

Southeast Asia's Readiness for Tax Transparency: Exploring the Nexus Among Tax Transparency, Tax Planning and Firm Value

(Kesediaan Asia Tenggara terhadap Ketelusan Cukai: Meneroka Hubungan antara Ketelusan Cukai, Perancangan Cukai dan Nilai Firma)

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ABSTRACT

This research evaluates the Southeast Asia region's preparedness towards implementing tax transparency policies and analyzes the interrelation between tax transparency, tax planning, and the value of a firm. Conducting an explanatory quantitative approach, the study captures data from prominent firms in Southeast Asia for the years 2019-2023. The results indicate that the level of tax transparency in the region is generally low, however there is some progressive improvement after the adoption of GRI 207: Tax Standard. In addition, the analysis shows there is considerable negative correlation between tax transparency and firm value which indicates that higher tax transparency may increase the risk perception by investors. There is also some negative impact on firm value from tax planning which suggests that there is some regulatory and reputational risk from aggressive tax planning. Relevant findings suggest more rigid control mechanisms to be put in place to increase tax transparency and reduce aggressive tax planning activities in Southeast Asian countries.

Keywords: Tax transparency; tax planning; firm value; Global Reporting Initiative 207: tax standard; tax for sustainable development goals.

ABSTRAK

Kajian ini menilai tahap kesediaan rantau Asia Tenggara dalam melaksanakan dasar ketelusan cukai serta menganalisis hubungan antara ketelusan cukai, perancangan cukai dan nilai sesebuah firma. Pendekatan kuantitatif penjelasan telah digunakan dengan mengumpul data daripada firma-firma terkemuka di Asia Tenggara bagi tahun 2019 hingga 2023. Dapatan kajian menunjukkan bahawa tahap ketelusan cukai di rantau ini secara amnya adalah rendah, namun terdapat peningkatan progresif selepas pelaksanaan piawaian GRI 207: Piawaian Cukai. Selain itu, analisis menunjukkan terdapat hubungan negatif yang ketara antara ketelusan cukai dan nilai firma, yang menunjukkan bahawa ketelusan cukai yang lebih tinggi berkemungkinan meningkatkan persepsi risiko dalam kalangan pelabur. Terdapat juga kesan negatif daripada perancangan cukai terhadap nilai firma, yang mencadangkan wujudnya risiko kawal selia dan reputasi akibat daripada perancangan cukai yang agresif. Penemuan yang berkaitan mencadangkan agar mekanisme kawalan yang lebih ketat dilaksanakan bagi meningkatkan ketelusan cukai dan mengurangkan aktiviti perancangan cukai yang agresif di negara-negara Asia Tenggara.

Kata Kunci: Ketelusan cukai; perancangan cukai; nilai firma; Inisiatif Pelaporan Global 207: piawaian cukai; cukai untuk matlamat pembangunan mampan

JEL: G32, H25, H26, H32, K34, M48

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INTRODUCTION

Tax transparency is essential for sound corporate governance. It enables companies to manage and comply with tax obligations, reduce litigation risks, and avert unfavorable consequences that could destabilize their finances (Faúndez-Ugalde et al. 2022). Well-designed tax transparency policies improve the quality of tax audits and assist governments in identifying profit shifting and mitigating aggressive tax planning risks (Martini et al. 2025).

In both business and regulation, transparency acts as a form of accountability, as it offers verifiable information, and as a changing process that defines how information is conveyed and how it is comprehended (Oats & Tuck 2019).

In preventing reckless tax evasion and protecting large corporations from reputational damages, Stiglingh et al. (2017) argued that ensuring tax transparency has become vital alongside economic development. Efforts to deal with cross-border tax evasion and illicit financial flows on an international scale have led to initiatives like the Base Erosion and Profit Shifting (BEPS) project and the Common Reporting Standard (CRS). Thus, tax transparency has evolved from merely a compliance requirement to an integral part of organizational long-term strategic planning that can promote value creation for businesses and society (Faúndez-Ugalde et al. 2022).

Razen and Kupfer (2023) explained tax transparency as a crucial point in relation to a company's responsibility as it improves their accountability, minimizes tax evasion, and promotes the wellbeing of citizens. Furthermore, tax planning is an accepted term that involves legally minimizing taxes owed, but can also refer to the careless exploitation of external stakeholder consideration through aggressive regulatory loophole utilization. Tax planning is meant to maximize post-tax income when benefits are greater than tax planning costs. This helps to improve the value of the firm (Vu & Le 2021).

Research results on the effects of tax planning on the value of the firm seem to be conflicting. While some indicate that tax avoidance increases value by lowering tax expenses, others focus on the adverse consequences such as the legal risks associated with tax aggressiveness and the negative perception of tax avoidance by investors (Nebie & Cheng 2023).

Tax policies and planning approaches applied by a company affect not only the business entity, but may also shape the attitude and approaches of other businesses for developing their own tax plans. When companies see their competitors taking aggressive positions on tax avoidance, they tend to follow suit or adopt some of those practices to stay competitive (Global Sustainability Standards Board 2021). Furthermore, Environmental Social Governance (ESG) is now one of the primary metrics used to evaluate a company. More and more, financial market participants look at ESG performance when making investment decisions. Those firms that show good performance in ESG practices tend to have greater market value. In some instances, companies might use ESG reporting to mask the reality of tax avoidance by claiming that the funds saved thanks to tax avoidance are being used towards shareholder value enhancement efforts categorized as spending on environmental responsibility initiatives (Kräussl et al. 2024).

Garcia-Bernardo and Janský (2024) found that a frequent method of tax avoidance is profit shifting, where the head office of a multinational company relocates its taxable income to a jurisdiction with lower tax rates or a tax haven to reduce the overall taxation burden. The OECD views this as a concern affecting entire global economies and refers to it as Base Erosion and Profit Shifting "BEPS." In an attempt to mitigate this problem, the OECD initiated the BEPS Project in 2015 with a set of actions designed to improve tax transparency (Picciotto et al. 2017). One of these actions is the enforcement of the CbC Reporting (CbCR) system which compels multinational enterprises to account for their revenues, expenditures, and economic performance in different countries. However, CbCR is still subject to a number of issues despite its aims (OECD, 2015). Many gaps in international tax legislation continue to be taken advantage of. This brings to focus the need for more stringent guidelines for better financial reporting and information veracity within the CbCR framework (Evers et al. 2017).

