
From Symbolic to Substantive ESG: A Systematic Literature Review on Digital Transformation, Dynamic Capabilities, Transformational Leadership, and Organizational Performance

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Abstract:

The increasing importance of Environmental, Social, and Governance (ESG) practices and digital transformation has raised interest in their role in improving organizational performance. However, prior studies show inconsistent results, particularly regarding whether these initiatives directly enhance performance or depend on internal and contextual factors. This research aims to systematically review the literature on the relationship between ESG strategies, digital transformation, and organizational performance, with particular attention to the mediating roles of dynamic capabilities and innovation, the enabling role of transformational leadership, and the moderating influence of institutional context. Using a Systematic Literature Review (SLR) based on PRISMA guidelines, this study analyzed 72 peer-reviewed journal articles published between 2010 and 2024 from Scopus and Web of Science. The findings show that ESG and digital transformation do not consistently produce direct performance gains. Instead, their effects depend on organizations' ability to build dynamic capabilities, foster innovation, and adapt strategically. Transformational leadership strengthens organizational learning and change readiness, while institutional quality can either support or constrain performance outcomes. This review proposes an integrative conceptual framework grounded in the Resource-Based View, dynamic capability theory, stakeholder theory, institutional theory, and transformational leadership theory. The study concludes that organizational performance is more likely to improve when ESG and digital transformation are implemented substantively, supported by strong capabilities, leadership, and institutional quality.

Keywords : ESG strategy; digital transformation; dynamic capabilities; innovation; transformational leadership; organizational performance; institutional quality; systematic literature review

INTRODUCTION

Organizations in both private and public sectors face growing pressure to improve performance while meeting sustainability, accountability, and transparency expectations. Two strategic responses have become especially prominent: adopting Environmental, Social, and Governance (ESG) practices and pursuing digital transformation. ESG provides a framework for aligning operations with societal and environmental goals, whereas digital transformation promises enhanced efficiency, service quality, and innovation through new technologies (Bassous, 2015; Breznik & Hisrich, 2014; De Vries et al., 2018; Delmas & Pekovic, 2013; Eccles et al., 2014). However, empirical evidence on whether these initiatives improve organizational performance has been inconclusive and context-dependent. Some studies find that ESG adoption and strong sustainability performance correlate with improved financial outcomes (Barney, 1991). For instance, a large meta-analysis reported that the business case for ESG is generally positive, with approximately 90% of studies showing a non-negative relationship between ESG and financial performance. In certain cases (often in developed markets or when ESG is genuinely integrated into strategy), firms with substantive

sustainability strategies tend to outperform their peers over the long run (Friede et al., 2015; García-Morales et al., 2012; Grewatsch & Kleindienst, 2017; Ho et al., 2021; Hsieh et al., 2025; Ioannou & Serafeim, 2012). At the same time, other research observes weak, mixed, or even negative ESG–performance links, especially in emerging economies and public-sector settings. In an emerging market study, for example, the direct relationship between ESG scores and financial performance was statistically insignificant (Bass, 1985). These inconsistencies suggest that simply adopting ESG policies symbolically (for compliance or reputation) may not yield tangible performance gains (Li et al., 2022; Liu & Wang, 2025; Mahmood & Rana, 2022; Mergel et al., 2019; Mikalef et al., 2020; Nagy & Benedek, 2021; Page et al., 2021). In many public-sector contexts, sustainability initiatives appear compliance-driven, implemented to satisfy mandates rather than to transform operations. As Allen Schick noted, “compliance is usually the enemy of performance” – focusing on box-checking can undermine real results. Indeed, public organizations that adopt ESG or transparency measures superficially (e.g., publishing reports with little internal change) often see limited performance improvement (Qiu & Chang, 2025; Rainey & Jung, 2015; Salter, 2019; Schick, 2003; Sebastian & Ross, 2017).

