Chapter 12
ESG Performance in Relationship With the Board of Directors, Sustainability Incentives, and CSR

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ABSTRACT

This chapter seeks to address the ESG performance gap in the literature by examining the impact of board size, board independence, women on the board, incentive compensation in terms of sustainability, and CSR committee on the ESG performance. Using one of the largest datasets to date, consisting of an unbalanced dataset of 313 constant year observations from MENA region, spanning an eleven-year period (2007-2017), these results are several. First, the results indicate that board size is positively correlated with ESG performance. Also, the authors show that board independence and the percentage of women in the board are positively correlated with ESG performance.

1. INTRODUCTION

The performance of the company depends mainly on the board of directors (Ajaz et al., 2020), since it is responsible for approving and supervising the implementation of the strategic objectives, the system of governance and the creation of the corporate culture (Alessandrini & Jondeau, 2021). An effective board will also emphasize business ethics and corporate responsibility (Arayssi et al., 2020). A growing body of research has found a strong positive relationship between a company's sustainability performance and its profitability: companies with high sustainability scores significantly outperform their peers in market

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value and book performance (Baraibar-Diez et al., 2019) . Based on these considerations, this study aims to identify the characteristics of the board of directors that improve the performance of environmental social governance. According to current literature (Arayssi et al., 2020), (Birindelli et al., 2018) our analysis examines the effect of board characteristics (gender diversity, size, activity, compensation, and ESG disagreements) on ESG performance in a sample of 313 MENA observers spanning a period from 2007 to 2017 To illustrate a company's sustainability performance, we use the Thomson Reuters ESG Asset Score 4, a broad and reliable measure of CSR performance adopted by researchers for both non-financial companies.

Our main empirical evidence shows that there is a linear relationship between the characteristics of the board of directors, the remuneration policy, the CSR committee and the ESG performance of the company. Interestingly, the correlation between the dependent and independent variables is linear, confirming that the characteristics of the board of directors, the remuneration policy and the CSR committee positively influence the ESG performance of the company.

We therefore support the critical theory of strict corporate sense, which means that after achieving a large board size, a high level of board independence, an increased presence of female directors on the board, the adoption of incentive compensation in terms of sustainable development, establishment of the CSR Committee have a positive impact on ESG (Arayssi et al., 2020), (Castellanos & George, 2020). The rest of the paper is organized as follows. Section 2 presents the research hypotheses. Section 3 discusses sampling procedures and the measurement of variables. Section 4 explains and discusses the results, and finally Section 5 presents the conclusions.

2. HYPOTHESES DEVELOPMENT

The variables most frequently used in the literature to describe the effect of board size, gender diversity, board independence, sustainability incentive compensation and performance of the CSR committee on ESG performance and we develop below our hypotheses for each of these characteristics of corporate governance (Harjoto & Wang, 2020), (Merendino & Melville, 2019), (Ng et al., 2020), (Peng, 2020), (Qa'dan & Suwaidan, 2019).

hypothesis 1. the size of the plaque favorably affects ESG performance.

hypothesis 2. the independence of the board positively affects the performance of the ESG. hypothesis 3. a high level of gender diversity positively affects ESG performance. executive compensation and carbon performance

hypothesis 4: ceteris paribus, large companies adopt sustainable ESG remuneration incentives, which are more important for process-oriented ESG performance.

hypothesis 5. the establishment of a CSR sustainability committee has a positive impact on ESG performance.

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