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The Mediating Role of Corporate Governance in the Relationship between Net Profit and Equity and Voluntary Disclosure in the Context of Legitimacy Theory

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Abstract: Amidst ongoing global economic and environmental crises, the concept of legitimacy has gained paramount importance for firms, which must not only survive but also maintain their legitimacy through comprehensive disclosures. This study investigates the mediating role of corporate governance in shaping firm performance and voluntary disclosure, emphasizing sustainability implications. Analyzing 82 firms across various sectors in Turkey from 2010 to 2020, the research reveals no direct relationship between corporate governance and equity. However, it identifies a partial mediation effect of corporate governance on the disclosure of general, strategic, and forward-looking financial information related to net profit. Critically, our findings demonstrate that corporate governance fully mediates the relationship between net profit and the disclosure of social and board information, with the magnitude of this indirect effect being complete. This underscores the fact that robust corporate governance enhances transparency in social and environmental reporting, thereby supporting firms in their efforts to align with sustainable business practices and stakeholder expectations. These results highlight the crucial role of effective governance in ensuring comprehensive disclosures that support the sustainability goals of modern enterprises.

Keywords: legitimacy theory; corporate governance; firm performance; voluntary disclosure; structural equation modelling; SEM



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1. Introduction

In an era marked by significant global economic and environmental challenges, the principles of legitimacy theory and corporate governance have gained heightened significance. Corporate governance is instrumental in fostering transparency in the interactions between a company and its stakeholders, mitigating information asymmetry, and curbing self-serving behaviours among board members. Legitimacy theory, similarly, posits a social contract between firms and society, requiring firms to demonstrate transparency and accountability to maintain their societal legitimacy. These principles are not just foundational for ethical business practices but are also crucial for advancing sustainable development within corporate strategies.

Annual activity reports, as critical tools for communication, provide financial and non-financial information that helps firms to enhance or restore their legitimacy [1,2]. The importance of these disclosures escalates as companies navigate the complexities of modern business environments and evolving stakeholder expectations towards sustainability [3–5]. Profitability, in this context, influences the breadth and depth of disclosures, with more profitable firms often disclosing more extensively to showcase their success and uphold their competitive edge while aligning with sustainable practices [6].

This study explores the mediating role of corporate governance in the relationship between net profit, equity, and voluntary disclosures, an area where these variables have previously been either understudied or analysed in isolation [7,8]. Specifically, we pose the following research questions:

- R1: Does corporate governance mediate the relationship between net profit, equity, and voluntary disclosure?
- R2: What proportion of the relationship between the independent and dependent variables is mediated by corporate governance?

Employing structural equation modelling (SEM) and mediation analysis, we analyse data from 82 firms across various sectors over a decade (2010–2020). We utilize methodologies such as the Baron and Kenny approach, the Sobel test, and the Monte Carlo test to dissect annual activity reports. Our findings reveal significant mediation effects, particularly the significant mediating role of corporate governance within the relationship between net profit and disclosure of social and board information, emphasizing the pivotal role of corporate governance in bolstering transparency and sustaining legitimacy amidst shifting economic pressures and societal expectations.

Our investigation addresses underexplored aspects of corporate governance, particularly its intermediary role in influencing the extent and nature of voluntary disclosures—critical in the context of evolving financial and ethical standards. This exploration is especially relevant as it examines the nuanced impacts of net profit and equity on disclosure practices in emerging markets. By highlighting these interactions, our study not only fills a significant gap in the literature but also offers practical insights for enhancing corporate disclosure practices, thereby fostering greater transparency and accountability across business sectors. The implications of this research extend widely, providing valuable insights for policymakers, corporate leaders, and regulatory bodies striving to refine governance frameworks to meet contemporary sustainability challenges [9,10].

The second section of our study (Section 2) presents literature reviews related to legitimacy theory and hypotheses, while analysis results are stated in the third section (Section 3). The final section, the fourth section (Section 4), presents the conclusion and a discussion.

2. Materials and Methods

2.1. Legitimacy Theory

Suchman [11] pointed out that early management theorists perceived firms as entities that were separate from their environment and society, merely converting inputs into output based on efficiency. However, according to Patten [12], by the 1960s, the public began to recognise the negative consequences of viewing firms in this manner. Consequently, Campbell [13] argued that this shift in perception within the social system was the primary reason for the change in how firms interact with society. As a result, Magness [14] argued that firms do not inherently possess a right to existence, and Dowling and Pfeffer [15] stated that this right is granted by society when there is an alignment between a firm's activities and societal values. This implies that firms must earn legitimacy. According to Suchman [11], legitimacy is the alignment of an entity with the values and beliefs of society. For firms, legitimacy is the process of seeking approval from society by demonstrating transparency about their activities [16].