The CbCR system is further incorporated into the Global Reporting Initiative GRI 207: Tax Standard—the reporting standard for sustainability that has a specific focus on taxes as an aspect of social responsibility. With the strategic management option and specific reporting disclosures on tax strategy and tax reporting, GRI 207 provides a framework for all organizations, regardless of size, industry, or location, to enhance responsibility and transparency in tax reporting (Global Sustainability Standards Board 2021). Other programs that work toward increasing tax transparency include the United Nations Development Program's (UNDP) Tax for Sustainable Development Goals (Tax for SDGs), where tax transparency is a key focus under the agenda of SDG 16 (peace, justice, and strong institutions) (United Nations Development Programme, 2024).

It is said that transparency regarding tax obligations in corporate governance increases the likelihood of compliance with tax obligations. As market economies advance, they can differentiate between firms that pay taxes and those that avoid taxes; therefore, firms are more likely to avert consumer penalties stemming from transparent disclosures of their tax practices (Razen & Kupfer 2023). Failure to comply with tax obligations not only mitigates the tax revenue of the home country but also raises questions about a firm's ethical social responsibility and its commitment to economic growth and development.

Therefore, as emphasized repeatedly in this study, the lack of obfuscation concerning tax practices contributes significantly to voluntary compliance with tax obligations. Companies open in their tax policies tend to enjoy greater confidence from market participants such as consumers and investors. In view of the fact that market participants have the potential to clearly identify tax paying and non-tax paying firms, it follows that such firms will seek to avoid the risk of consumer anger generated by transparent disclosure of their tax policies (Razen & Kupfer 2023).

Moreover, the corporate strategy within the framework of tax planning is influenced by the corporation's Effective Tax Rate (ETR). Profitability, firm size, and statutory tax rates, on the other hand, have considerable impact on the ETR. Research conducted in Eastern European countries indicates the existence of a positive relation between ETR and profitability (Vintila et al. 2017). It's critical to note that the linkage between ETR and tax planning is vital for achieving maximum post-tax profits and managing overall compliance expenses. Tax planning remains applicable in all tax systems as taxpayers are perpetually in the process of restructuring their economic behavior to reduce liability expenditures, which in turn has an effect on expenditure on compliance costs (Calegari 1998).

Regarding tax value, a number of studies claim that tax transparency adds value to the tax market. Transparency enhances the trust investors place in the firm and reduces the risk related to tax avoidance (Stiglingh et al. 2017). Companies

are reported to have experienced an increase of 2.5% in market value post the implementation of Tax Information Exchange Agreements (TIEAs) with high tax transparency (Garcia-Bernardo & Janský 2024). Also, in those industries that advocate for sustainability, accurate and clear ESG reporting has been shown to increase firm value. Therefore, a combination of responsible tax planning and transparent ESG practices may be key to long-term business sustainability (Gerged et al. 2023). Less corporate transparency goes together with more aggressive tax strategies, contributing to more severe forecast errors, greater forecast dispersion, and more information asymmetry, which increases uncertainty on the part of the investor. To a certain extent these effects are mitigated by some firms, which implement more detailed disclosure (Balakrishnan et al. 2019). While previous studies have explored the relationships between tax planning, firm value, and tax transparency, comprehensive research that evaluates the readiness of Southeast Asia in adopting tax transparency—while analyzing the interaction between firm value, tax transparency, and tax planning—remains limited.

Therefore, this study aims to fill this research gap by focusing specifically on the Southeast Asian (ASEAN) context. Based on the above background, this study seeks to answer how tax transparency is implemented in companies across Southeast Asia and to assess the influence of tax transparency and tax planning on firm value in the Southeast Asian region.

LITERATURE REVIEW

The literature review provides a broad analysis of past research works that include firm value, tax transparency, and tax planning. It summarizes the key findings of previous studies providing a touchstone for understanding the present state of knowledge in these areas.

FIRM VALUE

Lonkani (2018) believes firm value continue to evolve as a concept in financial theory, reflecting the present value of a company's future cash flows. In measuring the impact of tax planning on firm value, the effective tax rate (ETR) is often used as a key indicator. Firms that pay lesser taxes are likely to be more productive since such firms are able to spend in better ways, lower the burden on the economy, and make better use of spending on goods and services (Gkikopoulos & Stathopoulos 2021).

A firm's value may decrease due to lack of tax transparency because of less liquidity, greater costs of capital, and poorly executed allocations and investments (Balakrishnan et al. 2019). A few studies attribute higher firm value to tax avoidance due to lower taxes, while others highlight possible negative outcomes—legal risks, confidence, and reputational damage (Nebie & Cheng 2023).

As part of cross-border tax reporting, the Global Reporting Standard (GRI) 207: Tax Standard is being implemented by an increasing number of firms in order to improve tax disclosure. This standard is incorporated in the GRI Reporting Framework as part of the GRI 200 series on economic subjects (Abu 2022). GRI 207 has two main elements: management approach disclosures and topic-specific disclosures. Management approach disclosures detail how a company's tax policy is formulated and how it is implemented as well as its consequences, while the topic-specific disclosures describe what those consequences are (KPMG 2022). Moreover, GRI 207 also supports the Country-by-Country Reporting (CbCR) that was introduced by the OECD in 2019 as part of the international initiative to strengthen control over taxation of cross-border activities of corporations (OECD 2015).

TAX TRANSPARENCY

Regarding business and regulation, Oats and Tuck (2019) found that transparency manifests in multiple manners, including as its subject, instrument, technology, or practice. Two primary approaches to transparency exist: verifiability and performativity. The verifiability approach views transparency as the provision of verifiable information to support accountability, while the performativity approach sees transparency as a process that shapes information and influences both the sender and the receiver.

Schnackenberg and Tomlinson (2016) define transparency as “the perceived quality of intentionally shared information from a sender,” comprising three key elements: openness, clarity, and accuracy. Openness refers to the extent to which relevant information is shared publicly, clarity concerns how clearly the information can be understood without ambiguity, and accuracy relates to the reliability and credibility of the information provided.

