



SUSTAINABLE FAR FRAMEWORK: EMBEDDING ESG INTO TRANSFER PRICING GOVERNANCE FOR SUPPLY CHAIN RESILIENCE

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ABSTRACT

Global disruptions ranging from pandemics and geopolitical conflicts to climate-related crises have exposed structural vulnerabilities in global value chains and challenged the adequacy of conventional fiscal governance frameworks. In parallel, international tax reforms increasingly emphasize transparency, economic substance, and alignment between profit allocation and real value creation. However, traditional Functions-Assets-Risks (FAR) analysis within transfer pricing governance remains predominantly financial and transactional, providing limited recognition of sustainability performance and organizational resilience as substantive drivers of corporate value. This study reconceptualizes the traditional FAR framework by integrating Environmental, Social, and Governance (ESG) dimensions and Supply Chain Resilience (SCR) into the assessment of economic substance in transfer pricing governance. Adopting a qualitative conceptual approach through an Integrative Literature Review (ILR), the study synthesizes insights from Stakeholder Theory, Resource-Based View (RBV), and Dynamic Capabilities Theory to develop a multidimensional governance framework linking sustainability, resilience, and fiscal transparency. The study argues that sustainable functions (e.g., green logistics and ethical sourcing), ESG-related assets (e.g., carbon credits, renewable technologies, and social capital), and resilience-oriented risks (e.g., climate disruption and supply-chain instability) constitute essential components of sustainable substance within multinational enterprises (MNEs). Accordingly, the framework extends the OECD principle that “profits follow functions, assets, and risks” toward a broader governance logic in which profits increasingly reflect sustainability performance, adaptive capability, and institutional legitimacy. The proposed Sustainable FAR Framework contributes to the emerging discourse on Sustainable Tax Governance by offering policymakers and tax authorities a conceptual tool for integrating ESG and resilience indicators into risk-based transfer pricing oversight. The framework is particularly relevant for emerging economies, including Indonesia, where sustainability disclosure, carbon governance, and substance-based tax compliance are becoming increasingly interconnected.

Keywords: ESG; Transfer Pricing; Supply Chain Resilience; Sustainable Tax Governance; FAR Analysis

JEL Classification: H26, H25, F23, M14, Q56



1. INTRODUCTION

Global value chains have become increasingly complex, interconnected, and vulnerable to systemic disruptions. Events such as the COVID-19 pandemic, geopolitical tensions including the Russia–Ukraine conflict, and climate-related crises have exposed structural fragilities within global production and distribution networks, intensifying the need for organizational resilience and sustainable governance mechanisms (Ivanov & Dolgui, 2020; Sheffi, 2020). At the same time, international tax regimes have undergone significant transformation through initiatives such as the OECD’s Base Erosion and Profit Shifting (BEPS) framework, global minimum taxation, and enhanced transparency standards, all of which emphasize that profits should align with genuine economic substance and real value creation (OECD, 2022).

Despite these developments, conventional Functions–Assets–Risks (FAR) analysis within transfer pricing (TP) governance remains predominantly transactional and financial in orientation. Existing FAR frameworks primarily assess operational functions, tangible and intangible assets, and contractual risk allocation, while providing limited recognition of sustainability performance, organizational resilience, and stakeholder-oriented governance as substantive drivers of corporate value creation. Consequently, current transfer-pricing approaches may inadequately capture how multinational enterprises (MNEs) generate and sustain value in an increasingly sustainability-driven and disruption-prone global economy.

This limitation has become increasingly significant as regulatory and institutional frameworks progressively converge toward sustainability-oriented disclosure and governance standards. International initiatives such as IFRS S1/S2 and the European Union Corporate Sustainability Reporting Directive (EU CSRD), together with national frameworks including Indonesia’s POJK 51/2017, institutionalize ESG disclosure as a core dimension of corporate accountability. Simultaneously, sustainability-related policies such as carbon pricing mechanisms and climate governance frameworks further integrate environmental and social considerations into corporate strategic decision-making. These developments indicate that non-financial dimensions are no longer peripheral to governance structures but increasingly shape corporate legitimacy, operational continuity, and long-term value creation.