Legitimacy theory is essentially based on a social contract between firms and society. Therefore, this theory suggests that firms should be considered as entities that must earn their right to exist to survive [17]. Legitimacy influences both the behaviour and perceptions of firms within society. A company that has gained legitimacy in society is perceived as more trustworthy and predictable, which makes it more sustainable. Firms need to gain and manage legitimacy to access the resources necessary to continue their operations, such as capital, labour, and customers, and to avoid regulations that may be imposed by the state in the absence of legitimacy [18]. Additionally, if a firm's legitimacy is threatened,

meaning that its activities are not aligned with societal values, its long-term survival is at risk [19].

The legitimacy theory implies that there is a social contract between the firm and society, suggesting that firms will act in accordance with this contract in their activities and performance [20]. Furthermore, as legitimacy preservation is deemed necessary, it is not sufficient for firms to merely act in accordance with societal values; it is also essential for this to be communicated to both society and the firm's environment [21]. Therefore, according to Guthrie and Parker [22], firms striving to appear as good corporate citizens in society endeavour to maintain their presence and justify their actions through disclosure. Annual reports, as noted by Mousa and Hassan [23], are generally recognised as a prominent corporate communication tool. Gray et al. [24] state that while the initial purpose of disclosure in annual reports was primarily for financial stakeholders and shareholders, over time, with the expansion of the firm's environment (including stakeholders such as customers, suppliers, etc.), the purpose and scope of disclosures have broadened. Legitimacy theory asserts that, in annual reports, voluntary disclosures on social and environmental issues, alongside mandatory disclosures such as financial information, are necessary [25]. This is because while mandatory disclosures represent the information required by regulatory bodies from firms at specific intervals, voluntary disclosures, according to Luft and Mobus [26], support corporate responsibility and contribute to the development of legitimacy by showcasing firms' goodwill efforts.

Based on legitimacy theory, it is assumed that firms will adopt strategies to demonstrate their alignment with social expectations [27]. Particularly during times of legitimacy gaps, managers have the responsibility to communicate this situation to stakeholders and shareholders [28]. Therefore, if a firm has a certain level of corporate governance that it uses to restore or enhance the lost legitimacy, it is perceived as being a professional entity in the eyes of society [29]. Moreover, according to the King IV Corporate Governance Report [30], corporate governance is emphasised as being the cornerstone for ensuring a firm's legitimacy. Consequently, for firms that gain legitimacy in the eyes of both society and stakeholders through disclosure, corporate governance mechanisms become important tools for maintaining and enhancing this gain [31].

According to legitimacy theory, a firm's performance is supported when it aligns with social expectations [32]. Therefore, financial performance serves as a fundamental indicator for determining a systemic response that aligns with social expectations [33]. Shaukat et al. [34] suggest that firms that have gained legitimacy from stakeholders and society may have easier access to resources, which could lead to a competitive advantage for the firm and enhance its financial performance. Additionally, Chen et al. [35] mentioned that firms that raise awareness by providing information on social and environmental issues tend to have consumers who support their financial performance by purchasing their products. Similarly, Lightstone and Driscoll [36] noted that firms with higher levels of risk tend to disclose more to manage their legitimacy.

2.2. Literature Review and Hypothesis Development

2.2.1. The Relationship between Profitability and Voluntary Disclosure

Research indicates that profitable firms are more likely to engage in voluntary disclosure. Hossain and Hammami [37] suggested that profitable companies disclose more information to demonstrate their financial robustness and to mitigate political costs. Ismail [38] notes that such firms possess the necessary financial resources to cover disclosure costs. Conversely, Chau and Gray [39] observe that firms with lower financial performance tend to disclose less, potentially to conceal their financial status from stakeholders. This connection is supported by Rouf [40] and Elfeky [41], who argue that voluntary disclosure supports the continuity of managers' roles by demonstrating sound decision making. Barako [42] extends this argument by suggesting that managers engage in voluntary disclosure to enhance both the financial and social capital of their firms.

2.2.2. Direct Linkages and Empirical Foundations

Building on the foundation laid by earlier studies, we draw direct links between corporate governance and voluntary disclosure, heavily citing the work of Kent and Ung [43], Zhang [44], and Purbawangsa et al. [45]. These studies collectively suggest that strong corporate governance can lead to improved disclosure practices, aligning with our hypothesis that governance acts as a mediator between net income and voluntary disclosure. Our approach extends these findings by exploring the mediating effects of corporate governance, a relatively underexplored area in this context.

Despite extensive research, gaps remain in our understanding of the nuanced impacts of corporate governance on different types of disclosure. Our study addresses this by focussing on how these governance structures mediate the relationship between financial performance indicators like net income and equity and the extent of voluntary disclosures across different sectors.

2.2.3. Theoretical Integration

Integrating legitimacy theory and agency theory, we propose a coherent framework that explains how corporate governance practices influence financial performance and disclosure behaviours. This theoretical integration supports the development of our hypothesis, providing a solid foundation for our empirical investigation.