In taxation, transparency serves as a mechanism to improve corporate accountability through tax information disclosures that allow stakeholders to understand a company's strategies and level of compliance (Oats & Tuck 2019). Bennedsen and Zeume (2018) emphasize that tax transparency also involves enhanced disclosure and information exchange between companies and tax authorities, thereby improving oversight and reducing the risk of unethical tax planning practices. Transparency can help reduce tax avoidance by limiting the space for companies to conceal their tax strategies from both tax authorities and the public (Stiglingh et al. 2022).

Aggressive tax strategies are often associated with low corporate transparency, reflected in high analyst forecast errors, greater forecast dispersion, and increased information asymmetry in financial markets. Insufficient taxes in comparison to rivals might suggest a lack of financial openness, which creates more uncertainty for investors. In order to address these

consequences, some companies seek to manage the negative impacts of such aggressive tax conduct by increasing financial transparency (Balakrishnan et al. 2019).

While aiming to improve responsibility, the issue of over-transparency should not be disregarded. Providing greater transparency heightens the risk of several expenditures associated with furnishing and processing information, having a higher likelihood of audit scrutiny and subsequent tax sanctions, as well as incurring additional expenses. Furthermore, firms choosing to make public their tax-mitigating practices may also suffer reputational damages of consumer boycotts if their strategies are perceived as ethically questionable by the public (Stiglingh et al. 2022).

Missing out on transparency concerning taxes could lead to negative outcomes for the value of a firm such as decreased liquidity, higher capital costs, and lower efficiency of investments. Despite claims that “less dynamic disclosure will improve the impact of tax aggressiveness on transparency,” corporate governance does not mitigate risks significantly. This leads to increased adoption of conservative tax stances to evade long-term jeopardized risk regarding firm value (Balakrishnan et al. 2019).

TAX PLANNING

Sikka (2010) believes tax planning is very important when it comes to managing corporation tax associated with a business. It involves the sharp strategic choices made by corporations to maximize the profits obtained post-tax by creating tax benefits that exceed the costs incurred while enhancing the corporation. This involves paying lower income taxes, deductions, and even tax credits (Desai & Dharmapala 2006). Proper tax planning is able to help businesses further increase firm value by optimizing the effective tax rate (Global Reporting Initiative 2020).

Tax planning is important for domestic and multinational companies and is done as part of their overall tax management strategies (Hanlon & Heitzman 2010). However, the literature investigating the impact of tax planning on firm value has been quite diverse with mixed outcomes. Some studies argue that tax avoidance enhances firm value by reducing corporate taxing, while other studies raise counterarguments highlighting negative implications such as legal risks, lower investor confidence, and erosion of trust because of aggressive tax cut strategies (Minnick & Noga 2010).

Balakrishnan et al. (2019) found that tax planning may aid in reducing tax obligations, but planning still incurs operational expenditure, risk of compliance, and increased administrative burden. Where such an intricate structure is poorly explained in the accounting documents, it can impede effective stakeholder engagement and bridle the achievement of the level of transparency needed. This is troubling especially for firms with non-standard tax planning, as lack of clarity makes it difficult to grasp the firm’s financial condition.

Not only do aggressive tax strategies attract more scrutiny from tax authorities and diminish the expected financial gain, but there is also the alternative of efficient corporate tax planning. Rather than being solely concerned with the reduction of tax liability, efficient tax planning takes a holistic and systematic approach. This incorporates all the taxation issues of a given business entity. The focal points are compliance, visibility, and the creation of lasting value. Effective tax planning also takes indirect tax costs, tax-related stakeholder issues, and long-term governance into account in addition to visible tax liabilities. The principal aim is maximizing returns after taxes, instead of attempting to minimize tax payments. In real life, tax savings do not always lead to higher company value because other accompanying costs may offset the savings. Thus, successful tax planning is not merely tax minimization but coordinating strategy with investor and long-term financial well-being interests, which is why it has different effects on firm value in different empirical settings (Richardson et al. 2013).

Wang (2010) argued that tax planning is a legal tax management strategy aimed at minimizing corporate tax obligations without breaching regulations. Effective tax planning is a core concern in corporate governance, as it can reduce tax costs and enhance shareholder welfare. Therefore, sound tax planning practices not only support financial efficiency but also contribute to shareholder value.

In some companies, tax planning is driven by corporate values and priorities. Market conditions—such as liquidity needs or competitive benchmarking—and public pressure can also influence the tax strategies adopted (Armstrong et al. 2012). Effective tax planning is not solely focused on minimizing tax liabilities but aims to achieve an optimal after-tax return, thereby improving profitability perceptions in the eyes of investors (Richardson et al. 2013).

CONCEPTUAL FRAMEWORK

Reviewing previous studies, two significant influencing factors regarding the value of a firm are tax transparency and tax planning. The value of a firm is defined in financial theory as the present value of a firm’s future cash flows (Lonkani 2018). Prior research indicates that the value of a firm could diminish when there is a lack of tax transparency, which is associated with lower liquidity, higher cost of capital, and poorly allocated investments (Balakrishnan et al. 2019). On the other hand, tax reporting transparency increases trust from stakeholders, mitigates information asymmetry, and improves a firm’s perception in the market (Stiglingh et al. 2022). Tax transparency should, therefore, be seen as an accountability mechanism that reinforces firm value through increased disclosure and the information flow between firms and tax authorities (Bennedsen & Zeume 2018).

Other than the operational activities of a firm, tax planning also influences how firm value is determined. Considering costs surpassing potential benefits, tax planning encompasses the strategic choices businesses make to obtain tax benefits

and determine the after-tax profits (Desai & Dharmapala 2006; Sikka 2010). While certain literature argues tax avoidance increases firm valuation due to tax savings, the literature also contrarily notes reputation and legal risks, due to overly aggressive tax planning, as a potential downside (Nebie & Cheng 2023; Balakrishnan et al. 2019). To lower such risks, efficient corporate tax planning constitutes avoidance, control, visibility, and creation of value. Effective tax planning emphasizes incorporation and interrelation of all tax issues within a business and aligning the tax objectives to the long-term interests of the shareholders and governance (Richardson et al. 2013).

In this respect, this study assumes tax transparency and tax planning have a positive relationship. The relationships have been illustrated in the conceptual framework provided below.

H₁ All else being equal, the higher the level of tax transparency, the more positively it affects firm value.

H₂ All else being equal, the more intensively a company engages in tax planning, the more positively it affects firm value.

METHODOLOGY

The methodology part describes the research design for this study, the data and variables, and the sample used.