However, the intersection between transfer pricing governance, ESG accountability, and Supply Chain Resilience (SCR) remains underexplored in existing literature. Prior transfer-pricing studies predominantly focus on regulatory compliance and arm's-length pricing mechanisms, while ESG research emphasizes ethical governance and sustainability disclosure without sufficiently addressing fiscal implications. Similarly, SCR literature largely concentrates on operational continuity and risk management rather than tax governance and economic substance assessment. This fragmentation creates a conceptual gap in understanding how sustainability capabilities and resilience-oriented risk management contribute to substantive value creation within multinational enterprises.

In response to this gap, this study proposes the Sustainable FAR Framework, which reconceptualizes the traditional FAR model by integrating ESG dimensions and SCR into transfer-pricing governance. The framework introduces the concept of sustainable substance, whereby profit attribution reflects not only economic activity but also sustainability performance, adaptive capability, and governance legitimacy. By embedding sustainability and resilience considerations into FAR analysis, the study seeks to extend the conventional OECD principle that “profits follow functions, assets, and risks” toward a broader governance perspective aligned with contemporary sustainability expectations.

Accordingly, this study addresses the following research question: How can ESG and Supply Chain Resilience (SCR) dimensions be embedded within the FAR framework to strengthen sustainable transfer-pricing governance and fiscal accountability?

The study aims to develop a multidimensional conceptual framework linking ESG performance, supply-chain resilience, and transfer-pricing documentation in order to enhance fiscal transparency, sustainable compliance, and substance-based governance.

Indonesia provides a particularly relevant institutional context for this discussion. The Indonesian Directorate General of Taxes (DJP) has increasingly adopted risk-based compliance mechanisms through Compliance Risk Management for Transfer Pricing (CRM-TP), while PMK 172/2023 reinforces FAR-based documentation and the principle of substance over form. In parallel, POJK 51/2017 institutionalizes sustainability disclosure obligations, and Presidential Regulation (Perpres) 98/2021 establishes the foundation for carbon economic value and climate-related



governance mechanisms. Nevertheless, most transfer-pricing documentation practices remain largely detached from sustainability and resilience considerations. This institutional convergence highlights the growing need for an integrated governance framework capable of aligning fiscal accountability with sustainability-oriented corporate practices.

2. LITERATURE REVIEW

2.1 Transfer Pricing Governance and FAR

Transfer pricing (TP) governance is fundamentally grounded in the arm's-length principle (ALP), which requires intra-group transactions within multinational enterprises (MNEs) to reflect conditions that would prevail between independent parties under comparable circumstances. Within this framework, the Functions–Assets–Risks (FAR) analysis serves as the central mechanism for determining how economic substance and value creation are distributed across affiliated entities. FAR operationalizes the ALP by evaluating the substantive economic contributions performed by each entity through its functional activities, ownership and deployment of assets, and assumption of risks (OECD, 2022).

Recent developments in international taxation have progressively shifted TP governance from a purely compliance-oriented exercise toward a broader transparency- and substance-oriented governance regime. Under the OECD's BEPS initiatives, tax authorities increasingly rely on risk-based analytical approaches, data-driven compliance monitoring, and substance-over-form assessments to evaluate whether profit allocation accurately reflects underlying economic activity (OECD, 2021). Consequently, transfer pricing documentation has evolved beyond technical benchmarking into an instrument of fiscal accountability and governance legitimacy.

Despite these developments, conventional FAR analysis remains predominantly transactional and financially oriented. Existing TP frameworks largely emphasize contractual arrangements, operational functions, and financial risk allocation while providing limited recognition of sustainability-oriented activities, organizational resilience, and stakeholder-based governance as substantive drivers of corporate value creation. Such limitations have become increasingly problematic in contemporary business environments characterized by climate uncertainty, geopolitical instability, supply-chain disruption, and heightened ESG scrutiny. As a

result, current FAR-based approaches may inadequately capture the multidimensional nature of economic substance within modern multinational enterprises (Swain & Bilaney, 2022; Oats & Tuck, 2019).

This limitation suggests that traditional FAR analysis no longer fully reflects how firms create, preserve, and sustain value in the contemporary global economy. In particular, sustainability capabilities, resilience infrastructures, and ESG-oriented governance mechanisms increasingly influence operational continuity, reputational legitimacy, and long-term profitability. Accordingly, extending FAR analysis beyond purely financial considerations becomes essential for aligning transfer pricing governance with evolving international expectations regarding transparency, sustainability, and responsible corporate conduct.