2.2.4. Empirical Evidence and Contributions

Our literature review includes a balanced examination of studies that both support and contradict our hypotheses, offering a comprehensive view of the current landscape. For instance, Firth [46] and Jensen and Meckling [47] discuss how disclosure practices can reduce information asymmetry and potentially lower capital costs, a view supported by more recent findings by Hieu and Lan [48] and Lang and Lundholm [49].

Our study uniquely contributes to the literature by applying SEM and mediation analysis to examine how corporate governance influences the relationship between profitability and voluntary disclosure in a Turkish context, which has not been extensively explored in previous studies. This methodological approach allows us to quantify the indirect effects of corporate governance, providing clearer insights into its role as a mediating factor.

Based on the reviewed literature and identified gaps, we propose the following hypotheses:

H1. *Corporate governance has a mediating effect on the relationship between net income and voluntary disclosure.*

H2. *Corporate governance has a mediating effect on the relationship between equity and voluntary disclosure.*

2.3. Theoretical Model and Definition of Variables

2.3.1. Sample Selection and Measurement of Voluntary Disclosure

The scope of the investigation includes 82 companies from various sectors listed on the Public Disclosure Platform (KAP) between 2010 and 2020. The Public Disclosure Platform is an electronic system in which companies disclose information electronically signed in accordance with capital markets and stock exchange regulations. Five hundred companies disclose information on the Public Disclosure Platform. In the first stage of the selection of companies for the study, banks, holdings, real estate investment trusts, and football clubs were excluded from the analysis. Subsequently, we checked whether the remaining companies had annual activity reports on their own websites and on KAP between 2010 and 2020. After these evaluations, the sample consisted of 82 firms.

Barako's [42] checklist was used as the voluntary disclosure scale. The checklist consists of four sections: general and strategic information (13 items), financial information (9 items), forward-looking information (9 items), and social and board information (16 items), totalling 47 items. Appendix A [42] provides details on which questions are

included in the checklist. The voluntary disclosure score was calculated on the basis of the annual activity reports published on the companies' own websites. If the answer to a question from the checklist was found in the annual activity report for the relevant year, one point was assigned; otherwise, zero points were assigned, thus determining the company's voluntary disclosure score for the respective year.

2.3.2. Definition of Variables and Theoretical Model

Within the scope of the independent variables, the net income and equity amounts at the end of each year between 2010 and 2020 for the firms were examined. Before including the year-end values of net income and equity in the analysis, the logarithm of these values was taken to avoid extreme values, skewness, and standard deviation errors. This method of calculation has previously been used by Cheng and Lo [50], Jiang and Habib [51], and Broadstock et al. [52].

Corporate governance (CG) was determined as being within the scope of the mediator, a variable, and the demographic characteristics of board members, such as gender, education level, and professional experience, as well as board structure, including independent members, foreign members, and board size, were examined. Both demographic and board characteristics were obtained from annual activity reports published by the company for the respective year. The education of the members was obtained from the resume provided in the annual activity report. The education level of the members was categorised into three subsections: undergraduate, master's, and doctoral degrees. Professional experience was determined based on both the member's field of education and the department in which they worked in the company. For example, if a member graduated from the business department and worked in the accounting or finance department of the company, their professional experience would be considered as a financial expert. Regarding gender diversity, we examined whether there was a female member on the board; we defined a foreign member as a foreign member, and an independent member as an independent member. The size of the board indicates the number of members on the board for the respective year.

As for the dependent variable, the voluntary disclosure sections were included separately in the analysis. If the answer to a question from the voluntary disclosure checklist section was found in the company's annual activity report for the respective year, one point was assigned; otherwise, zero points were assigned. Therefore, the company's score was determined for each section of general and strategic information, financial information, forward-looking information, and social and board information for the respective year.

Table 1 shows the definitions and codes of the variables used in the analysis.

The research model that we determined for the analysis is illustrated in Figure 1. LogEC and logNP represent equity and net profit (independent variables), CG represents corporate governance (mediator variable), and GSIL, FIL, FLIL, and SBDIL represent sections in the voluntary disclosure checklist (dependent variables).

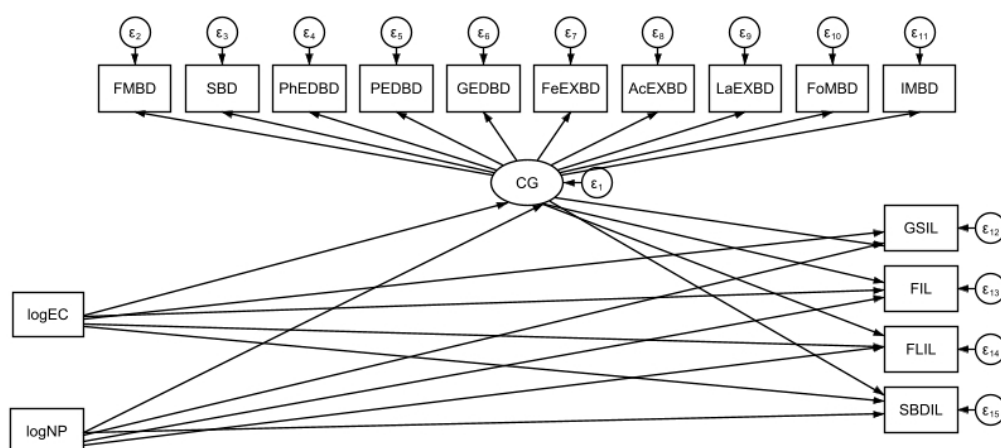


Figure 1. Theoretical model of the research.

