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# RESEARCH ON THE EFFECT OF CORPORATE GOVERNANCE AND COMPANY PERFORMANCE OB NON-FINANCIAL INFORMATION REPORTING

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## ABSTRACT

**Purpose-**Non-financial information disclosures regarding companies' sustainability efforts are in the spotlight. Therefore, companies are turning to environmental and social activities rather than the traditional approach focused on making profits. In this context, it is important to disclose non-financial information in a transparent manner as well as financial information. The study is conducted to determine whether corporate governance (CG) qualities and firm performance affect the disclosure of non-financial information.
**Methodology-** Within the scope of the study, a sample is created using data from 443 companies in European countries. In the study, panel data analysis is applied to the sample created for the years 2016–2020.
**Findings-** Study findings show the impact of financial performance (FP) and firm size on non-financial information disclosures. In addition, study findings reveal that corporate governance qualities also positively affect the disclosure of non-financial information. In this sense, it is seen that characteristics such as board size and having independent members contribute to greater disclosure of environmental information.
**Conclusion-** The study shows that companies that are large, have CG, or have high FP may be more focused on environmental activities and may disclose more non-financial information.

**Keywords:** Board of directors, corporate governance, non-financial information reporting, firm performance, panel data.
**JEL Codes:** L25, G30, C23

## 1. INTRODUCTION

Sustainability has a scope that integrates economic, environmental, and social issues regarding current and future generations. Commercial companies with a profit-oriented market logic do not have the ability to meet the complexity of sustainable development and the different expectations of stakeholders. However, today, company management is forced to include sustainability issues in their strategic and operational management processes rather than traditional management for commercial purposes (Burritt & Schaltegger, 2010; Schneider, 2015). In this context, the pressure from stakeholders to disclose the sustainability activities that companies include in their corporate processes is increasing (Al-Shaer & Zaman, 2018; Dutta et al., 2012). Therefore, it is expected that company management's efforts to focus on human, capital, and environmental activities and adopt ethical rules will lead to better corporate governance (CG) and financial performance (FP) (Orlitzky et al., 2003).

Today, the increasing competition and crisis environment in the global arena make the accumulation of knowledge and innovation abilities important for companies to increase their sustainability. Therefore, information users have become more interested in disclosing non-financial information about companies' social and environmental issues in addition to company performance (Kirana & Budi Prasetyo, 2021). There are many current studies aimed at raising awareness about the risks and threats of climate change and transitioning to a low-carbon economy against global warming (Tanthanongsakkun et al., 2022). In addition, as investors' interest in these issues increases, disclosing and reporting non-financial information as well as financial information is gaining more importance. Therefore, presenting non-financial information transparently and accurately is an important factor for investors to make accurate sustainability decisions (Zourari & Dhifi, 2022; Caesari et al., 2016). The increased interest of stakeholders such as legal regulations, social media, and non-governmental organizations in environmental and social activities indirectly causes some changes on the boards of directors. Because of this, boards of directors now have to take into account the interests of other company-related stakeholders as well as the interests of shareholders (Fuente et al., 2017). Therefore, companies are expected to be determined not only to disclose social and environmental non-financial information to their stakeholders but also to meet stakeholder expectations (Ananzeh, 2022). In fact, the demands of information users for the reporting of non-financial information also create a separate stakeholder pressure for companies. As a result, the accuracy of their statements regarding environmental and social activities contributes

