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The Impact of Corporate Governance on Sustainability Disclosures: A Comparison from the Perspective of Financial and Non-Financial Firms

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Abstract: This study explores the impact of corporate governance on firms' environmental, social, and governance (ESG) performance, with a focus on board characteristics and ownership structures. Using a panel dataset of 6 financial and 16 non-financial firms listed on the Borsa Istanbul (BIST) from 2013 to 2021, the study investigates how ownership (blockholder, foreign, or institutional) and board composition (size, gender diversity, and foreign directors) influence ESG disclosures. The analysis distinguishes between financial and non-financial firms, revealing that corporate governance mechanisms affect ESG performance differently across sectors. Foreign ownership and the presence of foreign and female board members are positively associated with higher ESG disclosures, while ownership concentration is negatively correlated with ESG performance. These findings suggest caution when comparing firms across sectors based solely on ESG disclosures, as governance factors influence outcomes differently in financial and non-financial contexts. This study provides a detailed analysis of effective corporate governance mechanisms in Türkiye, emphasizing the crucial roles of ownership structure and board composition in enhancing ESG transparency. The results offer valuable insights for regulators and investors, contributing to a nuanced understanding of how governance structures shape ESG performance in both financial and non-financial firms in Türkiye.

Keywords: ESG disclosure; corporate governance; boards of directors; ownership structure

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1. Introduction

Environmental issues, such as global warming, climate change, and pollution, have wide-ranging effects, disrupting not only ecological balance but also economic and social systems. In response, ESG has emerged as a framework to assess a firm's commitment to environmental responsibility, social equity, and transparent governance. The term "ESG" was first introduced in the 2004 report, *Who Cares Wins—Connecting Financial Markets to a Changing World*, published by the United Nations Finance Initiative [1,2]. This landmark report provided guidelines for investors on incorporating environmental, social, and governance factors into financial assessments to promote long-term financial success. It also marked the beginning of ESG's widespread adoption and clarified the distinctions between sustainability and corporate social responsibility (CSR), ensuring these concepts were not misunderstood or conflated.

CSR has been a key topic of discussion in both the business world and academia since the 1950s. It refers to a firm's voluntary commitment to addressing its responsibilities toward society and the environment [3]. In recent years, sustainability has become increasingly important to businesses, policymakers, and researchers. The United Nations'

Brundtland Report (1987) defines sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (World Commission on Environment and Development-WCED, 1987) [4]. By the early 2000s, CSR had evolved into the broader framework of ESG, emphasizing that businesses must integrate these factors into their operations to ensure long-term sustainability [5]. CSR is often seen as essential for the economic development of firms [6].

ESG represents a broader and more comprehensive framework than traditional CSR. A firm's ESG score provides a quantitative measure of its CSR performance [7]. ESG enables firms to systematically integrate sustainability and social responsibility into their value-creation processes [8]. As a result, CSR and ESG are often used interchangeably in the literature, reflecting their shared emphasis on balancing corporate responsibility with long-term business success.

ESG factors are increasingly recognized as key drivers of business sustainability and value creation [9]. These factors include a set of policies and practices that help firms evaluate and improve their environmental, social, and governance impacts. By adopting ESG strategies, businesses can mitigate risks, enhance financial performance, and generate value for all stakeholders [10]. Since the launch of the United Nations' Sustainable Development Goals in 2015, awareness of social and environmental issues has expanded, making ESG factors even more important for aligning with sustainable development objectives [11,12]. As ESG gains prominence, firms are encouraged to manage their corporate governance in accordance with social and environmental standards to ensure long-term sustainable growth [13].

Research on the impact of corporate governance on sustainability disclosures offers varied perspectives. Some studies suggest that CSR enhances firm performance [14–18] while others argue that CSR may impede performance [19,20]. Hsiao (2024) [21] notes that shareholders are often concerned about the benefits of social responsibility initiatives, as these efforts can reduce cash flow and potentially lead to financial challenges, such as credit crises, ultimately causing a decline in firm value. In many countries, even the tax advantages associated with CSR fail to significantly enhance profitability or improve overall firm performance.

Building on our exploration of the relationship between specific corporate governance attributes and ESG disclosures, the primary aim of this research is to address the following question: does corporate governance influence ESG disclosures differently in financial versus non-financial firms? By answering this question, our study broadens the conventional understanding of corporate governance and provides initial insight into the potential connection between board diversity, ownership structures, and ESG disclosures. The analysis examines 6 financial and 16 non-financial firms listed on the Borsa Istanbul (BIST) from 2013 to 2021.

What sets this study apart is its comparison of financial and non-financial firms. This distinction is central to the study's structure and is based on the unique characteristics of the two types of firms. First, financial firms, such as banks, act as intermediaries in the economy by channeling funds from savers to borrowers, playing a key role in creating liquidity and credit [22]. In contrast, non-financial firms operate primarily in the real sector, producing goods and services without directly engaging in financial intermediation. The Diamond–Dybvig Model (1983) [23] explains the role of banks as liquidity providers and how this function shapes the relationship between depositors and banks.

Second, financial firms, particularly banks, specialize in money and liquidity management. By accepting deposits and issuing loans, they provide a vital source of liquidity for the economy [24]. Since money, the primary asset of banks, is highly sensitive to economic fluctuations, effective liquidity management is essential. The Keynesian Theory of Liquidity Preference [25] underscores the role of liquidity in the economic system and the factors influencing money demand, highlighting the importance of banks in maintaining economic stability.

Finally, financial firms, particularly banks, operate under stringent regulatory frameworks, including capital-adequacy ratios and liquidity requirements, to ensure the stability of the financial system. In contrast, non-financial firms are typically subject to more flexible regulations [26].

This study contributes to the literature in three key areas. First, the existing research on the impact of corporate governance practices on sustainability disclosures presents inconsistent findings. This study addresses these discrepancies by offering a more nuanced analysis of the differences between financial and non-financial firms in Turkey. Second, financial firms face stricter regulatory frameworks compared to other sectors. By examining how these regulations affect corporate governance and ESG disclosures, this study aims to uncover the underlying reasons behind the variations between financial and non-financial firms. The findings will provide valuable insights for regulators and investors, offering strategic recommendations and guidance for policymakers. Lastly, as an emerging market, Türkiye offers a unique context for studying corporate governance and sustainability practices. This study is the first to explore the impact of corporate governance mechanisms on ESG disclosures in Türkiye, contributing significantly to the growing body of ESG literature.

The remainder of the paper is organized as follows. Section 2 provides the theoretical background, and Section 3 presents the literature review and research hypotheses. Section 4 outlines the measurement of the dependent and independent variables, along with the methodology employed. Section 5 presents and discusses the empirical results. Finally, Section 6 offers the conclusions.

