

# ESG Integration and Tax Governance in Malaysia: A Systematic Review of Environmental Regulations, Corporate Governance, and Social Responsibility

Mohd Tarmizi Ibrahim<sup>1</sup>, Mohd Mas Rizat Abdul Latif<sup>2\*</sup>, Mohd Amran Mahat<sup>3</sup>, Muhammad Mukhlis Abdul Fatah<sup>4</sup>

Faculty of Accountancy, Universiti Teknologi MARA (UiTM) Cawangan Melaka, Malaysia

\*Corresponding Author

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## ABSTRACT

This systematic review investigates the interplay between Environmental, Social, and Governance (ESG) considerations and tax practices in Malaysia, in particular, environmental regulations, corporate governance practices, and social responsibility practices. Although Malaysia plans to achieve a 45 percent reduction of its carbon intensity and the attainment of net-zero emission by 2030 and 2050 respectively, the relationship between ESG considerations and tax governance has not been studied thoroughly. This review is based on a systematic analysis of 50 highly relevant peer-reviewed articles published since 2017 through which the existing research on the impact of ESG dimensions on tax planning, compliance, and transparency in Malaysian corporations has been synthesized. The results indicate that corporate governance practices, especially the board diversity, independence, and gender representation, have a great impact on improving tax compliance and the quality of ESG disclosures. Laws on the environment encourage tax incentives like the Green Investment Tax Credit (GITA) which has the shortcoming of insufficient use and lack of penalty provisions. Social responsibility programs are associated with less aggressive tax avoidance and greater stakeholder trust, although there is a varying perception of CSR-tax relationships between different stakeholder groups. ESG reporting systems have improved the transparency of tax governance that is still not consistent because of voluntary reporting and differences in sectors. The regulative framework is biased to incentives as opposed to penalties, and enforcement failures to provide overall ESG-tax alignment. The contribution that this review makes to the literature is the context-specific insight into the ESG-tax dynamics in Malaysia, the identification of gaps in research, and practical guidance to the policymakers, business executives, and future researchers. The results are useful in the formulation of a combined framework that will harmonize sustainability goals with financial commitments in the emerging economies.

**Keywords:** ESG, tax governance, environmental regulations, corporate governance, social responsibility, Malaysia, tax compliance

## INTRODUCTION

The introduction of Environmental, Social, and Governance (ESG) aspects into business strategy and regulation has become one of the most notable attributes of modern business (Lee et al., 2023; Tang, 2023). Stakeholders such as investors, regulators, consumers and the civil society around the world are asking corporations to be transparent and accountable towards their environmental impact, social contributions and internal governance structures. The implications of such a paradigm shift on tax governance are intense; a sector that has been typically considered through the prism of purely financial or compliance motivated approach. Tax practices are now becoming known as part of corporate sustainability, ethical conduct and stakeholder confidence (Gribnau, 2025; Greggi, 2024). Unethical tax practices or non-transparent tax reporting may damage the ESG credentials of a firm whereas ethical tax behaviour may increase the legitimacy and value creation in the long term.

The case of Malaysia is highly interesting in terms of exploring the overlap of ESG factors and tax practices. The country has shown a lot of action regarding sustainability by instituting high level policy frameworks such as the aim of reducing carbon intensity by 45 percent by 2030 (compared to 2005 levels) and the achievement of net zero greenhouse gas emissions by 2050 (Ibrahim et al., 2024; Ariffin et al., 2023). The stock exchange in the country, Bursa Malaysia, has increasingly developed its sustainability reporting policies and compelled to disclose the policies as voluntary then mandatory requirements to listed issuers. Simultaneously, the Malaysian Inland Revenue Board (IRBM) has also launched the Tax Corporate Governance Framework (TCG) in 2022 as a collaborative compliance programme that aims at establishing clear relationships between taxpayers and tax authorities to align tax governance with the principles of ESG and enterprise risk management (Lum and Shalini, 2025). These changes represent a more widespread regional and even global shift towards incorporating sustainability issues into fiscal governance.

Although these developments have been made, the exact association between the ESG dimensions and tax practices in Malaysia is not clearly comprehended. Available literature has inconsistent and even conflicting results. According to some studies, good ESG performance minimises aggressive tax avoidance practices because companies want to remain consistent in their sustainability pledges (Razali et al., 2024). According to other studies, ESG can be used as a legitimising instrument, and in that way, firms can be seen as responsible and still practicing aggressive tax planning (Hashfi, 2024). Besides, empirical analysis of the efficiency of regulatory measures like green tax incentives, environmental penalties, and voluntary disclosure systems is still limited in the case of Malaysia (Razali et al., 2024; Iwanie et al., 2024). This ambiguity prevents evidence based policymaking and strategic corporate decision making.

This systematic review fills these gaps in knowledge by critically exploring the features of ESG that are the most applicable in tax outcomes in Malaysia. We target three dimensions, namely; (1) environmental regulation and its effect on tax planning and compliance; (2) corporate governance mechanisms, which affect tax transparency, disclosure and ethical tax behaviour; and (3) social responsibility initiatives, which are associated with tax incentives, stakeholder trust and responsible tax behaviour. The review will illuminate the relationships that exist between the ESG factors and the tax outcomes in the Malaysian corporate environment since most of these relationships are complex and require the synthesising of empirical evidence and regulatory analysis of 50 highly relevant studies published between 2017 and 2025.