DATA AND VARIABLES

This study utilizes secondary data obtained from two primary sources. The first source is Refinitiv Eikon, which provides various corporate financial information, including annual reports and other financial variables relevant to this research. The second source is the Sustainability Reports accessed through the official websites of each company. These reports are used to gather information regarding tax transparency based on the GRI 207: Tax 2019 standard.

The study sample includes the 200 companies in the Southeast Asia Fortune 500 list, which were selected using the total revenue criterion for the years 2019 to 2023. We ensure the proper selection of sample companies, taking into consideration the requirements of data relevance and data quality. The first step contains the finding of companies that are part of the Southeast Asia Fortune 500 list paying attention to those whose revenue is the highest in the period of the study. Later, we screened the selected companies to remove those who are either making losses or those that have negative income tax figures during the period of the study. This is done in order to minimize distortions in the calculation of tax planning and tax transparency, which would have been detrimental to the accuracy of the analysis.

Moreover, firms lacking obtainable or accessible financial statements or sustainability reports were also removed from the sample. The absence of a sustainability report is noted in the study as an important factor since tax transparency is evaluated based on GRI 207: Tax 2019 which utilizes information provided within these reports. After these refinements, 200 companies that fulfilled the selection criteria were found and included for further analysis. Through this systematic sampling technique, the study seeks to improve how tax transparency and tax planning affect firm value in Southeast Asia.

This research involves three main categories of variables: independent variables, dependent variables, and control variables. The independent variables in this study consist of tax transparency and tax planning. Tax transparency is measured based on disclosure scores in corporate sustainability reports that refer to the GRI 207: Tax 2019 standard. The scoring scheme for this variable adopts the method developed by Faúndez-Ugalde et al. (2022), which divides tax transparency into four main dimensions:

TABLE 1. GRI 207 dimensions

| Dimension 1: GRI 207-1 | |
|----------------------------------------------------------------------------|--|
| 1.1. Reports summary of tax strategy | |
| 1.2. Fully reports the tax strategy | |
| 1.3. Reports commitment in tax compliance | |
| 1.4.1. Reports economic and social impact of the tax strategy | |
| 1.4.2. Tax approach is consistent with sustainable development commitments | |
| Dimension 2: GRI 207-2 | |
| 2.1.1. Identifies the executive responsible for tax strategy | |
| 2.1.2.1. Develop trainings | |
| 2.1.2.2. Report incentives to executives | |
| 2.1.2.3. Plan succession of tax executives | |
| 2.1.2.4. Participate in tax transparency initiatives with stakeholders | |
| 2.1.3.1. Report tax risks | |
| 2.1.3.2. Reports supervision of tax risks | |
| 2.1.4. Reports supervision of tax executives | |
| 2.2. Reports the mechanisms for reporting illegal behavior | |
| 2.3. Reports audit processes in tax matters | |
| Dimension 3: GRI 207-3 | |
| 3.1.1. Reports commitments with tax authorities | |
| 3.1.2. Reports focus on the defense of tax policies | |
| 3.1.3. Reports processes to collect stakeholder opinions | |
| Dimension 4: GRI 207-4 | |
| 4.1. Reports all resident jurisdictions for tax purposes | |
| 4.2. Reports tax information for each jurisdiction | |
| 4.3. Reports period of the information delivered | |

*Source: Ugalde et al. (2022)

The first dimension, GRI 207-1, covers disclosures related to tax strategy, including a summary of the tax strategy, comprehensive reporting of the tax strategy, commitment to tax compliance, and the economic and social impacts of the implemented tax strategy. This dimension also assesses whether the company's tax approach aligns with its commitment to sustainable development.

The second dimension, GRI 207-2, focuses on tax governance and risk management. Key aspects assessed in this dimension include the identification of executives responsible for tax strategy, the development of tax-related training, tax-related incentives for executives, and executive tax succession planning. Additionally, the company's participation in tax transparency initiatives with stakeholders is also evaluated. Other areas covered include tax risk reporting, oversight of tax risks, monitoring of tax executives, and mechanisms for reporting illegal behavior and conducting tax audits.

The third dimension, GRI 207-3, evaluates the company's engagement with tax authorities and stakeholders. Disclosures regarding the company's commitment to tax authorities, its stance in tax policy advocacy, and stakeholder feedback collection processes are key indicators in this dimension.

The fourth dimension, GRI 207-4, emphasizes reporting of tax information on a jurisdictional basis. This dimension assesses whether the company discloses all jurisdictions in which it is registered for tax purposes, whether detailed tax information is reported for each jurisdiction, and the period covered by the tax information presented in the sustainability report.

The assessment of intrinsic elements in the company's report adopts the quantitative indicators developed by Raar (2002), which classify the level of disclosure based on the length or quantity of the information presented. The evaluation employs a five-point scale: a score of 1 is assigned if the information is disclosed in a single sentence, 2 for a paragraph, 3 for half an A4 page, 4 for one full A4 page, and 5 if the disclosure exceeds one A4 page. The maximum score for tax transparency disclosure based on GRI 207 is 105 points, distributed as follows: 25 points for dimension 207-1, 50 points for 207-2, 15 points for 207-3, and 15 points for 207-4. A higher score indicates a greater level of transparency in the company's tax strategy and practices.

Meanwhile, tax planning is measured using the Effective Tax Rate (ETR), calculated as the ratio of total tax expense to pre-tax income. ETR depicts how a company fulfills its tax obligations and how its tax management affects the firm's value. The dependent variable in this study is firm value, which is assessed through Return on Assets (ROA). As a profitability measurement, ROA reflects the firm's capability in profit generation based on its assets. A higher ETR generally describes a lower risk for tax avoidance strategy and means that a company pays a larger amount of its earnings in taxes. While a higher ETR can't solely determine a company's cleanness in terms of its tax avoidance participation, it can show an initial data of how likely a company is to be engaged in tax planning or avoidance.