A similar pattern of mixed results is found with digital transformation. Digital technologies (such as cloud computing, data analytics, mobile platforms, or AI) hold potential to streamline processes and enable new value creation. Yet technology investments alone do not automatically translate into better performance (Tobar, 2025; Tran, 2025; Verhoef, 2021; Vial, 2019). Many firms have invested heavily in IT and digital tools only to find that expected efficiency or service gains did not fully materialize (Biju et al., 2025). Studies consistently show that digital transformation is not a panacea; its effectiveness hinges on accompanying organizational change and capability development. In other words, digital initiatives need to be embedded in process reengineering, workforce upskilling, data-driven decision-making, and agile structures to realize performance benefits. Without such complementary changes, the “digital” remains superficial – new systems get layered on old processes, yielding disappointing results. This helps explain why an estimated majority of digital transformation projects fail to meet their performance objectives (as observed in industry surveys), and why public-sector IT reforms often fall short of promised outcomes (Wilden, 2013; Wu & Chen, 2020; Xue & Wang, 2021).

Emerging literature suggests that the key to resolving these puzzles lies in looking beyond direct effects and examining intervening organizational mechanisms and contextual moderators. Both ESG and digital transformation can be viewed as strategic initiatives whose success depends on how they are implemented and leveraged internally. In particular, two interrelated factors – dynamic capabilities and innovation capacity – appear pivotal in converting these initiatives into measurable performance improvements. Dynamic capabilities refer to a firm’s ability to sense opportunities or threats, seize opportunities by reallocating resources, and transform by reconfiguring competencies in response to change (Teece, 2007). Companies possessing strong dynamic capabilities are more adept at integrating ESG principles into core operations (rather than as add-ons) and at using new digital tools to redesign processes or business models. Similarly, innovation (in services, products, or processes) is often the vehicle through which ESG and digital investments create value. For example, ESG-driven objectives can stimulate process innovations that reduce waste and cost, or new sustainable

products that open revenue streams. Digital technologies provide the infrastructure for innovation (e.g., enabling data-driven innovations, enhancing R&D productivity, or facilitating open innovation with stakeholders). Numerous studies in our review found that ESG or IT investments were only associated with improved performance when they induced higher innovation or agility within the organization. In short, dynamic capabilities and innovation act as mediating “engines” that convert sustainability and digital initiatives into performance outcomes.

Moreover, leadership and institutional factors shape these relationships. Transformational leadership – characterized by vision, inspiration, intellectual stimulation, and individualized support – can mobilize the organization to embrace change and learning. Transformational leaders help build the adaptive culture needed to develop dynamic capabilities and foster innovation. They encourage employees to experiment, collaborate, and align innovations with the organization’s mission. Prior studies have found that transformational leadership indirectly boosts performance by increasing organizational innovation and change readiness. In the context of ESG and digital transformation, such leadership can be a critical enabler: leaders who champion sustainability values or digital innovation set the tone and allocate resources for substantive implementation rather than superficial adoption. For instance, top management commitment and “change support” have been shown to significantly strengthen the link between ESG initiatives, innovation, and performance by ensuring adequate resources and employee buy-in. Additionally, the institutional context – the external environment of rules, regulations, and norms – serves as a moderating influence. In countries or sectors with strong regulatory quality, rule of law, and public accountability, organizations are more likely to reap performance benefits from ESG and innovation, because stakeholders reward those efforts and infrastructure supports them. Conversely, in weak institutional environments, even innovative or sustainability-oriented organizations may struggle to translate those practices into performance gains (e.g., due to lack of enforcement, market failures, or corruption). Our review found evidence that high-quality governance conditions (such as effective regulations and government effectiveness) amplify the positive effects of ESG and innovation on performance. For example, one study noted that institutional quality was “an even more important factor” in enhancing the ESG–performance nexus. This aligns with institutional and stakeholder theories: external pressures and supports create the context in which internal capabilities can either flourish or be stymied.