2. Theoretical Background

There is no single theory that forms the theoretical foundation of corporate governance; rather, a combination of multiple theories supports discussions and research in this field. These theories collectively contribute to the ethical and effective management of firms. In this section, we discuss six of the most widely accepted corporate governance theories.

Agency Theory, one of the most fundamental theories of corporate governance, was established by Berle and Means (1932) [27] and later expanded by Alchian and Demsetz (1972) [28], Jensen and Meckling (1976) [29], and Fama and Jensen (1983) [30]. Agency Theory addresses the principal–agent relationship within firms, where a board of directors and senior managers act as agents, managing the firm on behalf of the shareholders. The theory focuses on the separation of ownership and management, analyzing the conflicts that arise between the interests of managers and shareholders. It also explores mechanisms to prevent managers from exploiting the firm for personal gain. Agency Theory is the most frequently cited theory in the corporate governance literature and serves as the foundation for many other theories in the field.

Stakeholder Theory, proposed by Freeman (1984) [31], argues that a firm should consider the welfare of all stakeholders, not just shareholders. These stakeholders include employees, customers, suppliers, society, and the environment. The theory suggests that a firm's long-term success and sustainability can only be achieved by balancing and protecting the interests of all stakeholders. From a corporate governance perspective, managers can structure business operations to account for the well-being of all parties involved with the firm.

Legitimacy Theory proposes that firms are viewed as legitimate when they operate in line with the norms and values accepted by the stakeholders and society [32]. A firm's legitimacy influences its reputation and trust among stakeholders and society, which in turn, affects its long-term success. The concept of a social contract between the firm and society holds the firm accountable, as society grants businesses the authority to use resources and employ people [33].

In contrast to Agency Theory, Stewardship Theory views managers as stewards who act in the best interests of shareholders [34]. Managerial and board-member independence is a key aspect of this theory. Independent directors help safeguard shareholders' interests

and enhance the impartiality of management, fostering trust and alignment between managers and shareholders.

The Resource Dependence Theory, introduced by Aldrich and Pfeffer (1976) [35] and further developed by Salancik and Pfeffer (1978) [36], emphasizes the board's relationship with external factors and its role in managing the complexities of the external environment. The board plays a crucial decision-making role in the organization's interactions with external stakeholders [37]. Unlike Agency Theory, which advocates for a predominance of external board members to "ensure control over management", Resource Dependence Theory highlights the "ability of external members to provide the resources needed by the firm". According to this theory, increasing the number of outside directors enables the firm to access more resources, thereby positively impacting firm performance.

Signaling Theory focuses on reducing information asymmetry in corporate governance and minimizing conflicts of interest between managers and [38]. The theory aims to ensure that stakeholders receive accurate and reliable information about the true condition of the firm. When stakeholders lack sufficient information, managers may exploit this asymmetry, potentially leading to moral hazard. Providing clear and credible signals to stakeholders can mitigate the issue of information asymmetry [39].

3. Literature

Studies examining corporate governance in the context of ownership structure and board characteristics in relation to ESG scores focus on how these practices impact ESG performance. These studies consistently emphasize the need for firms to reassess their governance structures to improve ESG outcomes.

The literature linking corporate governance to sustainability performance is primarily based on two dominant theories, namely Agency Theory and Stakeholder Theory. Under Agency Theory, ESG investment is often seen as a proxy for additional costs. In contrast, Stakeholder Theory emphasizes that firms have broader objectives beyond maximizing shareholder value, including fulfilling environmental and social responsibilities that are critical for long-term survival in the market. In the following sections, we present our hypotheses on various board and ownership characteristics.

3.1. Board Size

While there is no consensus on the impact of board size on ESG performance, studies reporting a positive relationship between the number of board members and ESG scores are more prevalent in the literature [40–63]

From a legitimacy perspective, larger boards tend to be more diverse in terms of expertise, experience, and stakeholder representation, which can enhance a company's reputation and image. The inclusion of a wider range of stakeholders on larger boards may also lead to greater involvement in ESG practices [64]. Treepongkaruna et al. (2024) [65] conducted the first study to examine how board governance affects ESG controversy scores, finding that larger boards have a more positive influence on sustainability. This positive relationship is attributed to the presence of experienced and knowledgeable directors on larger boards, who are better equipped to manage environmental issues and provide valuable guidance to the rest of the board.

On the other hand, several studies support Jensen's (1993) [66] claim that smaller boards may be more effective than larger ones due to fewer coordination and communication challenges [12,67–70]. These studies argue that larger boards may struggle with decision-making and controlling management discretion. Research that found a negative relationship between board size and ESG performance suggests that, as the board size increases, ESG factors may be overlooked in decision-making and policy implementation due to communication and coordination difficulties among members.

In addition to the linear effects, some studies suggest a non-linear relationship between board size and ESG performance [71]. This research found that board size exhibits a

nonlinear relationship with ESG performance, particularly in non-financial firms, where larger boards tend to demonstrate a stronger commitment to ESG practices.

Although the literature presents mixed findings on the relationship between board size and ESG disclosures, a positive relationship is more frequently emphasized. In light of Türkiye's growing social and environmental initiatives, and in line with the majority of the prior studies, the following hypothesis is proposed.

Hypothesis 1. *Board size has a positive effect on ESG disclosures in both financial and non-financial firms.*

3.2. Ratio of Female Members in the Board of Directors

Resource Dependence Theory suggests that a gender-diverse board brings varied resources, perspectives, and expertise to address environmental [72]. The presence of more female board members can enhance a firm's sensitivity to social and environmental issues, improve decision-making quality, and positively influence ESG disclosures. As a result, the literature overwhelmingly supports the view that female directors positively impact ESG scores [12,49,50,52,58,61,63,69,70,73–79].

Yadav and Prashar (2023) [80] found that having a small percentage of women directors has minimal impact on ESG performance. However, when there are at least three women on the board, the relationship with ESG performance becomes more favorable. Pinheiro et al. (2023) [59] analyzed the effect of gender diversity on the ESG performances of Latin American companies using both symmetrical (panel data regression) and asymmetrical (fuzzy set qualitative comparative analysis) methods, finding that more gender-diverse boards contribute positively to ESG performance. Similarly, Wasiuzzaman and Subramaniam (2023) [81] found that female directors generally enhance the quality of ESG disclosures and their individual components (excluding governance). However, their analysis of firms in both developed and developing countries revealed that these positive effects are significant only in firms in developed countries.