Furthermore, a number of other control variables are included to improve the precision of the analysis. Firm size is defined by the natural logarithm of total assets ($\ln(\text{Total Assets})$), which serves as a proxy for the scale of the firm's operations. Leverage is defined by the Debt to Equity Ratio (DER), portraying the amount of debt a firm employs in relation to its equity base. Profitability is represented by Return on Equity (ROE), which indicates profit available to shareholders compared to their equity stake in the firm. The variable calculating change is defined as the standard deviation of sales (Stdev Sales), serving as a proxy for revenue volatility. Growth is determined by the increase in revenue as an indicator of the firm's expansion. Lastly, productivity is defined as the asset turnover ratio, which measures the extent of sales generation in relation to the company's assets. With the incorporation of these variables, the research seeks to assess the impact of tax transparency and tax planning on firm value with consideration of other relevant factors. Below is a description of the variables used in this study.

TABLE 2. Description of research variables

| Variable | Notation | Explanation |
|-----------|----------|------------------|
| Response | Y | Firm Value |
| Predictor | X1 | Tax Transparency |
| | X2 | Tax Planning |
| Control | C1 | Firm Size |
| | C2 | Leverage |
| | C3 | Profitability |
| | C4 | Growth |
| | C5 | Fluctuation |
| | C6 | Productivity |

MODEL SPECIFICATION

The empirical model used in this paper is as follows:

$$\text{Firm Value} = \alpha + \beta_1 (\text{Tax Planning}) + \beta_2 (\text{Tax Transparency}) + \beta_3 (\text{Firm Size}) + \beta_4 (\text{Leverage}) + \beta_5 (\text{Profitability}) + \beta_6 (\text{Growth}) + \beta_7 (\text{Fluctuation}) + \beta_8 (\text{Productivity}) + \mu$$

The model utilizes panel data regression to capture both cross-sectional and time-series components of the data. This specification improves estimation because it accounts for inter-temporal and firm-specific heterogeneity.

RESEARCH METHOD

This study employs a quantitative explanatory approach to examine the influence of tax transparency and tax planning on firm value. The method used in this research is panel data regression, which enables the analysis of relationships between independent and dependent variables by taking into account both cross-sectional and time-series dimensions. The selection of this method aims to enhance the accuracy of the analytical results by considering temporal dynamics and the unique characteristics of each company in the sample.

The process begins with Common Effect Model (CEM), Fixed Effects Model (FEM), and Random Effects Model (REM). To determine which is the best-fit model selection, two post-estimation tests must be run. The Chow Test assesses the appropriateness of CEM and FEM, measuring the significance of fixed effects across different entities. If the results are significant, it implies that FEM is better than CEM. The Hausman Test assesses FEM and REM subsequently. It determines whether random effects are independent of the independent variables. When FEM is the better option, the results of the Hausman test will be significant and in the opposite case, it will be insignificant thereby supporting REM.

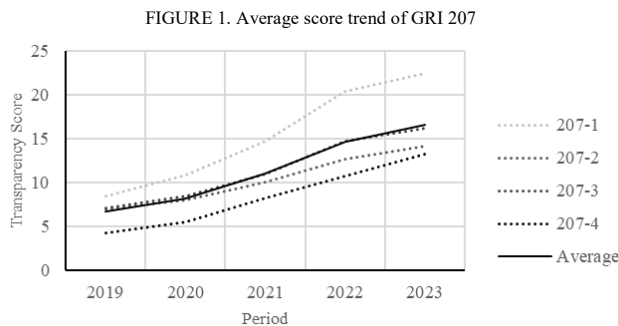
Then, multicollinearity and heteroskedasticity tests would be applied to fix possible problems such as unequal or related error terms, so the results would be more reliable.

RESULTS AND DISCUSSION

To measure the results, a quantitative indicators method is used to assess the current state of tax transparency. This study also used Estimated Generalized Least Squares (EGLS) model to assess the relationship between tax planning and tax transparency on firm value.

TAX TRANSPARENCY IN SOUTHEAST ASIA

In analyzing tax transparency among the 200 sampled companies based on the GRI 207 dimensions (207-1, 207-2, 207-3, and 207-4), the results are summarized in Figure 1. Based on the scoring data, the average tax transparency score has shown a generally upward trend over the past five years, where in 2019 the average score was just 6.96 out of 105 and in 2023 the score slowly increased up to 16.30 with the most significant increases occurring in 2022 and 2021. This notable increase corresponds with the official adoption of the GRI 207 standard in 2021, suggesting that the implementation of this standard has contributed to the improvement in transparency levels.



Nevertheless, the average level of tax transparency remained relatively low in 2023, recorded at only 16.30 points out of 105 possible points. Data analysis revealed that out of the 200 sampled companies, 177 fell within the limited disclosure category, as illustrated in Figure 2, concentrated in the score interval of 0 – 21 and 22 – 42. This finding aligns with the perspective of Razen and Kupfer (2023), who argue that in the absence of clear consequences, tax transparency tends not to be a priority. This is consistent with the situation in Southeast Asia, where there is currently no mandatory standard requiring companies to publicly disclose comprehensive information on their tax compliance practices.

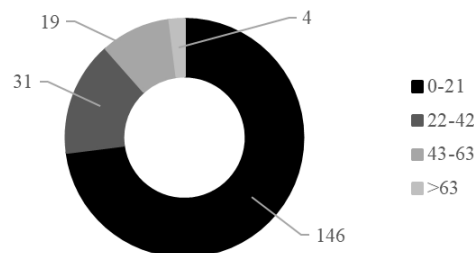


FIGURE 2. Tax transparency score in 2023 based on GRI 207

Based on the data presented in Figure 2, the majority of companies in Southeast Asia still exhibit very low levels of tax transparency, with 146 companies (the largest portion of the total sample) falling within the limited transparency range which means 146 out of 200 companies haven't got a score higher than 21. This indicates that the implementation of tax transparency standards, such as those outlined in GRI 207, has not yet become a top priority for companies in the region, and the level of disclosure remains limited. Most companies only report basic tax-related information without providing details on tax strategies or the tax risks they face, suggesting that tax transparency remains far from optimal.

In the absence of regulations or requirements that mandate more comprehensive tax disclosure, companies tend to avoid sharing detailed tax-related information and only disclose what is required under standard accounting obligations. As it is commonly assumed, their tax information and plans are reported accurately, as per the required standards, to their relevant tax authorities. More disclosure being awarded in 2021 and 2022 suggests that companies tend to show more disclosure on their tax policies due to either self-imposed reporting guidelines or stricter regulations around disclosure. The data for this research is available online on https://binusianorg-my.sharepoint.com/personal/david_christian004_binus_ac_id/_layouts/15/guestaccess.aspx?share=Eu9Qi8nwAhpHjKCUG6ExiGABALK8iv_EBLNYVsLYjnxo6g&e=2wbEYy.