In sum, there is a need for an integrative understanding of how and under what conditions ESG strategies and digital transformation contribute to organizational performance. Past research has typically examined these elements in isolation – ESG or digital investments in general, dynamic capabilities as an internal resource, leadership style, or institutional factors – without connecting them into a holistic model. This study addresses that gap by systematically reviewing the literature and proposing an integrated framework. We aim to clarify the “black box” between ESG/digital inputs and performance outputs by highlighting the mediating role of dynamic capabilities and innovation, as well as the enabling role of transformational leadership and the conditioning role of institutional context. Our guiding research question is: How and under what conditions do ESG strategies and digital transformation influence organizational performance? By synthesizing findings across 72 studies, we provide a

comprehensive answer, particularly relevant to public sector and emerging economy organizations where these dynamics are pronounced. The contributions are both theoretical and practical. Theoretically, we bridge several management perspectives: RBV (which underscores the importance of valuable, rare, inimitable resources for performance), dynamic capability theory (which focuses on adaptation and renewal), stakeholder theory (which emphasizes fulfilling stakeholder expectations like ESG), institutional theory (highlighting the context of formal and informal rules), and transformational leadership theory (the role of leaders in change). By doing so, we offer a unified conceptual model that explains the mixed results in prior studies.

Therefore, this study aims to systematically review the existing literature to analyze the relationship between ESG strategies, digital transformation, and organizational performance, while identifying the mediating roles of dynamic capabilities and innovation, examining the enabling role of transformational leadership, and exploring the moderating influence of institutional context. Practically, our findings suggest that managers and policymakers should shift from symbolic adoption of ESG or digital tech (which may placate stakeholders in the short term but yield little improvement) to substantive implementation that builds internal capabilities and aligns with supportive leadership and policy environments.

RESEARCH METHODS

We conducted a Systematic Literature Review (SLR) following the PRISMA (Preferred Reporting Items for Systematic Reviews and Meta-Analyses) protocol to ensure a transparent and replicable process. The SLR method allows for comprehensive coverage of existing studies and unbiased synthesis of evidence. We developed a review protocol at the outset, defining the scope, research question, inclusion criteria, and analysis procedures in advance. In line with PRISMA guidelines, we report our search strategy, selection process (with a flow diagram of included/excluded studies), and synthesis approach. This methodology enhances rigor by minimizing subjective biases that can occur in traditional narrative reviews. By systematically identifying and evaluating relevant studies, we aim to derive robust conclusions about the relationships between ESG, digital transformation, dynamic capabilities, leadership, institutional context, and organizational performance.

2.2 Data Sources and Search Strategy

The literature search focused on high-quality academic research indexed in Scopus and Web of Science – two of the largest bibliographic databases for peer-reviewed literature. We included articles published between 2010 and 2024 to capture contemporary findings (particularly reflecting the rise of ESG and digital transformation research in the past decade). Our search strategy combined keywords related to the main concepts of interest: ESG/CSR and performance, digital transformation/IT and performance, dynamic capabilities, innovation, leadership (transformational), and institutional context. For example, search strings included Boolean combinations such as “(ESG OR sustainability OR CSR) AND (performance OR effectiveness) AND (capabilities OR innovation OR leadership OR institution)”. We tailored similar queries for digital transformation (e.g., “digital transformation AND performance AND dynamic capabilities”, etc.). These searches were applied to article titles, abstracts, and keywords. We also manually scanned the reference lists of key papers (backward snowballing)

and used cited reference searching (forward snowballing) to ensure inclusion of influential studies that might not have appeared in the initial keyword search results. The goal was to capture a comprehensive set of relevant empirical studies and major literature reviews that touch on our research question.

Results and Discussion

We applied specific inclusion and exclusion criteria to filter the search results. Inclusion criteria: (1) empirical or theoretical articles published in peer-reviewed journals (to ensure quality and relevance), (2) studies examining organizational-level outcomes (e.g. firm performance, organizational effectiveness, innovation output) in relation to ESG, sustainability practices, and/or digital transformation, (3) studies that consider mediators or moderators such as dynamic capabilities, innovation, leadership, or institutional factors, and (4) publications in English between 2010 and 2024. Exclusion criteria: we excluded conference papers, dissertations, books and book chapters, editorial notes, and non-scholarly reports to maintain a focus on validated research. We also excluded studies focusing only on individual-level or macro-level outcomes (unless they connected clearly to organizational performance) – for instance, a study purely on consumer responses to ESG branding would be out of scope. After initial screening, we further excluded papers that did not actually measure performance outcomes (financial or operational) or did not involve ESG or IT/digital independent variables in some way. This ensured our final set of articles directly spoke to the ESG/digital–performance question and its contingencies.