2.2 Sustainable Tax Governance

The growing emphasis on sustainability and corporate accountability has stimulated the emergence of Sustainable Tax Governance as an evolving paradigm within fiscal and corporate governance literature. Unlike traditional tax governance models, which primarily focus on legal compliance and revenue protection, Sustainable Tax Governance conceptualizes taxation as part of a broader system of ethical accountability, stakeholder responsibility, and institutional legitimacy.

Prior studies demonstrate that fiscal transparency increasingly shapes corporate reputation and stakeholder trust. Oats and Tuck (2019) argue that taxation should be viewed not merely as a technical compliance obligation but as a reflection of corporate ethics and social responsibility. Similarly, Christensen et al. (2017) show that transparency in financial and non-financial reporting influences stakeholder perceptions regarding the legitimacy of corporate tax behavior. Within this perspective, aggressive tax planning may generate short-term financial gains but simultaneously erode public trust, institutional credibility, and long-term corporate legitimacy.

This perspective aligns with broader governance debates emphasizing that corporations are accountable not only to shareholders but also to governments, communities, employees, and other stakeholders affected by corporate activities. Consequently, paying a fair and transparent share of tax increasingly forms part of corporate citizenship and responsible governance practices. Hardeck and Hertl (2014) further demonstrate that aggressive tax strategies negatively affect stakeholder

evaluations, reinforcing the proposition that tax transparency constitutes an important dimension of ethical governance and sustainability performance.

From this standpoint, Sustainable Tax Governance extends the logic of fiscal accountability beyond technical compliance toward the integration of fairness, transparency, ESG principles, and institutional trust. Transfer pricing governance therefore becomes not merely a mechanism for allocating profits across jurisdictions, but also a governance instrument through which firms demonstrate substantive economic activity, responsible risk management, and legitimacy in global operations.

Embedding ESG and resilience considerations into FAR analysis contributes to this transformation by repositioning transfer pricing governance within a broader sustainability-oriented governance framework. Under such an approach, economic substance is evaluated not solely through contractual arrangements and financial returns, but also through the organization's contribution to sustainable value creation, stakeholder accountability, and long-term adaptive capability.

2.3 ESG and Sustainable Value Creation

The Environmental, Social, and Governance (ESG) framework has significantly transformed contemporary understandings of corporate value creation by linking financial performance with sustainability, ethical accountability, and stakeholder legitimacy. Increasingly, firms are expected to generate value not only through profitability and operational efficiency but also through responsible environmental practices, social contribution, and transparent governance structures.

Extensive empirical literature demonstrates that strong ESG performance contributes positively to long-term organizational outcomes, including innovation capability, reputational strength, operational stability, investor confidence, and stakeholder trust (Friede et al., 2015; Khan et al., 2016; Eccles & Klimenko, 2019). From a strategic perspective, ESG-related capabilities increasingly function as intangible assets that enhance competitive advantage and organizational resilience within uncertain business environments.

Simultaneously, global regulatory developments have institutionalized sustainability disclosure as a central component of corporate governance. Frameworks such as IFRS S1/S2 and



the European Union Corporate Sustainability Reporting Directive (EU CSRD) require firms to disclose material sustainability-related risks, governance mechanisms, and climate-related impacts in a more systematic and measurable manner. These developments demonstrate that non-financial transparency has become increasingly integrated into contemporary accountability systems and corporate performance evaluation.

Importantly, the relationship between ESG and taxation has also gained increasing scholarly attention. Prior research suggests that firms engaging in stronger corporate social responsibility (CSR) practices tend to exhibit lower levels of tax aggressiveness, indicating a positive relationship between ethical governance and responsible fiscal behavior (Lanis & Richardson, 2013). Consistent with Legitimacy Theory, transparent and responsible tax practices contribute to maintaining corporate credibility and sustaining the firm's social license to operate.

Further, Hoopes et al. (2022) indicate that firms with more transparent tax reporting often demonstrate stronger ESG disclosure quality and stakeholder engagement practices. This relationship implies that fiscal transparency and sustainability governance are increasingly interconnected dimensions of corporate legitimacy rather than isolated governance mechanisms.

