INTEGRA BUSINESS REVIEW
Volume 1, Issue 2, December 2023 | pp. 82-97
https://doi.org/10.63208/21014-374

Check for updates

E- ISSN: 3047-261X

Digital Governance and Economic Transformation in the Digital Economy

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ABSTRACT

The rapid expansion of digital technologies has significantly transformed governance systems, institutional structures, and public-sector administration within contemporary digital economies. Governments increasingly integrate digital technologies into governance processes, policy coordination, administrative systems, and public service delivery to improve institutional efficiency and support broader economic modernization. The findings indicate that digital governance contributes positively to institutional modernization, governance capability, administrative efficiency, and digitally integrated public-sector transformation. In addition, digitally enabled governance systems support policy coordination, governance responsiveness, and adaptive institutional management within rapidly evolving digital environments. However, the review also identifies significant governance and institutional challenges affecting transformation effectiveness, including fragmented policy coordination, unequal digital infrastructure, institutional rigidity, governance capability disparities, and uneven digital readiness across governance systems.

Keywords: *Digital Governance, Digital Inequality, Economic Transformation, Governance Capability, Institutional Modernization.*

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ARTICLE HISTORY

Received	: July 06, 2023
Final Revised	: November 19, 2023
Accepted	: December 09, 2023
Published	: December 30, 2023

1. | INTRODUCTION

The rapid expansion of digital technologies has significantly transformed governance systems, institutional structures, and public-sector administration within contemporary digital economies. Governments and public institutions increasingly integrate digital technologies into governance processes, policy coordination, administrative systems, and public service delivery to improve institutional efficiency, economic modernization, and governance capability. Erkut (2020) emphasizes that governance systems are evolving from conventional digital government models toward broader digital governance frameworks characterized by interconnected institutional coordination and digitally mediated governance processes. Similarly, Milakovich (2021) argues that advanced digital technologies increasingly reshape governance systems by improving decision-making capability, public administration efficiency, and institutional responsiveness. These developments indicate that digital governance has become a central component of institutional transformation within digitally evolving economies. Consequently, governance modernization increasingly depends on the ability of institutions to integrate digital capability and adaptive governance mechanisms into public-sector systems.

The growing importance of digital governance has also intensified discussions regarding its role in supporting economic transformation and public-sector modernization. Digital governance enables governments to improve administrative coordination, optimize policy implementation, strengthen public service accessibility, and support broader economic modernization initiatives through digitally integrated governance systems. Eom and Lee (2022) emphasize that digital government transformation has become increasingly important in responding to rapidly changing social and economic conditions within digitally connected societies. Similarly, Liva et al. (2020) identify that digital transformation within public institutions contributes to administrative modernization and governance innovation through technology-driven institutional adaptation. In addition, Pedersen (2018) highlights that e-government transformation processes significantly influence public-sector efficiency and strategic governance capability. These findings indicate that digital governance contributes not only to institutional modernization but also to broader economic transformation processes within digital economies. As a result, digital governance increasingly functions as an important driver of governance efficiency and economic development.

The literature further demonstrates that institutional capability and governance readiness are critical factors influencing the effectiveness of digital governance implementation. Public institutions increasingly require adaptive governance systems, digitally capable administrative structures, and coordinated policy mechanisms capable of supporting institutional transformation within rapidly evolving technological environments. Koo (2019) argues that the transformation from conventional e-government toward intelligent digital governance requires integrated institutional adaptation and digitally enabled governance capability. Similarly, Idzi and Gomes

(2022) emphasize that governance strategies significantly affect the quality and effectiveness of digitally mediated public services. In addition, Lappi et al. (2019) highlight that governance coordination and portfolio management play important roles in supporting public-sector digitalization initiatives. These findings suggest that successful digital governance depends heavily on institutional readiness, governance coordination, and administrative adaptability rather than technological implementation alone. Consequently, governance capability becomes increasingly important within contemporary digital governance systems.

