The Impact of the Financial Reporting Quality and Corporate Governance Mechanism on Corporate Social Responsibility, Tax Avoidance and Firm Value

Elham Abdelal Ali

Master of Science in Accounting
College of Management and Technology
Arab Academy for Science, Technology and Maritime Transport

Under Supervison

Dr. Nevine Sobhy Abdel Megeid
Associate Accounting Professor
College of Management and Technology
Arab Academy for Science, Technology and Maritime Transport

Abstract

In today's business world, companies are more and more responsible for how their actions affect society and the environment. Investors, customers, employees, and regulators want companies to show they're not just making money but also behaving ethically and sustainably. Consequently, the relationship between financial reporting quality, CG mechanisms, corporate social responsibility, tax avoidance, and firm value has garnered significant attention and research. By following the FRQ and CG mechanisms, companies can effectively identify prospects for socially responsible investments and ethical tax avoidance, thereby contributing to the enhancement of firm value. The research aims to examine the link between financial reporting quality and corporate governance mechanisms (independent variables) on corporate social responsibility, tax avoidance, and firm value (dependent variables), for 45 non-financial companies listed on the Egyptian Stock Exchange Market (EGX 100) from 2016 to 2022.

The results indicate that the FRQ and CG mechanisms are key elements of effective CG strategies. High-quality financial reporting and effective CG can positively influence CSR practices, strengthen stakeholder trust, and enhance a company's reputation. Additionally, financial reporting quality and CG can have implications for tax avoidance, either by deterring aggressive tax planning or promoting ethical behavior. The increased trust and transparency that results from adhering to these standards can lead to higher firm value and increased investor confidence. In addition, these factors can contribute to a company's firm value and long-term sustainability in an increasingly socially conscious business environment.

Keywords: Financial Reporting Quality; Corporate Governance Mechanism; Corporate Social Responsibility; Tax Avoidance; Firm Value; Egypt

المستلخص:

في عالم الأعمال اليوم، أصبحت الشركات مسؤولة بشكل متزايد عن كيفية تأثير أعمالها على المجتمع والبيئة. يريد المستثمرون والعملاء والموظفون والمنظمون من الشركات أن تظهر أنها لا تجني المال فحسب، بل أن تظهر أيضًا أنها تتصرف بشكل أخلاقي ومستدام. وبالتالي، قد حظيت العلاقة بين جودة التقارير المالية، وآليات حوكمة الشركات، والمسؤولية الاجتماعية للشركات، والتهرب الضريبي، وقيمة الشركة باهتمام الباحثين و العديد من الأبحاث. ومن خلال اتباع آليات FRQ وCG، يمكن للشركات أن تحدد بشكل فعال آفاق الاستثمارات المسؤولة اجتماعيًا وتجنب الضرائب الأخلاقية، وبالتالي المساهمة في تعزيز قيمة الشركة. يهدف البحث إلى دراسة العلاقة بين جودة التقارير المالية وآليات حوكمة الشركات (المتغيرات المستقلة) حول المسؤولية الاجتماعية للشركات والتهرب الضريبي، قيمة الشركة (المتغيرات التابعة)، بالنسبة لـ 45 شركة غير مالية مدرجة في سوق الأوراق المالية المصرية (EGX 100) من عام 2016 إلى عام 2022.

تشير النتائج إلى أن آليات FRQ وCG هي عناصر أساسية لاستراتيجيات CG الفعالة. يمكن أن تؤثر التقارير المالية عالية الجودة وحوكمة الشركات بشكل إيجابي على ممارسات المسؤولية الاجتماعية للشركات، وتعزز ثقة أصحاب المصلحة، وتعزز سمعة الشركة. بالإضافة إلى ذلك، يمكن أن يكون لجودة التقارير المالية وحوكمة الشركات آثار على استراتيجيات التخطيط الضريبي، إما عن طريق ردع التهرب الضريبي أو تعزيز السلوك الأخلاقي. إن زيادة الثقة والشفافية الناتجة عن الالتزام بهذه المعايير يمكن أن تؤدي إلى ارتفاع قيمة الشركة وزيادة ثقة المستثمرين. بالإضافة إلى ذلك، يمكن لهذه العوامل أن تساهم في القيمة الثابتة للشركة واستدامتها على المدى الطويل في بيئة أعمال ذات وعي اجتماعي متزايد.

الكلمات المفتاحية: جودة التقارير المالية؛ آلية حوكمة الشركات؛ المسؤولية الاجتماعية للشركات؛ التهرب من دفع الضرائب؛ قيمة ثابتة؛ مصر.

1. Introduction

The accuracy, transparency, and reliability of a company's financial statements and disclosures are what define the quality of its financial reporting. Stakeholders, such as investors, creditors, and regulators, heavily rely on high-quality financial reporting to make informed decisions about an organization. This necessitates ensuring that financial information is complete, comparable, and devoid of any material misstatements or errors. The concept of corporate social responsibility (CSR) revolves around a company's commitment to acknowledging the social, environmental, and economic impacts that arise from its operations and activities. CSR initiatives typically involve the incorporation of ethical, sustainable, and socially responsible practices into a company's strategies and decision-making processes. Environmental sustainability efforts and programs aimed at enhancing employee welfare are all examples of CSR activities (Story and Neves, 2015).

The practice of tax avoidance involves companies utilizing various strategies within the confines of tax regulations to minimize their tax liabilities. While tax avoidance can be viewed as a legitimate means to optimize tax expenses, it can sometimes draw public scrutiny and criticism when it is perceived as exploiting loopholes or engaging in aggressive tax avoidance. Extensive research has investigated the intricate relationship between financial reporting quality, corporate governance mechanisms, corporate social responsibility (CSR), tax avoidance, and firm value. Generally, it is believed that high-quality financial reporting and strong CG mechanisms can have a positive influence on CSR practices. A transparent and reliable financial reporting system enhances stakeholders' confidence and trust in a company's CSR disclosures. Similarly, effective corporate governance mechanisms can promote responsible decision-making and foster accountability towards CSR initiatives.

On the other hand, the interplay between financial reporting quality, corporate governance, and tax avoidance is more nuanced. While certain researchers have found a negative relationship between financial reporting quality and tax avoidance, others have proposed that enhanced CG mechanisms can mitigate aggressive tax avoidance by fostering transparency and ethical conduct. In terms of firm value, there is evidence to indicate that organizations with superior financial reporting quality, robust CG mechanisms, and strong CSR practices can attain elevated market valuations and long-term viability. The presence of transparent financial reporting and effective CG contributes to the overall reputation and credibility of a company, thereby positively influencing investor perception and confidence, ultimately resulting in increased firm value.

2. Research Problem

In Egypt, the majority of companies do not include any costs or techniques associated with corporate social responsibility in their financial reports. Moreover, there are companies that claim to prioritize CSR but do not follow through with any actions. Additionally, only a few researchers have studied the importance of implementing CSR in Egyptian firms. Consequently, the literature reveals a gap in terms of providing evidence for the significance of CSR reports.

Previous research has indicated a lack of comprehensive studies conducted in Egypt that directly address the impact of financial reporting quality and CG mechanisms on tax avoidance. It has come across a narrow number of studies considering the impact of financial reporting quality and corporate governance mechanisms on corporate social responsibility, tax avoidance, and firm value.

3. Research Objective and Questions

The primary three main objectives of this research are as follows:

1. Measuring the degree of effect of financial reporting quality and corporate governance on corporate social responsibility.
2. Measuring the degree of effect of the financial reporting quality and corporate governance on tax avoidance.
3. Measuring the degree of effect of financial reporting quality and corporate governance on firm value.

The research findings could answer the following three main questions:

RQ1: What is the impact of financial reporting quality and corporate governance on corporate social responsibility?

RQ2: What is the impact of financial reporting quality and corporate governance on tax avoidance?