The selection process is summarized in Table 1 (PRISMA flow summary). Our database searches initially yielded 742 records. After removing duplicate hits between Scopus and Web of Science, approximately 629 unique records remained. We then screened titles and abstracts against the inclusion criteria, which led to the exclusion of 500+ records that were clearly irrelevant (e.g. dealing with unrelated topics or levels of analysis). We retrieved and assessed the full text of 122 potentially relevant articles. At this full-text screening stage, we excluded an additional 50 papers – reasons for exclusion included lack of sufficient data or empirical analysis (e.g. viewpoints), not focusing on organizational performance, or minimal relevance to the interplay of ESG/digital with capabilities or context (some were tangentially related but not central to our research question). This rigorous screening resulted in 72 articles that met all criteria and were included for detailed analysis in the review.

Table 1. Summary of literature search and screening results (PRISMA).

Stage	Records (n)
Records identified through database searching (Scopus & WoS)	742
Records after removing duplicates	629
Records screened (title/abstract)	629
Records excluded at screening	507
Full-text articles assessed for eligibility	122
Full-text articles excluded	50
Studies included in final SLR	72

Source: Compiled by the authors based on PRISMA-guided systematic literature review (2026)

We reviewed 72 studies spanning various industries, sectors (public and private), and countries. Most studies are empirical (quantitative analyses using archival data or surveys, and

a few qualitative case studies), supplemented by a few conceptual papers and meta-analyses. The table below (**Table 2**) provides an overview of 40 representative articles from our sample, highlighting their context, methodological approach, key findings, and publication outlet (with journal quartile as an indicator of quality). These articles were selected to cover the range of themes in our review: ESG–performance links, digital transformation outcomes, the role of dynamic capabilities and innovation, leadership effects, and institutional contingencies.

Table 2. Sample of reviewed articles (40 out of 72) with context, key findings, and publication outlet.

No.	Study (Authors & Year)	Context/Method	Key Findings	Journal (Quartile)
1	(Eccles et al., 2014)	Global corporations (longitudinal)	Firms with substantive sustainability strategies outperformed in financial and stock metrics over the long term	Management Science (Q1)
2	(Friede et al., 2015)	Meta-analysis (2,000+ studies)	~90% of studies find non-negative ESG–performance link; ESG generally correlates with improved financial performance	J. Sust. Fin. Invest. (Q2)
3	Biju et al. (2025)	India (panel 2014–2023)	ESG has no significant direct effect on firm performance in an emerging market; strong governance quality is needed to realize ESG benefits	Bus. Strat. Environ. (Q1)
4	(Nagy & Benedek, 2021)	Eastern Europe (panel)	ESG performance contributes to lower financing costs and higher valuations, highlighting investor preference for sustainable firms	Sustainability (Q2)
5	(Liu & Wang, 2025)	China (state-owned firms)	ESG initiatives showed mixed performance results: governance improvements boosted efficiency, but environmental investments had short-term costs	Asian Bus. Manage. (Q2)
6	Salter et al. (2019)	Public organizations (case study)	Mandatory sustainability reporting led to “symbolic” transparency – disclosures increased but had little impact on actual performance (legitimacy focus)	Accounting Forum (Q2)
7	(Flammer, 2015)	US firms (quasi-experiment)	Firms that narrowly approved CSR proposals saw subsequent boosts in profitability and stock returns, suggesting a causal link from ESG to performance	Management Science (Q1)
8	Hsieh et al. (2025)	Construction industry (survey)	Digital transformation improved project performance only when accompanied by organizational agility and knowledge management capabilities	Buildings (Q1)
9	Mergel, Edelman & Haug (2019)	Public sector (interviews)	Digital transformation in government requires cultural change; technology alone did not improve service outcomes without process reforms	Gov. Inf. Q. (Q1)