However, some studies have found a negative relationship between the proportion of female board members and ESG scores [54,82–86]. A key reason cited for this negative relationship is the low number of female members on boards. These studies emphasize that a single female director often cannot exert significant influence and that a minimum of three female board members is necessary for meaningful impact. For female directors to positively affect ESG scores, a critical mass is needed, as a larger group of women on the board can provide new perspectives and contribute positively. When only one woman is present, she may be seen as a "token" and may not effectively offer different viewpoints on board decisions. Additionally, some studies argue that female directors may lack the necessary education or experience to contribute to ESG-related decisions. In sum, these findings suggest that merely having female board members does not automatically lead to diverse perspectives or improved ESG performance.

Deschênes et al. (2015) [87] found that female board members generally had a positive impact on ESG performance, though the relationship was negative when focusing on the environmental dimension. Sepulveda-Nuñez et al. (2024) [71] is the only study to identify a nonlinear relationship between gender diversity and ESG performance.

Although the literature presents mixed findings regarding female board representation and ESG disclosures, most studies suggest a positive relationship between a higher number of female board members and improved ESG scores. Given Türkiye's growing social and environmental initiatives, and in line with the majority of prior research, we propose the following hypothesis.

Hypothesis 2. *The number of female board members positively impacts ESG disclosures in both financial and non-financial firms.*

3.3. Ratio of Foreigners in the Board of Directors

The internationalization of board members is considered beneficial, as it brings diversified expertise, skills, expanded social networks, access to international financing, and opportunities for going public [88]. The inclusion of foreign nationals on a firm's board signals a commitment to enhancing transparency and corporate governance [89].

According to Resource Dependence Theory, foreign board members provide valuable contributions, including diverse viewpoints, cultural perspectives, language skills, and varied life experiences, which can enhance the firm's decision-making process [90]. These perspectives can lead to more well-rounded decisions, ultimately improving the firm's ESG performance.

Several studies have shown that an increase in foreign board members positively impacts ESG disclosures. Lau (2014) [46] found that foreign board members, through their experiences of living, studying, and working in developed economies, help local firms establish higher ethical standards and norms, leading to more transparent disclosures. Similarly, Garanina and Aray (2021) [57] argued that foreign board members bring valuable knowledge and experience, encouraging firms to invest more in ESG practices. The positive relationship is largely attributed to the presence of qualified members with global industry experience and the diverse expertise that foreign board members offer—expertise that local board members may lack. This suggests that foreign board members leverage their international experience to enhance ESG performance.

Toumi et al. (2022) [91] distinguish between two categories of directors—French and their European counterparts—to analyze how they may react differently to ESG factors. The study finds that regional diversity, particularly Anglo-American directors on a board, is positively and significantly correlated with ESG and environmental disclosures. However, this same diversity is negatively correlated with social and governance disclosures.

Some studies have found a negative relationship between the proportion of foreign board members and ESG scores [70,92–94] while others, such as Barako and Brown (2008) [95], reported no significant relationship.

Despite these mixed findings, foreign board members are generally expected to bring positive value to the firm by leveraging their expertise to promote greater involvement in ESG activities. The literature predominantly suggests the potential for a positive relationship between the proportion of foreign board members and ESG scores. Therefore, considering Türkiye's social and environmental initiatives, and in line with most previous studies, the following hypothesis is proposed.

Hypothesis 3. *The proportion of foreign board members has a positive effect on ESG disclosures in both financial and non-financial firms.*

3.4. Blockholder Ownership

Ownership structure refers to the distribution of a firm's ownership among its shareholders, encompassing factors such as the concentration of shares held by individuals or groups of shareholders and whether a single major shareholder controls more than half of the voting capital [96]. Blockholder ownership, where large shareholders hold significant rights and control over the firm, is a critical variable in corporate governance and plays a key role in influencing ESG decisions.

Early studies, examining the relationship between ownership structure and ESG disclosure, indirectly support the hypothesis that ESG levels increase as the firm's ownership becomes more dispersed [97,98]. Keim (1978) [97,98] argue that, as ownership concentration decreases, investors interested in corporate social activities exert more pressure for greater disclosure of social responsibility initiatives. More recent studies, such as those by Brammer and Millington (2005) [99], Li and Zhang (2010) [100], López-Iturriaga and López-de-Foronda (2011) [101], Dam and Scholtens (2013) [102], Rees and Rodionova (2013) [103], and Ellli (2023) [12], found that ownership concentration had a negative effect on ESG scores. These studies suggest that, as controlling shareholders gain more power,

they dominate decision-making, leading to conflicts of interest with other shareholders and reducing the firm's commitment to social responsibility. Additionally, controlling shareholders may view social responsibility projects as non-value-creating, further limiting ESG efforts.

Agency Theory [29] suggests that concentrated ownership structures can reduce conflicts of interest between managers and shareholders. Supporting this theory, studies by Eng and Mak (2003) [104], Harjoto and Jo (2011) [105], Ho and Taylor (2013) [106], and Crisóstomo and Freire (2015) [96] found a positive relationship between block ownership or ownership concentration and ESG scores. These studies argue that large shareholders, who dominate the ownership structure, are motivated by reputational concerns and view ESG policies as a means to enhance the firm's reputation. A concentrated ownership structure may also facilitate better alignment of interests and greater support for ESG initiatives. Additionally, Chung et al. (2019) [107], in their analysis of the Korean market, found that blockholder ownership from previous periods had a notably positive influence on a firm's current corporate governance index. They explain that blockholders are incentivized to maintain and improve the firm's value, as they cannot easily sell their large holdings without negatively impacting their investments.

Given the mixed findings in the literature on the relationship between ownership concentration and ESG disclosures, drawing a definitive conclusion remains challenging. However, considering Türkiye's social and environmental initiatives, the following hypothesis is proposed.

Hypothesis 4. *Concentration in the ownership structure has a positive effect on ESG disclosures in both financial and non-financial firms.*

3.5. Foreign Ownership

The ownership structure is a key determinant of ESG performance [57]. Foreign owners, in particular, tend to be more focused on the quality of corporate governance practices [108] and often push firms to pay higher dividends [109] as they are more likely to align their interests with those of shareholders [110].

According to Resource Dependence Theory, foreign partners with diverse experiences and cultural backgrounds can significantly influence managerial selection and the quality of information provided by the firm [111,112]. Masud et al. (2018) [113] noted that foreign partners play a key role in monitoring and communicating with local and international environmental organizations, acting as a diversified and effective stakeholder group. Delgado-Márquez et al. (2015) [114] further argued that foreign shareholders' concerns about environmental issues often drive local corporate management to comply with environmental regulations and report more sustainable practices to mitigate political risks.