The theoretical framework that supports this review is the multidimensional concept of ESG as a construct that is related to tax compliance and corporate accountability based on the stakeholder and legitimacy theories (Mahmudi et al., 2025; Suffian et al., 2017; Adinehzadeh et al., 2018). The stakeholder theory holds that corporations should comply with legitimate interests of different stakeholders other than shareholders such as regulators, local communities, employees, and environmental activists. In this sense, responsible tax behaviour that pays a fair level of tax and does not use aggressive methods of tax evasion as well as disclosure of tax affairs is a direct response to the stakeholder expectations of corporate citizenship. The legitimacy theory postulates that organisations want to act within the limits of the societal norms and expectations to retain their licence to operate. Transparent and ethical tax governance are also ESG practices that the firms can use to indicate compliance with the expectations of the society and, therefore, to ensure or reinstate legitimacy. These theoretical prisms give a background to the explanation of how the ESG factors can influence tax related behaviours and regulatory compliance in the Malaysian context.

In a few significant ways, this review adds to the literature. First, it will offer a synthesis of ESG tax research in Malaysia that is both context specific and comprehensive in the sense that the studies have been in previous times fragmented and siloed. Second, it reveals some of the gaps that are most important in the existing body of knowledge including underutilisation of green tax incentives, lack of environmental punishments, and the inconsistency of stakeholder perceptions and suggests some directions in which the research should be carried out in future. Third, it provides useful guidance to policymakers who wish to formulate effective ESG related tax policies (e.g., balanced incentives penalty mixes, mandatory reporting, social enterprise tax reform) and to corporate leaders who want to consider the sustainability implications of the taxation of the company (e.g., board diversity, management accounting practices, sector specific strategies). Fourth, it adds to the larger debate on sustainable taxation in developing economies, where an institutional framework, regulatory abilities and cultures can vary greatly in the developed country environments.

This paper is divided into the rest in the following way. The literature review is presented in Section 2 and then the research design in Section 3. Section 4 gives a critical analysis and discussion of findings, which include finding of agreement and disagreements among studies, theoretical and practical implications and limitations of the current literature. Section 5 ends with an integrated knowledge and policy and practice recommendations.

## LITERATURE REVIEW

### Overview of ESG-Tax Integration in Malaysia

The relationship between Environmental, Social, and Governance (ESG) factors and corporate tax practices has been a topic of much scholarly focus in Malaysia because of the country's dedication to lowering the intensity of carbon by 45% in 2030 and attaining net-zero emissions in 2050 (Ibrahim et al., 2024; Ariffin et al., 2023). Internationally, stakeholders are increasingly asking corporations to be capable of integrating the sustainability goals with their tax strategies, shifting tax governance out of the compliance sphere into a corporate social responsibility dimension (Gribnau, 2025; Gregg, 2024). In Malaysia, the regulatory environment that fosters ESG-tax integration has been established by the introduction of Tax Corporate Governance Framework (TCG) by the Inland Revenue Board in 2022 and gradual intensification of the sustainability reporting requirements by Bursa Malaysia (Lum and Shalini, 2025). Nevertheless, the body of literature is rather diverse: some authors argue that high ESG performance lowers aggressive tax avoidance, whereas others say that ESG can be utilized as a legitimizing instrument to continue tax planning (Mukhtaruddin et al., 2025; Mahmudi et al., 2025; Hashfi, 2024). This ambiguity explains the necessity of a methodical evidence synthesis on three main ESG dimensions.

### Environmental Regulations and Tax Outcomes

A study on the impact of environmental regulation on the tax behaviour of corporations in Malaysia indicates that there is a complicated and unpredictable effect. The environmental policies encourage the use of tax incentives including the Green Investment Tax Credit (GITA), which supports investments made by firms in green technology and sustainable practices (Lee et al., 2023). Socially responsible tax policies are also likely to be followed by environmentally responsible companies, which ensure that there is consistency between their environmental and tax policies to preserve stakeholder credibility (Razali et al., 2024). Nevertheless, some of the studies also note that many Malaysian enterprises are uneducated about the existing green tax incentives, and no taxes and penalties related to the environment make the process of coercion to take action more challenging (Ariffin et al., 2023). Carbon footprint reporting is still poor, as 18.97 percent of manufacturing companies actively report carbon data on a voluntary basis (regardless of the country-specific carbon emissions reduction obligations) (Ibrahim et al., 2024). The differences between sectors also complicate the situation: utilities companies pay much attention to the environmental reporting, whereas construction and real estate industries demonstrate better social and governance performance (Hashim et al., 2024; Sulaiman et al., 2024; Husain et al., 2025). There are also short-term financial expenditure differences that environmental initiatives might bring that create conflicts with the tax planning objectives (Ramasamy and Yen, 2023; Ming et al., 2024).

