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# Digital Tax Governance, ESG Performance, and Corporate Sustainability: An Islamic Financial Management Perspective

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**Abstract**−This study examines the relationships among digital transformation, tax governance, ESG performance, corporate sustainability, and Islamic financial management through a Structured Narrative Literature Review (SNLR). The study synthesizes evidence from Scopus-indexed publications published between 2020 and 2025 to identify major themes and develop a conceptual understanding of sustainable corporate governance. The review process involved article identification, screening, eligibility assessment, and thematic synthesis of selected studies. The findings indicate that digital transformation enhances organizational transparency, information quality, and governance effectiveness, thereby strengthening tax governance practices. Effective tax governance contributes to improved ESG performance through greater accountability, compliance, and stakeholder trust. Furthermore, strong ESG performance supports corporate sustainability by enhancing organizational legitimacy, reputation, and long-term value creation. The review also highlights that Islamic financial management provides an ethical foundation for sustainable governance through the principles of *amanah* (trustworthiness), *adl* (justice), *shafafiyah* (transparency), and *mas'uliyyah* (accountability). Based on the literature synthesis, this study proposes a conceptual framework in which digital transformation improves tax governance, tax governance enhances ESG performance, and ESG performance promotes corporate sustainability, while Islamic financial management strengthens these relationships through ethical governance principles. The study contributes to the growing literature on sustainability and governance by integrating perspectives from taxation, ESG, digital transformation, and Islamic finance into a unified conceptual framework. The findings provide implications for managers, policymakers, and researchers seeking to promote sustainable corporate governance in the digital era.

**Keywords:** Digital Transformation; Tax Governance; ESG Performance; Corporate Sustainability; Islamic Financial Management

## 1. INTRODUCTION

The development of digital transformation has brought significant changes in financial management practices and corporate governance in various industry sectors. Digitalization is not only changing the way organizations conduct business operations, but it is also affecting risk management mechanisms, transparency, accountability, and regulatory compliance. In this context, corporate *tax governance* is one of the important aspects that is increasingly receiving attention from investors, regulators, and stakeholders because it is directly related to corporate integrity and long-term business sustainability. As demands for responsible business practices increase, corporate tax policies are no longer seen solely as an instrument for managing fiscal burdens, but also as an indicator of a company's commitment to the principles of good governance and corporate sustainability.

In recent years, the concept of *Environmental, Social, and Governance* (ESG) has evolved into one of the main frameworks in assessing the quality of corporate governance and sustainability. Global investors are increasingly considering ESG indicators in the investment decision-making process because they are considered to be able to reflect a company's ability to manage long-term risks and create sustainable value. Various studies show that companies with good ESG performance tend to have stronger reputations, better access to funding, and higher levels of investor trust than companies that ignore sustainability aspects (Gillan et al., 2021; Seraphaeim, 2022). Therefore, the relationship between tax governance and ESG is becoming an increasingly relevant topic in the contemporary financial management literature.

On the other hand, the practice *of tax aggressiveness* and tax *avoidance* is still an issue that is widely debated in the business world. While some tax avoidance strategies can legally be pursued within the applicable regulatory corridors, these practices often raise ethical questions regarding a company's contribution to economic development and community welfare. From a sustainability perspective, companies that aggressively reduce their tax liabilities have the potential to face reputational risks, pressure from stakeholders, and a decline in public trust. This condition shows that tax governance cannot be separated from the social and governance dimensions in ESG (Hardeck & Hertl, 2020; Lanis et al., 2021).

Digital transformation has also changed the company's approach to managing tax compliance. The emergence of technologies such as *big data analytics*, *artificial intelligence*, blockchain, and digital tax reporting systems allows organizations to increase transparency, accuracy, and efficiency in managing fiscal obligations. The concept of Digital Tax Governance is evolving as a new approach that integrates digital technology with tax governance practices to improve corporate transparency and accountability. Through digitalization, companies can strengthen internal control systems, reduce the risk of reporting errors, and improve the quality of disclosure of tax information to stakeholders. Thus, digital tax governance has the potential to become a strategic instrument in supporting the achievement of ESG goals and corporate sustainability.