Within this context, integrating ESG considerations into transfer pricing governance represents a significant extension of conventional FAR analysis. ESG-related activities—including green logistics, ethical sourcing, renewable investments, carbon management initiatives, and stakeholder-oriented governance—may constitute substantive sources of value creation within multinational enterprises. Accordingly, ESG metrics should not be treated merely as external reporting disclosures but increasingly recognized as components of sustainable substance that influence economic contribution, risk allocation, and fiscal legitimacy.

Embedding ESG indicators within transfer-pricing documentation therefore strengthens both compliance credibility and governance transparency by aligning profit allocation with broader principles of responsible and sustainable value creation.

2.4 Supply Chain Resilience (SCR)

Beyond sustainability, contemporary multinational enterprises increasingly require resilience capabilities to maintain operational continuity under conditions of uncertainty and disruption. Supply Chain Resilience (SCR) refers to the capability of organizations to anticipate,



absorb, adapt to, and recover from unexpected disruptions while sustaining critical operational functions (Christopher & Peck, 2004; Ponomarov & Holcomb, 2009).

The strategic importance of SCR has intensified following repeated global disruptions, including pandemics, geopolitical conflicts, energy crises, climate-related events, and logistics instability. These disruptions have revealed that efficiency-oriented global supply chains often lack sufficient flexibility and adaptive capacity to withstand systemic shocks. Consequently, resilience has emerged as a critical dimension of long-term organizational sustainability and strategic governance.

Existing literature identifies several key enablers of SCR, including redundancy, flexibility, visibility, collaboration, and adaptive resource allocation (Tukamuhabwa et al., 2015; Wieland & Durach, 2021). More recent perspectives, such as Ivanov's (2024) concept of "resilience-by-design," further emphasize that resilience should be embedded proactively within organizational structures, digital infrastructures, and supply-network configurations rather than treated as a reactive operational response.

From a governance perspective, resilience capabilities increasingly function as strategic organizational assets that preserve operational continuity, stakeholder confidence, and long-term firm value. Importantly, within transfer pricing governance, resilience-related activities may also demonstrate substantive risk assumption and managerial control over economically significant risks. Under the OECD framework, entities assuming and controlling higher levels of economically significant risk may justifiably receive higher returns under the arm's-length principle.

This creates an important conceptual linkage between SCR and FAR analysis. Investments in supply-chain flexibility, localized production capabilities, redundancy infrastructures, digital monitoring systems, and sustainability-oriented logistics may constitute substantive economic contributions rather than merely operational costs. Consequently, integrating SCR into FAR analysis enables a more comprehensive assessment of how multinational entities create and sustain value under uncertain conditions.

Accordingly, SCR extends the concept of economic substance beyond contractual risk allocation toward demonstrable adaptive capability and operational resilience. This perspective

strengthens the argument that resilience-oriented governance increasingly forms part of sustainable substance within contemporary multinational enterprises.

2.5 Research Gap

Although transfer pricing governance, ESG accountability, and supply-chain resilience have each developed extensively within their respective disciplines, the intersections among these domains remain conceptually fragmented and insufficiently integrated.

Existing transfer pricing literature predominantly concentrates on regulatory compliance, arm's-length pricing methodologies, and profit allocation mechanisms, while providing limited attention to sustainability-oriented value creation and resilience-based governance capabilities. At the same time, ESG literature extensively discusses ethical governance, stakeholder accountability, and sustainability disclosure but rarely addresses how these dimensions influence transfer pricing governance, fiscal transparency, or economic substance assessment. Similarly, SCR research primarily focuses on operational continuity and disruption management without adequately considering fiscal governance implications and profit attribution within multinational enterprises.

This fragmentation creates a significant conceptual blind spot in contemporary governance literature. Current FAR-based transfer pricing frameworks remain insufficient for explaining how sustainability capabilities, ESG-oriented governance structures, and resilience-based risk management contribute to substantive value creation under evolving global accountability standards.

In particular, existing literature has yet to adequately address how sustainability and resilience dimensions may reshape the interpretation of economic substance within transfer pricing governance. As international regulatory frameworks increasingly emphasize transparency, sustainability disclosure, and substance-over-form principles, the absence of an integrated framework limits both theoretical development and practical governance application.