According to Legitimacy Theory, a firm operates within a social contract where societal expectations and corporate interests are intertwined [115]. For a firm's activities to be sustainable, they must be perceived as legitimate by independent stakeholders [116]. Firms that address environmental and social issues often disclose their strategies to gain acceptance and legitimacy from these stakeholder groups [117].

Within the framework of Stakeholder Theory, firms disclose ESG information to align their activities with stakeholders' expectations [95]. By doing so, they strengthen relationships with stakeholders and demonstrate their commitment to socially responsible practices [118].

Several studies suggest that foreign ownership enhances sustainable governance mechanisms and positively influences ESG performance [119,120] with foreign owners acting as motivators for promoting sustainability [113]. Rustam et al. (2019) [51] found that foreign ownership positively impacts ESG performance in Bangladesh, as did Khan et al. (2013) [111] and Zhu et al. (2024) [70] in China and Mishra (2014) [121] in Australia. Fuadah et al. (2022) [122] examined the influence of various ownership structures—foreign, public, state, and family—on ESG disclosure, showing that foreign and public ownership

have a positive and significant impact on ESG disclosure, while state and family ownership do not. Similarly, Ahmed et al. (2024) [123] found that, in non-financial Chinese companies, government and foreign investors significantly improve ESG performance, whereas family investors have a negative effect.

On the other hand, some studies suggest a negative relationship between foreign ownership and ESG performance [124]. For example, Garanina and Aray (2021) [57] found that foreign ownership negatively impacts ESG in Russia, citing limited incentives for foreign ownership and the predominance of non-Western investors, where ESG practices are less developed. Al-Gamrh et al. (2020) [125] observed a similar negative effect in the UAE, and Gulzar et al. (2019) [124] reported the same for China. Haladu and Beri (2016) [126] suggest that the complex relationship between ESG and ownership mechanisms contributes to this negative effect. Additionally, challenges in the foreign-investment process may further complicate this relationship [127,128].

Given the mixed findings in the literature on the relationship between foreign ownership and ESG disclosures, drawing a clear conclusion is difficult. However, considering Türkiye's social and environmental initiatives, the following hypothesis is proposed.

Hypothesis 5. *Foreign ownership has a positive effect on ESG disclosures in both financial and non-financial firms.*

3.6. Institutional Ownership

The term "institutional ownership" refers to a group of investors who hold significant voting power within a firm. The presence of institutional ownership notably reduces information asymmetry among investors and addresses agency problems [12]. According to the Agency Theory, institutional investors typically demand greater transparency, which is often linked to stronger ESG practices.

In addition to financial performance, institutional shareholders are also concerned with the firm's strategies, activities, and relationships with other [129–133]. As a result, firms with institutional investors are more likely to show greater sensitivity to environmental and social activities, driven by the influence of their corporate partners.

Graves and Waddock (1994) [134], Mahoney and Robert (2007) [133], and Ahmed et al. (2014) [135] found a positive relationship between institutional ownership and ESG performance. Chen et al. (2020) [136] observed that an exogenous increase in institutional holdings enhances the CSR performance of portfolio firms, while Kordsachia et al. (2022) [137] suggested that sustainable institutional ownership is positively linked to a firm's environmental performance. Potharla et al. (2023) [138] also found a significantly positive relationship between persistent institutional ownership and CSR performance in India.

Conversely, some studies report no significant relationship between institutional ownership and ESG. For example, Fauzi et al. (2007) [139] found that institutional investors in Indonesia do not consider ESG in their investment decisions, and Coffey and Fryxell (1991) [140] also found no significant relationship. In contrast, Yadav (2020) [141] identified a negative relationship between ESG performance and institutional ownership in 61 Indian firms from 2013 to 2018. Similarly, Acar et al. (2021) [142], in a study of 27,847 firms across 72 countries or economic regions between 2002 and 2017, found that increased institutional ownership had a negative impact on environmental disclosures.

Given the mixed findings in the literature regarding the relationship between institutional ownership and ESG disclosures, it is difficult to draw a definitive conclusion. However, considering Türkiye's social and environmental initiatives, the following hypothesis is proposed.

Hypothesis 6. *Institutional ownership has a positive impact on ESG disclosures in both financial and non-financial firms.*

The common finding across the studies discussed in this section is that board characteristics and ownership structures significantly influence firms' ESG performance. Recognizing the importance of these factors underscores their key role in improving ESG performance and achieving sustainability goals.

The previous literature has explored the effects of ownership structure and board characteristics on ESG performance, often examining these factors separately. Board characteristics, including size, independence, diversity, and frequency of meetings, have been shown to significantly influence firms' ESG disclosure practices. Similarly, various forms of ownership, such as family, state, foreign, institutional, and blockholder, also play a crucial role in shaping ESG performance. Research suggests that the impact of ownership structure on ESG outcomes is influenced by a range of factors, including market structure, shareholder interests, and local context. The relationship between board and ownership structures and ESG performance is, thus, both complex and multidimensional.

Our study sample comprises both financial and non-financial firms, and we first employed the PCSE regression separately to examine the impact of board and ownership characteristics. We then tested the effects of these variables, including their lagged values, on ESG indicators for financial firms, non-financial firms, and the entire sample. By incorporating a matched sample of financial and non-financial firms, we are able to generalize our findings across both sectors in Türkiye. To the best of our knowledge, this is the first study to empirically investigate the relationship between diverse board and ownership structures and ESG performance in Türkiye, with a detailed distinction between financial and non-financial firms.

4. Data and Methods

The purpose of this study is to examine the impact of corporate governance on firms' sustainability disclosures. Corporate governance is measured by variables related to the board of directors (BoD) and ownership structure, while ESG disclosures are used as indicators of sustainability performance. The study's empirical models are based on data from 6 financial and 16 non-financial firms listed on the Borsa Istanbul (BIST) for the period 2013–2021, with the firms selected based on the availability of ESG scores. ESG data were sourced from the "Refinitiv" website, and additional data were obtained from the firms' annual reports and respective websites. The study focuses on corporate governance variables to assess their influence on sustainability disclosures. The variables used are outlined in Table 1, following the framework of [11].

Table 1. ESG, corporate governance, and control variables.