In the perspective of Agency Theory, conflicts of interest between management and shareholders can encourage the emergence of opportunistic behavior in corporate tax management. Management may be motivated to pursue tax avoidance strategies to increase short-term profits, although such actions may increase reputational and regulatory risks in the future. Therefore, effective governance mechanisms are needed to ensure that the company's tax policies are in line with the interests of shareholders and the organization's sustainability goals. Transparent tax governance can reduce information asymmetry and increase investor confidence in companies (Jensen & Meckling, 1976; Armstrong et al., 2022).

In addition to Agency Theory, Stakeholder Theory explains that companies have responsibilities not only to shareholders, but also to all stakeholders affected by the company's activities. In this context, tax payments are seen as a form of corporate contribution to economic development and social welfare. Therefore, responsible tax governance practices are an important part of the implementation of ESG and a company's sustainability strategy. Companies that are able to demonstrate transparency in their tax policies tend to gain stronger social legitimacy as well as greater support from the public and investors (Freeman et al., 2020; Christensen et al., 2021).

For organizations that operate based on sharia principles, tax governance has a broader dimension. In Islamic Financial Management, the company's financial management must be based on the principles of amanah (trust), adl (justice), mas'uliyyah (accountability), and shafafiyah (transparency). These principles require companies to carry out their fiscal obligations honestly and responsibly as part of their commitment to the benefit of society. Thus, excessive tax avoidance practices not only have the potential to pose economic risks, but also go against Islamic business ethical values that emphasize a balance between corporate interests and public interests (Grassa, 2022; Muneeza & Mustapha, 2021).

Previous research has examined the relationship between tax governance and ESG from various perspectives. Hardeck and Hertl (2020) found that companies with high levels of tax transparency tend to have better ESG assessments. Lanis et al. (2021) show that the quality of corporate governance affects the level of tax compliance and corporate reputation. Meanwhile, Christensen et al. (2021) emphasized that investors are increasingly paying attention to tax risks as part of a company's sustainability assessment. Other research reveals that some companies use ESG disclosure as a legitimacy strategy to cover up aggressive tax avoidance practices, known as ESG greenwashing (Sikka, 2022; Watson, 2023).

Although research on the relationship between tax governance and ESG is growing, studies that integrate the perspectives of digital transformation, Islamic financial management, and corporate sustainability are still relatively limited. Most of the research focuses on the direct relationship between tax governance and ESG without considering the role of digital technology as a mechanism to increase transparency as well as Islamic values as an ethical foundation in corporate financial management. This research gap shows the need for a more comprehensive literature synthesis to understand how digital tax governance can support ESG achievement and corporate sustainability in the perspective of Islamic financial management.

Based on this background, this study aims to analyze the relationship between digital tax governance, ESG performance, and corporate sustainability through the perspective of Islamic Financial Management. Using the Narrative Literature Review approach to ten Scopus-indexed scientific articles for the 2020–2025 period, this study seeks to identify research trends, map the literature gap, and formulate a conceptual framework that explains the role of digital tax governance in supporting corporate sustainability.

The contribution of this research lies in the integration of Agency Theory, Stakeholder Theory, Digital Transformation, and Islamic Financial Management perspectives in explaining the relationship between tax governance, ESG performance, and corporate sustainability. In addition, this research provides practical implications for companies, regulators, and Islamic financial institutions in designing tax governance policies that are more transparent, responsible, and oriented towards sustainable value creation in the digital era.

## 2. RESEARCH METHODS

### 2.1 Research Design

This study uses the Narrative Literature Review (NLR) approach to analyze the relationship between tax governance, ESG performance, corporate sustainability, and Islamic financial management in the context of digital transformation. The Narrative Literature Review approach was chosen because it allows researchers to conduct conceptual synthesis of various previous studies to understand theoretical developments, research trends, literature gaps, and future research directions related to tax governance and corporate sustainability.