### Corporate Governance as a Driver of Tax Transparency

Of the three ESG pillars, corporate governance happens to be the most effective determinant of tax transparency, compliance and ethical behaviour among Malaysian companies. Board composition attributes particularly gender diversity, independence, and director experience significantly enhance both ESG performance and tax compliance (Suffian et al., 2017). Gender diversity and board independence have been reported to be effective in curbing the activities of greenwashing, thus lowering chances of companies engaging in the pretence of committing to ESG activities, but at the same time being aggressive in avoiding taxation (Lee et al., 2025). The moderating role of women directors receives substantial empirical support: high CSR levels are negatively associated with tax avoidance specifically in firms with higher percentages of women on boards ("The moderating effect of women directors...", 2023; Razali et al., 2022). It continues to have this impact even in times of crisis like the COVID-19 pandemic (Agustina and Barokah, 2024). Yet not every attribute of governance has an equal impact; managerial ownership and CEO duality are weak or insignificant predictors of tax performance, whereas the board meeting frequency and firm size also prove to be stronger (Mgammal et al., 2018; Anua and Muhmad, 2025). The Malaysian Tax Corporate Governance Framework (TCG) is an

institutional innovation, which clearly manages tax governance in line with the ESG and enterprise risk management principles, which encourage mutual compliance (Lum and Shalini, 2025).

### **Social Responsibility Initiatives and Ethical Tax Behaviour**

Research on the topic of social responsibility activities usually reports positive relationships between CSR activity and accountable tax conduct, despite important contextual distinctions. Companies that practice social responsibility in their taxes are more likely to be environmentally responsible, and they are consistent in their sustainability aspects to keep stakeholders at bay (Razali et al., 2024). CSR disclosure is positively correlated with tax planning activities, but when women are on boards the relation is negative, i.e., less tax avoidance, which points to the most important modulating role of the governance structure (Razali et al., 2022). The evidence of cross-ASEAN indicates that high ESG performance is overall associated with low tax aggressive avoidance, though companies can apply ESG as a legitimizing instrument in a strategic manner and keep tax avoidance strategies (Hashfi, 2024). The perception of CSR-tax compliance links is quite varied: the views of the firms, consultants, and regulators on whether tax compliance is a subset of social responsibility are divergent, with government-related firms being more aligned with those of the private sector (Mustapha et al., 2023). Social disclosure is positively related to financial performance and tax credibility (Lee et al., 2023), whereas Malaysian social enterprises are not defined with tax incentives even though their goals are of a social good, which indicates the gaps in policies to be addressed in the reform (Radzi et al., 2024).

### **ESG Disclosure Frameworks and Tax Governance Integration**

The development of ESG disclosure systems in Malaysia has played a large role in enhancing tax governance transparency, but still, it is faced with some inherent difficulties. The concept of international frameworks, including the Task Force on Climate-related Financial Disclosures (TCFD), is becoming an increasingly influential factor in shaping Malaysian practice, and the update of the Malaysian Code of Corporate Governance has altered the practice whereby compulsory disclosures of ESG are made in an attempt to enhance investor confidence (Tang, 2023; Aziz et al., 2023). Nonetheless, both the nature and extent of ESG reporting differ significantly by industry. Environmental topics prevail in the utilities industry, and evaluation standards are still complicated and cumbersome (Hashim et al., 2024). The construction companies exhibit relatively good social practices and poor governance disclosure (Sulaiman et al., 2024) and the real estate companies gain the most on both the governance and social pillar transparency (Husain et al., 2025). Tax disclosure is rather narrow and low-quality and is attributed to transparency in corporate governance, but it is less than the overall transparency (Mgammal et al., 2018). The TCG model explicitly incorporates the principles of tax governance and ESG, which is a major move toward enhancing sustainability reporting, which includes tax transparency (Lum and Shalini, 2025). However, voluntary sustainability reporting and governance codes do not give ESG disclosure the power to impact corporate behaviour, and thus scholars suggest that ESG reporting should be based on legal requirements to increase accountability (Khan and Ali, 2023).

### **Regulatory Policy Effectiveness and Gaps**

Research on regulatory policies aimed at the incentive of ESG-tax alignment shows a picture of the incentive-oriented strategies and few enforcement systems. ESG strategies are supported by Green Investment Tax Credit (GITA) and other tax exemptions, but their usage is severely limited due to lack of awareness and availability (Lee et al., 2023; Ariffin et al., 2023). According to the institutional theory, the green tax reforms are accepted by corporations via coercive, mimetic, and normative forces, but penalties of green tax are not applicable in Malaysia, which diminishes the coercion power (Ariffin et al., 2023). Compliance programmes that are cooperative like the TCG framework are promising as they are no longer adversarial in enforcement but rather relations between the tax authorities and corporates (Lum and Shalini, 2025). Nonetheless, there are serious policy deficiencies to align the ESG-tax in the context of renewable energy, where the effectiveness is limited by poor integration of governance and poor social responsibility in SMEs (Iwani et al., 2024). There are unique challenges related to social enterprises because existing tax systems do not acknowledge organizations that have social and environmental objectives (Radzi et al., 2024). Comparative global insights indicate that even in the absence of explicit codifying, it is possible to have ESG principles play an important role in tax law interpretation, although voluntary methods are not sufficiently compelling to lead to full ESG-tax integration

(Greggi, 2024, 2025; Khan and Ali, 2023). The reinforcement of enforcement mechanisms, the introduction of environmental penalties, and the ESG disclosure should always be recommended throughout the literature.