RQ3: What is the impact of financial reporting quality and corporate governance on firm value?

4. Literature Review and Hypotheses Development

4.1 Financial Reporting Quality, Corporate Governance Mechanism and Corporate Social Responsibility

Financial reporting quality refers to the presentation of a report that reflects the company's condition. This quality may be compromised if the funder lacks the ability to comprehend accounting principles. However, when financial reporting is excellent, it helps to reduce information asymmetry between the principal and agent, aligning with the company's legal obligations. In the 21st century, corporate social responsibility has emerged as a widely embraced business philosophy. The core objective of corporate social responsibility policy is to establish a self-regulating mechanism that empowers businesses to effectively monitor and ensure compliance with legal requirements, international norms, and ethical standards. Corporate social responsibility encompasses the managerial obligation to take proactive measures that safeguard and enhance the well-being of society as a whole, while also considering the interests of the organization (Serra-Cantallops et al., 2018). Supervisors are entrusted with the responsibility of not only achieving organizational goals but also contributing to the welfare of society. One way supervisors can fulfill this responsibility is by striving to produce high-quality products. By doing so, they not only enhance the marketability of the company's products but also provide reliable goods that benefit society as a whole (Asemah et al., 2013).

Various companies from different countries have highlighted the connection between corporate finance performance and corporate social responsibility through the ownership board, which plays a significant role in influencing relationships (Hou, 2019). Additionally, there is a correlation between poor quality financial reporting in socially responsible firms and their lower involvement in managing earnings (Florou et al., 2020). Companies that prioritize socially responsible practices tend to have better financial reporting quality compared to others. There are several methods available to measure financial reporting quality, with socially responsible firms generally exhibiting higher standards in financial information assessment. Furthermore, corporate reputations are impacted by the implementation of corporate social responsibility, which is anticipated by non-professional stakeholders (Axjonow et al., 2018). Yusnita et al. (2015) explored the relationship between CG and CSR disclosures in quoted companies. The results indicated that CG significantly influences the financial reporting of quoted firms. Furthermore, the introduction of corporate governance codes led to a notable enhancement in the level of CSR disclosure (Susanti, 2017).

According to Martínez-Ferrero et al. (2016), CSR practices lead to more conservative financial reporting. The effectiveness of corporate social responsibility plays a crucial role in determining the quality of financial reporting, with various dimensions influencing CSR efficiency. To assess CSR, different financial market firms are analyzed using relevant metrics. The disclosure of corporate social responsibility information varies in terms of length, tone, content, and readability, aiming to enhance accuracy in forecasting (Dhaliwal et al., 2011). Corporate social responsibility is prominent in sustainable business environments, with governance, social, and environmental scores serving as key indicators. Stakeholders place great emphasis on CSR when making investment decisions due to its financial benefits. Listed firms also adopt CSR practices to gain advantages in terms of financial resources (Hung et al., 2013). The relationship between CSR and financial reporting highlights various types of corporate misconduct associated with conflicts of interest, such as agency theory (Jordaan et al., 2018). Implementing CSR initiatives helps companies enhance their brand reputation, employee productivity, and operational efficiency. It also has a significant impact on the quantity, external validation, and quality of disclosure, while addressing concerns related to capital constraints (García-Sánchez et al., 2019).

The association between financial reporting quality, CG mechanisms, and CSR in Egyptian companies is intricate and multifaceted. Empirical research studies indicate a positive link between strong governance structures, enhanced financial reporting quality, and improved CSR performance. The alignment of financial reporting quality, CG mechanisms, and CSR serves as a crucial intersection for Egyptian firms navigating the dynamic business landscape. By enhancing governance practices, promoting transparency, and embracing CSR as a strategic imperative, Egyptian organizations can elevate their competitiveness, resilience, and stakeholder trust in their quest for sustainable growth and societal impact (Elsayed and Paton, 2018).

(Abdelaziz and Elfeky, 2022; Elshandidy and Shrives, 2016; Elgharib and Elfeky, 2020; El-Hindawy et al., 2019) found a positive association, but (Abdelfattah and Aboud, 2020; El Ghali and Abdallah, 2022; Elfeky and Mohamed, 2023) and (Soliman, 2019) found no significant association between financial reporting quality, corporate governance mechanisms and corporate social responsibility in Egyptian firms.

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H1. There is a positive association between financial reporting quality, corporate governance mechanisms and corporate social responsibility.

4.2Financial Reporting Quality, Corporate Governance Mechanisms and Tax Avoidance

Researchers have been engrossed in studying the complex interplay among financial reporting quality, CGM, and tax avoidance. This intersection of finance, accounting, and regulation is of utmost importance. Maharani et al. (2014) delve into the intertwining of these concepts and their impact on transparency and accountability. High-quality financial reports not only enhance transparency for investors and stakeholders, but also lay a strong foundation for accurate tax assessment. On the other hand, manipulated financial data can obscure the true economic performance and facilitate aggressive tax avoidance strategies. CGM plays a crucial role in influencing financial reporting quality. These mechanisms, both internal and external, encompass independent directors, audit committees, and regulatory oversight (Minnick and Noga, 2010).

Empirical research has extensively investigated the relationship between financial reporting quality and tax avoidance. Early research, such as, Abou Zeid and Maawad (2023), found a negative association between financial reporting quality and tax avoidance, suggesting that firms with lower reporting quality tend to engage in higher levels of tax avoidance. These findings imply that opaque financial reporting may signal opportunistic behavior, prompting firms to engage in aggressive tax planning to mask underlying financial weaknesses. Conversely, recent studies have offered contrasting insights into the relationship. Gallemore and Labro (2018) found a positive association between financial reporting quality and tax avoidance, suggesting that firms with higher reporting quality are more adept at managing their tax obligations efficiently without resorting to aggressive tax avoidance strategies. These studies argue that transparent financial reporting enhances firms' reputation and reduces information asymmetry, thereby mitigating the need for excessive tax planning to signal financial health. Moreover, contextual factors such as the regulatory environment, corporate governance mechanisms, and industry dynamics influence the interplay between financial reporting quality and tax avoidance. For instance, stronger regulatory oversight and monitoring mechanisms may constrain firms' ability to engage in aggressive tax avoidance practices, thereby incentivizing them to improve financial reporting quality to maintain stakeholder trust.

Effective corporate governance can enhance the quality of financial reporting, discouraging manipulation and decreasing the motivation for aggressive tax avoidance. On the other hand, inadequate governance can worsen these issues. A robust tax system, characterized by transparent regulations and efficient enforcement, can promote ethical behavior and deter aggressive tax avoidance. Conversely, convoluted tax laws can open doors for manipulation and exploitation, further compromising the quality of financial reporting and eroding public trust in corporate governance. By implementing strong corporate governance structures alongside transparent and fair tax systems, we can enhance the quality of financial reporting, uphold transparency and accountability, and ultimately foster sustainable economic growth (Marselawati et al., 2018).

The impact of corporate governance, which can be measured by factors such as board size, board independence, frequency of board meetings, and so on, is often linked to aggressive corporate behavior in terms of tax avoidance (Tjondro and Olivia, 2018). On one hand, tax avoidance can enhance the value and position of the company. On the other hand, it can lead to higher agency costs and a decrease in firm value due to negative reactions from investors (Wang et al., 2020). In an uncertain business environment, tax avoidance activities tend to increase, resulting in a lower effective tax rate in order to sustain the firm's performance. Therefore, the inclusion of independent directors and an audit committee in public companies is an attempt to involve external parties in supervisory activities over the firm's management (Allam, 2018). Previous research has highlighted the supervisory role and the significance of independent directors' professional expertise. This supervisory function indicates the potential for opportunistic actions by the firm, necessitating regulatory measures to anticipate activities that may harm minority shareholders or stakeholders in general by mandating the implementation of good corporate governance principles (Alnabsha et al., 2018).