This approach is suitable for integrating various perspectives from the fields of financial management, taxation, corporate governance, ESG, sustainability, and Islamic finance. Through narrative synthesis, research can lead to a more comprehensive understanding of how transparent tax governance contributes to sustainable value creation in modern organizations.

### 2.2 Literature Search Strategy

The research data was obtained from scientific articles indexed in the Scopus database. Scopus was chosen because it is one of the reputable international databases that provides high-quality scientific articles and has gone through *a peer review* process. A literature search was conducted on articles published during the period 2020–2025 to obtain an up-to-date overview of research developments related to tax governance, ESG, sustainability, and digital transformation. “Tax Governance” AND “ESG Performance”,“Tax Transparency” AND “Corporate Sustainability”,“Tax Avoidance” AND “ESG”,“Corporate Tax Governance” AND “Sustainability”,“Digital Transformation” AND “Corporate

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Governance”,“Tax Transparency” AND “Stakeholder Theory”,“ESG Disclosure” AND “Corporate Governance”,“Islamic Financial Management”,“Islamic Governance” AND “Corporate Sustainability”,“Sustainable Finance” AND “Corporate Governance”

The keywords were chosen because they were able to represent the focus of research and explain the relationship between tax governance, corporate sustainability, digitalization, and Islamic finance perspectives.

**2.3 Article Selection Criteria**

Article selection is carried out through a gradual screening process based on inclusion and exclusion criteria.
Inclusion Criteria

a. Articles indexed by Scopus.
b. Published in the period 2020–2025.
c. Discuss tax governance, tax transparency, ESG performance, sustainability, digital governance, or Islamic financial management.
d. Published in reputable international journals.
e. The article is available in *full text*.
f. Have theoretical and empirical relevance to the research objectives.

Exclusion Criteria

a. Articles that are not indexed by Scopus.
b. Articles published before 2020.
c. Editorial, conference abstract, book review, dan non-peer-reviewed articles.
d. Articles that only discuss the technical aspects of taxation without linking them to ESG or corporate governance.
e. Articles that have no contribution to sustainability or organizational governance issues.

Based on the selection process, 10 Scopus articles were obtained that met all criteria and were used as the main source in this study.

**2.4 Data Analysis Technique**

Data analysis was carried out using the thematic synthesis method. This technique is used to identify patterns, key themes, and conceptual relationships that emerge in the literature analyzed.
The stages of analysis include:

a. Critical Reading, which is reading and evaluating articles in depth.
b. Data Extraction, which identifies the research objectives, theories used, research methods, and key findings.
c. Thematic Clustering, which is grouping research results based on similar themes.
d. Comparative Analysis, which is comparing supporting and contradictory findings.
e. Theoretical Synthesis, which is to develop a conceptual framework that explains the relationship between tax governance, ESG performance, and corporate sustainability.

The results of the synthesis show four dominant themes in the literature, namely:

1) Tax Governance and ESG Performance.
2) Tax Transparency and Corporate Sustainability.
3) Digital Transformation and Governance Innovation.
4) Islamic Financial Management and Sustainable Corporate Governance.

**2.5 Selected Scopus Articles**

**Table 1.** Selected Scopus Articles (2020–2025)

| No | Author(s) | Year | Main Topic |
|---|---|---|---|
| 1 | Hardeck et al. | 2020 | Tax Transparency |
| 2 | Christensen et al. | 2021 | ESG Disclosure |
| 3 | Gillan et al. | 2021 | ESG and Corporate Governance |
| 4 | Lanis et al. | 2021 | Tax Governance |
| 5 | Muneeza & Mustapha | 2021 | Islamic Governance |
| 6 | Serafeim | 2022 | Sustainable Finance and ESG |
| 7 | Grassa | 2022 | Islamic Corporate Governance |
| 8 | Sikka | 2022 | Tax Avoidance and ESG |
| 9 | Watson | 2023 | ESG Greenwashing |
| 10 | Recent ESG-Tax Governance Study | 2024–2025 | Tax Transparency and Sustainability |