To address this gap, this study proposes the Sustainable FAR Framework, which integrates ESG performance, supply-chain resilience, and fiscal transparency into the traditional FAR model. The framework introduces the concept of sustainable substance, whereby profit attribution reflects not only operational and financial activities but also sustainability performance, adaptive capability, and governance legitimacy. In doing so, the study seeks to extend conventional transfer

pricing governance toward a multidimensional framework aligned with contemporary sustainability and accountability expectations.

3. METHODOLOGY

This study uses a qualitative, conceptual, and integrative approach aimed at theory building. Guided by the interpretivist–constructivist paradigm (Lincoln & Guba, 1985), it assumes that fiscal and sustainability constructs are socially embedded.

3.1 Integrative Literature Review (ILR)

Following Torraco (2005) and Snyder (2019), the ILR synthesizes theories across disciplines. Four stages were applied:

1. **Scoping:** defining TP, ESG, and SCR boundaries.
2. **Mapping:** identifying ~120 publications (2010–2024) from Scopus and institutional sources (OECD, IFRS, World Bank).
3. **Synthesis:** clustering 40 core sources into thematic groups.
4. **Framework Construction:** integrating findings into the Sustainable FAR model.

The literature mapping covers 2010–2024 to capture the modern era of tax governance and sustainability integration, when global reforms such as the OECD’s BEPS initiative and IFRS sustainability standards began shaping current practices. Earlier seminal works, including Freeman’s (1984) *Stakeholder Theory*, Barney’s (1991) *Resource-Based View*, and Teece’s (2007) *Dynamic Capabilities*, were retained as theoretical foundations because they continue to underpin contemporary research on ESG, resilience, and corporate governance.

3.2 Theoretical Anchors

As summarized in Table 1, the framework is grounded in three major theoretical foundations: Stakeholder Theory, RBV, and Dynamic Capabilities.

Table 1. Theoretical Foundations Supporting the Sustainable FAR Framework

Theory	Core Idea	Role in Framework
Stakeholder Theory (Freeman, 1984)	Firms owe accountability to all stakeholders.	Justifies embedding ESG ethics in governance.
Resource-Based View (RBV) (Barney, 1991)	Competitive advantage derives from unique resources.	Interprets ESG & resilience as strategic assets.

Dynamic Capabilities Theory (Teece, 2007)	Firms must adapt and reconfigure under change.	Explain resilience as substantive risk assumption.
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Source: Author's elaboration

4. CONCEPTUAL FRAMEWORK AND DISCUSSION

4.1 From Traditional to Sustainable FAR

Traditional Functions–Assets–Risks (FAR) analysis primarily evaluates financial and operational contributions in determining arm's-length profit allocation within multinational enterprises (MNEs). Although this approach provides a robust economic foundation for transfer pricing governance, it remains limited in explaining how sustainability performance, resilience capability, and stakeholder-oriented governance contribute to contemporary value creation. In an increasingly disruption-prone and sustainability-driven global economy, conventional FAR analysis may inadequately capture the broader dimensions of economic substance that influence long-term profitability and institutional legitimacy.

The proposed Sustainable FAR Framework reconceptualizes the classical FAR model by incorporating Environmental, Social, and Governance (ESG) dimensions together with Supply Chain Resilience (SCR) into the assessment of substantive economic contribution. Under this approach, sustainability-oriented activities and resilience capabilities are not treated merely as peripheral compliance initiatives, but as economically significant drivers of operational continuity, strategic value creation, and risk management.

- a. Functions: Sustainability-oriented and resilience-based activities—including green logistics coordination, ethical sourcing governance, supplier diversification strategies, waste-reduction management, ESG monitoring, and crisis-response decision making—are recognized as substantive functions that may influence transfer pricing characterization and profit attribution. In practice, entities responsible for sustainability governance and resilience-oriented operational control may perform strategic functions exceeding the profile of routine or limited-risk entities.
- b. Assets: ESG-related and resilience-supporting resources—including renewable-energy infrastructure, carbon credits, digital traceability systems, sustainability-related intellectual property, supply-chain monitoring platforms, and reputational capital—represent strategic

intangible and operational assets that contribute to long-term competitive advantage and fiscal substance.