Financial reporting quality, corporate governance mechanisms, and tax avoidance are crucial elements of corporate operations that have a significant impact on firm performance and stakeholder confidence. In the case of Egyptian firms, it is vital to comprehend the intricate connections among these factors in order to promote transparency, accountability, and sustainable growth. Egyptian firms that prioritize financial reporting quality demonstrate their dedication to transparency and adherence to accounting standards, thereby bolstering investor trust and reducing information asymmetry (Abou Zeid and Maawad, 2023).

The significance of integrated risk management and responsible corporate behavior is highlighted by the connection between financial reporting quality, corporate governance mechanisms, and tax avoidance in Egyptian firms. Companies that prioritize transparency, accountability, and ethical conduct not only improve their long-term sustainability but also play a role in the overall growth of the Egyptian economy. By promoting a culture of integrity and compliance, Egyptian firms can establish trust with stakeholders, attract investments, and generate value for both shareholders and society as a whole (Elghuweel et al., 2017).

(Aboushaikha and El Shaarawy, 2020; Abdellatif and Hassan, 2022; Elgamri et al., 2020; Mahmoud and El Gammal, 2022) found positive association, but (Ismail, 2020; Ibrahim and Elgamri, 2021; El-Khouly and Al-Najjar, 2020) found a negative association. And (Ahmed and Elgammal, 2020; Eid and Hassan, 2020) found no significant association between financial reporting quality, corporate governance mechanisms and tax avoidance.

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H2. There is a negative association between financial reporting quality, corporate governance mechanisms and tax avoidance.

4.3 Financial Reporting Quality, Corporate Governance Mechanisms and Firm Value

Financial statements serve the purpose of providing information regarding the financial position, financial performance, and cash flows of an organization. This information is intended to be useful for the majority of users in making economic decisions. The quality of financial reporting plays a crucial role in influencing investor considerations and determining the most appropriate investment decision, thereby ensuring efficiency in the investments made. A higher quality of financial reporting leads to a greater reflection of company information in the financial statements. The primary objective of a company is to enhance the wealth of its shareholders or investors. The value of a firm is utilized as an indicator that reflects the prosperity of shareholders, which is evident in the stock price. A higher stock price results in a higher firm value. A higher firm value not only instills market confidence in the company's current performance but also in its future prospects. Conversely, the perception of a firm's success by investors is reflected in its firm value. An increase in stock prices demonstrates investor confidence in the company (Plumlee et al., 2015).

The company's market share price reflects its overall value. A high stock price indicates a high firm value, which in turn boosts market confidence not only in the company's current performance but also in its future prospects (Nam, 2019). Various factors influence the market value of a company's shares, including previous share prices, financial performance, corporate actions, debt policy, dividend policy, earnings quality, and the quality of financial statements. Quality financial reports are crucial for helping investors and potential investors make informed decisions. Relying on subpar financial reports can result in wealth transfer errors due to unfavorable signals. Research by Dang et al. (2020) highlights the positive impact of quality financial reports in emerging markets. The implementation of International Financial Reporting Standards (IFRS) has been shown to enhance the quality of financial reports, reduce information asymmetry, and ultimately have a positive effect on firm value.

Several research studies have found varying results regarding the relationship between corporate governance and firm value. In a study conducted by Ewert and Wagenhofer (2016) it was discovered that the cost of equity capital decreases when corporate governance is high. Additionally, firms with a strong commitment to business ethics also experience lower costs of equity capital. The authors recommended that companies practice effective corporate governance and demonstrate a commitment to higher standards of business ethics in order to lower their cost of equity and increase their overall value. Another research by Latif et al. (2017) confirmed the positive correlation between corporate governance and market value. They also observed that firms listed in premium corporate governance segments are priced higher by the market compared to those listed in the traditional trading segment. Furthermore, Ewert and Wagenhofer (2016) demonstrated that corporate governance significantly enhances firm value, but only in noncompetitive industries. They also found that compensation resulting from certain board structure characteristics has a statistically significant negative relationship with subsequent firm operating and stock return performance.

The association between financial reporting quality, corporate governance mechanisms, and firm value is crucial in the Egyptian business landscape. Egypt, as a developing economy, confronts specific challenges and possibilities in ensuring openness, liability, and ultimately, improving firm value. The direct impact of financial reporting quality and corporate governance mechanisms on firm value cannot be overstated. Financial reporting of high quality boosts investor reliance and diminishes information asymmetry, resulting in reduced capital expenses and increased firm value. Similarly, robust corporate governance mechanisms indicate dedication to shareholders' concerns, nurturing investor assurance, and ultimately contributing to enhanced firm assessment (El-Masry et al., 2016).

Despite the acknowledged importance of financial reporting quality and corporate governance mechanisms, challenges persist within the Egyptian context. Weak enforcement of regulations, lack of independent oversights, and cultural factors act as obstacles to achieving higher standards of transparency and accountability. Although progress has been made in enhancing transparency and governance practices, ongoing efforts are required to address existing challenges and unlock the full potential of Egyptian firms in the global marketplace (Samaha et al., 2012). By prioritizing transparency, accountability, and investor protection, Egyptian firms can enhance their competitiveness, attract investment, and create sustainable long-term value for stakeholders (El-Gazzar and El-Masry, 2018).

(Ahmed and Elsayed, 2015; El-Masry and Elsaid, 2021; Abdel-Kader and Luther, 2019; Eissa and Fahmy, 2016; Ragab and Soliman, 2014; Samaha and Dahawy, 2020) found a positive associataion, but (El-Helaly and Elsaid, 2012; Abdou and Elsayed, 2019; El-Said and Hegazy, 2015) found a negative association. And El-Masry and El-Kassar (2019) found no association between between financial reporting quality, corporate governance mechanisms and firm value.

Based on the previous illustrated literature, the researcher formed the following hypothesis:

H3. There is a positive association between financial reporting quality, corporate governance mechanisms and firm value.

5. Control Variables

5.1 Firm Size

CSR entails a company's commitment to operating in a manner that is economically, socially, and environmentally sustainable. The literature on the relationship between firm size and CSR encompasses a wide range of research, offering diverse insights. Numerous studies have examined how the size of a firm influences its engagement in socially responsible practices (Asemah et al., 2013). According to research conducted by

López-Pérez et al. (2017), it was found that larger companies often possess more financial and human resources, which allows them to allocate dedicated budgets and teams for corporate social responsibility (CSR) initiatives. This enables them to implement comprehensive and impactful CSR programs. Moreover, large corporations, particularly those with a global presence, have the ability to exert significant influence on a wide scale. Their CSR initiatives can span across multiple regions, addressing global social and environmental challenges and making a substantial positive impact. Additionally, larger firms are more likely to invest in research and development, leading to the development of innovative CSR solutions. They can take the lead in adopting sustainable practices, technologies, and business models that contribute to the well-being of society and the environment. Furthermore, larger firms typically have a broader stakeholder base, including customers, investors, and suppliers. Engaging in CSR activities can enhance their reputation, foster trust, and attract socially conscious stakeholders, thereby contributing to their long-term sustainability.

The relationship between the size of a firm and its value can be viewed from the perspective of economies of scale. Economies of scale suggest that as a firm expands its operations, it can enjoy cost advantages and efficiency improvements. Larger firms have the potential to distribute their fixed costs over a larger output, negotiate more favorable deals with suppliers, and wield greater bargaining power in the market. These factors can contribute to higher profit margins and, ultimately, an increase in the value of the firm. On the other hand, there is also evidence to indicate that smaller firms can outperform larger ones in terms of growth and innovation. Smaller companies often exhibit greater flexibility and agility, enabling them to adapt quickly to changes in the business environment. Moreover, smaller firms may be better positioned to identify and exploit niche markets, leading to higher profitability and, consequently, an increase in the value of the firm.