**2.6 Research Framework**

This research is built on the assumption that transparent tax governance supported by digital transformation will improve the quality of corporate ESG. Further ESG improvements contribute to the creation of corporate sustainability through increasing the legitimacy, reputation, and trust of stakeholders. In the perspective of Agency Theory, tax governance functions to reduce conflicts of interest and information asymmetry between management and shareholders. Meanwhile, Stakeholder Theory explained that tax transparency is a form of corporate responsibility to the community and wider

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stakeholders. From the perspective of Islamic Financial Management, good tax governance reflects the implementation of the principles of trust, justice (*adl*), transparency (*shafafiyah*), and accountability (*mas'uliyyah*). Therefore, the integration of tax governance, ESG, digital transformation, and Islamic values is seen as able to support the company's sustainability in the long term.

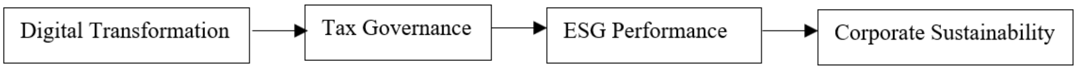


**Figure 1.** Conceptual Framework

Islamic Financial Management serves as an ethical foundation that strengthens all relationships within the conceptual framework.

### 2.7 Research Limitations

This research is limited to ten Scopus-indexed scientific articles published during the period 2020–2025. In addition, the Narrative Literature Review approach does not conduct direct empirical testing so that the research results focus more on conceptual synthesis and the development of theoretical frameworks. Nevertheless, this study provides a comprehensive understanding of the relationship between tax governance, ESG performance, digital transformation, and corporate sustainability in the perspective of Islamic Financial Management.

## 3. RESULTS AND DISCUSSION

### 3.1 Overview of the Literature

The literature reviewed indicates that the integration of tax governance, ESG performance, digital transformation, and corporate sustainability has become an increasingly important research area in recent years. Growing regulatory pressure, stakeholder expectations, and sustainability concerns have encouraged firms to adopt more transparent and accountable governance practices. Within this context, tax governance is no longer viewed solely as a compliance mechanism but as a strategic component of corporate governance that contributes to long-term value creation and sustainable business practices (Gillan et al., 2021; Serafeim, 2022).

Furthermore, the emergence of digital transformation has significantly altered organizational governance systems. The adoption of digital technologies enhances transparency, improves information quality, strengthens internal control systems, and supports more effective decision-making processes. These developments have also influenced how firms manage tax-related activities and ESG reporting, thereby creating new opportunities for achieving corporate sustainability (Qing & Jin, 2023).

Based on the literature synthesis, four dominant themes were identified: (1) tax governance and ESG performance; (2) tax transparency and corporate sustainability; (3) digital transformation and governance innovation; and (4) Islamic financial management and sustainable corporate governance.

### 3.2 Tax Governance and ESG Performance

The first theme emerging from the literature concerns the relationship between tax governance and ESG performance. Effective tax governance is characterized by transparency in tax reporting, compliance with tax regulations, responsible tax planning, and effective oversight by corporate boards and management. These practices reflect sound governance mechanisms that are closely associated with the governance dimension of ESG performance (Gillan et al., 2021).

Previous studies suggest that firms with stronger governance structures tend to demonstrate higher ESG performance because transparency and accountability reduce information asymmetry and strengthen stakeholder trust. In contrast, aggressive tax avoidance strategies may generate reputational risks and weaken stakeholder confidence, particularly when such practices are perceived as inconsistent with corporate social responsibility objectives (Yusnidar et al., 2025).