Despite the opportunities associated with digital governance, recent literature also identifies significant governance and institutional challenges affecting digital transformation processes within public sectors. Many governments continue to experience difficulties related to fragmented policy coordination, limited institutional capability, inadequate digital infrastructure, and resistance to organizational adaptation. Mountasser and Abdellatif (2023) emphasize that public-sector digital transformation frequently encounters structural and institutional barriers that reduce implementation effectiveness and governance sustainability. Similarly, Hanna (2018) argues that governments continue to play a critical role in managing digital transformation and institutional modernization within evolving digital economies. In addition, Anthopoulos et al. (2022) highlight that smart governance systems require interconnected institutional coordination and adaptive governance structures capable of supporting digitally integrated urban and administrative systems. These findings indicate that digital governance involves complex institutional transformation processes requiring coordinated governance adaptation and policy integration. Therefore, governance modernization depends not only on technological investment but also on institutional coordination and governance capability development.

Another important issue identified in recent literature concerns the unequal distribution of digital infrastructure and institutional readiness across governance systems and economic environments. Institutions with stronger digital capability, technological infrastructure, and governance resources are generally more capable of implementing digital governance systems effectively than institutions characterized by limited capability and weak digital readiness. Van Dijk (2020) argues that digital inequality continues to influence access to digital participation and technological capability across different social and institutional contexts. Similarly, Heeks (2022) emphasizes that digital inequality extends beyond technological access and includes unequal incorporation into digitally mediated governance systems within developing economies. In addition, Karpenko et al. (2020) identify institutional interoperability and digital capability as important components supporting inclusive governance modernization. These findings indicate that unequal institutional readiness may reinforce governance disparities and uneven economic transformation outcomes within digital economies. Consequently, governance capability and digital infrastructure become critical determinants of successful institutional modernization.

Although research on digital governance has expanded substantially in recent years, existing studies often examine digital government transformation, governance capability, institutional modernization, or digital inequality separately rather than synthesizing these dimensions within a broader economic transformation perspective. Many studies emphasize technological modernization and administrative efficiency while giving less attention to the interconnected relationship between governance capability, institutional readiness, policy coordination, and unequal digital adaptation within public-sector transformation processes. This creates fragmented understanding regarding how digital governance simultaneously supports economic modernization while generating institutional and governance challenges within digital economies. Consequently, there remains a need for a more integrated synthesis of the literature examining the relationship between digital governance, institutional transformation, governance capability, and economic modernization. Addressing this gap is important for understanding how governance systems shape sustainable digital economic transformation within contemporary digital societies.

Based on these considerations, this study aims to systematically review the literature on digital governance and economic transformation within digital economies using a qualitative Systematic Literature Review (SLR) approach. The study focuses on analyzing how digital governance influences institutional modernization, governance capability, public-sector adaptation, and economic transformation within digitally mediated environments. In addition, the review examines governance and institutional challenges associated with digital governance implementation, including policy coordination, digital inequality, governance readiness, and institutional adaptation capability. Snyder (2019) emphasizes that systematic literature reviews enable researchers to identify conceptual relationships and broader research trends within complex academic domains. Furthermore, Page et al. (2021) highlight that PRISMA-based methodologies improve transparency and rigor in evidence synthesis. Through thematic synthesis, this study seeks to provide a more comprehensive understanding of how digital governance reshapes institutional transformation and economic modernization within the contemporary digital era.

2. | LITERATURE REVIEW

Digital Governance and Institutional Modernization

Digital governance has emerged as a major component of institutional modernization within contemporary digital economies. Digital governance refers to the integration of digital technologies into governance systems, institutional coordination, administrative processes, and policy implementation mechanisms to improve governance capability and public-sector efficiency. Erkut (2020) emphasizes that governance systems are evolving beyond conventional e-government models toward broader digital governance frameworks characterized by interconnected governance structures and digitally mediated institutional coordination. Similarly, Milakovich (2021) argues that digital technologies increasingly reshape governance systems through enhanced administrative capability, improved policy responsiveness, and digitally integrated public management processes. These developments indicate that governance modernization increasingly depends on institutional digitalization and adaptive governance capability within rapidly evolving digital environments. Consequently, digital governance has become an important mechanism supporting institutional transformation and economic modernization within contemporary digital economies.

The literature further demonstrates that digital governance contributes to institutional modernization by strengthening administrative flexibility, governance coordination, and strategic policy capability. Lips (2019) highlights that digital government reforms significantly influence public-sector restructuring and governance adaptation within digitally connected societies. Similarly, Larionova and Shelepov (2021) emphasize that governance systems increasingly require coordinated digital regulation and institutional adaptation capable of responding to rapidly expanding digital economic activities. These findings indicate that governance modernization extends beyond technological implementation and involves broader institutional transformation processes. In addition, digital governance influences how governments coordinate public administration, regulate digital economic systems, and manage institutional change within digitally evolving environments. Therefore, digital governance should be understood as a multidimensional institutional transformation process rather than merely the technological digitization of public services.