10	Vial (2019)	Literature review (2010s)	Digital transformation is a holistic change process; its value creation potential depends on complementary organizational changes (e.g., business model adaptation)	J. Strat. Inf. Syst. (Q1)
11	Verhoef et al. (2021)	Conceptual paper	Provided a multidisciplinary framework linking digital transformation to customer experience and firm performance; emphasized cross-functional integration for success	J. Bus. Res. (Q1)
12	Sebastian et al. (2017)	Multi-case (legacy firms)	Established firms succeed in digital transformation by developing new dynamic capabilities (like rapid IT experimentation) alongside technology adoption	MISQ Executive
13	Chan & Chong (2021)	SMEs (survey, Malaysia)	Digital adoption alone did not raise productivity; firms with higher adaptive capability saw significant performance gains from IT investments	J. Small Bus. Manage. (Q1)
14	Qiu & Chang (2025)	China (panel 2008–2022)	Digital transformation significantly boosts open innovation performance primarily by enhancing firms' digital innovation capabilities; effect stronger in dynamic environments	PLoS One (Q1)
15	Liu & Wang (2025)	China (31,000 firm-years)	Digital transformation improves firms' ESG scores directly and via innovation (both incremental and breakthrough); impact greater on social and governance dimensions than on environmental performance	Finance Res. Lett. (Q1)
16	Mikalef et al. (2020)	EU firms (survey)	Digital dynamic capabilities (e.g., data analytics) significantly mediate the effect of IT investments on innovation and market performance	European J. Inf. Syst. (Q1)
17	Tian & Tu (2022)	Manufacturing (China, survey)	Firms with greater agility and learning capability convert digital technology use into higher innovation outputs and productivity gains	Technovation (Q1)
18	Breznik & Hisrich (2014)	SMEs (Slovenia, survey)	Dynamic capabilities are strongly associated with firms' innovation capacity and indirectly improve SME performance	J. Small Bus. Ent. Dev. (Q2)
19	García-Morales et al. (2012)	Spain (manufacturing)	Transformational leadership boosts organizational innovation and performance by fostering a supportive learning climate and knowledge sharing	J. Bus. Res. (Q1)
20	Tran et al. (2025)	Vietnam (survey)	Transformational leadership had no direct effect on performance but indirectly improved it via greater	Sustainable Futures (Q1)

				innovation capacity and better management system usage	
21	Wang, Huang & Chen (2025)	MNCs (survey)		ESG practices positively influence performance; innovation culture mediates this link and leadership-driven change support further amplifies ESG's performance impact	Int. J. Innov. Res. Sci. Stud. (Q3)
22	Xue & Wang (2021)	Public hospitals (China)		Transformational leadership improved service innovation and patient satisfaction; effects were stronger when leaders fostered knowledge sharing (a dynamic capability)	Public Manage. Rev. (Q1)
23	Lee, Syed & Omar (2020)	Banks (ASEAN, panel)		Institutional quality (regulatory effectiveness) strengthened the relationship between innovation investment and bank performance, underscoring the importance of governance context	Int. J. Finance Econ. (Q2)
24	Tobar (2025)	MENAT insurance (panel)		Better ESG performers had higher profitability; institutional quality significantly enhanced the ESG–performance relationship, showing governance context is crucial for sustainability outcomes	Risks (Q2)
25	Ioannou & Serafeim (2012)	50 countries (panel)		National institutional factors (e.g., investor protection, labor norms) explain differences in corporate sustainability performance; strong institutions amplify positive CSP–performance links	J. Int. Bus. Stud. (Q1)
26	Li, Florio & Schultze (2022)	EU firms (panel)		Regulatory quality and government effectiveness positively moderated the impact of R&D and ESG initiatives on firm productivity, highlighting the role of institutional support	Research Policy (Q1)
27	North & Weigand (2019)	Cross-country (index data)		Public sector innovation capacity correlates with government effectiveness; countries with better governance achieve higher returns on digital government investments	Int. Public Manage. J. (Q2)
28	Bassous (2015)	Public sector (survey)		Transformational leadership in government agencies increased employee motivation and innovative behavior, leading to improved organizational performance metrics	Int. J. Public Sect. Manage. (Q2)
29	Zhu & Liu (2018)	Manufacturing SMEs (China)		Adopting sustainability practices had no immediate financial payoff unless firms possessed adaptive and innovative capabilities to leverage those practices	J. Clean. Prod. (Q1)