Table 1. Variable definitions, codes, and measurement.

Independent Variable	Code	Measurement
Net Profit	logNP	Logarithm of net profit at year-end after tax
Equity	logEC	Logarithm of year-end shareholders' equity
Mediator Variable		
Female Member	FMBD	If there is a female member on the board of directors, 1 or 0.
Board Size	SBD	Total number of the board of directors.
Doctorate Graduate Member	PhEDBD	If there is a member with a doctorate degree in the board of directors, 1 or 0.
Master's Degree Graduate Member	PEDBD	If there is a member with a master's degree in the board of directors, 1 or 0.
University Graduate Member	GEDBD	If there is a member with a university degree in the board of directors, 1 or 0.
Member with Financial Expertise	FeEXBD	If there is a member with financial expertise in the board of directors 1 or 0.
Member with Accounting Expertise	AcEXBD	If there is a member with accounting expertise in the board of directors, 1 or 0.
Member with Legal Expertise	LaEXBD	If there is a member with legal expertise in the board of directors, 1 or 0.
Foreign Member	FoMBD	If there is a foreign member on the board of directors, 1 or 0.
Independent Member	IMBD	If there is an independent member on the board of directors, 1 or 0.
Dependent Variable		
General and Strategic Information	GSIL	If there is information about the relevant section in the annual report, 1 or 0.
Financial Information Level	FIL	If there is information on the relevant section in the annual report, 1 or 0.
Forward-looking Information	FLIL	If there is information on the relevant section in the annual report, 1 or 0.
Social and Board Information	SBDIL	If there is information on the relevant section in the annual report, 1 or 0.

2.3.3. Analysis Method

In the research, the structural equation modelling (SEM) method was employed using the STATA 18 analysis programme. Mediation analysis was conducted using the STATA-built-in command called “medsem”. The advantage of the STATA medsem command, as stated by Mehmetoglu [53], lies in its ability to perform proper and complete mediation analysis in very complex models due to the simultaneous estimation techniques used in SEM. The mediation analysis with the medsem command is conducted in two steps. In the first step, the SEM model is drawn in the STATA programme and the analysis is performed. This step follows the classic regression approach proposed by Baron and Kenny [54]. In the second step, the analysis is conducted using the medsem command based on the approaches modified by Iacobucci et al. [55] and Zhao et al. [56], which refine the mediation approach of Baron and Kenny [57]. As can be seen below, under the title of “Results”, the Sobel and Monte Carlo test results have been obtained through the medsem analysis. If both test results are significant at the 0.05 significance level, mediation is established. Additionally, the medsem command provides the ratio of indirect effects to total effect (RIT) and the ratio of indirect effects to direct effects (RID). The RIT value indicates the extent to which the mediating variable influences the relationship between the dependent and independent variables. The RID, on the other hand, shows how many times greater the mediating variable's effect, i.e., the indirect effect, is compared to the direct effect between the dependent and independent variables.

3. Results

3.1. Descriptive Statistics

Table 2 presents the descriptive statistical results for the variables used in the analysis. The logEC amount for the sampled firms ranges from 5 million TL to 10 million TL, with an average of approximately 8 million TL. The logNP number for the firms varies from approximately 5 million TL to 10 million TL, with an average logNP of approximately 8 million TL.

In the mediator variable of corporate governance, it is observed that 55% of the 82 firms have female members on their board of directors. It is seen that 70% of the board members have a university degree, 60% have a master's degree, and 34% have a doctoral degree. Regarding professional experience, the board members are shown to have a lot of

financial experience (64%), followed by accounting experience (55%). Most of the firms, approximately 84%, have independent board members, while about 30% have foreign board members. The size of the boards in the sample firms ranges from a minimum of three to a maximum of fifteen members, with an average of seven members. The results are presented in Table 3.

Table 2. Descriptive statistics results for independent variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
logEC	902	8.407	0.765	5.512	10.611
logNP	902	7.607	0.901	4.994	9.748

Table 3. Descriptive statistics results for mediator variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
FMBD	902	0.55	0.49	0	1
SBD	902	7.69	2.24	3	15
PhEDBD	902	0.33	0.47	0	1
PEDBD	902	0.59	0.49	0	1
GEDBD	902	0.69	0.46	0	1
FeEXBD	902	0.64	0.48	0	1
AcEXBD	902	0.54	0.49	0	1
LaEXBD	902	0.24	0.42	0	1
FoMBD	902	0.30	0.46	0	1
IMBD	902	0.83	0.37	0	1

In the statistical results for the voluntary disclosure section, it is observed that SBDIL disclosure (mean 6.093) is more prevalent, followed by GSIL disclosure (mean 4.228). The average amount of disclosure for the FIL is 3.797, while the lowest amount of disclosure is for forward-looking information (mean 0.89). These results are presented in Table 4.

