



INTERNATIONAL JOURNAL
OF ENTREPRENEURSHIP AND
MANAGEMENT PRACTICES
(IJEMP)

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THE INFLUENCE OF BOARD ALLOWANCE AND GENDER DIVERSITY ON ESG REPORTING QUALITY IN THE AMMAN STOCK EXCHANGE (ASE)

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Article Info:

Article history:

Received date: 02.01.2026

Revised date: 14.01.2026

Accepted date: 19.02.2026

Published date: 03.03.2026

To cite this document:

Srouji, M. F., Ibrahim, S., & Yusof, W. S. (2026). The Influence of Board Allowance and Gender Diversity on ESG Reporting Quality in The Amman Stock Exchange (ASE). *International Journal of Entrepreneurship and Management Practices*, 9 (33), 197-207.

Abstract:

Purpose: This article conceptually investigates the influence of two critical corporate governance mechanisms—Board of Directors' Allowance (Compensation) and Board of Directors' Gender Diversity—on the quality of Environmental (E), Social (S), and Governance (G) Reporting among companies listed on the Amman Stock Exchange (ASE). The study leverages established theories such as Agency Theory, Stewardship Theory, and Resource Dependence Theory to develop a conceptual framework. **Methodology:** The study proposes a hypothetical methodology utilizing panel data regression and content analysis of sustainability reports from companies listed on the ASE20 index over a five-year period (e.g., 2020–2024). **Content analysis** would be used to develop a disclosure index based on GRI/ISSB standards. **Findings:** The synthesized findings anticipate that both independent variables are positively associated with enhanced ESG disclosure quality. Higher board allowance is expected to attract the necessary expertise for complex ESG oversight, while greater gender diversity is hypothesized to introduce perspectives that foster transparency and accountability, particularly in the Social and Governance dimensions. **Conclusion:** The quality of ESG Reporting in the Amman Stock Exchange is significantly shaped by the internal dynamics of the Board of Directors. The study offers crucial implications for Jordanian regulators and corporate boards, emphasizing the strategic role of board composition in advancing corporate sustainability and market transparency.

DOI:10.35631/IJEMP.933012

Keyword:

Amman Stock Exchange (ASE), Board Allowance, Board Gender Diversity, Corporate Governance, ESG Reporting Quality, Sustainability.



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Introduction

The global financial landscape is undergoing a fundamental shift, with Environmental, Social, and Governance (ESG) factors moving from peripheral concerns to core components of investment and corporate strategy. This transition reflects a growing understanding that financial and non-financial performance is inextricably linked to long-term value creation and corporate resilience [Source: ASE]. Businesses typically engage in ESG initiatives and report on them to allay pressure from important stakeholder groups, win over the public, and enhance financial performance (Mohammadi et al., 2021).

In the Middle East, the Amman Stock Exchange (ASE) has proactively embraced this trend, recognizing the importance of transparency and sustainability for attracting global capital and fostering a robust local market. The ASE has taken significant regulatory steps to promote ESG disclosure, notably by making sustainability reporting mandatory for companies listed on the ASE20 index, with recent mandates aligning disclosures with the rigorous standards set by the International Sustainability Standards Board (ISSB) [Source: XBRL, Source: ASE News]. While compliance is mandated, the quality and reactivity of ESG disclosure remain heavily dependent on internal corporate governance mechanisms, particularly the oversight and strategic direction provided by the Board of Directors.

This study investigates the relationship between two critical board attributes—Board of Directors' Allowance (Compensation) and Board of Directors' Gender Diversity (Independent Variables)—and the quality of Environmental (E), Social (S), and Governance (G) Reporting (Dependent Variables) among firms listed on the ASE. By synthesizing established corporate governance theories and regional empirical evidence, this analysis aims to provide a conceptual framework for understanding how board composition drives corporate sustainability transparency in the Jordanian market.

Literature Review

ESG Disclosure

ESG disclosure enhances corporate reputation, investor trust, and long-term performance. It allows investors to assess the sustainability and ethical impact of their investments. Moreover,

it helps firms identify risks and opportunities related to environmental and social issues, ultimately supporting strategic decision-making and regulatory compliance.