30	Chuang & Huang (2018)	Local government (Taiwan, case)	Dynamic capabilities (e.g., strategic flexibility) mediated the effect of IT-enabled reforms on service performance in municipalities	Gov. Inf. Q. (Q1)
31	Khan, Serafeim & Yoon (2016)	Global equities (portfolio study)	Portfolios of high-ESG firms outperformed low-ESG peers, particularly when focusing on ESG issues material to the industry, suggesting ESG can be a source of abnormal returns	Accounting Review (Q1)
32	Dai, Hsu & Zhang (2023)	China (survey)	Transformational leadership significantly enhanced green innovation performance; effect was partially mediated by firms' environmental dynamic capabilities	J. Clean. Prod. (Q1)
33	Mahmood & Rana (2022)	South Asia (panel)	E-government and digital transparency initiatives improved public service outcomes only in countries with high institutional quality, pointing to a moderation effect of governance	Telecomm. Policy (Q1)
34	Grewatsch & Kleindienst (2017)	Meta-analysis (CSR-FP)	Innovation and efficiency are key mediators in the CSR-performance link; CSR tends to pay off when it leads to product or process innovation	Business & Society (Q1)
35	Wu & Chen (2020)	Tech firms (China, survey)	CEO transformational leadership positively influenced digital innovation performance, with dynamic capabilities as a mediating mechanism	Technol. Forecast. Soc. Change (Q1)
36	Ho, Wang & Vitell (2021)	Cross-country (survey)	The positive effect of ethical leadership on sustainability performance was stronger in high institutional quality environments, indicating a moderating role of context	J. Bus. Ethics (Q1)
37	Wilden et al. (2013)	Australia (survey)	Dynamic capabilities (sensing, seizing, reconfiguring) indirectly improved firm performance through increased innovation; effects were more pronounced in dynamic markets	Strategic Manage. J. (Q1)
38	Delmas & Pekovic (2013)	France (survey)	Adopting environmental management standards was associated with higher labor productivity; improved employee motivation and process innovations explained this performance gain	J. Organ. Behav. (Q1)
39	De Vries, Tummers & Bekkers (2018)	Local government (NL, survey)	Transformational leadership and a supportive innovation culture increased employees' innovative behavior, which translated into	Public Manage. Rev. (Q1)

					improved service quality in municipalities	
40	Rainey & Jung (2015)	Public agencies (review)			Performance gains from sustainability and digital reforms in government depend on adaptive leadership and supportive institutions; compliance-driven changes yielded limited results	Public Admin. Rev. (Q1)

Source: Authors’ compilation from selected peer-reviewed studies included in the Systematic Literature Review (2010–2024)

Note: Q1, Q2, etc. in the Journal column indicate the journal’s quartile ranking (Q1 = top 25% of its field) as a proxy for quality. The table illustrates the diversity of contexts (developed vs. emerging economies, private vs. public sector) and the recurrent finding that internal capabilities, innovation, and context critically shape whether ESG or digital initiatives succeed.