Variables	Abbr.	Measurement
Dependent Variable		
ESG Score	ESG	This score measures the extent of ESG information disclosed by firms (f), ranging from 0 to 100. A score of 0 indicates no ESG disclosure, while a score of 100 signifies complete ESG disclosure.
Independent Variables		
Institutional Investors	INST	The ratio of shares held by institutional investors
Foreign Investors	FOREIGN	The ratio of shares held by foreign investors
Blockholder Ownership	BLOCK	The ratio of shares held by the largest block shareholders
Board Size	BSIZE	Number of board members
Foreign Directors	BFOR	Ratio of foreign directors in BoD
Female Directors	BFEM	Ratio of female directors in BoD

Table 1. *Cont.*

Variables	Abbr.	Measurement
	Control Variables	
Firm Size	SIZE	Logarithm of Total Assets
Leverage Ratio	LEV	Total Debt/Total Assets
Return on Assets	ROA	Net Profits/Total Assets

The following model was developed using the dependent and independent variables from the study, based on Ellili (2023) [12]:

$$ESG_{i,t} = \beta_0 + \beta_1 INST_{i,t} + \beta_2 FOREIGN_{i,t} + \beta_3 BLOCK + \beta_4 BSIZE + \beta_5 BFOR + \beta_6 BFEM + \beta_7 SIZE + \beta_8 LEV + \beta_9 ROA + \varepsilon_{i,t} \quad (1)$$

The study utilizes the panel-corrected standard errors (PCSE) method, which effectively addresses common challenges in panel data analysis, such as heteroskedasticity and autocorrelation. PCSE accounts for correlations across entities within a panel, enhancing the accuracy of standard error estimates. It corrects for heteroskedasticity, where error variances differ across entities, and adjusts for autocorrelation, ensuring reliable estimates over time. These features make PCSE particularly valuable for obtaining robust inferences in empirical models with panel data. Its applicability to large and complex panel data sets, combined with its flexibility across various data structures, makes it a preferred method for rigorous panel data analysis.

5. Findings

5.1. Descriptive Statistics and Correlation Analysis

Table 2 presents the descriptive statistics for the dependent and independent variables used in the study.

Table 2. Descriptive statistics for financial and non-financial firms.

Variables	Mean			Std. Dev.			Min			Max		
	All	Financial	Other	All	Financial	Other	All	Financial	Other	All	Financial	Other
ESG	59.38	60.78	58.86	18.69	14.03	20.18	15.36	24.57	15.36	94.18	91.28	94.18
INST	56.96	58.08	56.54	18.73	15.32	19.89	0.00	37.08	0.00	85.00	83.86	85.00
FOREIGN	11.05	13.01	10.32	17.27	18.98	16.59	0.00	0.00	0.00	55.00	49.85	55.00
BLOCK	43.33	45.00	42.71	12.17	8.43	13.28	14.07	25.01	14.07	75.30	75.30	67.54
BSIZE	10.18	10.65	10.01	2.78	1.89	3.03	5.00	7.00	5.00	18.00	17.00	18.00
BFOR	16.26	14.16	17.05	19.02	21.18	18.16	0.00	0.00	0.00	54.55	50.00	54.55
BFEM	11.25	11.95	10.98	11.59	6.96	12.91	0.00	0.00	0.00	45.45	27.27	45.45
SIZE	7.79	8.54	7.51	0.62	0.23	0.48	6.43	8.15	6.43	9.05	9.05	9.01
LEV	0.68	0.90	0.59	0.21	0.02	0.18	0.20	0.86	0.20	0.95	0.95	0.88
ROA	0.04	0.01	0.06	0.04	0.01	0.04	−0.07	0.00	−0.07	0.15	0.02	0.15

The analysis shows that the average ESG ratios, as well as the ratios of institutional, foreign, and concentrated investors, and the mean number of board members, female directors, and foreign managers, are comparable between financial and non-financial firms. However, financial firms exhibit larger asset sizes than non-financial firms when reviewing the control variables. Significant differences are also noted in the leverage and return on assets ratios, reflecting the distinct financial structures of these two types of firms. Table 3 highlights the relationship between corporate governance variables and ESG scores for both financial and non-financial firms.

The results show a positive relationship between ESG and board size, the ratio of female board members, and the ratio of foreign board members. There is also a weak negative relationship between ESG and ownership concentration, along with a positive relationship between firm size, represented by total assets, and ESG. Lastly, the absence of a high correlation among the independent variables enhances the model's reliability.

Table 3. Correlation analysis.

	ESG	INST	FOREIGN	BLOCK	BSIZE	BFOR	BFEM	SIZE	LEV	ROA
ESG	1									
INST	0.0237	1								
FOREIGN	0.0172	0.3351	1							
BLOCK	−0.0926	0.594	−0.007	1						
BSIZE	0.3136	0.3634	0.285	0.1147	1					
BFOR	0.214	−0.1381	0.5983	−0.486	0.1839	1				
BFEM	0.3377	−0.2256	−0.0794	−0.1729	0.0991	0.2589	1			
SIZE	0.3366	−0.1109	−0.1283	−0.0012	0.1028	−0.037	0.4263	1		
LEV	0.2066	−0.0567	0.1842	−0.174	0.3028	0.2545	0.3029	0.632	1	
ROA	−0.1312	−0.1231	−0.1166	−0.1139	−0.2354	0.0385	−0.2779	−0.5784	−0.5134	1

5.2. Ownership Structure and ESG Disclosures

In the panel data analysis, the Hausman test is used to determine whether a fixed-effects or random-effects model is more appropriate. The test results indicate that the random-effects model is more efficient for this analysis. In the random-effects model, cross-sectional effects are assumed to follow a random distribution. Additionally, the variance inflation factor (VIF) and the Breusch–Pagan tests confirm the absence of multicollinearity and heteroskedasticity, respectively.

Four models were developed to examine the relationship between ownership structure and ESG disclosure scores for both financial and non-financial firms. In these models, the impact of each ownership-structure variable on ESG disclosures is first analyzed individually, followed by an assessment of the combined effect of all ownership-structure variables. The results are presented in Table 4.

Table 4. The relationship between ownership structure and ESG disclosures.