to increasing trust in companies (Ellemers & Chopova, 2022). Disclosure of non-financial information regarding corporate social responsibility activities can increase customer trust and company reputation, as well as have the potential to improve company performance and enable various government contributions such as tax deductions (Khan et al., 2019).Corporate sustainability reporting, which is used to reflect the financial, social, and environmental sustainability performance of companies to stakeholders, creates awareness among information users. In addition, sustainability reports are an indicator of the way the company's resources are distributed and how value is created between different forms of capital (Siew, 2015). On the other hand, companies with a well-established corporate structure will have a flexible mechanism to present their non-financial information to information users in a transparent manner, so their quality of providing publicly available information regarding their corporate social responsibility activities will be high (Adel et al., 2019). In this case, companies with effective CG will have to plan their financial impacts while carrying out their social and environmental activities (Vives, 2008; Wirba, 2023). Environmental, social, and governance (ESG) scores have a systematic structure created to objectively and transparently measure a company's relative ESG performance, commitment, and effectiveness based on the company's own data. The ESG score is an evaluation method that takes into account the sum of three basic components: environmental, social, and corporate governance. The environmental score is determined by considering the company's efforts regarding resource use, innovation, and emissions. The social score evaluates the company's activities regarding the workforce, product responsibility, society, and human rights. In the CG score, an evaluation is made for all sectors regarding corporate social responsibility strategies, shareholders, and management. While the CG score is determined for all sectors, a weighted group scale that varies by sector is used for environmental and social scores (Refinitiv, 2022).

This paper aims to contribute to existing and ongoing research on sustainability in companies. In this respect, the paper addresses the effects of CG on the disclosure of non-financial information, especially in terms of board size and the presence of independent directors. When previous studies are examined, although there are various studies covering board qualifications or disclosure of non-financial information in the context of CG, it is seen that there are still some uncertainties to draw a clear conclusion. Therefore, the present paper considers the impact of CG and FP on non-financial information disclosure for environmental and social activities. In addition, unlike previous studies, this study focuses on disclosures of non-financial information within the scope of environmental scores rather than general ESG scores. Following the introductory section given in accordance with the purpose of the study, study hypotheses are developed in the second section by focusing on the literature on CG and disclosure of non-financial information. In the third section, which reveals the research design, the methodology section is included, and explanations about the data set, sample, methods, and models used in the study are mentioned. Then, the findings, results, and suggestions obtained in line with the study method are presented.

## 2. LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

In today's conditions, effective CG can be achieved by including more details in disclosures regarding climate change in order to reduce the risks to the company and increase the value of the company in the capital market (Ben-Amar & Mclkennny, 2014). Therefore, CG that discloses accurate information regarding social and environmental activities can also reduce risks (Chen et al., 2016; Hoi et al., 2013). Making non-financial information available to the public contributes to increasing the company's reputation and allows it to increase its competitiveness in the product, labor, and capital markets (Deng et al., 2013).

Increasing business volumes and the competitive environment require the professionalization of company management and the separation of ownership and management. Nowadays, it is very important for companies to form their boards of directors with members with the necessary expertise. Because, in addition to protecting shareholder interests, companies need a management structure that can fulfill responsibilities such as identifying and monitoring corporate social responsibility disclosures, managing environmental and social activities, and ensuring accountability (Hameed et al., 2023). A professional board of directors should be able to manage strategic and operational decisions regarding the monitoring and control of companies, taking into account the expectations of shareholders and stakeholders (Raimo et al., 2020; Jo & Harjoto, 2012). It is important for managers with different experiences to work together and ensure cooperation between them in an effective board of directors, which has a significant role in making corporate strategic decisions (Pugliese et al., 2009). In addition to carrying out its social and environmental activities in compliance with the laws prepared by governments, effective CG should also be able to provide the quality and reliability of making non-financial information available to the public by making transparent disclosures (Liao et al., 2018).

Today, diversity on boards of directors is of great importance in terms of disclosing potential stakeholders and non-financial information (Peng et al., 2021). It is envisaged that a diverse board of directors can better fulfill its accountability responsibility (Liao et al., 2015). Factors such as the increase in the total number of members on the boards of directors and the presence of more independent members or female members on the boards of directors are accepted as indicators of the more effective functioning of CG. It is accepted that having more independent company management, the frequency of board meetings, and/or leadership structures have a significant role in the effectiveness of CG (Van den Berghe & Levrau, 2004). Previous studies have addressed many research topics examining board characteristics such as independent board member rates, board sizes, gender diversity, and female CEOs (Cicchiello et al., 2021).