5.2 Financial Leverage

Several research studies have shed light on the potential positive impact of financial leverage on CSR initiatives. Researchers argue that companies can strategically employ debt to finance socially responsible projects. For example, businesses may choose to issue green bonds to raise capital for environmentally sustainable endeavors. This perspective perceives financial leverage as a means to enhance a company's ability to allocate resources towards CSR, thereby contributing to positive environmental, social, and governance outcomes. Moreover, the association between financial leverage and firm value is not devoid of risks. The inclusion of debt entails a fixed commitment in the form of interest payments, irrespective of the company's financial performance. During economic downturns or periods of weak business performance, the burden of servicing debt can strain the company's financial stability, potentially resulting in financial distress or even bankruptcy. This risk, known as financial risk or insolvency risk can have an adverse impact on the firm's value. Investors and analysts employ financial metrics such as the debt-to-equity ratio, interest coverage ratio, and return on equity to assess a company's leverage and its effect on value. Additionally, credit rating agencies evaluate a company's ability to meet its debt obligations, influencing the cost and availability of debt capital (Kodongo et al., 2015).

Many research studies have shown that how much a company owes (its financial leverage) has a big impact on how much the company is worth. However, the relationship between leverage and firm value remains vague, as there are mixed findings. Some research has revealed a positive relationship between leverage and firm value, while others have found a negative relationship. The use of debt financing not only provides a tax shield for the firm but also enhances efficiency through the imposition of restrictive covenants by lenders. Conversely, Sucuahi and Cambarihan (2016) found an inverse association between the level of debt and firm value.

5.3 Financial Performance

The relationship between financial performance and tax avoidance is intricate and multifaceted. On one side, reducing tax expenses can have a positive impact on a company's bottom line, potentially enhancing its overall financial performance.

Companies often argue that minimizing taxes allows them to allocate more resources to their operations, foster economic growth, and generate employment opportunities. However, it is important to note that engaging in aggressive tax avoidance practices can lead to reputational damage and legal consequences, which can significantly impact a company's financial performance in the long run (Prihaningtyas, 2018). Regulatory authorities worldwide are increasingly scrutinizing tax practices, and there is a growing demand for transparency (Sandag et al., 2022).

The research conducted by Putri et al. (2022) highlights that the rise in a firm's value is typically measured through an increase in its stock price in the market, and vice versa. The stock price of a firm reflects both the perception of stakeholders and the firm's ability to generate profits and expand in the future. These stock prices are subject to change due to the condition and financial position of the firm, which often vary over time. A firm that exhibits strong financial performance is considered healthy, resulting in a higher firm value. This increased firm value, in turn, attracts investors to invest in the firm, leading to a rise in its stock prices (Hapsoro et al., 2020). Firm value is an economic concept that signifies the success of a firm. Investors often employ valuation multiples to assess the relative value of a company compared to its industry peers. A company with a robust financial performance is more likely to have higher valuation multiples, indicating a premium placed on its potential for sustained growth and profitability (Widyastuti, 2019). In addition, a company's ability to access capital in the financial markets is significantly influenced by its financial performance. A financially sound firm is better positioned to attract investments, issue debt under favorable terms, and undertake strategic initiatives. These factors collectively contribute to an increase in the overall market value of the company (Ju Chen and Yu Chen., 2011).

6. Research Methodology and Data Analysis

6.1 Research Population and Sample

The research's population (EGX100) consisted of 100 companies listed on the Egyptian Stock Exchange Market. To conduct the analysis, a purposive technique was used to select samples, resulting in a total of 45 non-financial companies being considered. The data set used for this research was obtained from the audited annual financial reports of the sampled companies over a seven-year period (2016–2022).

The Statistical Package for Social Sciences (STAT40) will be utilized to examine hypotheses, analyze data, and interpret the obtained results in order to conduct a comprehensive testing process.

The acquisition of secondary data involves gathering information from the annual reports of companies, the Egyptian Exchange, Egypt for Information Dissemination (EGID), and additional websites that provide databases of EGX-listed companies, like https://www.mubasher.info/countries/eg.

6.2 Statistical Methods

The analysis of the data is conducted through the utilization of descriptive statistics and the hypotheses testing method. STATA 14 is employed to analyze the data, aiming to accomplish the research objectives and test the three research hypotheses. To fulfill the requirements of panel regression testing, we perform the classical assumption test to ensure the accuracy, integrity, consistency, and reliability of the data when determining the regression coefficient. The classical assumption test encompasses heteroscedasticity, autocorrelation, multicollinearity, and normality tests.

To analyze the data, the researcher utilized three panel linear regression models to explore the relationship between the dependent variable, independent variables, and control variables. However, it is essential to verify the validity of these models before presenting the findings obtained from the four research models. The ability of the models to handle the issue of multicollinearity between the independent and control variables was put to the test. The results of the (Tolerance) and (VIF) tests demonstrate that the variables do not exhibit multicollinearity, as the (Tolerance) test yields values below one for all variables in the model. Moreover, when considering all variables in the model, the (VIF) value remains below (10). Thus, this indicates the absence of multicollinearity between the independent and control variables.

7.2.1 Panel Data Analysis

The statistical impact of financial reporting quality, corporate governance mechanism on corporate social responsibility, tax avoidance, and firm value was examined using the following three panel regression equations:

1- **Financial Reporting Quality: were measured using an index.**
2- **Corporate governance mechanism: were measured using board characteristics and audit committee traits as follows:**

- **Board Characteristics:** were measured by summing up the three variables: board independence, board size, and CEO duality.
- **Audit Committee Traits**: were measured by summing up the three variables: frequency of audit committee meetings, independence of the audit committee, and audit committee size.

First panel regression model, adopted to investigate the impact of financial reporting quality and corporate governance mechanisms on corporate social responsibility

H1. There is a positive association between financial reporting quality, corporate governance mechanisms and corporate social responsibility.

7.2.2 Research Variables Definitions and Measurements

Table (1) displays the definitions and measurements of the dependent, independent, and control variables for the three panel regression models.

Table (1) Definition and Measurement of Research Variables

	Variables	Definition	Measurement
Independent Variable	**Financial Reporting Quality (FRQ)**	The quality of financial reporting is associated with the information quality found in financial reports, which encompasses the disclosures made in the accompanying notes. The FRQ relies on the extent to which the reporting proves advantageous for analysts in determining the company's performance and its future potential.	Index
Independent Variable **Corporate Governance Mechanism (CGM)** **Board characteristics and Audit committee traits**	**Board Independence (BI)**	Within the framework of corporate governance, an independent director refers to a board member who maintains no material connection with the company. They are not involved in the company's executive team or its day-to-day operations.	By dividing the number of outside independent directors by the total number of board directors, the board independence ratio can be computed.
	Board Size (BS)	The term "board size" refers to the overall number of members who make up a firm's board. In the case of large listed companies, the board size typically ranges from 8 to 12 directors. Medium-sized listed companies usually have a board size of 6 to 8 directors. Small listed companies, on the other hand, tend to have a board size of 4 to 6 directors.	The board size is determined by the total number of directors who hold positions on the board.
	CEO Duality (CEOD)	The practice of CEO duality involves the Chief Executive Officer (CEO) assuming the roles of both the company's president and the chairman of its board of directors.	To measure CEO duality, a dummy variable is employed, assigned a value of 1 when the CEO simultaneously serves as chairman and 0 if they do not hold both positions.
	Audit Committee Frequencies Meetings (ACFM)	Regular meetings of the audit committee are essential. It is expected that these meetings will take place at least four times per year.	To gauge the frequency of meetings held by the audit committee, the number of annual meetings conducted by the committee each year is taken into account. This assessment is carried out