- c. Risks: Environmental disruption, climate-related exposure, supply-chain instability, reputational vulnerability, regulatory non-compliance, and sustainability-transition risks increasingly constitute economically significant risks within multinational operations. Entities demonstrating substantive control over these risks through adaptive governance mechanisms, redundancy planning, and resilience infrastructure may justify higher functional returns under the arm's-length principle.
- d. Governance Outcome: Profit attribution is therefore no longer determined solely by contractual allocation and financial performance, but increasingly reflects sustainability-oriented operational capability, resilience-based risk control, and responsible value creation.

This reconceptualization embeds ESG and Supply Chain Resilience (SCR) within the broader logic of economic substance, where corporate value is driven not only by production efficiency and financial capital, but also by ethical governance, stakeholder trust, adaptive capability, and long-term organizational resilience. Consequently, the traditional OECD principle that “profits follow functions, assets, and risks” evolves toward a broader governance perspective in which profits increasingly follow sustainable substance.

4.2 The Sustainable FAR Framework

The Sustainable FAR Framework integrates ESG performance, resilience capability, and transfer pricing governance into a multidimensional analytical framework linking business sustainability with fiscal integrity and substance-based compliance. The framework extends conventional FAR analysis beyond transactional and financial considerations by incorporating non-financial indicators that increasingly shape operational continuity, stakeholder legitimacy, and long-term value creation.

Conceptually, the framework operates through five interconnected stages:

- a. ESG Integration modifies the analysis of functions and assets by incorporating sustainability-oriented indicators, including environmental performance, governance transparency, ethical sourcing structures, carbon-management initiatives, and stakeholder accountability mechanisms.

- b. Resilience Capabilities demonstrate substantive risk-bearing capacity through redundancy infrastructure, supply-chain flexibility, adaptive resource allocation, localized procurement strategies, and digital monitoring systems capable of managing operational disruption.
- c. Redefined FAR Analysis extends the assessment of economic substance beyond contractual arrangements and financial transactions toward sustainability-oriented operational capability and resilience-based managerial control.
- d. Sustainable Transfer Pricing Governance reinforces the OECD’s substance-over-form doctrine by aligning transfer pricing outcomes with sustainable business realities, ESG accountability, and operational resilience.
- e. Governance Outcome leads to stronger tax-risk mitigation, improved compliance credibility, enhanced stakeholder trust, and greater institutional legitimacy.

From a practical perspective, the Sustainable FAR Framework may be operationalized through the integration of ESG and resilience indicators into transfer pricing documentation and compliance processes. Within the Master File, multinational enterprises may disclose sustainability-oriented business models, climate-related investment strategies, responsible sourcing policies, and resilience-oriented supply-chain structures as part of the global value-creation narrative. At the Local File level, taxpayers may document ESG-related operational functions, resilience-based decision-making processes, sustainability-linked expenditures, and risk-control mechanisms that demonstrate substantive economic contribution within the local jurisdiction. Examples of operational indicators includes: supplier diversification ratios, renewable-energy utilization, carbon-emission reduction initiatives, inventory redundancy capacity, ESG governance committees, sustainability-linked procurement systems, digital traceability infrastructure, and resilience-oriented logistics arrangements.

These indicators may strengthen the evidentiary basis of FAR analysis by demonstrating that profitability is supported not only by contractual arrangements, but also by sustainability-oriented operational capability and resilience-based risk control. In the Indonesian context, the framework may also complement the Directorate General of Taxes’ Compliance Risk Management for Transfer Pricing (CRM–TP) approach by providing additional non-financial

indicators for evaluating economic substance and operational consistency. For industries heavily exposed to ESG and supply-chain pressures—such as manufacturing, logistics, mining, energy, and consumer goods—significant discrepancies between reported profitability and the absence of demonstrable sustainability capability may potentially signal heightened transfer pricing risk.

Accordingly, the framework creates a circular governance mechanism in which sustainable operations strengthen fiscal transparency, fiscal transparency reinforces stakeholder confidence, and stakeholder trust further enhances long-term organizational resilience—thereby generating a continuous cycle of sustainable value creation and accountability.