Board size refers to the total number of members on the board of directors. In addition, increasing the number of board members may negatively affect the effective functioning of boards of directors, as it may make decision difficilitated (Rao et al., 2012). In previous studies, different studies have been found that reveal both the negative (Qavqzeh et al., 2021; Disli et al., 2022) and positive effects (Mak & Roush, 2000; Alabdullah et al., 2019) of board size on the disclosure of non-financial information. The following hypothesis regarding board size is developed:

***Hypothesis _1 (H1):*** *Board size has an impact on non-financial information disclosure.*

The ratio of independent members of the board of directors to the total number of members is considered an indicator that there is no conflict of interest or that it is low (Koerniadi & Tourani-Rad, 2012). Some previous studies on agency theory indicate that the presence of independent directors on the board of directors is a factor in making more transparent disclosures (Ben-Amar & Mclkennny, 2014). The ratio of independent members of the board of directors express the members who are on the board of directors without having ownership rights and who do not have a director title (Calderón et al., 2020). Members with ownership rights are likely to make unfair assessments and/or cooperate with managers. However, independent members are likely to act to protect stakeholder interests and/or pressure management to disclose more information (Eng & Mak, 2003; Shamil et al., 2014). Since independent board members do not have any relationship with the company, it is accepted that they will exhibit more objective behavior in decision-making processes than other members who are shareholders (Weerasinghe & Ajward, 2017; De Silva & Hewage, 2022). While some previous studies point to a positive relationship between board independence and disclosure level (Chen & Jaggi, 2000; Petra, 2005), some studies indicate a negative effect (Zhou et al., 2018; Eng & Mak, 2003; Chau & Gray, 2010; Oh et al., 2011). Therefore, the following hypothesis is developed regarding the rate of independent members of the board of directors:

***Hypothesis_2 (H2):*** *Board independence has an impact on non-financial information disclosure.*

In previous studies, the impact of non-financial information disclosures, corporate social responsibility disclosures, or sustainability disclosures on FP is generally evaluated. Unlike the literature, the study examines the effects of firm performance on non-financial information disclosure, with the assumption that FP will increase orientation towards environmental activities. The following hypothesis is formulated regarding non-financial information disclosure of firm performances.

***Hypothesis_3 (H3):*** *Firm performance has an impact on non-financial information disclosure.*

## 3. EMPRICAL RESEARCH DESIGN

In this section, the research methodology is included in order to determine the effect of board characteristics and firm performance on the disclosure of non-financial information. That is, this chapter contains explanations about the sample, variables, and pre-tests used in the analysis part of the research.

### 3.1. Sample Size and Study Period

The paper's sample was created for European countries where higher ESG scores can be achieved due to legal sanctions on social and environmental reporting. For the sample group created with European countries, data for the years 2016–2020 obtained from the Thomson Reuters Eikon database are used. Companies that are not financial in nature and whose full data can be accessed are included in the sample, and the final sample consists of 443 companies and 2215 observations. Since the data set of the sample includes both cross-section and time sections, panel data analysis is used as management in the study.

### 3.2. Creating Study Variables and Models

The following main model is used to analyze the hypotheses created for the purpose of the paper:

$$\mathrm{ENVMNT}_{i,t} = \alpha + \beta_1 \mathrm{ROA}_{i,t} + \beta_2 \mathrm{MTVBV}_{i,t} + \beta_3 \mathrm{BOARDS}_{i,t} + \beta_4 \mathrm{BOARDI}_{i,t} + \beta_5 \mathrm{GROWTHS}_{i,t} + \beta_6 \mathrm{SIZE}_{i,t} + \beta_7 \mathrm{LEV}_{i,t} + \varepsilon_{i,t} \quad (1)$$

The variables determined for the analysis of the hypotheses created for the purpose of the paper consist of both financial and non-financial information. Symbols and measurement forms for variable definitions used in the model of the paper is given in Table 1.