Table 4. Descriptive statistics results for dependent variables.

Variable	Obs	Mean	Std. Dev.	Min	Max
GSIL	902	4.22	3	0	14
FIL	902	3.79	1.90	0	7
FLIL	902	0.89	1.14	0	4
SBDIL	902	6.09	2.69	0	13

In Table 5, the observed values for constructs such as Corporate Governance (CG), Net Profit (logNP), Equity (logEC), and Voluntary Disclosure (VD) indeed surpass the corresponding diagonal values. This pattern suggests that the data exhibit discriminant validity, confirming that the constructs are sufficiently distinct from one another and capture the specific dimensions of the theoretical model being tested. The correlation coefficients are well below the commonly accepted threshold, indicating that multicollinearity does not pose a problem for our study.

Table 5. Corelation analysis.

		(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)	(11)	(12)	(13)	(14)	(15)	(16)
FM-BD	(1)	1															
S-BD	(2)	0.04	1														
PhED-BD	(3)	0.05	0.26 **	1													
PED-BD	(4)	0.13 **	0.24 **	0.41 **	1												
GED-BD	(5)	0.08 *	0.18 **	0.44 **	0.64 **	1											
FeEX-BD	(6)	0.09 **	0.22 **	0.46 **	0.65 **	0.60 **	1										
AcEX-BD	(7)	0.01	0.15 **	0.36 **	0.56 **	0.64 **	0.61 **	1									
LaEX-BD	(8)	0.04	0.07 *	0.14 **	0.25 **	0.32 **	0.30 **	0.20 **	1								
FoM-BD	(9)	−0.10 **	0.39 **	0.04	0.21 **	0.13 **	0.14 **	0.09 **	0.16 **	1							
IM-BD	(10)	0.11 **	0.15 **	0.28 **	0.33 **	0.35 **	0.38 **	0.28 **	0.16 **	−0.05	1						
logEC	(11)	0.02	0.54 **	0.26 **	0.23 **	0.21 **	0.22 **	0.17 **	0.11 **	0.24 **	0.14 **	1					
logNP	(12)	0.05	0.47 **	0.24 **	0.22 **	0.18 **	0.22 **	0.17 **	0.05	0.21 **	0.15 **	0.58 **	1				
GSIL	(13)	0.14 **	0.46 **	0.23 **	0.32 **	0.25 **	0.24 **	0.22 **	0.04	0.23 **	0.10 **	0.49 **	0.43 **	1			
FIL	(14)	0.04	0.13 **	−0.05	−0.03	−0.08 *	−0.09 **	0.01	−0.08 *	−0.13 **	0.08 *	−0.01	−0.01	0.01	1		
FLIL	(15)	0.12 **	0.18 **	0.09 **	0.18 **	0.20 **	0.14 **	0.24 **	−0.01	0.01	0.10 **	0.34 **	0.27 **	0.47 **	0.03	1	
SBDIL	(16)	0.11 **	0.54 **	0.34 **	0.48 **	0.50 **	0.44 **	0.35 **	0.22 **	0.29 **	0.28 **	0.51 **	0.46 **	0.67 **	0.10 **	0.26 **	1

The symbols ** and * denote statistical significance at the 1% and 5% levels of confidence, respectively.

3.2. Structural Equation Model Results

The standardised results of the model are presented in Figure 2, while a more detailed version is shown in the table in Appendix B. The “Structural” section of the table displays the results of the research model represented in Figure 2. The “Measurement” section illustrates the relationship between the subdimensions of corporate governance (CG) that we specified and CG.

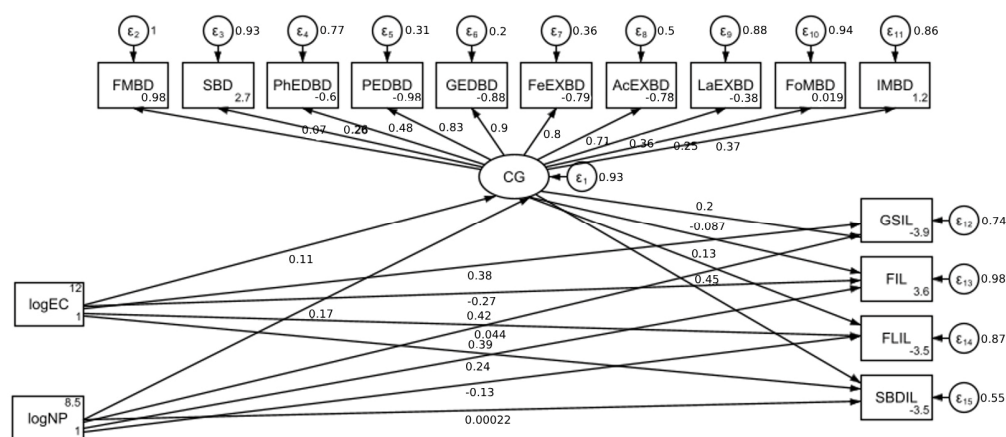


Figure 2. Structural equation modelling result.