THE RELATIONSHIP BETWEEN TAX PLANNING AND TAX TRANSPARENCY ON FIRM VALUE

To derive how tax planning and tax transparency respectively relate to the value of a firm, a panel data regression was carried out with both the primary independent variables and relevant tax transparency control variables. In the preliminary stage, the regression equation was solved with a Common Effect Model (CEM) of Fixed Effect Model (FEM) versus Random Effect Model (REM) of the panel data. Further tests were done afterward to determine which model is best suited for the panel dataset.

CHOW TEST

The Chow Test was performed in order to determine which model is best between CEM and FEM. The outcomes from the Chow Test are depicted in Table 3 below.

TABLE 3. Chow Test

| Effects Test | Statistic | d.f. | Prob. |
|--------------------------|-----------|-----------|--------|
| Cross-section F | 9.8709 | (199.795) | 0.0000 |
| Cross-section Chi-square | 1244.3910 | 199 | 0.0000 |

**Source: Data processed using EViews 13.0*

As for the cross-section F, the probability value is 0.0000, therefore the data rests in the Fixed Effect Model (FEM) interval ($p\text{-value} < 0.05$). Thus, according to the Chow Test results, Fixed Effect Model (FEM) is the preferred regression model.

HAUSMAN TEST

The Hausman Tests were performed in order to find the more appropriate regression model using the Fixed Effect Model (FEM) and the Random Effect Model (REM). The results of this test are presented in Table 4 below.

TABLE 4. Hausman Test

| Test Summary | Chi-Sq. Statistic | Chi-Sq. d.f. | Prob. |
|----------------------|-------------------|--------------|--------|
| Cross-section random | 17.0644 | 5 | 0.0044 |

**Source: Data processed using EViews 13.0*

Based on the Hausman Test, the Fixed Effect Model (FEM) is the most suitable regression model because the probability value of the cross-section random effect is 0.0044, which means the data falls within the range of FEM ($p\text{-value} < 0.05$).

The results of both the Chow Test and the Hausman Test conclude that the most suitable estimation method is the Fixed Effects Model (FEM), eliminating the need for further model testing. The next step involves testing the significance of the model parameters, preceded by classical assumption testing for panel data.

MULTICOLLINEARITY DETECTION

The multicollinearity test was conducted to identify the presence of high correlations between two or more independent variables, which may lead to unstable and inaccurate regression coefficient estimates. In the initial test, a high level of multicollinearity was detected among the control variables Firm Size, Fluctuation, and Productivity as displayed in Tables 5 and 6.

TABLE 5. Correlation Matrix

| | X1 | X2 | C1 | C2 | C3 | C4 | C5 | C6 |
|----|----------|----------|----------|----------|----------|----------|--------|----------|
| X1 | 1 | (0.0133) | 0.3235 | 0.0351 | 0.0111 | (0.0237) | 0.2355 | (0.0928) |
| X2 | (0.0133) | 1 | (0.0133) | 0.0804 | (0.1536) | (0.0268) | 0.0237 | 0.0040 |
| C1 | 0.32346 | (0.0133) | 1 | 0.1259 | (0.1825) | (0.0862) | 0.4146 | (0.6290) |
| C2 | 0.0351 | 0.0804 | 0.1259 | 1 | 0.3565 | 0.0188 | 0.0634 | (0.0905) |
| C3 | 0.0111 | (0.1536) | (0.1825) | 0.3565 | 1 | 0.2018 | 0.0091 | 0.1855 |
| C4 | (0.0237) | (0.0268) | (0.0862) | 0.0188 | 0.2018 | 1 | 0.1653 | 0.1387 |
| C5 | 0.2355 | 0.0237 | 0.4146 | 0.0634 | 0.0091 | 0.1653 | 1 | 0.0801 |
| C6 | (0.0928) | 0.0040 | (0.6290) | (0.0905) | 0.1855 | 0.1387 | 0.0801 | 1 |

*Source: Data processed using EViews 13.0

TABLE 6. VIF values

| Variable | X1 | X2 | C1 | C2 | C3 | C4 | C5 | C6 |
|-----------|-------|--------|----------|--------|--------|--------|--------|----------|
| VIF Value | 3.278 | 1.7106 | 156.6171 | 7.7911 | 4.1724 | 1.5156 | 5.4973 | 26.40892 |

*Source: Data processed using EViews 13.0

Based on the first multicollinearity test, the three control variables Firm Size (C1), Fluctuation (C5) and Productivity (C6) displayed relatively high pairwise correlations with one another. Additionally, a Variance Inflation Factor (VIF) test was conducted to ensure the absence of multicollinearity. Although the correlations remain below the 0.8 point cut-off, they were accompanied by high Variance Inflation Factor (VIF) values, with Firm Size and Productivity each having VIF scores above 10. Consequently, those three variables were eliminated, and the test was repeated. The results of the second round of testing are presented in Tables 7 and 8 below.

TABLE 7. Correlation Matrix

| | X1 | X2 | C2 | C3 | C4 |
|----|----------|----------|--------|----------|----------|
| X1 | 1 | (0.0133) | 0.3510 | 0.0111 | (0.0237) |
| X2 | (0.0133) | 1 | 0.0804 | (0.1536) | (0.0268) |
| C2 | 0.0351 | 0.0804 | 1 | 0.3565 | 0.0188 |
| C3 | 0.0111 | (0.1536) | 0.3565 | 1 | 0.2018 |
| C4 | (0.0237) | (0.0268) | 0.0188 | 0.2018 | 1 |

*Source: Data processed using EViews 13.0

TABLE 8. VIF values

| Variable | X1 | X2 | C2 | C3 | C4 |
|-----------|--------|--------|--------|--------|--------|
| VIF Value | 2.9911 | 1.7083 | 7.5432 | 3.7755 | 1.3250 |

*Source: Data processed using EViews 13.0

Based on the correlation matrix in the following data, each variable does not exhibit significant correlation and does not indicate multicollinearity, as the correlation values (r) are below 0.7 among the variables, and the results of the VIF test show no indication of high correlation, with all VIF values below 10. Therefore, it can be concluded that no multicollinearity issues were found in the panel data.