Public-Sector Digital Transformation

Public-sector digital transformation has become increasingly important in improving governance efficiency, administrative modernization, and digitally enabled public service delivery. Governments and public institutions increasingly utilize digital technologies to optimize administrative systems, improve service accessibility, and strengthen governance responsiveness within digital economies. Eom and Lee (2022) emphasize that public-sector digital transformation has become essential for maintaining governance continuity and institutional adaptability during periods of economic and social disruption. Similarly, Liva et al. (2020) identify that digital transformation contributes to administrative innovation and governance modernization through digitally integrated institutional systems. These findings suggest that digital technologies significantly influence the transformation of public administration and governance structures within contemporary digital societies. Consequently, public-sector digital transformation increasingly functions as a major component of governance modernization strategies.

The literature also demonstrates that effective public-sector transformation requires integrated governance systems capable of coordinating digital infrastructure, institutional adaptation, and administrative processes. Pedersen (2018) argues that e-government transformation involves substantial organizational and strategic changes within governance systems and public administration structures. Similarly, Koo (2019) highlights that intelligent digital government systems require adaptive governance capability and integrated institutional transformation processes. In addition, Mountasser and Abdellatif (2023) emphasize that public-sector digitalization frequently encounters implementation barriers related to institutional rigidity, technological limitations, and governance complexity. These findings indicate that public-sector transformation depends not only on technological adoption but also on broader governance readiness and institutional capability. Therefore, governance modernization increasingly requires coordinated institutional adaptation capable of supporting sustainable public-sector transformation within digital economies.

Governance Capability and Policy Coordination

Governance capability represents one of the most important determinants of successful digital governance implementation within digital economies. Governance capability involves institutional readiness, strategic coordination, administrative adaptability, and policy integration necessary for managing digital transformation processes effectively. Idzi and Gomes (2022) emphasize that governance strategies significantly influence the quality and effectiveness of digitally mediated public services and governance systems. Similarly, Jewer and Van Der Meulen (2022) argue that governance adaptation plays an important role in supporting institutional digital transformation and organizational coordination within digital environments. These findings demonstrate that governance effectiveness depends heavily on institutional capability and coordinated policy mechanisms capable of managing technological and administrative change. Consequently, governance capability has become increasingly important within digital governance systems.

The literature further highlights the growing importance of policy coordination in supporting governance modernization and digitally integrated institutional systems. Lappi et al. (2019) emphasize that governance coordination and portfolio management are essential for supporting public-sector digitalization and institutional transformation initiatives. Similarly, Hanna (2018) argues that governments continue to play a central role in coordinating digital transformation processes and managing broader economic modernization within digital economies. These findings indicate that governance modernization requires strategic coordination among institutions, regulatory systems, and digitally enabled administrative structures. However, governance coordination frequently becomes more complex as governments integrate digital technologies across interconnected institutional systems and policy domains. Therefore, policy coordination and governance integration become critical factors influencing the sustainability and effectiveness of digital governance transformation.

Smart Governance and Economic Modernization

Digital governance increasingly contributes to economic modernization through the development of smart governance systems and digitally coordinated institutional infrastructures. Smart governance integrates digital technologies, data-driven governance systems, and interconnected institutional coordination to improve governance efficiency and economic adaptability within digital economies. Anthopoulos et al. (2022) emphasize that smart governance systems are closely associated with digitally integrated urban governance and interconnected institutional coordination processes. Similarly, Zhang et al. (2021) identify that digital economies contribute positively to high-quality economic development through digitally enabled governance capability and modernization processes. These findings indicate that governance modernization increasingly supports broader economic transformation and digitally coordinated development strategies. Consequently, digital governance has become increasingly connected to economic modernization within digitally evolving societies.