## Research Design

This study employs a systematic literature review methodology to examine the specific aspects of ESG and their relevance to the tax context in Malaysia, focusing on environmental regulations, corporate governance mechanisms, and social responsibility initiatives. Systematic reviews are particularly appropriate for synthesizing research in emerging and multidisciplinary fields such as ESG-tax integration, as they enable comprehensive identification, evaluation, and integration of existing evidence while minimizing selection bias (Tranfield et al., 2003). Unlike narrative reviews, which may inadvertently emphasize studies supporting the author's perspective, a systematic review follows a transparent, replicable, and structured process that enhances the reliability and validity of the synthesized findings. This design is especially valuable in the Malaysian context, where ESG-tax research is relatively nascent and fragmented across different disciplinary silos including accounting, law, environmental economics, and corporate governance. By adopting a systematic approach, this review ensures that all relevant empirical and theoretical contributions from 2017 to 2025 are captured, evaluated consistently, and synthesized to produce a comprehensive understanding of how ESG dimensions influence tax planning, compliance, and transparency in Malaysian corporations.

The review protocol was developed following established guidelines for systematic reviews in management and social science research (Tranfield et al., 2003). This protocol explicitly defined the research questions, search strategy, inclusion and exclusion criteria, citation chaining procedures, relevance scoring mechanism, and data extraction framework prior to conducting the literature search. Pre-specifying the protocol reduces the risk of post-hoc changes that could introduce bias and enhances the transparency and reproducibility of the review. The design is inherently qualitative in its synthesis approach, employing thematic analysis to identify recurring patterns, agreements, and divergences across the 50 highly relevant studies. While quantitative meta-analysis is not feasible due to heterogeneity in outcome measures and analytical methods across studies, the systematic design allows for rigorous narrative synthesis that respects the complexity and context-specificity of ESG-tax relationships in Malaysia. This research design thus balances methodological rigor with the flexibility needed to integrate diverse evidence types including panel regressions, PLS-SEM, qualitative interviews, case studies, and policy analyses into a coherent and actionable body of knowledge.

## Research Questions

1. How do environmental regulations influence tax planning and compliance in Malaysian firms?
2. What governance mechanisms affect tax transparency and sustainable tax practices?
3. How are social responsibility initiatives linked to tax incentives and ethical tax behaviour?
4. To what extent are ESG disclosure frameworks integrated with tax governance compared to ASEAN contexts?
5. How do regulatory policies shape ESG-related tax incentives and penalties in Malaysia?

## Search strategy and screening

Searches in Scopus, Web of Science, Google Scholar using transformed queries (e.g., “ESG integration in Malaysia: regulatory design, tax implications”). Initial yield: 97 papers after inclusion/exclusion. Inclusion: peer-reviewed, 2017–2025, Malaysian focus, empirical or theoretical, English/Malay. Exclusion: non-peer-reviewed, no ESG-tax link, non-ASEAN without Malaysia relevance.

## Citation Chaining

Backward and forward citation chaining added 105 papers (total 202 candidates).

## Relevance Scoring

Scored on relevance, rigor, venue quality, recency. Result: 198 relevant, 50 highly relevant for detailed synthesis.

## Data Extraction and Synthesis

Extracted: publication details, objectives, theory, methods, findings on ESG-tax links, gaps. Thematic analysis organized by research questions and ESG dimensions.

Figure 1 presents the PRISMA flow diagram for study selection. Initial database searches yielded 97 records. After removing duplicates, 89 records were screened by title and abstract, of which 2 were excluded because they did not address the ESG-tax link. The remaining 87 full-text articles were assessed for eligibility; 36 were excluded (18 not peer-reviewed, 18 without Malaysian focus), leaving 51 studies. Citation chaining (backward and forward) added 105 candidate records. After applying relevance and rigour scoring criteria, 106 records were excluded, resulting in a final set of 50 highly relevant studies for synthesis.

## PRISMA Flow Diagram: ESG-Tax Integration in Malaysia

### Identification

- Records identified through database searching:  $n = 97$  (Scopus, WoS, Google Scholar).
- Records identified through citation chaining:  $n = 105$  (Backward and forward).
- Total identified records:  $n = 202$ .

### Screening

- Records after duplicates removed:  $n = 89$ .
- Records screened by title and abstract:  $n = 89$ .
- Records excluded:  $n = 2$  (No ESG-tax link).

### Eligibility

- Full-text articles assessed for eligibility:  $n = 87$ .
- Full-text articles excluded ( $n = 36$  total):
  - Not peer-reviewed:  $n = 18$ .
  - No specific Malaysia focus:  $n = 18$ .

### Included

- Studies included after database screening:  $n = 51$ .
- Total assessed (Database inclusion + Citation chaining):  $n = 156$ .
- Records excluded after relevance and rigor scoring:  $n = 106$ .
- Final studies included in qualitative synthesis:  $n = 50$ .

## Descriptive Summary of Studies

Table 1 summarizes the 50 studies.

**Table 1: Descriptive Characteristics of Included Studies**

Characteristic	Category	Number	Percentage
Publication Year	2017–2018	5	10%
	2019–2021	8	16%
	2022–2023	15	30%
	2024	12	24%
	2025	10	20%
Methodology	Quantitative (panel, PLS-SEM)	32	64%
	Qualitative	8	16%
	Mixed	5	10%
	Theoretical	5	10%
Primary Focus	Environmental regulations & tax	12	24%
	Corporate governance & tax	15	30%
	Social responsibility & tax	10	20%
	ESG disclosure & tax governance	8	16%
	Regulatory policy analysis	5	10%

## Environmental Regulation Impact on Tax Planning and Compliance

### Obstacles to the use of Green Tax Incentive

The fiscal tools including the Green Investment Tax Allowance (GITA) are also available though they are poorly used. This is mostly explained by the ubiquitous ignorance of corporations and the lack of a penalty in case of non-compliance (Lee et al., 2023; Ariffin et al., 2023). Ironically, studies show that despite the intentions of environmentally conscious companies, often, they stick to the traditional taxation policies instead of trying to take special holidays or other incentives (Razali et al., 2024).