			using a dummy variable, which is assigned a value of 1 if the number of meetings exceeds four and 0 if it does not.
	Audit Committee Independence (ACI)	The independence of the audit committee plays a vital role in upholding the standards of audits and strengthening the trust of financial statement users in the reliability of the financial reporting process.	To measure the independence of an audit committee, one can use a percentage calculation based on the presence of non-executive directors. This involves dividing the number of independent members by the total count of individuals forming the audit committee.
	Audit Committee Size (ACS)	In accordance with the Egyptian corporate governance codes, the audit committee of the board of directors must consist of at least three non-executive members.	In the case where the audit committee is composed of at least 3 members, the dummy variable is assigned a value of 1; otherwise, it is assigned a value of 0.
Dependent Variable	**Corporate Social Responsibility (CSR)**	The concept of corporate social responsibility involves the integration of social and environmental concerns into a company's day-to-day operations and engagements with its stakeholders. By embracing CSR as a business model, companies uphold their responsibility towards themselves, their communities, and their stakeholders.	Index
	Tax Avoidance (TA)	The effective tax rate (ETR) calculation is utilized to measure the level of tax avoidance techniques employed. This calculation typically yields a value between 0 and 1, offering a concise representation.	To calculate the ETR, just divide the tax expense on the financial statement by the income before taxes or cash amount.
	Firm Value (FV)	The worth of a company in the market, which is reflected by the price of its stock, is known as its firm value. To assess this value in relation to its book or replacement value, the economic ratio called Tobin's Q formula is employed.	Tobin's Q = (Total debt + market value of equity) / Book value of total assets.
Control Variables	**Firm Size (FS)**	A company's wealth can be measured by its size. To address the substantial disparity between companies with small and large assets, the natural logarithm is utilized, thereby normalizing the distribution of total assets.	The calculation of firm size value involves the utilization of the natural logarithm formula applied to the total assets.
	Profitability (PROF) Return on Equity Ratio (ROE)	The concept of profitability involves analyzing the financial success of a business by examining its profit generation during a particular period. Conversely, ROE is a	Calculating the return on equity ratio involves the division of the net income by the shareholders' equity.

		financial indicator that gauges a company's effectiveness in utilizing the capital contributed by its shareholders.	
	Liquidity (LIQ) Current Ratio (CR)	The capacity of a company to meet its debt obligations and maintain a safety net is evaluated through liquidity ratios. One of the frequently utilized liquidity ratios is the current ratio, which measures the company's ability to fulfill its short-term debt obligations.	To calculate the current ratio, one must divide the current assets by the current liabilities.
	Leverage (LEV) Debt / Equity Ratio (D/E)	Leverage ratios are valuable tools for investors, as they provide insights into a company's financial position by evaluating its reliance on borrowing and the effectiveness of debt utilization in generating revenue. These ratios take into account the debt incurred for purchasing assets and resources.	By dividing a company's total liabilities by its shareholder equity, the debt/equity ratio can be calculated.

7.2.3 Corporate Social Responsibility Index

CSR is the dependent variable in the first regression model. CSR is measured using a checklist of 82 items divided into 7 categories, as shown in Table (2).

The checklist is evaluated using content analysis with a dichotomous approach: each CSR item disclosed is given a value of 1, and 0 if it is not disclosed.

The unweighted technique is more appropriate to our research, and it was utilized to compute the voluntary disclosure index. The index, which is consistent with earlier literature, examines the diversity of disclosures using an unweighted, dichotomous measure (i.e., awarding an equal weight to each point on the index, giving 1 if the item is disclosed and 0 if it is not disclosed).

First, for each company, the total value of each item is added together to produce the index for each item individually, using the following formula:

$$CSR_j \; □□ \sum X_{ij} / N_j$$

Where,

N_j = 45, the number of companies j used in the sample.

X_{ij} □ **Content analysis**; CSR is measured by the dummy variable 1 = if item is disclosed; 0 = if item is not disclosed.

Then, a disclosure index was calculated for each category as the ratio of the all firms actual score of each category divided by the overall score of the category.

CSR_{ij} = Corporate social responsibility index for each of the 7 categories.

N □ **Total items for each category as follows:** (1) Environmental issues (N = 12); (2) Corporate social responsibility (N = 13); (3) Society (N = 9); (4) Employee information (N = 15); (5) Corporate governance information (N = 12); (6) Shareholder rights (N = 8); and (7) Product/Services and customers responsibility (N = 13).

X_{ij} □ Content analysis: CSR is measured by the dummy variable 1 = if item is disclosed; 0 = if item is not disclosed.

Table (2) Corporate Social Responsibility Index (7 Categories – 82 Items)

Category	Aspect	No.	Items (Total 82)
Category A	Environmental Issues	1	Energy efficiency, conservation, reduced energy consumption or energy reduction
		2	Pollution abatement and recycling programs.
		3	Investment in energy projects or environment expenditure.
		4	Obtaining ISO Certificate
		5	Policy on management of emissions or regulatory risks associated with climate change
		6	Incidents of, and fines or non-monetary sanctions for, non-compliance with applicable environmental regulations
		7	Environmental and energy policy statement
		8	Repairs / protection to environmental damage
		9	Environmental preservation / protection / improvement / betterment or awareness
		10	Pollution prevention or carbon emission control
		11	Waste management or reuse of byproducts/minimized water consumption
		12	Using, marketing, or producing renewable energy or green energy/utilizing waste materials or other sources for energy production
Category B	Corporate Social Responsibility	1	Stated commitment to recognize corporate responsibility standards
		2	CEO statement regarding corporate responsibility
		3	Publication of CSR report
		4	Explicit policy/statement regarding community investment
		5	Company participation in public-private initiatives for community development
		6	Information on policy/rules relating to non-financial benefits to employees
		7	CSR management system/department/personnel
		8	Issuing of CSR report
		9	Disclosure of CSR on official website
		10	Training capabilities in CSR
		11	Sponsoring educational conferences, seminars or art exhibits
		12	Initiatives on community awareness or education
		13	Description/Amount of total contributions/donations to charitable initiatives (health, education etc)

Category C	**Society**	**1**	**Disclosures about corporate objectives or policies for corporate social responsibility**
		2	**Rural development programs (less developed/remote areas/underprivileged)**
		3	**Policy on community investment**
		4	**Amount/ description of direct and in-kind donations**
		5	**Amount/ description of medical and health donations**
		6	**Amount/ description of education/ training donations**
		7	**corruption risk/ anti- corruption policies**
		8	**Anti-competitive behavior**
		9	**Responses and support for government policy, tax amount and employment**
Category D	**Employee Information**	**1**	**Employee relationship management**
		2	**Employee equal opportunities**
		3	**Employee training and career-development programs**
		4	**Profit-sharing/bonus scheme policy**
		5	**Employee share ownership**
		6	**Number of employees**
		7	**Average income of employees**
		8	**Staff-engagement programs or employee satisfaction/job sustainability**
		9	**Categories of employees by gender and by function**
		10	**Identification of senior management and their functions**
		11	**Employee benefits (training, retirement, medical, stock option schemes, loans, recreational, education Scholarships and Offering internship program)**
		12	**Health & safety of employees.**
		13	**Compensation plan or policy for employees**
		14	**Employment of women, special persons, and minorities**
		15	**support for volunteer activities of employees**
Category E	**Information on Corporate Governance**	**1**	**Top shareholders' Names**
		2	**Names of board of directors members**
		3	**Leading positions of members in other companies**
		4	**Educational qualifications of Board members**
		5	**The practical experience of the members of the board of directors**
		6	**Number of shares held by directors.**