The literature also demonstrates that institutional adaptation and governance modernization significantly influence digitally driven economic transformation processes. Islamutdinov (2020) argues that institutional change represents an important component of economic transformation within digital economies. Similarly, Larionova and Shelepov (2021) highlight that governance systems increasingly require multilateral regulatory coordination capable of managing rapidly evolving digital economic systems and technological interactions. These findings suggest that economic modernization depends heavily on governance systems capable of supporting institutional flexibility, regulatory adaptation, and digitally integrated economic coordination. In addition, digitally enabled governance systems may strengthen economic resilience and administrative responsiveness within rapidly changing technological environments. Therefore, governance modernization increasingly functions as an important driver of digital economic transformation.

Governance Challenges and Digital Inequality

Despite the opportunities associated with digital governance, the literature consistently identifies significant governance challenges and institutional inequalities affecting digital transformation processes within public sectors. Many governments continue to experience difficulties related to inadequate digital infrastructure, fragmented governance systems, limited institutional capability, and unequal technological access. Van Dijk (2020) emphasizes that digital inequality continues to shape participation opportunities and technological access across institutional and social environments. Similarly, Heeks (2022) argues that digital inequality extends beyond technological access and includes unequal integration into digitally mediated governance systems and economic structures. These findings indicate that governance modernization may simultaneously improve institutional efficiency while reinforcing governance disparities and unequal digital participation within digital economies.

Another important issue identified in the literature concerns uneven governance readiness and institutional adaptability across regions and governance systems. Karpenko et al. (2020) emphasize that interoperability and digital capability significantly influence governance modernization and inclusive digital participation. Similarly, Debbarma and Sharma (2023) highlight that local governance digitalization frequently encounters barriers related to institutional readiness, infrastructure limitations, and governance coordination capability. These findings suggest that digitally advanced governance systems are generally more capable of implementing sustainable digital transformation than institutions with limited technological resources and weak governance capability. Consequently, digital governance transformation depends heavily on institutional readiness, governance coordination, and equitable technological integration across governance systems. Therefore, understanding governance inequality and institutional capability disparities remains essential for analyzing sustainable digital economic transformation within contemporary digital economies.

3. | RESEARCH METHOD

This study employs a qualitative Systematic Literature Review (SLR) approach to examine the relationship between digital governance and economic transformation within contemporary digital economies. A systematic literature review enables researchers to synthesize existing academic literature in a structured and transparent manner while identifying conceptual relationships, theoretical developments, and broader research trends across interdisciplinary governance and economic domains. Snyder (2019) emphasizes that literature reviews are important for developing conceptual understanding and identifying research gaps within emerging academic fields. Similarly, Linnenluecke et al. (2020) highlight that systematic review methodologies improve analytical rigor and research reliability through transparent evidence synthesis procedures. Through this approach, the study seeks to provide a comprehensive understanding of how digital governance influences institutional modernization, governance capability, policy coordination, and public-sector transformation within digitally evolving economic systems. Consequently, the review focuses not only on governance modernization opportunities but also on the institutional and governance challenges affecting digital transformation outcomes.

The literature review process follows the PRISMA 2020 framework to ensure methodological transparency, consistency, and rigor throughout the identification and selection of academic sources. Page et al. (2021) emphasize that PRISMA guidelines improve systematic review quality through structured procedures involving identification, screening, eligibility assessment, and inclusion stages. Academic literature was collected from major scholarly databases, including Scopus, Google Scholar, ScienceDirect, Springer, Emerald, and Taylor & Francis. The search process utilized combinations of keywords related to digital governance, e-government, public-sector digital transformation, governance capability, smart governance, policy coordination, institutional modernization, and digital inequality. Inclusion criteria focused on peer-reviewed journal articles, scholarly books, conference papers, dissertations, and institutional publications published between 2018 and 2024 that directly addressed governance modernization and digital institutional transformation within digital economies. Studies focusing exclusively on highly technical information systems without broader governance or institutional relevance were excluded from the analysis. This process ensured that the selected literature remained aligned with the objectives and analytical direction of the study.

Following the literature selection process, the identified studies were analyzed using a qualitative thematic synthesis approach to identify recurring themes, conceptual patterns, and broader relationships within digital governance research. Thematic synthesis enables researchers to compare findings across studies while generating broader analytical interpretations regarding institutional transformation and governance modernization within digital economies. The selected literature was categorized into several thematic areas, including digital governance, public-sector transformation, governance capability, policy coordination, smart governance, institutional readiness, and digital inequality. This classification process enabled the study to examine how governance modernization influences economic transformation and digitally integrated institutional systems. In addition, thematic synthesis facilitated the identification of recurring governance challenges associated with digital transformation processes, including institutional rigidity, fragmented policy coordination, unequal technological infrastructure, and governance capability disparities. Consequently, the study provides an integrated conceptual synthesis rather than isolated summaries of individual studies.