HETEROSKEDASTICITY DETECTION

A heteroskedasticity test was performed to avoid inaccurate regression parameter significance in t-tests and F-tests. In this case, a regression of independent variables with absolute residuals (resabs) was conducted, and the regression results can be seen in Table 9 below.

TABLE 9. Heteroskedasticity test

| Variable | X1 | X2 | C2 | C3 | C4 |
|----------|--------|--------|--------|--------|--------|
| P-value | 0.0072 | 0.4012 | 0.8763 | 0.0477 | 0.0096 |

*Source: Data processed using EViews 13.0

Heteroskedasticity was detected in three variables: Tax Transparency, Growth, and Profitability, as indicated by the p-values for each variable being greater than 0.05, signaling the presence of heteroskedasticity. Therefore, a re-estimation of the panel data regression model was performed using HAC standard errors (Heteroskedasticity and Autocorrelation Consistent Standard Errors) within the Estimated Generalized Least Squares (EGLS) model to address the residual assumption violations. The results of the correction can be seen in Table 10 below.

TABLE 10. Heteroskedasticity correction with HAC Standard errors in the EGLS model

| Variable | t | P-value | Conclusion |
|----------|-----------|---------|-------------|
| X1 | - 3.5986 | 0.0228 | Significant |
| X2 | - 5.7229 | 0.0046 | Significant |
| C2 | - 22.4814 | 0.0000 | Significant |
| C3 | 30.3103 | 0.0000 | Significant |
| C4 | 11.9456 | 0.0003 | Significant |

| Weighted Statistics | |
|---------------------|----------|
| R-Squared | 0.982889 |
| F-statistic | 223.8594 |
| Prob(F-statistic) | 0.000000 |

*Source: Data processed using EViews 13.0

From the regression results displayed, the F-test results are shown in the Weighted Statistics section, where the F-statistic is 223.8594 with a Prob(F-statistic) = 0.000000, which indicates a value smaller than the 5% significance level (0.05). This suggests that, simultaneously, each independent variable has a significant effect on the dependent variable.

The regression results also show that Tax Transparency has a significant negative effect on firm value (p-value = 0.0228), indicating that as tax transparency increases, firm value decreases. Similarly, Tax Planning has a significant negative effect (p-value = 0.0046), indicating that increased tax planning is associated with a decrease in firm value.

Thus, both independent variables in this study do not align with the initial hypothesis, which predicted a positive relationship with firm value. These results suggest that tax transparency and tax planning practices in Southeast Asia are still perceived negatively, which is consistent with the views of Oats and Tuck (2019), who argue that tax transparency does not always have a positive impact, as the cost of compliance needs to be considered, and there is potential for misinterpretation of the data reported. Intensive tax planning is also seen as a risk that may reduce market trust (Feller & Schanz 2017).

Regarding control variables, Leverage is found to have a significant negative impact on firm value (p-value = 0.0000), indicating that increased leverage contributes to a decrease in firm value. On the other hand, Profitability shows a significant positive relationship (p-value = 0.0000), meaning that the higher a company's profitability, the higher its firm value. Furthermore, Growth has a significant positive effect on firm value (p-value = 0.0003), emphasizing that higher growth rates can increase firm value.

Based on the model results, the goodness of fit is also shown by the R-squared value of 98.29% or 0.982889, which indicates that the independent variables in the model can explain 98.29% of the variation in the dependent variable. This suggests that the model has a very high explanatory power in analyzing the factors that influence firm value.

POLICY IMPLICATIONS

The findings of this study have significant implications for policymakers, corporate governance bodies, and investors. For regulators, the inverse correlation of tax clarity and firm value reveals the need to create balanced policies on tax disclosures, increasing transparency while preserving investor trust. As discussed above, greater transparency increases corporate responsibility; however, it may also give rise to negative perceptions concerning tax risk, instability in market value, and several other factors. Therefore, educational programs and gradual policies may aid in reducing excessive market responses to mitigated investor trust.

For firms, this study highlights that aggressive tax planning can lead to reputational and financial repercussions. Therefore, firms must protect themselves by adopting tax risk management policies embedded in the firm's social responsibility initiatives to maintain investor trust and comply with regulations. Due to the heightened attention from tax bodies and global players, firms need to adopt proactive ethical tax policies and comply with local and international tax laws.

For investment decision making, as well as for evaluation by investors or other analysts, greater tax transparency has a dual use impact. Increased tax transparency may provide more information needed to evaluate a company's governance, but at the same time it may indicate there is greater risk for paying taxes. Thus, in considering investment decisions, a more detailed analysis regarding the policy on disclosure of tax information is required alongside the regulation regarding the health of the company.

CONCLUSION

This study examines the implementation of tax transparency in Southeast Asia and its impact, along with tax planning, on firm value. The results show that the level of tax transparency in the region is still relatively low, despite the introduction of global standards such as GRI 207: Tax Standard. Although there has been a trend of increasing tax transparency scores in recent years, the majority of companies remain in the limited disclosure category. This suggests that voluntary tax transparency approaches have not been effective in encouraging companies to comply without stricter regulations.

Further analysis reveals a significant negative relationship between tax transparency and firm value. The cost of compliance seems to be a key factor in line with previous research that argues tax transparency can increase uncertainty in the eyes of investors, ultimately negatively affecting firm valuation. A negative relationship is also found between tax planning and firm value. This suggests that intensive tax strategies may be perceived as tax avoidance efforts that carry risks and damage investor trust. Companies overly focused on tax planning to minimize their tax liabilities may face negative public consequences, such as a decline in reputation.

From a policy perspective, the results of this study emphasize the importance of stricter regulations to enhance tax transparency and reduce tax avoidance practices. Though our analysis indicates that increased tax transparency can be associated with a short-term decline in firm value, from the perspective of a policymaker, a stricter regulation is still warranted to avoid tax avoidance. More detailed disclosure regulations narrow the opportunities for tax avoidance planning and profit shifting, safeguarding the domestic tax base and ensuring every company contributes its fair share. As demands

for responsible corporate governance and compliance with Environmental, Social, and Governance (ESG) standards increase, regulators in Southeast Asia should consider implementing mandatory tax disclosure policies, such as Country-by-Country Reporting (CbCR), to improve corporate accountability.