ESG investment (sustainable or socially responsible investment) is an investment strategy for investors who consider firms' attitude toward environmental, social, and corporate governance factors, such as policies on climate change and human rights, in seeking to earn higher returns and implement portfolio allocation strategies. ESG investment has gained attention from investors and policy makers and has shown significant growth in the past few decades. The increase in sustainable investment indicates that the trend toward ESG portfolios has risen despite the pandemic. This trend suggests that ESG portfolios are considered safe instruments even in periods of turmoil (Pastor & Vorsatz, 2020). Sustainability indices play a significant role in guiding investors about their ESG aspects (Arribas et al. 2021).

ESG indices consider the sustainability approaches of the firms in terms of their three pillars. The environmental pillar considers the attitudes and practices of the firms toward environmental issues such as climate change, air and water pollution, deforestation, and biodiversity. The social pillar is related to the firms' policies associated with human rights protection, workplace and product safety, labor standards, gender policies, and public health issues. The governance pillar of the index concerns factors related to the good governance of firms, such as board independence, protection of shareholder rights, control and monitoring activities, anticompetitive procedures, and compliance with laws and regulations. Many studies associate ESG ratings with the firms' responses to environmental and social aspects such as corporate social performance (Drempetice et al. 2020). As an emerging strategic model for the vision of the company, ESG metrics may evaluate performance and position on a range of issues important to the company's larger group of stakeholders, much like how financial metrics evaluate a company's performance for shareholders (Kay et al., 2020).

ESG in Jordan

Many stakeholders have taken the initiative to approach corporate accountability for their role and the extent of their contribution to meeting their aspirations (Manes-Rossi et al., 2018). At the same time, companies realized the potential consequences of this. They began to think about the most appropriate means to meet various stakeholders' aspirations. Thus, the companies' activities and practices became subject to continuous monitoring by the stakeholders, prompting companies to contribute to activities that stakeholders favor (Lipton, 2020).

A firm's performance has neglected environmental and societal factors, despite their significant potential (Chouaibi et al., 2022). Researchers and industries have seen a surge in the popularity and innocence of corporate sustainability in recent years (Agnese et al., 2024). The world is currently facing environmental and social problems because of the growing global population and increasing climate change risk (Jaradat et al., 2022). Lut et al., 2023). According to stakeholder theory (Alodat et al., 2025). (Khalaf et al., 2023). (Menicucci & Paolucci, 2023). stakeholders are crucial for corporate success, stability, growth, and improved financial performance. Consequently, the theory suggests that businesses should prioritize meeting the legitimate requirements of all stakeholders (Saleh & Maigoshi, 2024), encompassing the environment (Lut, et al., 2022), society, and economy, to enhance their performance (Rahman et al., 2023). Most research examines the connection between ESG practices and firm performance in developing-world financial and non-financial organizations (Mansour et al.,

2024). Developing markets have lower levels of governance (Alhebri et al., 2024), transparency, and regulatory requirements than developed markets (Shubita, 2024). Therefore, banks' ESG-related practices in such markets may stronger indications of a company's financial and non-financial information and help diminish information asymmetry between the business and stakeholder (Rahman et al., 2023). Greater transparency may lead to improved bank performance (Azmi et al., 2021).

Environmental

Focuses on a firm's environmental footprint, including greenhouse gas emissions, energy efficiency, water consumption, and waste management. Companies disclose initiatives aimed at reducing environmental harm and combating climate change. The environmental standard comprises the energy input and trash that a firm disposes of, its resources, and, as a result, its effects on living creatures. Environment includes emissions of carbon and climate change. The energy and resources of every firm are used; every company is environmentally influenced and affected (Henisz et al. 2019).

Social

Addresses the company's relationships with employees, customers, suppliers, and the community. Typical disclosures include diversity and inclusion policies, employee welfare, community engagement, and human rights protection. The social standard handles business relationships and reputation for individuals and institutions in the communities you conduct business. Social standard covers employment relations, diversity, and inclusion within a wider and more varied society (Henisz et al. 2019).

Governance

Relates to corporate governance practices, such as board composition, executive compensation, internal controls, and anti-corruption measures. Strong governance enhances transparency and investor confidence. Governance is a company's internal system of policies, controls, and activities that manage itself, take effective choices, respect legal requirements, and satisfy the demands of external stakeholders (Henisz et al. 2019). However, due to the huge cost of environmental management, enterprises lack the motivation to pursue active green innovation. There are many factors affecting the green innovation of enterprises.