The analytical process further emphasizes the relationship between governance capability, institutional adaptation, and sustainable digital economic transformation within digitally mediated governance systems. The reviewed studies were examined not only for their discussion of technological modernization and public-sector digitalization but also for their analysis of policy integration, governance readiness, institutional capability, and digitally coordinated governance structures. This approach enabled the study to analyze both the opportunities and structural limitations associated with governance modernization within digital economies. Furthermore, the analysis focused on how governance systems adapt to digital transformation through institutional coordination, digitally enabled public administration, and policy modernization strategies. By integrating these dimensions, the study seeks to provide a balanced understanding of how digital governance simultaneously generates opportunities for institutional modernization while producing governance and capability challenges within public-sector transformation processes. Therefore, the qualitative SLR approach enables the study to generate broader insights regarding the governance-dependent and institutionally coordinated nature of sustainable digital economic transformation within contemporary digital economies.

4. | RESULTS

The reviewed literature demonstrates that digital governance has become increasingly important in supporting institutional modernization and economic transformation within contemporary digital economies. Governments and public institutions increasingly integrate digital technologies into governance systems, administrative coordination, and public service delivery to improve institutional efficiency and governance responsiveness. Digital governance contributes to institutional transformation by enabling digitally integrated administrative processes, data-driven governance systems, and technology-supported policy coordination mechanisms. The literature consistently identifies digital governance as a major component of governance modernization within digitally evolving economic systems. In addition, digital governance facilitates adaptive institutional capability by improving governance flexibility and administrative coordination across interconnected public-sector environments. Consequently, governance modernization increasingly depends on the ability of institutions to integrate digital capability into governance and policy systems.

The findings further indicate that public-sector digital transformation contributes positively to administrative modernization and governance effectiveness within digital economies. Governments increasingly utilize digital technologies to improve public service accessibility, strengthen institutional responsiveness, and optimize administrative processes within rapidly changing economic environments. The reviewed studies demonstrate that digitally enabled governance systems improve administrative coordination and support more efficient governance management through integrated technological infrastructures. In addition, digital public services contribute to broader economic modernization by facilitating digitally connected governance systems capable of supporting adaptive policy implementation and institutional innovation. These findings suggest that public-sector transformation increasingly functions as a strategic mechanism supporting digitally integrated economic governance. However, the literature also indicates that transformation outcomes vary significantly depending on governance capability and institutional readiness.

Despite these opportunities, the reviewed studies consistently identify governance capability as a major determinant influencing the effectiveness of digital governance implementation. Successful governance modernization requires not only technological investment but also institutional adaptability, coordinated policy systems, and governance structures capable of managing digital transformation processes effectively. Many governments continue to experience challenges related to fragmented policy coordination, institutional rigidity, limited digital expertise, and weak administrative integration. In addition, governance modernization frequently requires significant restructuring of administrative systems and institutional coordination mechanisms to support digitally integrated governance processes. These findings indicate that governance transformation depends heavily on institutional readiness and governance capability rather than technological implementation alone. As a result, digital governance remains uneven across institutions and governance systems with different levels of digital capability and administrative preparedness.

The literature also highlights the growing importance of policy coordination and governance integration in supporting sustainable digital transformation within public sectors. Governance systems increasingly require coordinated institutional frameworks capable of integrating digital technologies across administrative sectors and governance domains. Effective governance coordination influences institutional adaptability, public-sector innovation, and governance sustainability within digitally evolving environments. In many cases, governance systems characterized by stronger institutional coordination and digitally integrated policy frameworks are more capable of implementing sustainable governance modernization than fragmented institutional systems. Furthermore, policy coordination supports governance responsiveness by enabling institutions to adapt more effectively to technological change and economic transformation. These findings demonstrate that governance integration plays a central role in determining the sustainability and effectiveness of digital governance systems within digital economies.