**Table 1: Symbols and measurement forms for variable definitions used in the model of the paper**

| Dependent Variables | Definition |
|---|---|
| ENVMNT | Environmental score |
| EMISSION | Emission reduction score |
| INNOVATION | Innovation score |
| RESOURCE | Resource score |

| Independent and Control Variables | Definition |
|---|---|
| ROA | Ratio of period profit to lagged total assets |
| MTVBV | Ratio of market value to book value |
| BOARDS | Total number of board members |
| BOARDI | Ratio of the number of independent board members to total members |
| GROWTHS | Sales growth rate |
| SIZE | Logarithm of total assets |
| LEV | Ratio of total debts to total assets |

Unlike previous studies, the study was addressed specifically with explanations for environmental activities instead of the general ESG score, and the Environmental (ENVRMNT) score was used as the dependent variable in the main model. In addition, in robustness controls, the three basic elements that make up the environmental score (EMISSION, INNOVATION and RESOURCE) were used as dependent variables. In the paper, the environmental (ENVRMNT) score is used as the dependent variable regarding the disclosure of non-financial information. Based on previous studies, BOARDS and BOARDI variables were used in the model used in the paper as a CG indicator (Zhou et al., 2018; Shamil et al., 2014; Pathak & Gupta, 2022; Almaqtari et al., 2023).

## 4. FINDINGS AND DISCUSSIONS

In this part of the study, panel data analysis findings regarding the models used are included.

### 4.1. Descriptive Statistics

Descriptive statistical information of the variables of the models created within the scope of the study is shown in Table 2. Regarding board qualifications, it is seen that the total board size has an average of 0.11 and the ratio of independent members is 0.59. The findings show that companies tend to grow in sales at a rate of 3.55% and to borrow at a rate of 0.25%.

**Table 2: Descriptive statistical information**

| Variables | Mean | Standard deviation | Minimum | Maximum |
|---|---|---|---|---|
| ENVMNT | 63.429 | 22.295 | 0.510 | 99.200 |
| EMISSION | 70.452 | 22.926 | 4 | 99.870 |
| INNOVATION | 42.947 | 33.714 | 0 | 99.880 |
| RESOURCE | 70.110 | 26.100 | 0 | 99.890 |
| ROA | 0.042 | 0.091 | -1.765 | 0.444 |
| MTVBV | 55.185 | 2730.994 | -26227.800 | 125350.600 |
| BOARDS | 0.1122 | 0.039 | 0.030 | 0.230 |
| BOARDI | 0.594 | 0.239 | 0 | 1 |
| GROWTHS | 3.554 | 0.862 | 0.301 | 6.179 |
| SIZE | 6.906 | 0.748 | 4.960 | 9.001 |
| LEV | 0.255 | 0.174 | 0 | 2.600 |

### 4.2. Correlation Results

Pearson correlation coefficients are generally consistently small across study variables, allowing the analysis to avoid multicollinearity problems. Using the Pearson correlation method, it is checked whether there is multicollinearity between variables. Correlation findings regarding the variables used in the models within the scope of the study are shown in Table 3. Pearson health coefficients are generally somewhat small across study variables, allowing the analysis to avoid multipath problems. Using the Pearson process method, it is checked whether there is multi-control between variables. The distributions of the variables used in the models within the scope of the study is given in Table 3.

**Table 3: Correlation results**

| Variables | ENVMNT | ROA | MTVBV | BOARDS | BOARDI | GROWTHS | SIZE | LEV |
|---|---|---|---|---|---|---|---|---|
| ENVMNT | 1.000 | | | | | | | |
| ROA | 0.004 | 1.000 | | | | | | |
| MTVBV | -0.042** | 0.079*** | 1.000 | | | | | |
| BOARDS | 0.412*** | -0.059*** | -0.025 | 1.000 | | | | |
| BOARDI | 0.201*** | 0.016 | 0.007 | -0.077*** | 1.000 | | | |

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| GROWTHS | 0.418*** | -0.070*** | -0.024 | 0.323*** | 0.143*** | 1.000 | | |
| SIZE | 0.592*** | -0.036* | -0.034 | 0.504*** | 0.175*** | 0.752*** | 1.000 | |
| LEV | 0.115*** | -0.293*** | 0.069*** | 0.112*** | 0.094*** | 0.078*** | 0.172*** | 1.000 |

Note: "***, ** and *" signs indicate statistical significance at the 1%, 5% and 10% level, respectively.