Upon examining the relationship between the mediator variable’s subdimension and CG, it is observed that only FMBD does not have a statistically significant relationship with CG at the 0.05 significance level ($p = 0.083$). However, the relationships of the remaining variables with CG are statistically significant. Furthermore, when examining the coefficients of the variables, it is evident that there is a positive relationship with CG, indicating the significance of board members’ educational level, professional backgrounds, as well as the presence of independent and foreign members, and board size in corporate governance.

Baron and Kenny [57] suggested that there should be a significant relationship between the mediator variable and the independent variable in the mediation analysis. In this context, when examining the relationship between logEC and CV, it is observed that there is no statistically significant relationship between logEC and CV ($p = 0.189 > 0.05$). Therefore, it has been found that there is no mediating effect in the relationship between the corporate governance and voluntary disclosure sections of equity, and Hypothesis 2 is rejected. There is a statistically significant relationship between logNP and CV ($p = 0.045 < 0.05$). Due to the presence of a significant relationship between the independent variable and the mediator variable, only logNP was used as the independent variable in the Medsem analysis.

The STATA medsem analysis works with the command “medsem, indep (varname) med (varname) dep (varname) stand zlc rit rid”. In the medsem analysis, our criterion is that if CG is significant in both the Sobel and Monte Carlo test results, the mediating effect will be accepted. In addition, the results of the medsem analysis are presented with standardised values.

In the mediation analysis of CG between logNP and GSIL, a partial mediating effect was found since the relationship between GSIL and logNP and the Sobel test ($p = 0.059$) were not significant. However, the Monte Carlo test result ($p = 0.059$) was insignificant, indicating that CG does not mediate the relationship between logNP and GSIL. The results are shown in Table 6.

The following steps are involved in using the Baron and Kenny method for mediation analysis:

STEP 1—CG:logNP (X → M) with $B = 0.167$ and $p = 0.045$;

STEP 2—GSIL:CG (M → Y) with $B = 0.205$ and $p = 0.000$;

STEP 3—GSIL:logNP (X → Y) with $B = 0.044$ and $p = 0.536$.

Table 6. GSIL Medsem results.

Estimates	Delta	Sobel	Monte Carlo
Indirect effect	0.034	0.034	0.035
Std. Err.	0.018	0.018	0.018
z-value	1.880	1.886	1.889
p-value	0.060	0.059	0.059
Conf. Interval	−0.001, 0.070	−0.001, 0.070	0.002, 0.075

Testing the significance of the indirect effect (standardized).

Considering that both STEP 1 and STEP 2 yield significant outcomes while STEP 3 and the Sobel test do not, the mediation can be considered to be partial!

Zhao, Lynch, and Chen's method for analysing mediation involves the following step: STEP 1—GSIL:logNP (X → Y) with $B = 0.044$ and $p = 0.536$.

Since neither the Monte Carlo test nor STEP 1 is significant, there is no effect indicating non-mediation (no mediation).

In the mediation analysis of CG's mediating role in the relationship between logNP and FIL, a partial mediating effect was found since the relationship between FIL and logNP and the Sobel test ($p = 0.150$) was not significant. However, the Monte Carlo test result ($p = 0.184$) was insignificant, indicating that CG does not mediate the relationship between logNP and FIL. The results are shown in Table 7.

Table 7. FIL medsem results.

Estimates	Delta	Sobel	Monte Carlo
Indirect effect	−0.015	−0.015	−0.015
Std. Err.	0.010	0.010	0.011
z-value	−1.437	−1.439	−1.330
p-value	0.151	0.150	0.184
Conf. Interval	−0.034, 0.005	−0.034, 0.005	−0.034, 0.005

Testing the significance of the indirect effect (standardized).

Using the Baron and Kenny method for mediation analysis involves the following steps:

STEP 1—CG:logNP (X → M) with $B = 0.167$ and $p = 0.045$;

STEP 2—FIL:CG (M → Y) with $B = −0.087$ and $p = 0.039$;

STEP 3—FIL:logNP (X → Y) with $B = 0.239$ and $p = 0.003$.

Given that STEP 1, STEP 2, and STEP 3 all show significant results, but the Sobel test does not, the mediation is considered partial. When the Monte Carlo test is not significant but STEP 1 is, we can use the method of Zhao, Lynch, and Chen for analysing mediation.

STEP 1—FIL:logNP (X → Y) with $B = 0.239$ and $p = 0.003$.

This indicates direct nonmediation (no mediation).