	All Firms				Financial Firms				Non-Financial Firms			
	1	2	3	4	5	6	7	8	9	10	11	12
INST	0.101 *** (1.51)	-	-	0.196 ** (2.17)	0.0330 (0.46)	-	-	−0.1127 * (1.75)	0.223 *** (2.68)	-	-	0.435 *** (4.05)
FOREIGN	-	0.097 (1.29)	-	0.036 (0.42)	-	0.1583 *** (3.75)	-	0.1744 *** (4.49)	-	0.047 (0.40)	-	−0.137 (−0.96)
BLOCK	-	-	−0.132 (0.50)	−0.317 *** (−2.79)	-	-	−0.4478 *** (−3.48)	−0.4178 *** (−3.46)	-	-	0.054 (0.50)	−0.394 *** (−3.02)
SIZE	12.42 *** (4.25)	12.84 *** (4.13)	11.71 *** (3.94)	13.95 *** (4.61)	53.214 *** (14.18)	51.832 *** (15.54)	54.345 *** (16.68)	51.150 *** (15.40)	18.81 *** (6.26)	17.08 *** (4.45)	16.40 *** (5.12)	17.80 *** (5.18)
LEV	3.35 (0.35)	−1.93 (−0.20)	−1.47 (−0.15)	−5.64 (−0.56)	−321.64 *** (−4.07)	−264.66 *** (−3.93)	−253.90 *** (−4.27)	−162.55 ** (−2.56)	21.92 ** (2.31)	17.31 * (1.68)	20.25 * (1.80)	18.10 * (1.66)
ROA	57.54 (1.46)	54.57 (1.43)	36.08 (0.95)	52.11 (1.32)	−5.939 (−0.02)	−34.056 (−0.16)	22.012 (0.11)	−49.905 (−0.27)	53.38 (1.35)	29.68 (0.75)	29.36 (0.77)	38.52 (0.93)
Wald chi2	40.37	33.67	31.08	43.43	260.30	283.64	292.93	322.06	65.25	41.98	44.96	78.67
Prob > chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Note: *, **, and *** indicate significance at 10%, 5%, and 1% levels, respectively.

The analysis reveals that the impact of the ownership structure variables on ESG disclosures differs between financial and non-financial firms. For financial firms, an increase in foreign ownership positively influences ESG scores, while the effect of foreign ownership on non-financial firms and the overall sample is less clear. Additionally, an increase in institutional investor ownership decreases ESG scores for financial firms but increases them for non-financial firms. Across all models and sectors, a higher ownership concentration consistently leads to lower ESG scores. In summary, as firms diversify their ownership structures and move away from being family-owned or dominated by large shareholders, such as the public sector, their ESG performance improves.

The analysis of the control variables shows a positive relationship between firm size and ESG disclosure across all sectors, likely due to the greater willingness of larger firms to invest in social and environmental projects. In addition, larger firms face more pressure to engage in ESG activities. However, profitability ratios do not appear to influence ESG disclosures in any sector. Lastly, the ESG disclosure scores increase as the leverage ratios decrease for financial firms. Specifically, financial firms with stronger equity capital and lower risk tend to be more transparent in demonstrating their compliance with social and environmental initiatives.

5.3. Board Structure and ESG Disclosures

In this section, models are developed using three different samples, namely financial firms, non-financial firms, and all firms combined. The empirical analysis first examines the individual impact of each board-structure variable on ESG disclosures, followed by an assessment of the combined effect of all board-structure variables. Table 5 presents the results, focusing on the influence of board size, female board ratio, and foreign board ratio on firms' sustainability performance. The results show a positive relationship between board size and ESG disclosures for both the entire sample and the non-financial firms.

Table 5. The relationship between board structure and ESG disclosures.

	All Firms				Financial Firms				Non-Financial Firms			
	1	**2**	**3**	**4**	**5**	**6**	**7**	**8**	**9**	**10**	**11**	**12**
BSIZE	2.406 *** (5.76)	-	-	2.084 *** (5.31)	−0.447 (−1.12)	-	-	−0.985 ** (−2.20)	2.370 *** (5.36)	-	-	2.376 *** (5.31)
BFOR	-	0.196 ** (2.40)	-	0.168 *** (2.43)	-	0.1039 *** (2.73)	-	0.132 *** (3.15)	-	0.196 ** (2.40)	-	0.190 ** (2.43)
BFEM	-	-	0.213 *** (3.75)	0.277 ** (2.54)	-	-	0.166 (1.46)	0.059 (0.52)	-	-	0.115 (0.74)	0.061 (0.42)
SIZE	14.083 *** (5.20)	16.741 *** (5.06)	13.429 *** (4.49)	13.083 *** (4.59)	54.464 *** (13.88)	54.797 *** (14.74)	52.432 *** (12.70)	54.957 *** (14.43)	18.117 *** (6.31)	16.741 *** (5.06)	14.597 *** (3.67)	17.707 *** (4.97)
LEV	−8.487 (−1.00)	7.509 (0.51)	−6.90 (−0.72)	−17.04 ** (−1.94)	−243.44 *** (−4.21)	−209.45 *** (−3.82)	−216.00 *** (−3.65)	−199.66 *** (−3.73)	5.709 (0.61)	7.509 (0.51)	16.806 * (1.65)	−6.215 (−0.55)
ROA	74.809 ** (2.02)	13.859 (0.38)	29.705 (0.80)	65.344 * (1.86)	−140.159 (−0.71)	−105.132 (−0.58)	−119.47 (−0.60)	−124.596 (−0.73)	58.037 (1.56)	13.859 (0.38)	27.617 (0.76)	−48.234 (1.32)
Wald chi2	82.53	42.83	42.91	94.53	223.25	243.56	219.65	261.27	103.15	42.83	40.66	101.95
Prob> chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Note: *, **, and *** indicate significance at 10%, 5%, and 1% levels, respectively.

According to Pfeffer (1973) [143], as the size of the board increases, the organization gains more experience and valuable resources. Dalton, Daily, and Johnson (1999) [144] similarly argued that larger boards provide greater knowledge, experience, and improved advisory capabilities. However, Larmou and Vafeas (2009) [145] noted that it can be more difficult to exert managerial pressure on larger boards. Despite these insights, the impact of board size on ESG disclosure varies for financial firms, where a smaller board size is associated with improved ESG performance.

Another key finding of the study is that foreign board members have a positive impact on ESG performance across all sectors. According to Ellili (2023) [12], foreign board members focus not only on financial performance but also on the interests of stakeholders. These results align with the findings of Al Maeeni et al. (2024) [61] and Ellili (2023) [12]. Additionally, there is a positive relationship between female board members—another indicator of board diversity—and ESG performance for the overall sample. However, the effect of female board members on ESG disclosures is not statistically significant when analyzed separately for financial and non-financial firms. Despite this, the significant positive effect of female board members on ESG performance for the overall sample, along with the positive coefficients for both financial and non-financial firms, remains an important finding.

Regarding the control variables, total asset size has a positive relationship with ESG disclosures across the entire sample. However, the return on assets does not significantly affect ESG performance. Additionally, ESG transparency tends to increase as financial firms exhibit higher leverage.

5.4. Corporate Governance and ESG Disclosures

In this section, the effects of corporate governance variables and their lagged values on ESG disclosures are tested separately for financial and non-financial firms, and the entire sample, with the corresponding models developed. The empirical results on the impact of corporate governance practices on ESG disclosures are presented in Table 6.

Table 6. The relationship between corporate governance and ESG disclosures.