Another important finding identified in the literature concerns the unequal distribution of digital infrastructure and governance readiness across public institutions and economic environments. Governance systems with stronger technological infrastructure, administrative capability, and digital readiness are generally more capable of implementing digital governance successfully than institutions characterized by limited digital infrastructure and weak governance capability. These disparities significantly influence governance effectiveness, public service quality, and institutional modernization outcomes within digital economies. In addition, unequal digital readiness may reinforce governance inequality and uneven economic transformation across regions and institutional systems. The literature further suggests that digital governance may simultaneously improve administrative efficiency while increasing disparities in governance participation and technological capability. Consequently, governance readiness and digital infrastructure become critical determinants of sustainable institutional transformation within digital economies.

5. | DISCUSSION

Overall, the reviewed literature demonstrates that digital governance should be understood as a governance modernization and institutional capability process rather than merely technological digitization within public administration. While digital governance creates significant opportunities for institutional adaptation, administrative efficiency, and economic modernization, successful governance transformation depends heavily on governance capability, institutional coordination, policy integration, and digitally enabled administrative readiness. The findings indicate that sustainable digital economic transformation requires integrated governance approaches capable of balancing technological modernization, institutional adaptability, governance coordination, and equitable digital participation. In addition, public institutions must continuously strengthen governance capability and digitally integrated policy systems to maintain governance effectiveness within rapidly evolving digital environments. These findings suggest that economic modernization within digital economies is increasingly determined by governance readiness and institutional transformation capability rather than technological implementation alone. Therefore, digital governance represents both a strategic opportunity and a major institutional challenge within contemporary digital economic transformation.

6. | CONCLUSION

This study concludes that digital governance has become increasingly important in shaping institutional modernization and economic transformation within contemporary digital economies. The reviewed literature consistently demonstrates that digital governance contributes to governance efficiency, administrative modernization, policy coordination, and digitally integrated public-sector transformation through the adoption of digitally enabled governance systems and institutional adaptation mechanisms. Governments and public institutions increasingly utilize digital technologies to improve governance responsiveness, optimize administrative coordination, and strengthen public service accessibility within rapidly evolving digital environments. In addition, digital governance supports broader economic modernization by enabling adaptive governance capability and digitally coordinated institutional systems capable of responding to technological and economic change. These developments indicate that governance modernization increasingly functions as a major component of sustainable digital economic transformation. However, the findings also demonstrate that successful governance transformation depends heavily on institutional readiness, governance capability, and coordinated policy integration rather than technological implementation alone.

The findings further reveal that governance capability and institutional adaptability remain major determinants influencing the effectiveness and sustainability of digital governance systems. Many governments continue to experience significant challenges related to fragmented policy coordination, institutional rigidity, unequal digital infrastructure, and limited administrative capability. In addition, disparities in governance readiness and technological capability create uneven public-sector transformation outcomes across regions and institutional systems. Governance systems characterized by stronger institutional coordination, adaptive administrative structures, and digitally integrated governance mechanisms are generally more capable of implementing sustainable digital transformation than institutions with weak governance capability and limited digital readiness. These findings indicate that digital governance may simultaneously improve governance efficiency while reinforcing governance inequality and uneven institutional modernization within digital economies. Consequently, sustainable governance transformation requires integrated institutional strategies capable of balancing governance modernization, technological adaptation, and equitable digital participation.

Finally, this study emphasizes that sustainable digital economic transformation requires governance systems and public institutions capable of supporting continuous institutional adaptation within rapidly evolving digital environments. Policymakers and public institutions should prioritize governance capability development, digital infrastructure expansion, policy coordination, and institutional readiness to strengthen sustainable governance modernization and digitally integrated public administration. In addition, governance transformation strategies should integrate technological modernization with broader institutional reform, administrative adaptability, and inclusive governance participation mechanisms. Future research may further explore comparative governance transformation models, regional disparities in digital governance capability, and the long-term socio-economic implications of digitally integrated governance systems within emerging digital economies. By synthesizing existing literature, this study contributes to a broader understanding of how digital governance influences institutional modernization, governance capability, and sustainable economic transformation within the contemporary digital era.

Acknowledgement

We gratefully acknowledge the contributions of individuals who supported the completion of this article.

Declaration of Conflicting Interests

The authors declare that there is no conflict of interest.

Ethical Approval and Originality Statement

Ethical approval was obtained for this study. The manuscript represents original work and has not been previously published, nor is it under consideration by another journal.

Data Disclosure Statement

The data that support the findings of this study are available from the corresponding author upon reasonable request.

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