In the CG mediation analysis between logNP and FLIL, a partial mediating effect was found as the relationship between FLIL and logNP and the Sobel test ($p = 0.085$) was not significant. However, the Monte Carlo test result ($p = 0.088$) was insignificant, indicating that CG does not mediate the relationship between logNP and FLIL. The results are shown in Table 8.

Using the Baron and Kenny method for mediation analysis involves the following steps:

STEP 1—CG:logNP (X → M) with $B = 0.167$ and $p = 0.045$;

STEP 2—GSIL:CG (M → Y) with $B = 0.205$ and $p = 0.000$;

STEP 3—GSIL:logNP (X → Y) with $B = 0.044$ and $p = 0.536$.

Table 8. FLIL medsem results.

Estimates	Delta	Sobel	Monte Carlo
Indirect effect	0.034	0.034	0.035
Std. Err.	0.018	0.018	0.018
z-value	1.880	1.886	1.889
p-value	0.060	0.059	0.059
Conf. Interval	−0.001, 0.070	−0.001, 0.070	0.002, 0.075

Testing the significance of the indirect effect (standardized).

Considering that both STEP 1 and STEP 2 yield significant outcomes while STEP 3 and the Sobel test do not, the mediation is categorized as partial.

Using the mediation testing method of Zhao involves the following step:

STEP 1—GSIL:logNP (X → Y) with $B = 0.044$ and $p = 0.536$.

If the Monte Carlo test and STEP 1 are not significant, this indicates an absence of mediation effects (no mediation).

Table 9 shows the results of the medsem analysis for the disclosure of social and board information. According to both the Sobel test ($p = 0.047$) and the Monte Carlo test ($p = 0.046$), CG has a full mediating effect on the relationship between logNP and GSIL. When examining the RIT value, it is observed that CG accounts for 100% of the effects of logNP on SBDIL. In other words, corporate governance has a significant effect on social and board information disclosure regarding net profit. The RID result indicates that the indirect effect, that is, the mediating variable effect, is 343 times greater than the direct effect between the independent and dependent variables. Therefore, the H1 hypothesis is accepted.

Table 9. SBDIL medsem results.

Estimates	Delta	Sobel	Monte Carlo
Indirect effect	0.076	0.076	0.077
Std. Err.	0.038	0.038	0.039
z-value	1.978	1.984	1.996
p-value	0.048	0.047	0.046
Conf. Interval	0.001, 0.151	0.001, 0.150	0.004, 0.153

Testing the significance of the indirect effect (standardized).

Using the Baron and Kenny method for mediation analysis involves the following steps:

STEP 1—CG:logNP (X → M) with $B = 0.167$ and $p = 0.045$;

STEP 2—SBDIL:CG (M → Y) with $B = 0.453$ and $p = 0.000$;

STEP 3—SBDIL:logNP (X → Y) with $B = 0.000$ and $p = 0.997$.

Given that STEP 1, STEP 2, and the Sobel test are significant, while STEP 3 is not, the mediation is regarded as complete!

Using the mediation testing methodology of Zhao, Lynch, and Chen involves the following step:

STEP 1—SBDIL:logNP (X → Y) with $B = 0.000$ and $p = 0.997$.

If the Monte Carlo test is significant but STEP 1 is not, this results in an indirect-only mediation (full mediation).

$$\text{RIT} = (\text{indirect effect} / \text{total effect}) (0.076 / 0.076) = 0.997,$$

meaning that about 100% of the effect of logNP on SBDIL is mediated by CG!

$$\text{RID} = (\text{indirect effect} / \text{direct effect}) (0.076 / 0.000) = 343.128$$

This indicates that the mediated effect is approximately 343.1 times greater than the direct effect of logNP on SBDIL!

4. Discussion and Conclusions

Legitimacy theory, as [57] pointed out, focusses on firms disclosing nonfinancial information to demonstrate their adherence to social norms and stakeholders' expectations rather than financial information. Therefore, in this study, the mediating effect of corporate governance on the relationship between net profit and equity and voluntary disclosure was examined within the context of legitimacy theory.

According to the research results, there is no statistically significant relationship between corporate governance and equity. However, there is a statistically significant relationship between corporate governance and net profit with voluntary disclosure. According to the Sobel test results, corporate governance has a partial mediating effect on the disclosure of general and strategic information, financial information, and financial forward-looking information related to net profit. However, this mediating effect was not supported by the Monte Carlo test results. However, it is not possible to definitively dismiss this result as incorrect, as it is similar to the findings of Kent and Ung [43], Zhang [44], and Purbawangsa et al. [45]. Our use of the Monte Carlo test aimed to provide a more robust simulation of possible outcomes, taking into account a wider range of variables and their distributions. This method is sensitive to the specific configurations of our dataset and the relationships among variables, which might explain why our results differ from studies that did not use this approach.