Although the correlation analysis results given in Table 3 generally show that there is a substantial relationship between the variables, it is seen that the relationship between the variables is substantially low. The connections seen in the variables generally remain below the 0.80 limit value (Gujarati, 2009), which is the high correlation value presented in previous studies. In addition, the findings of the "Variance Inflation Factor (VIF)", which was used to detect the existence of multicollinearity problems in panel data analysis, appear to be at an acceptable level. These findings show that there is no multicollinearity problem among the independent variables.

### 4.3. Regression Results

Panel data analysis was used for the model developed to determine the effect of the CG qualities of the paper on the disclosure of non-financial information. Firstly, preliminary tests for panel data analysis were conducted. In this respect, the presence of a multicollinearity problem in the model was examined, and it was found that the VIF value was at 1.59. The VIF value, which is at an acceptable level, is proof that there is no multicollinearity problem in the developed model. It was determined that there was an autocorrelation problem in the model by checking whether there was an autocorrelation problem with the "Durbin-Watson Test" and "Baltagi-Wu LBI Test". In the fixed effects model, the presence of heteroskedasticity was determined by applying the "Modified Wald Test" to detect the presence of heteroscedasticity according to the units in the residues. In addition, the "Hausman Test" is applied to determine whether a "Fixed Effects" or "Random Effects" model will be used in the study. According to the "Hausman Test" results, it is seen that the "Fixed Effects Model" is more suitable for accurate prediction in the article. The existence of cross-section dependence, heteroscedasticity, and autocorrelation problems were detected in the model used in the paper. In order to eliminate the identified problems, the findings were cleared of basic errors by using "Driscoll-Kraay" standard errors, one of the robust estimators, and the model estimation process was performed again. The findings regarding the fixed effects and "Driscoll-Kraay" standard error estimators obtained as a result of the evaluations are presented in Table 4.

**Table 4: The fixed effects and "Driscoll-Kraay" standard error estimators obtained as a result of the evaluations**

| Variables | Fixed Effects Model | | Driscoll-Kraay Standard Errors | |
|---|---|---|---|---|
| | Coefficients | P-Value | Coefficients | P-Value |
| ROA | -3.335 | (0.318) | 8.000** | (0.031) |
| MTVBV | -0.000*** | (0.000) | -0.000** | (0.045) |
| BOARDS | -2.826 | (0.864) | 100.051*** | (0.001) |
| BOARDI | 5.945** | (0.035) | 12.174*** | (0.003) |
| GROWTHS | 0.447 | (0.107) | -0.995 | (0.157) |
| SIZE | 11.874*** | (0.000) | 15.084*** | (0.000) |
| LEV | 3.133 | (0.333) | 1.240 | (0.704) |
| Cons | -24.042 | (0.210) | -56.318 | (0.000) |
| R2 | 0.355 | 0.386 | | |
| F Statistics | 534.520 | (0.000) | 11340.450 | (0.000) |
| Hausman Test | 38.22 | (0.0000) | | |
| Modified Wald Test | 0.0000031 | (0.0000) | | |
| Bhargava et al. Durbin Watson Test | 1.0023741 | | | |
| Baltagi Wu LBI Test | 1.6330413 | | | |
| Breusch Pagan LM Test | 149115.5 | (0.0000) | | |
| Pesaran Scaled LM Test | 115.7345 | (0.0000) | | |
| Pesaran CD Test | 24.194662 | (0.0000) | | |

Note: "***, ** and *" signs indicate statistical significance at the 1%, 5% and 10% level, respectively.