### The Dilemma between Tax Planning and integration of ESG

There is an underlying conflict between the conventional tax planning and climate efforts. The increasing interest of corporations in tax-saving initiatives is frequently accompanied by the reduction of their substantive efforts to act in relation to climate (Hui and Brahmana, 2017). Milne (2024) describes Environmental taxation and Environmental, Social, and Governance (ESG) models as silent partners, two concepts that are not mutually operational. This is further compounded by the tension between long-term green transitions and the pressure of operational costs in the short-term (Ramasamy and Yen, 2023; Ming et al., 2024).

### Specific Industry Inequality and Disclosure

The lack of strong implementation also impedes the process of integrating renewable energy into the formal ESG agendas (Iwani et al., 2024). Moreover, the sustainability priorities are quite different across sectors: utility companies focus on environmental indicators, whereas construction companies are more concerned with social issues (Hashim et al., 2024; Sulaiman et al., 2024). With these structural challenges, voluntary disclosure is still low; approximately less than 19 percent of companies are currently reporting their carbon footprints (Ibrahim et al., 2024).

## Corporate Governance Influence on Tax Transparency and Compliance

### Board Ethical Oversight and Diversity

Corporate governance is one of the key factors of tax results in ESG. Indicators of strong governance, namely board independence and diversity are positively associated with ESG performance and tax compliance (Suffian

et al., 2017). Interestingly, gender diversity and independent control are important protection mechanisms against greenwashing (Lee et al., 2025). Moreover, feminine directors also have been demonstrated to strengthen the nexus between Corporate Social Responsibility (CSR) and tax compliance, as well as enhance the quality of environmental disclosure (Agustina and Barokah, 2024; Razali et al., 2022; Jaffar et al., 2018).

### **Shared Responsibility and Institutional Frameworks**

The Tax Control Framework (TCG) at a systemic level enables compliance to be cooperative within the corporate structure (Lum and Shalini, 2025). This is in line with the view that sustainable tax governance is not a personal obligation but a joint responsibility that is shared throughout the organization (Gribnau, 2025). These formal mechanisms enable firms to be in a better place to harmonize their environmental performance with clear reporting requirements (Adinehzadeh et al., 2018).

### **Structural Variables and Empirical Inconsistencies**

The strengths of board composition are not reflected in empirical evidence on structural variables, which is mixed. Studies suggest that there is a low level of correlation between managerial ownership and tax performance (Mgammal et al., 2018), and CEO duality does not seem to have an important practical effect on transparency. On the other hand, the size of the board and the number of meetings is stronger predictors of the effectiveness of governance of tax issues (Anua and Muhmad, 2025).

### **Social Responsibility Initiatives and Ethical Tax Behaviour**

#### **Integration and Ethical Tax conduct CSR**

There is empirical evidence that indicates that there is a high correlation between Corporate Social Responsibility (CSR) involvement and ethical tax behaviour. Green-minded companies have a greater tendency to engage in socially responsible practices in taxation (Razali et al., 2024). Moreover, social disclosures are also known to strengthen financial performance and fiscal credibility, indicating that transparency in social initiatives is a cue of institutional integrity (Lee et al., 2023; Pantamee et al., 2024).

#### **Moderating Adaptive Factors and Strategic ESG Usage**

Although there is a positive correlation between CSR disclosure and tax planning, the same is subjected to complex moderating factors. An example is that female directors have been found to have a negative moderating effect on this relationship, indicating a more conservative or ethical attitude towards tax management (Razali et al., 2022). Although better ESG performance tends to reduce aggressive tax evasion, there are some cases where the organization can use ESG metrics to cover up some underlying tax avoidance policies (Hashfi, 2024). The lack of clarity is further aggravated by the fact that stakeholders have different perceptions concerning the causal relationship between CSR and taxes (Mustapha et al., 2023).

#### **Performance Measures and Regulatory Uncertainty**

In disaggregating ESG components, both the social and governance scores are always more associated with corporate performance than the environmental scores (Rasyad et al., 2024; Wong, 2024). But still institutional obstacles exist; in most jurisdictions social enterprises are not yet given a separate taxation status. Such entities are in a grey situation in terms of their fiscal responsibilities and incentives (Radzi et al., 2024).

### **ESG Disclosure Frameworks and Tax Governance Integration**

#### **Regulatory Evolution and the Compulsory Shift**

The international reporting standards, primarily, the Task Force on Climate-related Financial Disclosures (TCFD) framework, are becoming an ever-growing influence on the corporate environment in Malaysia (Tang, 2023). New changes in the Malaysian Code on Corporate Governance (MCCG) are an indication of a strategic shift towards compulsory ESG reporting (Aziz et al., 2023). Nonetheless, the disclosure landscape is still uneven;

whereas the utilities industry has strong reporting practices, the governance models among other industries are still in the maze and hard to navigate (Hashim et al., 2024).