		7	Directors' remuneration.
		8	Number of board meetings
		9	A statement of management objectives and strategy
		10	Procedures taken to achieve the objectives and strategy of the company.
		11	Statement of strategy and marketing objectives.
		12	The impact of the strategy on the performance of the company
Category F	Shareholder Rights	1	The changes in company's articles of association.
		2	The existence of voting rights for each voting or nonvoting share.
		3	The transparency of the way by which shareholders convene an extraordinary general meeting and nominate directors to the board.
		4	The transparency of the procedure for initiating inquires with the board and for putting forward proposals at shareholders meetings.
		5	Board of directors and compensation
		6	Protection of the interests of minority shareholders
		7	Frequent disclosure of information
		8	Participation processes of shareholders
Category G	Product/Services and Customers Responsibility	1	Product or service quality, quality-control system, measures, or procedures
		2	Product or service, equipment and plant or technology innovation, development or improvement (R & D)
		3	Explanation of major kinds of product/services
		4	Product or production process safety
		5	Value added statement
		6	Statement of ethics and business practices or code of ethics/statement of internal control
		7	Disclosing information about customer service or customer relationship
		8	Customer information and feedback
		9	Information relating to product life cycle
		10	Policy/procedures on recall of product
		11	Policy/procedures for protection of customer confidentiality/privacy
		12	Number of customer satisfaction surveys conducted in a year
		13	After-sales service system; resolution rate of customer complaints

7.2.4 Financial Reporting Index

FRQ is the primary independent variable in the three research regression models. FRQ is measured using an index calculated using a checklist of 39 items divided into 5 categories, as shown in Table (3).

The checklist is evaluated using content analysis with a dichotomous approach: each FRQ item disclosed is given a value of 1, and 0 if it is not disclosed.

The unweighted technique is more appropriate to this research, and it was utilized to compute the FRQ index. The index, which is consistent with earlier literature, examines the diversity of disclosures using an unweighted, dichotomous measure (i.e., awarding an equal weight to each point on the index, giving 1 if the item is disclosed and 0 if the item is not disclosed).

First, for each company, the total value of each item is added together to produce the index for each item individually, using the following formula:

$$FRQ_j = \sum X_{ij} / N$$

Where,

N_j = 45, the number of companies j used in the sample.

X_{ij} = **Content analysis**; FRQ is measured by the dummy variable 1 = if item is disclosed; 0 = if item is not disclosed.

Then, a disclosure index was calculated for each category as the ratio of the all firms actual score of each category divided by the overall score of the category.

FRQ_{ij} = **financial reporting quality index for each of the 5 categories**.

N □ Total items for each category as follows: (1) Financial report information (N = 11); (2) Operational information (N = 9); (3) Financial performance (N = 7); (4) Forecat finnacial information (N = 5); and (5) Stock value information (N = 7).
X_{ij} □ Content analysis; FRQ is measured by the dummy variable 1 = if item is disclosed; 0 = if item is not disclosed.

Table (3) Financial Reporting Quality Index (5 Categories – 39 Items)

Category	Aspect	No.	Items (Total 39)
Category A	**Financial Report Information**	**1**	Discussion on accounting policy.
		2	Annual financial statements according to an internationally recognized accounting standard (IFRS/U.S. GAAP)
		3	Notes to annual financial statements according to IFRS/U.S. GAAP
		4	Disclosure of related party transactions (RPTs): sales to/purchases from, payables to/receivables from related parties
		5	Interim (quarterly or semiannual) financial statements according to an internationally recognized accounting standard (IFRS/U.S. GAAP)
		6	Use of fair value
		7	Revenue and cost structure (detailed breakdown).
		8	Whether there are consolidated financial statements or whether only the parent or holding company is audited
		9	Information about the method of calculating fixed-asset depreciation and assets valuation
		10	Independent auditors report with unqualified audit opinion with regard to annual financial statements according to IFRS/U.S. GAAP
		11	Segment analysis (results broken down by business line).
Category B	**Operational Information**	**1**	Output in physical terms (values of sales for services sector companies)
		2	Characteristics of fixed assets employed
		3	Efficiency indicators
		4	Detailed information about investment plans in the coming years.
		5	An output forecast of any kind
		6	An overview of trends in its industry
		7	Details of the kind of business the company engages in

		8	Any industry-specific ratios
		9	A discussion of corporate strategy
Category C	**Financial Performance**	**1**	Brief discussion and analysis of a company's financial position
		2	Sales growth rate
		3	Profitability rate
		4	Rate of return on sales
		5	Return on assets
		6	Return on equity
		7	Dividend distribution policy and dividend per share
Category D	**Forecast Financial Information**	**1**	A basic and detailed sales and earnings forecast
		2	Forecasted statement of cash flow
		3	Forecasted statement of operations
		4	Forecasted balance sheet
		5	Forecasted capital expenditure
Category E	**Stock Value Information**	**1**	Market capitalizations
		2	Size of Shareholdings
		3	Type of shareholders (for example, institutions, and individuals)
		4	Price-to-book ratio
		5	Price-to-earnings ratio
		6	Price-to-earnings growth ratio
		7	Dividend yield

8. Results and Discussions

8.1 Descriptive Statistics

Descriptive statistics serve the purpose of summarizing or describing the characteristics inherent in a particular data set. There are three primary categories of measures: central tendency, variability, and frequency distribution. Central tendency measures, such as mean, median, and mode, help to understand the center of the data set, while variability measures, like variance and standard deviation, provide insights into the dispersion within the data set.

Table (4) Descriptive Statistics for the Research Variables

Variable	Obs	Mean	Std. Dev.	Min.	Max.
CSR	315	.719	.055	.545	.875
TA	315	.312	1.224	.11	17
TQ	315	.739	.5	.005	2.757
FRQ	315	.735	.073	.487	.949
BI	315	.362	.211	0	.98
BS	315	8.244	1.902	5	12
CEOD	315	.244	.43	0	1
ACFM	315	.695	.461	0	1
ACI	315	.382	.198	.027	.98
ACS	315	.679	.467	0	1
FS	315	21.046	1.542	16.936	23.526
ROE	315	18.124	5.641	4.09	32.697
CR	315	.894	.557	.001	2.501
FL	315	1.049	.638	.068	4.669

Source: Calculations based on data collected from 45 firms for years 2016-2022

According to Table (4), the sample of 315 observations displays substantial diversity across firms on a multitude of dimensions. Beginning with the dependent variables, corporate social responsibility (CSR) disclosure has a mean of 0.719 and relatively low standard deviation of 0.055, indicating most firms cluster around high CSR engagement. However, tax avoidance (TA) measured by the ratio of tax expense to pre-tax income exhibits pronounced variability (SD = 1.224) despite a low mean of 0.312. This positively skewed distribution shows while average tax avoidance is modest; some outlier firms engage heavily in tax minimization strategies.

Among the independent variables, average Tobin's Q of 0.739 is towards the lower bound, suggesting potential undervaluation; over half have Q ratio under 0.5. Financial reporting quality (FRQ) appears generally high with small dispersion, albeit the minimum of 0.487 highlights some possible transparency issues for certain corporations. Board independence (BI) has substantial variation as demonstrated by the large standard deviation relative to mean. This implies quite divergent governance structures across the sample, with average BI at a 36% independent director ratio. Control variables paint a picture of mostly large, profitable firms - e.g. mean firm size of 21.046 and ROE of 18.124%. But ranges from minimums to maximums underscore heterogeneity embedded across observations for current ratio, financial leverage, and audit committee measures.

8.2 Correlation Analysis

It is used to find relationships between variables, and it varies in its types. Correlation coefficients can be Kendall Tau if the research takes dummy variables into consideration. Some depend on spearman in cases where they are ordinal variables depending on rank. The Pearson The correlation coefficient, on the other hand, is the best alternative for testing the linear relationship between quantitative variables. It is noticeable that it only takes into consideration two variables at a time and disregards the impact of other variables. Therefore, correlation analysis cannot be utilized by itself in determining the impact of a variable on another. An appropriate model should be distinguished.