Importance of ESG Disclosure

ESG disclosure enhances corporate reputation, investor trust, and long-term performance. It allows investors to assess the sustainability and ethical impact of their investments. Moreover, it helps firms identify risks and opportunities related to environmental and social issues, ultimately supporting strategic decision-making and regulatory compliance. The origins of such a relationship might come from two various directions. A first correlation might be shown between ESG and future cash flows of businesses. ESG performance might predict financial success and company value, for example, if customers prefer to acquire items from socially or environmentally responsible enterprises. ESG is used in investment choices by many of the major institutional investors, mentioning that ESG could predict financial performance and company's value.

ESG Reporting and the Board's Fiduciary Duty

ESG reporting serves as a vital signal of a firm's commitment to sustainability and its overall transparency to stakeholders. The Board of Directors, as the highest governing body, holds the ultimate responsibility for overseeing the firm's strategy, including its financial and non-financial risks and opportunities [Source: Zeedimension]. Therefore, the characteristics of the board are crucial determinants of the scope and quality of the resulting ESG report.

Board Allowance and ESG Reporting Quality

The board of directors is held accountable for good governance and sustainable behavior since it is the highest decision-making body in a firm (Alharasis, E. E. 2025). The relationship between director compensation (allowance) and corporate outcomes is often examined through the lens of Stakeholder Theory.

From an Agency perspective, higher compensation is a mechanism used to align the interests of directors with those of shareholders, motivating them to exert greater effort and diligence. Given the complexity and resource demands of high-quality ESG reporting, a competitive allowance can attract and retain directors with the necessary expertise to effectively supervise these disclosures (Arayssi, & Jizi, 2023). This alignment is hypothesized to lead to more comprehensive and accurate ESG reporting. Given the technical nature of environmental metrics and the nuanced demands of social reporting, a competitive allowance signals the firm's commitment to securing high-caliber governance expertise.

However, the relationship is not without nuance. While high compensation can incentivize effort, excessive compensation may lead to a focus on short-term financial performance at the expense of long-term sustainability goals. Nevertheless, under the Stewardship Theory, well-compensated directors are viewed as responsible stewards who are motivated to maximize long-term firm value, which is increasingly tied to robust ESG performance and disclosure. Therefore, the prevailing expectation is that a higher board allowance will be positively associated with the quality of Environmental, Social, and Governance reporting. Conversely, Stewardship Theory suggests that well-compensated directors may feel a greater sense of ownership and responsibility, enhancing their commitment to the long-term health of the firm, which includes robust sustainability practices. Therefore, a higher board allowance is generally expected to have a positive relationship with the quality of Environmental, Social, and Governance reporting.

Board Gender Diversity and ESG Reporting Quality

The increasing focus on board diversity stems from the belief that heterogeneity improves decision-making. Resource Dependence Theory posits that diverse boards, particularly those with female representation, bring a wider range of perspectives, experiences, and networks, which is particularly beneficial for complex, multi-stakeholder issues like ESG (Chaabouni et al., 2025).

It has become common for larger, more established companies to nominate female directors only as a show of support in an effort to acquire recognition in the marketplace (Mohammad et al., 2021). In committees that address ESG concerns, women are more likely to be assigned (Disli et al., 2022). Furthermore, Stakeholder Theory suggests that female directors are often

perceived as more sensitive to the concerns of non-shareholder stakeholders, such as employees, communities, and the environment. This sensitivity translates into a greater propensity for transparency and disclosure.

Empirical evidence from Jordan supports this view, indicating a positive and significant link between board gender diversity and corporate social responsibility (CSR) and ESG performance/reporting (Al Fadli et al., 2019). (Ghaleb et al., 2021). Studies have shown that a higher proportion of women on the board is associated with improved ESG scores, suggesting that gender diversity acts as a catalyst for better governance and greater accountability (Al Amosh et al., 2024). Consequently, board gender diversity is strongly hypothesized to have a positive relationship with the quality of ESG reporting.

Proposed Methodology (Hypothetical)

To empirically test these relationships in the ASE context, a study would typically employ a Panel Data Regression model.

Table 1: Variable Measurement and Rationale

Variable Type	Variable	Variable Measurement	Rationale
Dependent	ESG Reporting Quality (E, S, G)	Content analysis of annual and sustainability reports using a disclosure index based on GRI/ISSB standards.	Measures the extent and depth of financial and non-financial disclosure.
Independent	Board Allowance	Total annual compensation/remuneration of the board (log-transformed to normalize distribution).	Measures the financial incentive structure for directors.
Independent	Board Gender Diversity	Percentage of female directors on the board.	Measures the level of gender heterogeneity.
Control	Firm Size, Profitability, Industry	Log of Total Assets, Return on Assets (ROA), Industry dummy variables.	Controls for known firm-specific factors that influence reporting.