## **ESG-Tax Governance Nexus**

The Tax Control Governance (TCG) paradigm assumes that fiscal management is directly connected to the extended ESG goals (Lum and Shalini, 2025). Although this theoretical congruence is found, the real-world limits of tax-related disclosure are limited (Mgammal et al., 2018). Moreover, there is empirical evidence, indicating that voluntary sustainability reporting is not as effective as legally required disclosure, which can create the required pressure on substantive corporate disclosure (Khan and Ali, 2023).

## **Sectoral Inequality and Exogenous Forces**

There is a great difference in the approach of various sectors to ESG pillars. As an example, construction companies are usually structurally robust with operational management shortcomings (Sulaiman et al., 2024), and real estate companies obtain more strategic value by emphasizing the governance and social aspect (Husain et al., 2025). In addition to regulation, the corporate policy is also being shaped by the change in consumer values towards sustainability (Zulkifli et al., 2023). Also, board-level leadership and the presence of coveted ESG awards can be used as moderating variables to increase the market valuation due to CSR-related operations (E-Vahdati et al., 2023).

## **Regulatory Policy Effectiveness**

### **Obstacles to Policy Efficacy based on Incentives**

Information asymmetries and low corporate awareness have been identified as the key factors that undercut the efficacy of fiscal instruments, including the Green Investment Tax Allowance (GITA) (Lee et al., 2023; Ariffin et al., 2023). Moreover, the fact that non-compliance is not punished reduces the element of coercion that is needed to incentivize the introduction of green tax policies (Ariffin et al., 2023). This non-enforcement implies that incentive-only forms might not be adequate to lead to system-wide industrial changes.

### **Governance Structures and the Argument of Compulsory Regulation**

On the other hand, the institutionalized frameworks such as Tax Control Governance (TCG) and cooperative compliance programs are promising in ensuring responsible fiscal conduct (Lum and Shalini, 2025). Nevertheless, the inability of voluntary self-regulation means that a significant change must probably be achieved by introducing compulsory actions (Khan and Ali, 2023). ESG principles are starting to transform the interpretative framework of taxation, which is applied and governed, even without formal legal codification (Greggi, 2024, 2025).

## **Regulatory Lapses and New Areas**

Although there is a wider governance advancement, there remain critical gaps in regulation in the renewable energy industry and social enterprises (Iwani et al., 2024; Radzi et al., 2024). Also, the concept of integrating ESG and tax considerations is underdeveloped in Islamic banking, and the models of sustainable finance are still in their early phases of development (Shahrom and Kunhibava, 2023). This underscores a major policy convergence that can be achieved later between religious-ethical approaches and secular taxation.

## **Research Design**

### **Synthesis of Key Findings**

The pillar of governance is the most powerful ESG pillar that impacts the tax results. Specifically, the board diversity and independence limit tax avoidance, which is a discovery that validates the agency theory. Equally, the social responsibility decreases tax evasion particularly in the presence of women board members, which is also consistent with the stakeholder theory. Conversely, the environmental laws have fluctuating influences,

whereas there is still underutilization of green incentives, non-compliance, penalties are mostly not in place, and the level of carbon disclosure is minimal. In the meantime, the systems of ESG disclosure have developed and evolved, but they are still uneven in jurisdictions and industries. Consequently, the regulatory policy has remained biased towards incentives as compared to enforcement and this has eventually reduced the overall consistency between ESG practices and tax outcomes. Combined, these trends imply that whereas the governance and social factors can successfully limit aggressive tax behaviour, the environmental pillar is the last to develop because of the poor design of the regulation rules and voluntary reporting standards. Unless there is greater enforcement and more stable disclosure requirements, the full promise of ESG to support responsible tax conduct, specifically using governance channels, will not be met.

### **Agreements and Divergences Across Studies**

*Consensus:* Governance promotes tax transparency; gender diversity strengthens CSR-tax compliance; green incentives are underutilized; voluntary disclosure is insufficient.

*Divergence:* Environmental regulation impacts vary; some find positive tax behaviour, others insignificant short-term effects. CEO duality and managerial ownership show mixed results.

Stakeholder perceptions of CSR-tax links differ. *Explanations:* Methodological heterogeneity, sectoral context, firm characteristics, and evolving regulatory landscape (e.g., TCG 2022).

### **Theoretical Implications**

Several theoretical frameworks help explain the relationship between ESG and tax behaviour. First, stakeholder theory suggests that ESG responsiveness extends naturally to tax obligations, meaning that firms attentive to diverse stakeholder interests are more likely to act responsibly in tax matters. Similarly, legitimacy theory holds that ESG disclosure and tax transparency jointly enhance corporate credibility, as firms seek to maintain social acceptance. In parallel, agency theory explains how governance mechanisms—such as board diversity and independence—constrain opportunistic tax behaviour by aligning managerial actions with shareholder interests. Turning to institutional theory, coercive, mimetic, and normative pressures drive the acceptance of green tax measures (Ariffin et al., 2023); however, weak enforcement significantly limits the integration of these pressures into practice. Finally, beyond formal rules, ESG principles influence tax interpretation through normative channels, shaping how tax laws are understood and applied even in the absence of codified mandates (Greggi, 2024, 2025).