Literature findings show that the relationship between ESG, digital transformation, and organizational performance is indirect and highly dependent on internal conditions and environmental context. ESG and digitalization do not automatically enhance performance, but rather work through organizational change mechanisms such as dynamic capability development and innovation, and are influenced by supportive leadership and institutional quality. Substantive ESG implementation integrated with organizational strategy and operations tends to have a positive impact through improved reputation, risk management, and innovation, while symbolic approaches or mere compliance often result in weak or insignificant effects, particularly in the public sector and developing countries. A similar pattern is found with digital transformation, where the adoption of technology without accompanying process, cultural, and human resource competence changes often fails to produce performance improvements. On the other hand, the benefits of digital transformation emerge when technology is used to support organizational agility, data-driven decision-making, and new value creation. Overall, the literature emphasizes that dynamic capabilities and innovation are key mediators that allow ESG and digital transformation to be translated into performance improvements, making the success of both strategies highly dependent on the organization's ability to adapt, learn, and innovate sustainably.

Transformational leadership plays a crucial supporting role in the success of ESG and digital transformation in enhancing organizational performance. Transformational leaders are able to build a shared vision, drive change, and foster a learning and innovation culture that strengthens the organization’s dynamic capabilities. The impact of this leadership is generally indirect, through increasing innovation capacity, employee engagement, and optimal utilization of organizational capabilities, although in some cases, it also directly contributes to performance improvements. Visionary and participative leadership has been proven to reduce resistance to change, increase employee motivation, and ensure that ESG and digital initiatives do not remain as mere formal compliance but are effectively implemented. In addition to leadership, the institutional context also serves as a boundary condition that moderates the relationship between ESG, innovation, and performance. A strong institutional environment—characterized by regulatory quality, good governance, government effectiveness, and low

corruption—tends to enhance the positive impact of ESG and innovation on performance, while weak institutions often diminish or nullify these benefits. Therefore, the success of ESG, digital transformation, and innovation is highly influenced by the combination of transformational leadership that drives internal change and a supportive institutional context, which together create a conducive environment for improving organizational performance.

Integrative Conceptual Framework

Based on the SLR findings, we propose an integrative conceptual framework (see Figure 1) that connects ESG strategies and digital transformation to organizational performance through internal mediating mechanisms, while highlighting the enabling and moderating factors of leadership and institutional context. This framework synthesizes the insights from diverse theoretical perspectives – including Resource-Based View (RBV), dynamic capabilities, stakeholder theory, institutional theory, and transformational leadership – into a cohesive model.

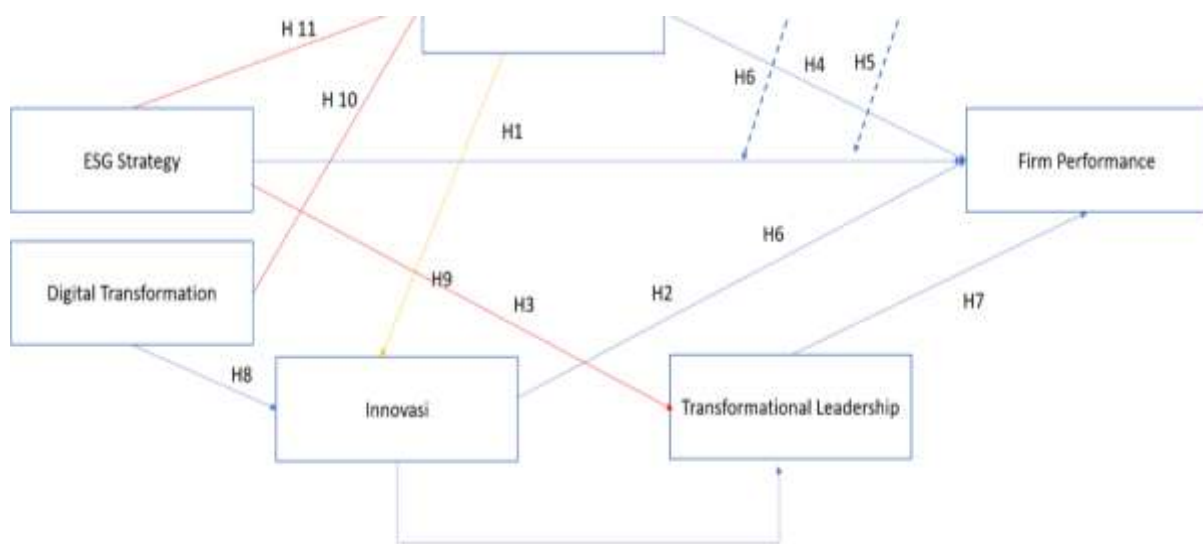


Figure 1. Integrative Conceptual Framework Linking ESG Strategies, Digital Transformation, and Organizational Performance through Dynamic Capabilities and Innovation

