0.445	0.349	1.176	0.240
P x EP -> V	-0.300	-0.280	0.125	2.403	0.016
IO -> V	-0.231	-0.219	0.087	2.661	0.008
L -> V	0.019	0.019	0.046	0.410	0.682
FS -> V	0.081	0.071	0.067	1.204	0.229

Source: Processed data (2025).

The research findings indicate that tax avoidance has no significant effect on firm value (t-statistic 1.148, p-value 0.251), aligning with the view that investors in the extractive sector are more focused on operational stability and regulation. Environmental performance has a significant negative effect on firm value (t-statistic 1.747, p-value 0.081), suggesting that the costs of environmental investments may not yet be offset by market recognition, given that most companies only achieve minimum compliance (PROPER blue rating, 58% of total companies between 2020-2024). However, profitability has a direct, positive, and significant effect on firm value (t-statistic 4.365, p-value 0.000). Profitability cannot moderate the effect of tax avoidance on firm value (p-value 0.240), but it significantly moderates the negative effect of environmental performance on firm value (t-statistic 2.403, p-value 0.016), demonstrating that highly profitable companies are better able to balance environmental costs with shareholder value creation.

### Discussion

The results of the hypothesis testing in this study show several interesting findings regarding the relationship between tax avoidance, environmental performance, and firm value, with profitability as a moderating variable. It was found that tax avoidance has no significant effect on firm value (t-statistic 1.148, p-value 0.251). This is consistent with several previous studies Suropto, (2020), Septyaningrum, (2020), Safitri & Sari, (2021), and Purwaningsih, (2022) which state that investors in the extractive sector tend to focus more on operational stability and commodity prices rather than aggressive tax avoidance strategies, which could pose a reputational risk. Investors may view this practice neutrally or even as a negative signal, especially if it is not transparent or poses a legal risk.

Furthermore, environmental performance shows a significant negative effect on firm value (t-statistic 1.747, p-value 0.081), although the effect is not very strong. This finding is consistent with Komalasari, (2017) but contradicts several other studies Surahmat et al., (2025), Firmanda & Wahyuni, (2024), Mardiana & Wuryani, (2019), and (Wardani, 2020). A possible explanation is that the investment costs to achieve a higher PROPER rating in the extractive sector have not been fully offset by long-term benefits or market recognition. The majority of companies in this sector only achieve a blue rating (minimal compliance), indicating that large investments for environmental improvements are not yet positively valued by investors, who may be more sensitive to the burden of short-term additional costs. Profitability itself has a significant positive effect on firm value (t-statistic 4.365, p-value 0.000). This finding is highly consistent with signaling theory, where high profitability serves as a strong signal to investors about a company's financial health and future prospects. In the dynamic extractive industry,

stable profitability reflects good operational efficiency and risk management, which is highly valued by investors as an indicator of a company's ability to create value.

Although profitability has a positive direct effect, it is unable to moderate the effect of tax avoidance on firm value (p-value 0.240). This shows that the level of profitability does not significantly alter how tax avoidance practices affect firm value. Investors may view tax avoidance as a tactical decision separate from the company's long-term prospects, regardless of how profitable the company is. Factors such as the reputational and legal risks associated with tax avoidance may dominate investor perception more than its potential to increase net profit, especially with stricter regulatory oversight like the implementation of the core tax system.

Interestingly, profitability can moderate the significant negative effect of environmental performance on firm value (t-statistic 2.403, p-value 0.016). This means that high profitability can strengthen this negative relationship. Companies that are highly profitable have a greater financial capacity to invest in environmental initiatives. However, in this context, investors may be more tolerant of environmental costs when the company consistently generates large profits, as this demonstrates the company's ability to balance environmental responsibility with shareholder value creation. This is in line with the resource-based view (RBV), where high profitability becomes an internal resource that allows companies to absorb environmental costs without eroding the value created for shareholders.

This discussion directly highlights the novelty of the research, which is the integration of financial factors (tax avoidance and profitability) and environmental factors (environmental performance) into a single analytical model. The finding that profitability does not moderate the relationship between tax avoidance and firm value, but does significantly moderate the negative relationship between environmental performance and firm value, is a unique contribution that distinguishes this study from previous ones that tended to examine these variables separately. This demonstrates the complexity of managerial decisions in the extractive sector, where investors view tax avoidance strategies as a separate risk from profitability, while environmental investment costs may be tolerated or even seen as a strategic signal only when a company shows high and stable profitability. Thus, this finding not only enriches the literature but also provides practical insights for management and investors regarding strategic priorities in this unique sector.

## **CONCLUSION**

Based on the analysis, it was found that tax avoidance does not affect firm value, which suggests that investors in the extractive sector tend to focus more on profitability and operational stability, with varied interpretations of tax avoidance practices. In contrast, environmental performance has a significant negative impact on firm value, indicating that the costs of environmental initiatives may not be fully offset by market recognition or the potential for long-term financial gain. Additionally, institutional ownership also showed a significant negative impact on firm value, which could be attributed to potential conflicts of interest or suboptimal policies resulting from the dominance of institutional investors. Furthermore, this study reveals that profitability does not moderate the relationship between tax avoidance and firm value, meaning the impact of tax avoidance is not significantly dependent on the entity's profitability level. However, profitability successfully moderates the negative impact of environmental performance on firm value. This finding is important because it shows that companies with strong profitability have the financial capacity to absorb the costs of environmental initiatives. Thus, environmental investments, while initially appearing as a burden, do not significantly suppress firm value in the eyes of investors when supported by solid profitability fundamentals. This implies a balance between environmental responsibility and value creation from an investor's perspective. This research has limitations due to the use of specific proxies for key variables such as tax avoidance (CETR) and environmental performance (PROPER), which may not fully capture the complete complexity of these concepts. The data used may limit the scope of the analysis to only those aspects measurable by these proxies. In the context of the extractive industry, these results may be highly specific given the sector's unique characteristics. Therefore, generalizing the findings to other industries or different contexts should be done with caution, as relevant factors may differ significantly outside the scope of this study. Theoretically, this research enriches the understanding of the complex interaction between financial and environmental factors on



firm value in the extractive sector. Practically, management is advised to increase transparency regarding tax strategies and integrate environmental initiatives into core business strategies supported by profitability. Regulators are expected to develop more specific regulatory frameworks and incentives, while investors are encouraged to perform in-depth analysis of environmental costs and tax practices when making investment decisions.

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