Table (5) Pearson Correlation Coefficient Matrix

Variables	CSR	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)
CSR	1.000													
TA	0.480**	1.000												
TQ	0.391**	0.371**	1.000											
FRQ	0.600**	0.423	0.446**	1.000										
BI	0.686**	0.468**	0.540	0.501	1.000									
BS	0.778**	0.359**	0.442**	0.576**	0.413**	1.000								
CEOD	0.604**	0.448	0.386	0.437	0.316**	0.554**	1.000							
ACFM	0.701**	0.547**	0.409**	0.610**	0.513	0.420**	0.473**	1.000						
ACI	0.532**	0.569	0.598	0.454**	0.509**	0.312	0.504**	0.605**	1.000					
ACS	0.499**	0.537	0.440**	0.546**	0.642	0.203**	0.674	0.545	0.725**	1.000				
FS	0.561**	0.442**	0.406	0.426	0.743**	0.588	0.619**	0.759**	0.577	0.695	1.000			
ROE	0.625**	0.477	0.503**	0.550	0.503	0.691	0.579	0.496**	0.621	0.773**	0.555	1.000		
CR	0.518**	0.522**	0.650**	0.368**	0.402	0.412**	0.540**	0.768	0.540**	0.537	0.621**	0.663	1.000	
FL	0.431**	0.453	0.530	0.450**	0.599**	0.363**	0.837	0.573**	0.449**	0.430**	0.528	0.547**	0.636**	1.000

**** Correlation is significant at the 0.01 level (2-tailed).**

*** Correlation is significant at the 0.05 level (2-tailed).**

Source: Calculations based on data collected from 45 firms for years 2016-2022

According to Table (5), there is a significant, strong positive relationship between CSR and tax avoidance rate at a 95% confidence level. On the other hand, there is a significant positive relationship between CSR and Tobin's q rate at a 95% confidence level, while there is a significant positive relationship between CSR and financial reporting quality at a 95% confidence level. In addition to that, there is a significant, strong positive relationship between CSR and board independence rate at a 95% confidence level. Also, there is a significant positive relationship between CSR and board independence (95% confidence level). In addition, there is a significant positive relationship between CSR and board size, CEO duality, audit committee, audit committee size, return on equity, and financial leverage at a 95% confidence level.

8.3 Stationarity Tests

The stationarity test is used before any panel data analysis. In cases where variables are found to be non-stationary, lags will be required. Observing the Table (6) below, the null hypothesis is that the variables are non-stationary and the alternative hypotheses are stationary.

Table (6) Panel Stationarity Test for the Variables

	Levin Lin Chu		Fisher Type	
Variable	**Adjusted t**	**P-value**	**Inverse Chi square**	**P-value**
CSR	**-21.3032**	**0.000**	**178.5955**	**0.000**
TQ	**-14.2820**	**0.000**	**161.6854**	**0.000**
TA	**-1.5e+02**	**0.000**	**321.2230**	**0.000**
FRQ	**-14.8157**	**0.000**	**420.5338**	**0.000**
BI	**-12.8746**	**0.000**	**249.3603**	**0.000**
ACFM	**-4.5715**	**0.000**	**114.2859**	**0.043**
ACI	**-23.3429**	**0.000**	**222.0942**	**0.000**
ACS	**-4.0946**	**0.000**	**115.3019**	**0.039**
FS	**-14.7443**	**0.000**	**177.1832**	**0.000**
ROE	**-86.0192**	**0.000**	**161.7673**	**0.000**
CR	**-14.1883**	**0.000**	**530.3040**	**0.000**
FL	**-8.6403**	**0.000**	**268.6342**	**0.000**

Source: Based on calculations using STATA 14

As shown in Table (6), only board size and CEO duality could not be measured using stationary testing, which is due to the fact that they have been constant for almost all the years for the same firm. Observing the p-value, it was found that the variables were all stationary without the need to take any lags. This shows that the co-integration test will not be further required. In addition, the fixed effect and random effect models can be further built, and the Hausman test can be considered.

8.4 Model Building

Table (7) Modelling CSR using Panel Data Analysis Models

Variables	Fixed Effect Model		Random Effect Model	
CSR	**Coef.**	**St. Err.**	**Coef.**	**St. Err.**
FRQ	7.419316*	4.377178	0.058716**	0.019002
BI	0.493134**	0.059647	0.407314*	0.218282
BS	0.007643*	0.003964	-0.003273*	0.001717
CEOD	0.006432*	0.002237	0.014322*	0.007849
ACFM	0.031890**	0.019269	0.082709	0.048171
ACI	0.442350**	0.202384	7.376934*	4.457362
ACS	0.06147*	0.048561	1.028832*	0.595389
FS	2.849153*	1.638386	0.014167	0.019260
ROE	-4.629813*	2.051313	0.310496*	0.242197
CR	11.972450**	4.356787	0.082348*	0.048583
FL	0.622693*	0.312127	4.123793	4.292270
Constant	.494	.19	7.607932*	4.330070
Hausman Test				
Chi-square Test Value	18.961			
P-value	.026			

Sig values: **<0.01, *<0.05, “”>0.05
Source: Based on calculations using STATA 14

When conducting the Hausman test, the null hypothesis is known to be the result of the random effect model. Since the significance is equal to 0.026, less than 0.05, therefore, the fixed effect model will be used. After applying both the random and fixed effect models, the Hausman test resulted in the random fixed effect model being optimal since the Hausman test P-value was 0.024. As shown from Table (7), at fixed effect, financial reporting quality had a positive significant impact on CSR at a

95% confidence level, while board independence had a positive significant impact on CSR. In addition, audit committee independence had a significant positive impact on CSR at a 99% confidence level. Moreover, the frequency of audit committee meetings had a significant positive impact on CSR. This shows the hypothesis that governance has a significant positive impact on CSR at a 95% confidence level, while firm size, return on equity, and financial leverage have a significant impact on CSR at a 95% confidence level. At the end, the current ratio had a significant positive impact on CSR at a confidence level of 99%.

Table (8) Modelling TA using Panel Data Analysis Models

Variables	Fixed Effect Model		Random Effect Model	
TA	Coef.	St. Err.	Coef.	St. Err.
FRQ	-0.040329*	0.0195489	-0.146784**	0.017902
BI	0.644503**	0.2067705	-0.02672*	0.001018
BS	-0.234589*	0.0945788	-0.041757*	0.019112
CEOD	0.103459	0.2037890	-0.157551*	0.10054
ACFM	-0.121839	0.1498934	-0.0103**	0.002111
ACI	2.320583*	1.397942	-0.00151*	0.000605
ACS	-6.041653**	1.938291	-0.00028**	0.000041
FS	12.885686*	4.443304	-0.0133**	0.001061
ROE	-0.500048	0.5426019	0.469658**	0.079191
CR	-0.039180	0.0295513	0.003407	0.092979
FL	0.456547*	0.2067698	-0.01222	0.009337
Constant	.858	4.346	-0.00153	0.002678
Hausman Test				
Chi-square Test Value	6.026			
P-value	.737			

Sig values: **<0.01, *<0.05, “”>0.05

Source: Based on calculations using STATA 14

When conducting the Hausman test, the null hypothesis is known to be the result of the use of a random effect model. Since the significance is equal to 0.737, which is greater than 0.05, the random effect model will be used. After conducting both random and fixed effect model analyses, as shown in Table (8), the Hausman test indicated that the random effect model was more suitable, with a p-value of 0.737. Consequently, in the random effect model, it was observed that financial reporting quality negatively and significantly influenced tax avoidance at a confidence level of 95%. However, board independence exhibited a negative and significant impact on tax avoidance, with a confidence level of 99%. Moreover, audit committee independence and frequency of meetings showed a significant negative association with tax avoidance at a confidence level of 95%. Furthermore, board size and independence had a significant negative impact on tax avoidance. In addition, CEO duality had a significant negative impact on tax avoidance at a 95% confidence level. This shows that governance has a significant negative impact on tax avoidance. This makes sense, as if the governance is stronger; it is more likely there will be no tax evasion scams. Additionally, factors such as firm size and financial leverage were found to have a positive and significant impact on tax avoidance at a confidence level of 95%. Lastly, return on equity and current ratio are also positively and significantly associated with tax avoidance.