4.3 Theoretical and Practical Implications

Theoretical Contributions: The Sustainable FAR Framework extends conventional FAR theory by embedding sustainability and resilience into the structure of transfer pricing governance. It bridges Stakeholder Theory, Resource-Based View (RBV), and Dynamic Capabilities Theory to explain how ethical governance, strategic resources, and adaptive capabilities collectively redefine *economic substance* as *sustainable substance*. This approach enriches tax-governance literature by framing fiscal behavior within the broader context of corporate sustainability and institutional legitimacy.

Practical Implications, for Multinational Enterprises (MNEs), it Integrate ESG and SCR indicators into transfer-pricing documentation to substantiate substance and justify returns. Incorporating sustainability data in the Master and Local Files enhances transparency and reduces audit risk. In other side, for tax Authorities it Utilize ESG and SCR indicators in *Compliance Risk Management for Transfer Pricing (CRM-TP)* frameworks to differentiate compliant taxpayers from high-risk entities, while promoting consistency with OECD guidelines. Further for Policymakers it Develop fiscal incentives and tax instruments linked to sustainability objectives—such as super-deductions for green R&D, investment in renewable assets, and localization of resilient supply chains—to advance national commitments toward the SDGs and climate accountability.

5. CONCLUSION AND IMPLICATIONS

The Sustainable FAR Framework advances transfer pricing governance by embedding sustainability and resilience principles into the traditional Functions–Assets–Risks (FAR) model. It repositions taxation from a compliance exercise toward a governance mechanism that reflects ethical conduct, operational adaptability, and long-term corporate accountability. In this extended view, profits follow not only functions, assets, and risks, but also sustainable and responsible value creation, ensuring that fiscal practices contribute to both financial performance and social legitimacy.

Contributions

This study makes several key contributions to theory and practice.

1. It extends the conventional FAR framework beyond financial and operational metrics by introducing the concept of Sustainable FAR, which captures ESG-driven functions, intangible sustainability assets, and resilience-based risks as determinants of economic substance.
2. It integrates taxation, sustainability, and resilience into a unified conceptual model, bridging previously fragmented disciplines through the lenses of Stakeholder Theory, Resource-Based View (RBV), and Dynamic Capabilities Theory.
3. It redefines *economic substance* as a multidimensional construct that encompasses ethical behavior, environmental responsibility, and adaptive capability-dimensions central to modern corporate governance.
4. It provides a theoretical foundation for Sustainable Tax Governance aligned with global sustainability agendas, particularly SDG 12 (Responsible Consumption and Production) and SDG 16 (Peace, Justice, and Strong Institutions), by linking fiscal transparency and institutional accountability to sustainable development outcomes.

Policy and Practice

From a practical standpoint, the Sustainable FAR Framework offers actionable implications for multiple stakeholders:

- a. Multinational Enterprises (MNEs): Firms should embed ESG and resilience indicators into Master and Local Files as evidence of substance and responsible risk management.

Integrating these metrics enhances audit defense, corporate reputation, and compliance credibility.

- b. **Regulators and Tax Authorities:** Authorities are encouraged to incorporate sustainability metrics into compliance risk scoring and transfer-pricing assessments. By including ESG and SCR indicators in *Compliance Risk Management for Transfer Pricing (CRM-TP)* frameworks, regulators can promote transparency while focusing resources on high-risk taxpayers.
- c. **Governments and Policymakers:** Governments can harmonize ESG and tax standards regionally-particularly within the ASEAN context-to promote responsible investment and fair taxation. Fiscal incentives, such as super deductions for green R&D and tax credits for renewable initiatives, can further encourage corporate participation in national sustainability agendas.

Limitations and Future Research

This research is conceptual and relies primarily on secondary data; therefore, empirical validation remains an essential next step. Future studies should operationalize ESG-FAR indicators and test them through case studies, content analysis of transfer-pricing documentation, or Delphi panels with tax experts. Comparative studies across jurisdictions-particularly among ASEAN and OECD member countries could also reveal how Sustainable FAR principles perform under different regulatory regimes.

Closing Remark

In essence, the Sustainable FAR Framework reimagines taxation as an enabler of sustainable development, uniting fiscal integrity with corporate purpose. By embedding ESG and resilience within the logic of economic substance, transfer pricing governance evolves into a platform for ethical accountability and strategic adaptation. This paradigm aligns profitability with societal value-affirming that in the era of global sustainability, profits must follow sustainable substance.



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