	All	Financial	Non-Financial		All	Financial	Non-Financial
INST	0.130 * (1.66)	−0.269 *** (−4.23)	0.311 *** (2.68)	INST t − 1	0.143 * (1.67)	0.113 (0.85)	0.343 *** (2.91)
FOREIGN	−0.152 (−1.54)	0.335 *** (2.40)	−0.033 (−0.34)	FOREIGN t − 1	0.352 *** (3.22)	0.579 ** (2.09)	0.512 *** (3.78)
BLOCK	−0.120 (−1.06)	−0.046 (−0.55)	−0.125 (−0.90)	BLOCK t − 1	−0.047 (−0.37)	0.117 (0.61)	−0.175 (−1.11)
BSIZE	1.978 *** (4.41)	−1.494 *** (−3.60)	1.953 *** (3.41)	BSIZE t − 1	1.457 *** (3.15)	−1.373 * (−1.65)	1.406 ** (2.52)
BFOR	0.237 *** (2.66)	0.253 ** (2.55)	0.342 ** (3.43)	BFOR t − 1	0.391 *** (3.97)	0.264 ** (2.22)	0.488 *** (4.30)
BFEM	0.251 *** (2.24)	0.065 (0.61)	0.021 (0.15)	BFEM t − 1	0.166 (1.36)	−0.002 (−0.001)	0.124 (0.77)
SIZE	12.802 *** (4.43)	50.799 *** (13.96)	15.210 *** (3.80)	SIZE t − 1	3.730 (1.24)	33.122 *** (4.49)	1.998 (0.47)
LEV	−16.520 * (−1.85)	−57.418 (−1.03)	−0.033 (−0.00)	LEV t − 1	−4.857 (−0.52)	−581.859 *** (−5.28)	−2.445 (−0.21)
ROA	54.73 (1.48)	240.10 (−1.59)	30.104 (0.76)	ROA t − 1	−13.751 (−0.36)	−351.18 (−1.20)	−27.616 (0.70)
Wald chi2	101.56	358.88	120.75	Wald chi2	65.73	65.73	68.89
Prob > chi2	0.0000	0.0000	0.0000	Prob > chi2	0.0000	0.0000	0.0000

Note: *, **, and *** indicate significance at 10%, 5%, and 1% levels, respectively.

The results show that institutional ownership decreases ESG performance for financial firms, while the effect of the one-year lagged corporate governance variable on ESG performance is insignificant. However, for non-financial firms and the entire sample, institutional investor ownership contributes to an increase in ESG performance. Additionally, foreign investor ownership positively influences ESG disclosures for financial firms. Similarly, for the entire sample, as well as for both financial and non-financial firms, the one-year lagged value of foreign investor ownership significantly boosts ESG performance. This may be because foreign investors in developing countries often become controlling shareholders in regions with weak corporate governance mechanisms, helping to fill the regulatory gap [146].

There is a negative relationship between the number of board members, including its lagged variable, and the ESG performance of financial firms. This may be because, as the number of board members increases, communication and coordination issues arise, management control weakens, and agency problems emerge due to the separation of management and oversight. Conversely, for the entire sample and the non-financial firms, an increase in board size, along with its lagged value, positively affects ESG performance. This is explained by the RDT, which suggests that a larger board provides diverse expertise and resources to the firm.

Another important finding is that an increase in the ratio of foreign board members, as well as its lagged value, has a significant positive effect on ESG disclosures across all industry groups. This aligns with Agency Theory (AT), which posits that diversity on the board, particularly in terms of ethnicity, enhances the board's independence. In other words, greater international diversity on the board broadens the range of resources available to the firm.

Regarding the control variables, firm size positively influences ESG performance, although the effect diminishes as the lagged value of firm size begins to decrease its impact. Similarly, the effect of the lagged leverage ratio on ESG becomes more uncertain. Profitability, on the other hand, does not significantly impact ESG performance in any scenario.

5.5. Corporate Governance and Individual ESG Disclosures

This section examines the effects of all the corporate governance variables, including ownership structure, board characteristics, and control variables, on individual ESG disclosures. The relationship between corporate governance variables and the individual components of ESG, namely environmental, social, and governance, is presented in Table 7.

Table 7. The relationship between corporate governance and individual ESG disclosures.

	Environmental			**Social**			**Governance**		
	All	**Financial**	**Non-Financial**	**All**	**Financial**	**Non-Financial**	**All**	**Financial**	**Non-Financial**
INST	0.102	−0.529 ***	0.523 ***	0.107	0.068	0.111	−0.023	−0.561 ***	0.234 *
	(1.00)	(−4.16)	(3.84)	(1.23)	(0.69)	(0.88)	(−0.25)	(−3.82)	(1.89)
FOREIGN	0.063	0.363	0.271 *	0.191 *	−0.048	0.270 *	0.229 **	0.220	0.425 ***
	(0.50)	(0.165)	(1.76)	(1.73)	(−0.28)	(1.81)	(2.19)	(0.92)	(3.05)
BLOCK	−0.057	−0.278	−0.270	−0.118	0.112	−0.171	0.046	−0.193	0.012
	(−0.41)	(−0.97)	(−1.54)	(−1.03)	(0.81)	(−1.14)	(0.32)	(−0.85)	(0.07)
BSIZE	1.818 ***	−0.704	1.131 *	2.334 ***	−0.969	2.606 ***	−0.088	−3.330 ***	−0.509
	(3.26)	(−3.60)	(1.66)	(4.23)	(−1.50)	(3.91)	(−0.19)	(−3.58)	(−0.98)
BFOR	0.113	−0.006	0.321 **	0.203 **	0.336 **	0.122	0.317 ***	0.346	0.556 ***
	(1.02)	(−0.03)	(2.47)	(2.08)	(2.01)	(1.08)	(3.15)	(1.49)	(5.53)
BFEM	0.353 ***	0.427 **	0.270 *	0.024	−0.228	−0.135	0.359 ***	0.568 **	0.170
	(2.86)	(2.00)	(1.68)	(0.21)	(−1.25)	(−0.87)	(2.72)	(2.28)	(1.08)
SIZE	15.824 ***	40.338 ***	12.574 ***	22.165 ***	59.419 ***	23.769 ***	−6.005 ***	34.646 ***	−5.621
	(4.57)	(5.33)	(2.66)	(6.92)	(10.46)	(5.30)	(−2.11)	(3.92)	(−1.49)
LEV	−3.827	−41.393	2.337	−13.034	−76.759	2.664	−7.682	9.177	0.043
	(−0.36)	(−0.35)	(0.18)	(−1.28)	(−1.04)	(0.21)	(−0.93)	(0.07)	(0.00)
ROA	86.55 **	142.44	54.781	7.49	−338.49	−10.57	81.67 **	−188.41	52.105
	(2.06)	(0.50)	(1.27)	(0.18)	(−1.63)	(−0.25)	(1.96)	(−1.63)	(1.25)
Wald chi2	109.35	181.14	120.75	197.24	181.66	146.57	67.76	89.46	57.25
Prob> chi2	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000

Note: *, **, and *** indicate significance at 10%, 5%, and 1% levels, respectively.