Table 4 shows the $R^2$ value of 0.3554 for the fixed effects model. The findings reveal that the MTVBV ratio has a significant negative effect on environmental disclosures within the scope of non-financial information disclosure. In addition, fixed effects model findings indicate the positive effect of independent member ratio (BOARDI) and firm size (SIZE) on environmental disclosures within the scope of non-financial information disclosure. According to the Driscoll-Kraay Standard Errors model results, it is seen that the MTVBV and ROA variables used as FP indicators in the model have a significant effect at the 0.05 level on non-financial information disclosures. While the positive effect of return on assets is determined, it is seen that there may be a negative effect, albeit small, on market value. In addition, the findings of Table 4 reveal the positive effects of firm size (SIZE), board size (BOARDS), and independent member ratio (BOARDI) on non-financial information

disclosures at the 0.01 level. The paper findings support literature studies (Mak & Roush, 2000; Alabdullah et al., 2019) that reveal a positive effect of board size on non-financial information disclosures. In addition, the results of this study support the literature showing the positive impact of the ratio of independent members on boards of directors on non-financial information disclosures (Zhou et al., 2018; Katmon et al., 2019; Shamil et al., 2014; Chen & Jaggi, 2000; Petra, 2005). Study findings also support studies showing that larger companies will volunteer to reveal more non-financial information than smaller companies (Ananzeh, 2022; Almaqtari et al., 2023). It also contributes to study findings (Ananzeh, 2022) that point to the significant impact of FP on non-financial information disclosure. Since the paper findings regarding the Driscoll-Kraay Standard Errors model in Table 4 support the effect of both board size (BOARDS) and independent member ratio (BOARDI) on non-financial information disclosures, H1 and H2 hypotheses are accepted. Additionally, the findings reveal that firm size has a positive effect on non-financial information disclosure. Study findings show that the ROA variable positively affects non-financial information disclosures, but may have a small negative impact on the MTVBV variable. Therefore, the study findings show the effect of FP on non-financial information disclosures, and the H3 hypothesis is also accepted.

### 4.3. Robustness Check

The main model created to determine the impact of CG qualities on non-financial information disclosures is checked with sub-models created for emissions, innovation, and resource use. The created submodels are shown below.

$$\mathrm{EMISSION}_{i,t} = \alpha + \beta_1 \mathrm{ROA}_{i,t} + \beta_2 \mathrm{MTVBV}_{i,t} + \beta_3 \mathrm{BOARDS}_{i,t} + \beta_4 \mathrm{BOARDI}_{i,t} + \beta_5 \mathrm{GROWTHS}_{i,t} + \beta_6 \mathrm{SIZE}_{i,t} + \beta_7 \mathrm{LEV}_{i,t} + \varepsilon_{i,t} \quad (2)$$

$$\mathrm{INNOVATION}_{i,t} = \alpha + \beta_1 \mathrm{ROA}_{i,t} + \beta_2 \mathrm{MTVBV}_{i,t} + \beta_3 \mathrm{BOARDS}_{i,t} + \beta_4 \mathrm{BOARDI}_{i,t} + \beta_5 \mathrm{GROWTHS}_{i,t} + \beta_6 \mathrm{SIZE}_{i,t} + \beta_7 \mathrm{LEV}_{i,t} + \varepsilon_{i,t} \quad (3)$$

$$\mathrm{RESOURCE}_{i,t} = \alpha + \beta_1 \mathrm{ROA}_{i,t} + \beta_2 \mathrm{MTVBV}_{i,t} + \beta_3 \mathrm{BOARDS}_{i,t} + \beta_4 \mathrm{BOARDI}_{i,t} + \beta_5 \mathrm{GROWTHS}_{i,t} + \beta_6 \mathrm{SIZE}_{i,t} + \beta_7 \mathrm{LEV}_{i,t} + \varepsilon_{i,t} \quad (4)$$

The findings of the submodels of the study are given in Table 5.