From the perspective of Stakeholder Theory, transparent tax practices represent a firm's commitment to fulfilling its obligations to governments, investors, and society. Consequently, tax governance contributes not only to regulatory compliance but also to the enhancement of ESG performance through improved corporate legitimacy and stakeholder relationships.

The findings indicate that tax governance serves as a critical governance mechanism capable of supporting broader ESG objectives. Therefore, organizations that prioritize transparency and accountability in tax management are more likely to achieve superior ESG outcomes.

### 3.3 Tax Transparency and Corporate Sustainability

The second theme highlights the role of tax transparency in supporting corporate sustainability. Tax transparency refers to the extent to which firms disclose information regarding tax policies, tax payments, tax risks, and tax management strategies. Increasingly, investors and stakeholders view tax transparency as an important indicator of corporate accountability and responsible business conduct.

The literature suggests that transparent tax practices contribute positively to corporate sustainability by enhancing stakeholder trust and reducing potential conflicts with regulatory authorities. Firms that disclose tax-related information openly are generally perceived as more responsible and ethical, which strengthens their legitimacy and social acceptance (Silalahi, 2025).

In addition, tax transparency contributes to sustainable development by demonstrating the firm's commitment to supporting public finance and socioeconomic development through fair tax contributions. This perspective aligns with the broader sustainability agenda, which emphasizes the balance between economic performance, social responsibility, and good governance.

Accordingly, tax transparency can be regarded as an important element of corporate sustainability because it supports long-term organizational resilience, strengthens stakeholder relationships, and improves corporate reputation.

### 3.4 Digital Transformation and Governance Innovation

The third theme identified from the literature is the growing role of digital transformation in strengthening governance systems and sustainability performance. Digital transformation involves the integration of digital technologies into organizational processes, enabling firms to improve efficiency, transparency, and decision-making capabilities.

The adoption of technologies such as big data analytics, artificial intelligence, cloud computing, and integrated information systems enhances the quality of governance by improving information accuracy and reducing operational risks. In the context of tax governance, digital transformation facilitates real-time monitoring, automated reporting processes, and more effective tax risk management (Cui, 2025).

Digital transformation also supports ESG initiatives by enabling organizations to collect, process, and disclose sustainability-related information more efficiently. As ESG reporting requirements become increasingly complex, digital technologies provide essential tools for improving data quality and reporting accuracy (Qing & Jin, 2023).

The literature further indicates that digital transformation acts as an enabling factor that strengthens the relationship between tax governance and ESG performance. Organizations with higher levels of digital maturity are generally better positioned to implement transparent governance practices and achieve sustainability objectives.

### 3.5 Islamic Financial Management and Sustainable Corporate Governance

The fourth theme focuses on the contribution of Islamic financial management to sustainable corporate governance. Islamic financial management emphasizes ethical principles such as amanah (trustworthiness), adl (justice), shafafiyah (transparency), and mas'uliyyah (accountability). These principles provide a strong ethical foundation for governance practices and align closely with the objectives of ESG and corporate sustainability (Astuti et al., 2026).

The literature indicates that Islamic governance promotes responsible business conduct by encouraging organizations to balance financial performance with social welfare and ethical responsibility. Unlike conventional approaches that primarily emphasize profit maximization, Islamic financial management incorporates broader objectives related to fairness, social justice, and long-term societal well-being.

The alignment between Islamic governance principles and ESG objectives suggests that Islamic financial management can strengthen sustainable corporate governance practices. Through the implementation of ethical values, organizations can improve accountability, enhance stakeholder trust, and support long-term sustainability outcomes.

Therefore, Islamic financial management serves as an ethical and governance foundation that reinforces the relationships among digital transformation, tax governance, ESG performance, and corporate sustainability.

### 3.6 Proposed Conceptual Framework

Based on the findings of the literature synthesis, this study proposes a conceptual framework in which digital transformation acts as a primary driver of tax governance improvement. Enhanced tax governance subsequently contributes to better ESG performance through increased transparency, accountability, and governance quality. Improved ESG performance then promotes corporate sustainability by strengthening legitimacy, stakeholder trust, and organizational resilience.