The results indicate a negative relationship between the environmental and governance dimensions of ESG and institutional investor ownership in financial firms, while no significant relationship is observed for the social dimension. In contrast, for non-financial firms, an increase in institutional investor ownership improves performance in the environmental and governance dimensions but has no significant effect on the social dimension.

For the entire sample and non-financial firms, there is a positive relationship between board size and environmental and social disclosures. However, in financial firms, board size has a negative relationship with governance disclosures. Consistent with the total ESG score, the proportion of foreign board members positively influences ESG disclosures. One of the most notable findings is that an increase in the proportion of female board members contributes positively to the environmental dimension of ESG across all sectors. Firm size, a control variable, also shows a positive relationship with ESG disclosures, similar to the total ESG score. Unlike the overall ESG results, an increase in return on assets for the entire sample leads to an improved environmental performance.

6. Conclusions and Recommendations

This study offers several theoretical, practical, social, and environmental implications within the context of the corporate governance and ESG disclosure literature, which are particularly relevant for various stakeholders in Türkiye.

The answers to our research question, which form the core motivation of this study, are significant from multiple perspectives. We find that sector-specific regulations have varying effects on sustainability disclosures through corporate governance practices. Specifically, our empirical results show that the impacts of institutional investor ownership and board size differ between non-financial and financial firms. These findings help fill an important gap in the literature, particularly concerning the differing effects of corporate governance on ESG disclosures across sectors.

The first key finding of our study explains why the impact of institutional investor ownership on ESG disclosures varies across sectors, as observed in the literature. In financial firms, an increase in institutional ownership decreases ESG performance, while in non-financial firms, institutional investor ownership improves ESG performance. This difference arises because financial firms in Türkiye are subject to strict governance regulations and are required to make corporate decisions independently of their ownership structure due to rigorous sector oversight and auditing systems. The negative impact of increased institutional ownership on financial firms may be due to the stability of policies implemented by qualified individual shareholders. Changes in decision-makers, resulting from shifts in the ownership structure, can lead to policy changes that negatively affect ESG performance.

In contrast, non-financial firms are governed by general legislation and auditing rules, where investors' decisions have a more direct influence on the firm's operations. Since individual shareholders are not legally required to meet specific qualifications, institutional shareholders may be better equipped to make informed decisions. This explains why institutional ownership of non-financial firms positively impacts ESG disclosures, while non-institutional investors tend to have a negative effect.

The second key finding highlights the differing relationship between board size and ESG performance in financial and non-financial firms. Similar to ownership structure, sector-specific regulations of financial firms clearly define board-member qualifications and set a minimum number of members based on the corporate structure's needs. In this context, financial firms that already meet the required minimum number of qualified board members do not necessarily benefit from adding more members to improve decision-making. As a result, the relationship between board size and ESG disclosures for financial firms is found to be negative.

In contrast, for non-financial firms, an increase in board size leads to improved ESG performance. This is because the managers of these firms tend to act more independently, making decisions that are less constrained by sector-specific regulations and economic requirements. In such cases, corporate shareholders' decisions may align more closely with market demands, positively influencing ESG performance.

The differences in the impact of ownership structure and board composition on ESG disclosures between financial and non-financial firms can be attributed to the unique characteristics of these industries and their distinct regulatory and operational environments. Financial firms operate under stricter regulatory frameworks, particularly regarding risk management, transparency, and governance. This regulatory pressure often results in more conservative, risk-averse behavior, especially regarding ESG disclosures. For instance, the positive effect of foreign ownership on ESG scores in financial firms may be driven by the need to comply with international standards.

Moreover, the core activities of financial firms are closely tied to public trust and risk management, making them more sensitive to changes in ownership and governance structures that could affect their reputation and risk profile. Financial firms also engage with a broader range of stakeholders, including regulators, investors, and customers, who may demand more comprehensive ESG disclosures. These industry-specific dynamics highlight the importance of considering sector-specific factors when analyzing the impact of ownership and governance structures on ESG disclosures.

The empirical findings indicate that foreign ownership, the presence of foreign board members, and a higher number of female board members significantly enhance ESG disclosures in both financial and non-financial firms. These results align with prior research demonstrating the positive impact of cultural and gender diversity on firm performance. In contrast, ownership concentration negatively affects ESG transparency, highlighting the importance of inclusive decision-making. To improve ESG reporting, firms should prioritize diversifying both ownership structures and board composition. These insights provide a valuable framework for strengthening corporate governance practices and expanding ESG disclosures.

Policymakers, particularly in developing countries with weaker corporate governance mechanisms, may consider introducing incentives to encourage foreign investors to take more active roles. Attracting foreign investors can help improve firms' overall ESG performance and enhance the country's reputation in global markets. Additionally, the positive impact of board diversity on ESG disclosures suggests that policies promoting greater diversity on corporate boards should be developed. This could include mandating minimum gender diversity requirements or encouraging the inclusion of board members with international experience. Furthermore, the findings highlight that different ownership structures influence ESG disclosures differently across sectors. Policymakers should account for these sectoral differences when designing corporate governance regulations and guidelines.

In light of the findings from our study, regulatory authorities and investors should exercise caution when evaluating corporate ownership and board composition across financial and non-financial firms. Specifically, ESG disclosures should not be used as a comparative factor between financial and non-financial sector firms, as the nature of these industries differs significantly. However, ESG disclosures can provide meaningful insights when comparing firms within the financial sector or non-financial firms.

This study, which explores the relationship between corporate governance and ESG performance, has certain limitations. The small sample size, limited to firms with ESG scores listed on the Borsa Istanbul, restricts the generalizability of the findings. Furthermore, while six corporate governance variables are examined, other important factors, such as board independence and executive compensation, remain unaddressed. Future research could bridge these gaps by incorporating a broader range of governance variables and expanding the sample to include firms from both developed and developing countries. Moreover, the use of advanced methodologies, such as dynamic panel models, could offer deeper insights into causal relationships. Cross-country and longitudinal studies would further enhance the understanding of how corporate governance influences ESG disclosures across different regions and sectors, ultimately contributing to a more comprehensive understanding of the drivers behind ESG performance.

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