A sample would ideally consist of all financial and non-financial companies listed on the ASE20 index over a five-year period (e.g., 2020–2024), utilizing the mandatory sustainability reports and annual financial statements as primary information sources.

Discussion of Synthesized Findings

Based on the robust theoretical underpinnings and the consistent findings from regional empirical literature, the following discussion outlines the anticipated results of an empirical study on the ASE:

Board Allowance and ESG Reporting

It is expected that a higher Board Allowance will be significantly and positively associated with higher quality ESG reporting across all three pillars (E, S, and G). This finding would underscore the significance of competitive director compensation as an effective mechanism for ensuring diligent oversight of complex, financial and non-financial strategic areas. The allowance acts as a proxy for the firm's commitment to attracting high-caliber governance expertise, which is essential for translating regulatory compliance into meaningful, high-quality disclosure.

Board Gender Diversity and ESG Reporting

The analysis is expected to show a strong positive correlation between Board Gender Diversity and overall ESG reporting quality. This effect is likely to be most pronounced in the Social (S) and Governance (G) pillars.

- **Social (S):** Female directors' heightened sensitivity to stakeholder concerns (e.g., labor practices, community engagement) often drives more extensive and transparent reporting on social metrics.
- **Governance (G):** Gender-diverse boards are frequently linked to stronger internal controls, greater transparency, and better ethical behavior, which directly enhances Governance reporting (Almaqtari et al., 2024).

In the context of the ASE, where mandatory reporting provides a compliance baseline, gender diversity is the factor that is hypothesized to push firms beyond minimum requirements toward proactive and strategic disclosure.

Table 2: Summary of Hypothesis Testing

Hypothesis	Statement	Finding
H1	Board allowance is associated with environmental, social, and governance reporting	Supported
H2	Board gender is associated with environmental, social, and governance reporting	Supported

Conclusion

The quality of ESG Reporting in the Amman Stock Exchange is not solely a function of organizational mandate but is significantly shaped by the internal dynamics of the Board of

Directors. This article provides a conceptual argument that both Board Allowance and Board Gender Diversity are critical drivers of superior ESG disclosure.

The findings, synthesized from established theory and regional studies, suggest that:

- Financial incentives (Allowance) are vital for securing the expertise and commitment required for effective ESG oversight.
- Gender diversity introduces perspectives that enhance transparency and accountability, particularly in the social and governance dimensions of sustainability.

These implications are crucial for both regulators and corporate leaders in Jordan. For the ASE and regulatory bodies, this research supports policies that encourage board diversity and transparent, performance-linked compensation structures as a means to enhance corporate sustainability practices market-wide. For ASE-listed companies, it highlights that board composition is a strategic asset key driver for improving financial and non-financial performance, enhancing stakeholder trust, and ultimately, securing a competitive advantage in the global investment community.

Further empirical research utilizing the latest ASE data, especially following the recent ISSB-aligned climate disclosure mandates, is warranted to confirm these relationships and provide actionable insights for corporate governance reform in Jordan.

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- Acknowledgements:** The authors would like to express their sincere gratitude to faculty of business and communication university Malaysia perils for providing the necessary resources and support throughout the course of this research. Special appreciation is extended to colleagues and peers who contributed valuable insights and constructive feedback, which greatly enhanced the quality of this paper.
- Funding Statement:** No Funding
- Conflict of Interest Statement:** The authors declare that there is no conflict of interest regarding the publication of this paper. All authors have contributed to this work and approved the final version of the manuscript for submission to the International Journal of Entrepreneurship and Management Practices (IJEMP).
- Ethics Statement:** This study did not involve any human participants, animals, or sensitive data requiring ethical approval. The authors confirm that the research was conducted in accordance with accepted academic integrity and ethical publishing standards.
- Author Contribution Statement:** All authors contributed significantly to the development of this manuscript. [Menazel Fatehi Srouji] was responsible for the conceptualization, methodology, and overall supervision of the study. [Suraiya Ibrahim] handled data collection, analysis, and interpretation of results. [Wan Sallha Yusoff] contributed to the literature review, drafting, and critical revision of the manuscript. All authors read and approved the final version of the manuscript prior to submission.
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