**Table 5: Robustness test results**

| Variables | EMISSION | | INNOVATION | | RESOURCE | |
|---|---|---|---|---|---|---|
| | Coefficients | P-Value | Coefficients | P-Value | Coefficients | P-Value |
| ROA | 13.843*** | (0.008) | -7.384 | 0.334 | 18.515*** | (0.002) |
| MTVBV | -0.000** | (0.013) | -0.000 | 0.149 | -0.000* | (0.064) |
| BOARDS | 81.975*** | (0.007) | 148.962*** | 0.001 | 103.895*** | (0.001) |
| BOARDI | 11.138*** | (0.003) | 21.027*** | 0.001 | 9.413*** | (0.005) |
| GROWTHS | -0.190 | (0.817) | -0.619 | 0.519 | -1.316* | (0.091) |
| SIZE | 12.762*** | (0.000) | 13.736*** | 0.000 | 16.485*** | (0.000) |
| LEV | 1.609 | (0.541) | -8.039** | 0.021 | -4.721 | (0.411) |
| Cons | -33.819*** | (0.001) | -76.555*** | 0.000 | -55.890*** | (0.006) |
| R2 | 0.280 | 0.198 | 0.308 | | | |
| F Statistics | 889.550 | (0.000) | 7655.880 | (0.000) | 442.340 | (0.000) |

Note: "***, ** and *" signs indicate statistical significance at the 1%, 5% and 10% level, respectively

The findings of the emission, innovation, and resource variables given in Table 5 generally support the findings of the main model. In particular, the findings regarding the emission and resource dependent variables also show a significant effect of FP and CG qualities on non-financial information disclosures. In addition, the findings support the significant effect of company size on non-financial information disclosures within the scope of emission, innovation, and resource dependent variables. However, the findings of Table 5 show that FP do not have any significant effect on non-financial information disclosures only in terms of the innovation dependent variable.

## 5. CONCLUSION AND IMPLICATIONS

Today, it is necessary to act with a more environmental and social business logic instead of the traditional approach focused on making profits. For this reason, it is important for companies to focus on environmental and social issues in addition to their commercial activities in order to maintain their sustainability in a competitive global environment. In this direction, company management acts more strategically and adds sustainability issues to their management plans. Another issue that needs to be managed is the reporting of company management's efforts to focus on human, capital, and environmental activities to information users. Disclosure of non-financial information as well as financial information is becoming a focus of attention for both stakeholders and other information users. Since the disclosure of non-financial information can lead to

benefits such as ensuring customer trust, increasing company reputation, benefiting from tax deductions or exemptions, and contributing to company performance, corporate management tries to use it correctly.

The study is conducted to determine whether CG qualities and firm performance affect the disclosure of non-financial information. Within the scope of the study, data on companies located in European countries, which have more legal sanctions regarding environmental activities, is used. The sample created with the data of 443 companies in European countries, whose environmental scores can be accessed, is examined with panel data analysis. In the study, panel data analysis was used for the sample with both horizontal and time-section data for the years 2016–2020. Environmental score (ENVMNT) is included as a dependent variable in the basic study model. In addition, emission reduction score, resource usage score, and innovation score variables were used as dependent variables in the submodels created for robustness checks. The independent variables of the study are the ratio of period profit to lagged total assets (ROA), ratio of market value to book value (MTVBV), total number of board members (BOARDS), and ratio of the number of independent board members to total members (BOARDI). Sales growth rate (GROWTHS), logarithm of total assets (SIZE), and ratio of total debts to total assets (LEV) variables are included as control variables in the model.

The necessary preliminary tests of the study models are carried out, and study findings are obtained using the Driscoll-Kraay Standard Errors Resistant Estimator. Study findings reveal that the ROA variable positively affects non-financial information disclosures but may have a small negative impact on the MTVBV variable. Therefore, the H3 hypothesis regarding the effect of FP on non-financial information disclosures is accepted. Hypotheses H1 and H2 are also accepted, as the study findings show that they support the effect of both board size (BOARDS) and independent member ratio (BOARDI) on non-financial information disclosures. In addition, the findings indicate that large companies view non-financial information disclosures more positively. The findings of the submodel, in which emission, innovation, and resource variables are used as dependent variables, generally support the findings of the main model. Robustness tests particularly show a significant effect of CG attributes on non-financial information disclosures.

The study shows that companies that are large, have CG, or have high FP may be more focused on environmental activities and may disclose more non-financial information. The study offers various insights for company boards, academics, or legal regulators. The study contributes to studies on sustainability and CG. The lack of sufficient regulations for the disclosure of non-financial information and the fact that company efforts and disclosures regarding environmental activities are still insufficient indicate the limitations of the study. In the future, examples from developing countries can contribute to the field.

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