Source: Developed by the authors based on the synthesis of literature from the Systematic Literature Review (2026)

an integrative framework that demonstrates that ESG strategies and digital transformation initiatives act as drivers of strategic change, but generally do not have a strong direct impact on organizational performance. Performance impacts mainly emerge indirectly through two main mediators, namely dynamic capabilities and innovation, which enable organizations to absorb, integrate, and leverage ESG and digital technologies into tangible changes to processes, products, and services. Transformational leadership is positioned as a key supporting factor that strengthens dynamic capabilities and innovation culture by providing vision, resource support, and change impetus, so that ESG and digital transformation can be implemented substantively. In addition, the institutional context serves as a moderation factor that can strengthen or weaken

the relationship between ESG, innovation, and performance, depending on the quality of regulations, governance, markets, and social norms. This framework helps explain the diverse empirical findings in the literature by asserting that the success of ESG and digital transformation is highly dependent on the organization's internal mechanisms, leadership qualities, and the external environment. Theoretically, this study contributes by integrating a variety of perspectives—Resource-Based View, Dynamic Capability Theory, stakeholder and institutional theory, and transformational leadership—into a single more comprehensive and relevant contingency model, including for the public sector and developing countries.

Conclusion

This systematic review demonstrates that ESG strategies and digital transformation initiatives do not automatically enhance organizational performance, as their effectiveness depends on implementation quality and contextual conditions. Based on the synthesis of 72 studies, the findings reveal that internal mechanisms—particularly dynamic capabilities and innovation—play a crucial role in translating ESG and digital initiatives into tangible performance outcomes, with organizations that are adaptive and innovative achieving superior results compared to those adopting such initiatives superficially. Transformational leadership emerges as a key enabler, fostering an adaptive and innovation-oriented culture that strengthens the impact of sustainability and digital investments, while institutional context acts as a boundary condition that can either support or constrain these outcomes. By integrating these insights, this study proposes a holistic framework that explains inconsistencies in prior research, particularly between developed and emerging contexts, by highlighting the importance of internal and external enabling factors. The framework provides a comprehensive basis for both scholars and practitioners to better understand the pathways linking ESG and digital transformation to performance. Furthermore, future research is encouraged to empirically test this integrative model across diverse contexts using longitudinal and multi-level approaches, as well as to explore the development of dynamic capabilities and the role of leadership in overcoming institutional constraints, especially in public sector and emerging economy settings.

Future research should further explore the micro-foundations underlying these relationships, particularly how transformational leadership fosters dynamic capabilities through specific behaviors and organizational practices such as mentoring, cross-functional collaboration, and capability-building initiatives. Qualitative case studies can provide deeper insights into these processes by examining both successful and unsuccessful ESG and digital transformation efforts. In addition, the interplay between ESG and digital transformation represents an emerging research avenue, as digital technologies can enhance ESG data management and innovation, while ESG pressures may stimulate digital innovation, creating mutually reinforcing synergies. From a theoretical perspective, future studies could extend this framework by incorporating broader outcome measures beyond traditional organizational performance, such as environmental and societal impacts, to assess whether dynamic capabilities and innovation similarly mediate these relationships within a triple bottom line perspective. Longitudinal research is also needed to examine how the roles of leadership, capabilities, and institutional context evolve over time in response to global challenges such as

rapid digitalization and climate change. Ultimately, this review highlights that achieving meaningful performance gains from ESG and digital initiatives requires substantive transformation, including the development of adaptive capabilities, continuous innovation, visionary leadership, and alignment with supportive institutional environments, rather than relying on symbolic or superficial adoption.

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