Table (9) Modelling TQ using Panel Data Analysis Models

Variables	Fixed Effect Model		Random Effect Model	
FV	Coef.	St. Err.	Coef.	St. Err.
FRQ	0.066323*	0.034671	0.070072**	0.024739
BI	0.028684**	0.010534	0.023594**	0.007456
BS	0.110210*	0.043356	0.0113931	0.093826
CEOD	0.013450*	0.005643	0.293666**	0.0881558
ACFM	0.00953*	0.004765	0.000136	0.005294
ACI	0.00879**	0.001918	0.001202	0.001011
ACS	0.002**	0.001005	-0.00341**	0.001142
FS	-0.00391**	0.00097	-0.00457**	0.000461
ROE	-0.1017**	0.040851	-0.07426**	0.029893
CR	0.066323*	0.034671	0.082761**	0.031873
FL	0.057477	0.078398	0.025177*	0.013746
Constant	-.0430000	1.512001	0.010056*	0.005231
Hausman Test				
Chi-square Test Value	37.102			
P-value	0.000			

Sig values: **<0.01, *<0.05, “”>0.05
Source: Based on calculations using STATA 14

The use of a random effect model is known to be the null hypothesis when doing the Hausman test. Given that the significance is 0.000, it is less than 0.05. The fixed effect model will thus be applied. The fixed effect model was found to be the most effective after applying both the random and fixed effect models, as indicated by the Hausman test's P-value of 0.000. At fixed effect, according to Table (9), at a 95% confidence level, the quality of financial reporting significantly increased the worth of the company. At a 99% confidence level, however, board size and independence had a favorable and significant influence on firm value. Furthermore, there was a noteworthy favorable influence of audit committee independence on business value. Additionally, the frequency of audit committee meetings significantly increased the value of the company, along with the CEO duality, which had a 0.05 level of significance and had a positive impact on Tobin's Q. This showed that overall governance had a significant impact on the value of the firm. On the other hand, firm value was significantly positively impacted by business size and financial leverage. At a confidence level of 99%, the return on equity significantly increased the value of the company. At the 95% confidence level, the current ratio finally had a significant positive impact on the firm value.

Table (10) Model Evaluation Metrics

Model	R	R^2	Adjusted R^2
Model 1	0.843	0.711	0.703
Model 2	0.876	0.767	0.760
Model 3	0.807	0.651	0.643

Based on this Table (10), the value of adjusted R^2 is 0.711 and shows the 71% of variation in CSR explained by FRQ, BI, BS, CEOD, ACFM, ACI and ACS. In addition, the value of adjusted R^2 is 0.76 and shows the 76% of variation in TA explained by FRQ, BI, BS, CEOD, ACFM, ACI, ACS, FS, ROE, CR and FL. At the end, the value adjusted R^2 is 0.651 and shows the 65% of variation in FV explained by FRQ, BI, BS, CEOD ACFM, ACI, ACS, FS, ROE, CR and FL.s

Summary of Hypotheses

Model 1:

$$\widehat{CSR} = 7.419FRQ + 0.493BI + 0.007643BS + 0.006432CEOD + 0.03189ACFM + 0.44235ACI + 0.06147ACS + 2.84915FS - 4.6298ROE + 11.97245CR + 0.622693FL + 0.494$$

Model 2:

$$\widehat{TA} = -0.146784FRQ - 0.02672BI - 0.041757BS - 0.157551CEOD - 0.0103ACFM - 0.00151ACI - 0.00028ACS - 0.0133FS + 0.469658ROE + 0.003407CR - 0.01222FL - 0.00153$$

Model 3:

$$\widehat{TQ} = 0.066323FRQ + 0.028684BI + 0.110210BS + 0.013450CEOD + 0.00953ACFM + 0.00879ACI + 0.002ACS - 0.00391FS - 0.1017ROE + 0.066323CR + 0.057477 - 0.043$$

Conclusion

The results show that the quality of financial reporting plays a crucial role in addressing environmental issues. When companies provide accurate, transparent, and comprehensive financial information, it encourages stakeholders to consider the environmental impact of their operations. This leads to better decision-making, resource allocation, and the adoption of sustainable practices. Moreover, high-quality financial reporting helps investors assess the long-term viability of businesses, incentivizing them to support environmentally responsible companies. Financial reporting quality contributes to raising awareness and promoting responsible actions towards environmental concerns.

In addition, the outcomes reveal that financial reporting information is critical in determining the value of a firm. Evaluating a company's value is greatly dependent on the significance of financial report information. By offering investors a comprehensive insight into a company's financial status and performance, it enables them to make informed decisions regarding their investments. The impact of financial report information on firm value is significant and can affect the perception and reputation of the company, as well as its ability to attract capital and generate returns for shareholders. One of the main ways in which financial report information affects firm value is by providing transparency and accountability. The financial statements, including the balance sheet, income statement, and cash flow statement, present a clear and accurate picture of the financial performance of the company. Investors rely on this information to assess the profitability and sustainability of the business, as well as its ability to pay dividends and generate cash flows. Transparency in financial reporting builds trust among investors and stakeholders, ultimately enhancing the firm's value in the market.

Moreover, the results show that corporate governance and tax avoidance are interconnected. Effective corporate governance ensures that companies operate with transparency, accountability, and responsibility, which can help prevent tax avoidance practices. On the other hand, poor corporate governance may lead to tax avoidance, as companies might take advantage of loopholes or engage in questionable tax planning strategies. Thus, a strong corporate governance system can contribute to a fairer tax environment and help build trust between businesses and society.

The statistical findings indicate that effective corporate governance is essential to ensuring that a company's tax practices are ethical and compliant. A company that is well-governed is more likely to sustain transparency in its financial reporting and adhere to tax laws and regulations. Strong governance structures, such as independent boards of directors and robust internal controls, can help prevent tax evasion and fraud within a company.

Furthermore, good CG can help align a company's tax strategies with its overall business objectives and values. To safeguard the company and its stakeholders, it is crucial to make tax planning decisions that prioritize their best interests. Corporate governance can help mitigate the risks associated with aggressive tax avoidance schemes that may damage a company's reputation and shareholder value.

Finally, the results show that corporate governance plays a crucial role in determining a firm's value. Effective governance structures, which ensure transparency, accountability, and fairness in decision-making, can lead to increased investor confidence, better resource allocation, and improved operational efficiency. This, in turn, positively impacts the firm's value by enhancing its financial performance, attracting more investors, and ultimately increasing its market capitalization. Conversely, weak governance practices can lead to underperformance, reduced investor confidence, and a decline in the firm's overall value. The primary aim of corporate governance is to foster transparency, accountability, and trust within the organization, thereby contributing to the overall enhancement of firm value.

According to the statistical data, one of the primary components of CG that can impact the worth of a firm is the structure and autonomy of its board of directors. The results show that there is a clear link between CG and firm value. Companies that prioritize good governance practices are more likely to create long-term value for their shareholders and other stakeholders. By fostering transparency, accountability, and integrity, companies can build trust and credibility, which can ultimately lead to higher firm value. It is essential for companies to continuously monitor and evaluate their CG practices to ensure they are aligned with the best interests of all stakeholders and contribute to sustainable firm value.

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