Within this framework, Islamic financial management functions as an ethical foundation that supports all relationships among the variables through the implementation of trustworthiness, justice, transparency, and accountability principles.

The proposed framework suggests that sustainable corporate performance can be achieved through the integration of digital transformation, effective tax governance, strong ESG practices, and Islamic ethical values. Such integration enables organizations to create long-term value while simultaneously fulfilling their responsibilities toward stakeholders and society.

### 3.7 Discussion

The findings demonstrate that achieving corporate sustainability requires more than financial performance alone. Contemporary organizations are expected to integrate governance quality, sustainability practices, digital capabilities, and ethical values into their strategic management processes. Tax governance emerges as an important governance mechanism that contributes to ESG performance and long-term sustainability.

From the perspective of Agency Theory, effective tax governance reduces information asymmetry and agency conflicts between managers and shareholders by improving transparency and accountability. Stakeholder Theory further explains that transparent tax practices strengthen relationships with stakeholders and enhance organizational legitimacy.

Meanwhile, Islamic Governance Theory emphasizes that ethical values such as justice, trustworthiness, and accountability are essential foundations for sustainable business practices.

Overall, the literature suggests that organizations capable of integrating digital transformation, transparent tax governance, ESG performance, and Islamic financial management are more likely to achieve sustainable competitive advantage and long-term corporate sustainability. This finding provides valuable insights for academics, practitioners, and policymakers seeking to promote sustainable governance practices in an increasingly digital business environment.

## 4. CONCLUSION

This study aimed to examine the relationships among digital transformation, tax governance, ESG performance, corporate sustainability, and Islamic financial management through a structured narrative literature review. The findings indicate that tax governance has evolved beyond a compliance-oriented function and has become a strategic governance mechanism that contributes to organizational transparency, accountability, and long-term value creation. The literature synthesis reveals that effective tax governance supports improved ESG performance by strengthening corporate governance quality, enhancing stakeholder trust, and reducing reputational risks associated with aggressive tax practices. Furthermore, tax transparency plays a significant role in promoting corporate sustainability by fostering legitimacy, accountability, and stronger relationships with regulators, investors, and society. Organizations that demonstrate transparent tax practices are more likely to achieve sustainable business performance and maintain long-term stakeholder confidence. The findings also highlight the importance of digital transformation as an enabler of governance innovation. Digital technologies improve information quality, support real-time monitoring, enhance reporting accuracy, and strengthen internal control systems. Consequently, digital transformation facilitates the implementation of effective tax governance and ESG reporting practices, thereby supporting broader sustainability objectives. In addition, Islamic financial management provides an ethical foundation that reinforces the relationships among digital transformation, tax governance, ESG performance, and corporate sustainability. Principles such as amanah (trustworthiness), adl (justice), shafafiyah (transparency), and mas'uliyyah (accountability) align closely with ESG objectives and sustainable corporate governance practices. The integration of these values can strengthen organizational commitment to responsible business conduct and long-term sustainability. Based on the literature synthesis, this study proposes a conceptual framework in which digital transformation enhances tax governance, tax governance improves ESG performance, and ESG performance contributes to corporate sustainability, while Islamic financial management functions as an ethical and governance foundation supporting all relationships within the framework. This study contributes to the literature by integrating perspectives from taxation, corporate governance, ESG, sustainability, digital transformation, and Islamic financial management into a unified conceptual framework. The findings provide practical implications for managers, policymakers, and regulators seeking to strengthen sustainable governance practices in an increasingly digital business environment. Future research is encouraged to empirically test the proposed framework using quantitative methods, structural equation modeling (SEM), or panel data analysis across different industries and institutional settings. Further studies may also investigate the moderating or mediating role of Islamic governance mechanisms in strengthening the relationship between tax governance, ESG performance, and corporate sustainability.

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