The main contribution of this study lies in its comprehensive analysis of tax transparency and tax planning in Southeast Asia, a region that has been rarely explored in global tax studies. This study has limitations that need to be considered, one of which lies in the data characteristics used, where the approach does not focus on any specific industry. Although the analysis was conducted on large companies with adequate data availability, the non-industry-specific approach may overlook differences in characteristics and regulations across sectors.

Future research could integrate company-specific characteristics, such as industry type, ownership structure, and international exposure, to assess how these factors moderate the relationship between tax transparency, tax planning, and firm value. Expanding the scope of the study to include developing countries outside Southeast Asia could also provide comparative insights into the effectiveness of various tax transparency frameworks at the global level.

Furthermore, future studies could expand on the findings of this study by exploring the long-term impact of tax transparency on company performance, including its effects on profitability, stock returns, and operational efficiency. A longitudinal approach would offer deeper insights into whether companies with high tax transparency experience sustained negative impacts or whether investor sentiment tends to adjust over time.

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APPENDIX A

TABLE A1. List of the 200 Southeast Asian Fortune 500 companies used in the study

| Company | |
|---------------------------------------------------|---------------------------|
| Trafigura Group | Robinsons Retail Holdings |
| PTT | Metropolitan Bank & Trust |
| Pertamina | Vale Indonesia |
| Wilmar International | PTPP |
| Perusahaan Listrik Negara (PLN) | Century Pacific Food |
| CP All | BRC Asia |
| Flex | CI Holdings |
| DBS Group Holdings | Petrovietnam Power |
| United Overseas Bank | Guan Chong |
| Oversea-Chinese Banking Corporation | Baramulti Suksessarana |
| Bank Rakyat Indonesia (BRI) | Guocoland |
| Siam Cement | Sarawak Oil Palms |
| Maybank | Bank Pan Indonesia |
| Tenaga Nasional | Sansiri |
| Bank Mandiri | Saha Pathanapibul |
| Petrolimex | CH Karnchang |
| Sime Darby | Catur Sentosa Adiprana |
| Singtel | Pabrik Kertas Tjiwi Kimia |
| SM Investments | Kiatnakin Phatra Bank |
| Telkom Indonesia | Bank BJB |
| Golden Agri-Resources | Synnex Thailand |
| Kasikornbank | Thanh Thanh Cong Bien Hoa |
| Petronas Dagangan | IJM |
| Thai Beverage | MNC Asia Holding |
| Manila Electric | VS Industry |
| Gudang Garam | Sheng Siong Group |
| CIMB Group Holdings | Bumitama Agri |
| ST Engineering | Tunas Baru Lampung |
| Bank for Investment and Development of Vietnam | Sinarmas Land |
| Bank Central Asia (BCA) | Bank Islam Malaysia |
| Indofood Sukses Makmur | Thai Vegetable Oil |
| Masan Group | First Resources |
| Globe Telecom | Affin Bank |
| Techcombank | Susco |
| Hong Leong Asia | SeABank |
| Press Metal Aluminium | Siam Global House |
| RHB Bank | Tigaraksa Satria |
| BW LPG | Harum Energy |
| Bangkok Dusit Medical | Supalai |
| Frasers Property | Mitra Pinasthika Mustika |
| ComfortDelGro | Dohome |
| CelcomDigi | Scientex |
| AKR Corporindo | Tipco Asphalt |
| Barito Pacific | Singapore Exchange |
| Asia Commercial Bank | AAPICO Hitech |
| IOI | Land and Houses |
| Semen Indonesia | Astro Malaysia Holdings |
| Vietnam Dairy Products (Vinamilk) | Tempo Scan Pacific |
| International Container Terminal Services (ICTSI) | Hartadinata Abadi |
| BOC Aviation | GP Industries |
| HDBank | MNRB Holdings |
| Bao Viet Holdings | Bank Mega |
| Hong Leong Financial Group | Hour Glass |
| Venture | Thai President Foods |
| Maxis | Bermaz Auto |
| DMCI Holdings | SIS Distribution Thailand |
| FPT | Malindo Feedmill |
| Bank Tabungan Negara | Malayan Flour Mills |
| Home Product Center | Putra Mandiri Jembar |
| Leong Hup International | BTS Group Holdings |
| Com7 | Tisco Financial Group |
| Kalbe Farma | Global Mediacom |
| UOL Group | Aztech Global |
| Gamuda | Lanna Resources |
| Gas Malaysia | Straits Energy Resources |
| Rizal Commercial Banking | Converge ICT |
| Ratch Group | UEM Edgenta |
| Metrodada Electronics | Hexindo Adiperkasa |
| China Banking | Propnex |
| Yinson Holdings | Dharma Satya Nusantara |
| Petronas Gas | Wilcon Depot |
| QL Resources | Sumber Alfaria Trijaya |
| FKS Multi Agro | Vingroup |
| Jasa Marga | Bangkok Bank |
| Phu Nhuan Jewelry | YTL |
| Singapore Post | Adaro Energy Indonesia |
| Hutchison Port Holdings Trust | Petronas Chemicals Group |
| Sunway | Yanlord Land Group |
| Central Pattana | BDO Unibank |
| Hap Seng | PTG Energy |
| Hoa Sen Group | Aboitiz Equity Ventures |

| | |
|---------------------------------------|-----------------------------|
| Adhi Karya | Public Bank |
| Bangkok Life Assurance | Batu Kawan |
| Saigon Beer Alcohol Beverage (Sabeco) | Bank Negara Indonesia (BNI) |
| Avarga | Advanced Info Service |
| Gelex Group | Krungthai Bank |
| Sarana Menara Nusantara | Kuala Lumpur Kepong |
| M Cash Integrasi | Ayala |
| Osotspa | Pupuk Indonesia |
| Hana Microelectronics | GT Capital Holdings |
| Bumi Serpong Damai | Hoa Phat Group |
| Polyplex Thailand | Mobile World Investment |
| Tembaga Mulia Semanan | Berli Jucker |
| Kulicke and Sofia | IHH Healthcare |
| Syarikat Takaful Malaysia | Japfa |
| Krungthai Card | Cal-Comp Electronics |
| Muangthai Capital | Erajaya Swasembada |
| Sawit Sumbermas Sarana | Alliance Global Group |
| Pruksa Holding | Bayan Resources |
| Garudafood Putra Putri Jaya | Indah Kiat Pulp & Paper |