### **Practical Implication**

#### **Enhance Green Tax Incentive Awareness**

The policymakers should immediately work towards creating awareness and access to green tax incentives like the Green Investment Tax Allowance (GITA). The current under-implementation is severely restricting the performance of these policies as most Malaysian companies are not aware of the incentives at their disposal and thus do not include them in their environmental policies (Lee et al., 2023; Ariffin et al., 2023). This unawareness is even more pronounced with small and medium enterprises which tend to lack dedicated teams in the field of tax or sustainability to pinpoint on relevant opportunities. To fill this gap, a multi-pronged approach is required. Through conventional and digital media publicity campaigns can be used to spread information widely. Streamlined application processes would eliminate bureaucratic processes that put off participation. Moreover, the technical support including advisory services and SME-specific workshops would facilitate the firms in navigating through the eligibility requirements and the documentation requirements. In the absence of these measures even carefully designed incentives will be ineffective in bringing about the desired effect on corporate environmental behaviour or tax planning alignment. Additionally, the fact that there are no punishments because of not complying adds to the lack of urgency among firms to make use of these incentives. Consequently, outreach and capacity-building activities should be proactive to make GITA a theoretical opportunity into a practical means of achieving meaningful environmental and tax results.

## **Introduce Environmental Tax Penalties**

The complete absence of environmental tax penalties in Malaysia reduces coercive pressures for compliance and partially explains why the environmental pillar has a weaker influence on tax outcomes compared to governance and social factors (Ariffin et al., 2023; Ibrahim et al., 2024). To address this shortfall, policymakers should introduce graduated penalties for non-compliance with environmental reporting or green investment requirements. A balanced policy mix that combines incentives (carrots) with penalties (sticks) would create stronger behavioural drivers than either approach alone. Importantly, such penalties need not be purely punitive; they could include reduced tax relief eligibility or public disclosure of non-compliance. Leveraging reputational concerns in this manner would encourage more responsible environmental and tax behaviour without imposing excessive burdens on firms.

## **Mandate ESG Disclosure Linked to Tax**

Voluntary ESG reporting allows inconsistent implementation and thus restricts the utility of the sustainability information in terms of tax governance (Khan and Ali, 2023). As a way of remedying this shortcoming, policymakers ought to require ESG reporting that explicitly connects the tax incentives and penalties and makes a clear shift away from the existing voluntary system. The introduction of standardised reporting requirements in line with the international standards like the TCFD would improve the comparability and transparency among firms (Tang, 2023; Aziz et al., 2023). Moreover, mandatory reporting would empower tax authorities to evaluate corporate tax risks related to the performance of the ESG, which would improve the overall tax governance. Notably, it would also lower the chances of symbolic ESG practices that cover aggressive tax avoidance (Hashfi, 2024). Collectively, these would turn ESG reporting into a discretionary process to a significant means of harmonizing environmental, social, and tax performances.

## **Reform Tax Treatment of Social Enterprises**

Social enterprises in Malaysia lack specific tax recognition, despite pursuing environmental and social goals that align closely with national sustainability objectives (Radzi et al., 2024). To address this gap, policymakers should introduce tailored tax exemptions or incentives for certified social enterprises, applying established tax exemption theories to justify such reform. This recognition would support the growth of organisations that combine social missions with commercial activities, thereby encouraging broader integration of ESG with tax governance. Without fiscal recognition, social enterprises remain at a competitive disadvantage, and the potential for aligning tax policy with sustainability outcomes remains unrealised. Moreover, this reform would also signal that tax compliance is valued as an integral part of social responsibility, reinforcing the message that responsible tax behaviour and social missions are mutually reinforcing rather than contradictory.

## **Adopt Integrated Management Accounting Practices**

Firms should adopt integrated management accounting practices that embed ESG considerations into strategic planning, budgeting, and performance reporting (Hamoudah, 2025). Specific tools such as sustainability cost accounting, carbon budgeting, and risk-based performance systems can significantly enhance ESG disclosure quality and strengthen internal controls over non-financial risks. In turn, these practices support tax governance improvement by ensuring that tax planning decisions are made with full awareness of their ESG implications. Moreover, such integration facilitates transparent reporting to tax authorities and stakeholders, thereby reducing the risk of aggressive tax avoidance that could undermine corporate legitimacy. These practices are particularly valuable for firms seeking to align their tax strategies with broader sustainability commitments.

## **Recognise Tax Compliance as Social Responsibility**

Tax compliance is one of the basic elements of social responsibility that should be identified by the leaders of the corporation and aligned with the broader sustainability requirements (Razali et al., 2024; Gribnau, 2025). This consistency of the environmental, social, and tax practices promotes the credibility of corporations and the confidence of stakeholders which in turn yield reputational benefits that can offset the short-term expense of tax avoidance. Firms that consider tax as part of their social licence to conduct their businesses can be in a better position to enjoy good relationship with regulators, investors and communities. To operationalise this view,

organisations need to incorporate tax ethics in business codes of conduct, board supervision roles, and executive compensation practices. It is only at this point that the importance of responsible tax behaviour will be as much stressed as the social welfare and environmental performance.

### **Train Tax Officers on ESG Considerations**

Tax authorities should provide training and guidance for tax officers on ESG considerations and their tax implications, ensuring consistent application of tax rules in ESG-relevant contexts (Greggi, 2024, 2025). As ESG principles increasingly influence business practices, tax officers must understand how environmental investments, social programmes, and governance structures affect tax liabilities, incentives, and compliance risks. Accordingly, training should cover green tax incentives, carbon pricing mechanisms, transfer pricing implications of ESG-related intangibles, and the intersection of CSR expenditures with tax deductibility rules. Enhanced capacity within tax administrations would improve enforcement effectiveness, reduce disputes, and support the integration of ESG factors into routine tax audit and compliance processes.

## **CONCLUSION**

This systematic review establishes that corporate governance mechanisms constitute the most reliable ESG aspect that has a consistent impact on the Malaysian tax outcomes. Several works show that board diversity and independence, as well as gender representation, have a significant positive impact on tax transparency, compliance, and ethical behaviour and decrease aggressive tax avoidance (Suffian et al., 2017; Lee et al., 2025). One of the strongest results in several studies is the moderating effect of the presence of women directors, which reinforces the negative relationship between CSR and tax avoidance (Razali et al., 2022; Agustina and Barokah, 2024). Tax Corporate Governance Framework (TCG) is a type of institutional innovation that clearly links tax governance to the principles of ESG, thus creating cooperative compliance (Lum & Shalini, 2025). These convergent results in quantitative, qualitative, and mixed-method studies are good evidence that governance reforms especially board composition changes are associated with tangible payoffs in terms of tax ethics and stakeholder accountability. Based on this governance basis the review next focuses on the impacts of social responsibility and environmental regulations on tax outcomes which are similar and yet different.

Following the above governance results, social responsibility initiatives are positively related to less aggressive tax avoidance and greater stakeholder trust, which is always mediated by governance structure especially board diversity. Razali et al. (2024) discovered that environmentally responsible businesses have socially responsible tax practices to preserve the credibility of stakeholders and Hashfi (2024) discovered that high ESG performance is associated with low tax avoidance, but a few firms can use ESG as a legitimising cover. Nonetheless, the perception of the stakeholders towards CSR-tax connections differs greatly among the firms, consultants, and regulators (Mustapha et al., 2023).

Going to the environmental regulation, in several studies, similar results indicate that green tax incentives like GITA induce environmental investments but have extremely low awareness and usage (Lee et al., 2023; Ariffin et al., 2023). Ibrahim et al. (2024) discovered that voluntary reporting of carbon by manufacturing companies is only 18.97% and the lack of environmental taxation incentives eliminates coercive pressure to comply (Ariffin et al., 2023). Sectoral differences always indicate that utilities lead in the environmental reporting, whereas the construction and real estate industries depict greater social and governance performance (Hashim et al., 2024; Sulaiman et al., 2024; Husain et al., 2025). Considering such differences in environmental and social performance, the question that follows is how the ESG disclosure frameworks and regulatory policies either increase or reduce ESG-tax integration.

In line with the trends provided above, ESG disclosure frameworks have improved the transparency of tax governance, yet the results of the same studies have shown that this has not been consistent because of the voluntary nature of reporting. According to Aziz et al. (2023), MCCG revisions brought a change of practice towards mandatory disclosure, but the extent and quality of tax disclosure is still low (Mgammal et al., 2018). According to Khan and Ali (2023), voluntary sustainability reporting restricts performance and making it a legal requirement should be a recommendation to enhance accountability, which directly focuses on the shortcoming of environmental regulation implementation. On the issue of regulatory policy, convergent evidence indicates

that the incentive-based policy in Malaysia whereby carrots are favoured over sticks has both positive and negative effects. The potential of cooperative compliance programmes such as TCG is promising (Lum and Shalini, 2025), but lacks penalties and enforcement mechanisms, which hinders extensive ESG-tax alignment (Iwanié et al., 2024; Radzi et al., 2024). Gregg (2024, 2025) discovered that ESG principles affect the interpretation of tax without the need to codify it, which indicates that normative pressures may take place via non-codified means. All these findings suggest that Malaysia requires mandatory disclosure, balanced incentive-penalty combinations, and enhanced enforcement to have a strong ESG-tax integration. Nonetheless, it is necessary to recognize the methodological and evidential limitations before converting such findings to concrete policy suggestions because they limit belief in the present evidence base.

To this end, this systematic review is prone to various limitations that should be taken into consideration when considering the findings mentioned above. First, the review is limited by the quality and scope of the available primary studies, most of which are based on small samples (e.g., 59 firms in Lee et al., 2023; 25 firms in Rasyad et al., 2024), which restricts the generalisation. Second, most of cross-sectional and panel regression designs limit causal inferences hence the correlations indicated among governance, social responsibility, disclosure frameworks, and tax results could not be necessarily described as causal. Third, the use of voluntarily reported ESG and tax information creates the risk of measurement bias, and incomplete carbon footprint data presents an especially serious issue (Ibrahim et al., 2024). Fourth, geographic focus on Malaysia and some of the ASEAN states restricts generalizability of results to other emerging economies. Fifth, sectoral focus bias implies that results of manufacturing, utilities, or real estate might not be generalized to the overall corporate environment. Sixth, long-term ESG effects or changes in regulations cannot be observed with short time horizons in numerous studies (Lee et al., 2023; Rasyad et al., 2024). Lastly, excessive focus on financial performance measures (ROA, the Q of Tobin) may overlook more extensive sustainability results. These limitations imply that these gaps need to be filled in future studies with longitudinal designs, larger and diverse samples, and mandatory disclosure sources of data before definite policy conclusions could be drawn.

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