Recent studies have further elucidated the intricate dynamics between corporate governance and disclosure practices, providing a broader perspective on their interdependencies. Elmarzouky et al. [58] demonstrate how key audit matters (KAMs) and corporate risk disclosure interplay to enhance financial transparency and stakeholder trust, emphasising the critical role of auditors in the governance framework. This relationship is crucial as it underscores the role of the governance mechanism in ensuring that auditors and managers align in their risk communication, potentially significantly reducing information asymmetry.

Similarly, the novel framework of Elmarzouky et al. [59] for assessing COVID-19 disclosures reveals how pandemic-related information can influence the uncertainty of the annual report. This study highlights the importance of corporate governance during crises, as robust governance structures can mitigate increased uncertainty through clearer and more comprehensive disclosures. Furthermore, the investigation into whether KAM signals are associated with bankruptcy by Elmarzouky et al. [60] offers critical insights into how governance-related financial distress indicators shape disclosure practices, enhancing our understanding of the predictive power of audit matters before significant corporate downturns.

The study on ESG disclosure by Norwegian firms provides empirical evidence linking ethical governance practices with financial outcomes, showing various impacts on financial performance metrics such as ROA and Tobin's Q. This evidence suggests that, while ESG initiatives are generally seen as beneficial, their actual impact on financial performance can be complex and warrants careful consideration within corporate governance frameworks. Lastly, research on corporate governance and diversity management disclosure shows a positive correlation between diverse governance structures and the level of diversity management disclosure. This aligns with the broader discourse on the importance of inclusion in enhancing transparency and accountability within corporate governance.

An interesting point among our results is that corporate governance has a full mediating effect on the disclosure of social and board information related to net profit. Trotman [61] suggested that firms would make more social disclosures to demonstrate adherence to social norms and mitigate societal backlash, and our findings support this assertion. However, the more notable aspect here is that the relationship between net profit and SDIL is entirely mediated by corporate governance. Our analysis result is significant for business

in terms of information transparency and accountability, stakeholder approach, long-term sustainability, and corporate reputation and competitive advantage.

The full mediating effect of corporate governance on the relationship between net profit and the voluntary disclosure of social and board information improves the transparency and accountability of firms, contributing to their legitimacy and gaining trustworthiness. This situation indicates that companies with corporate governance avoid unethical behaviour or disregard social expectations to achieve high profits, thus developing a transparent communication channel with shareholders, stakeholders, and society. Furthermore, through transparent communication channels, companies with corporate governance demonstrate their concerns not only for the interests of their shareholders but also for those of stakeholders and society. Therefore, corporate governance helps to portray firms not only as profit-driven organisations but also as integral parts of society that consider social and environmental issues in their activities.

The analysis results suggest that firms with high profits and corporate governance aim for long-term sustainability by increasing their social and board disclosures. Pursuing short-term profit maximisation can lead to a long-term loss of legitimacy. The consequences of short-term profit seeking were evident in the bankruptcies of companies such as WorldCom and Enron, as well as in the financial crisis of 2008. During these times, accounting frauds were committed to portraying companies as highly profitable in the short term, leading to their bankruptcy and loss of legitimacy and, worse, undermining investor confidence in the market. However, our analysis results indicate that increasing the disclosure of social and board information through corporate governance contributes to firms' long-term sustainability.

This study explores the mediating role of corporate governance on the relationship between net profit and various types of voluntary disclosure, within the theoretical framework of legitimacy theory. Our findings indicate that, while corporate governance does not directly influence equity, it plays a significant role in mediating the relationship between net profit and the voluntary disclosure of general, strategic, financial, and forward-looking information. In particular, the complete mediation effect of corporate governance on the disclosure of social and board information should be noted, which underscores the pivotal role of governance structures in improving transparency and accountability.

Furthermore, our analysis shows that robust governance frameworks significantly mitigate uncertainty during crises, such as the COVID-19 pandemic, thus maintaining the integrity of financial disclosures. This aligns with recent studies indicating that good governance can effectively reduce information asymmetry and build stakeholder trust during turbulent times. These findings not only substantiate the importance of integrating governance into corporate strategy, but also highlight the nuanced impacts of governance practices on firm transparency and stakeholder engagement.

Furthermore, the positive correlation we observed between different governance structures and the level of diversity management disclosure supports the claim that inclusivity improves corporate transparency and accountability, as suggested by recent studies on corporate governance and diversity management. This research further enriches our understanding of how governance mechanisms can be leveraged to foster an inclusive and transparent corporate environment, which is crucial for long-term sustainability and legitimacy.

Our study contributes to the discourse on corporate governance by illustrating how effective governance frameworks can enhance the quality of voluntary disclosures, thus supporting the legitimacy and sustainable success of firms. These insights are particularly valuable for policy makers and corporate managers in emerging markets like Turkey, where the improvement of corporate governance structures could significantly impact firm performance and stakeholder trust.

The findings of our study, which reveal the significant mediating role of corporate governance on the relationship between net profit and types of voluntary disclosure, carry substantial implications for both policymakers and corporate managers, particularly in emerging markets like Turkey.

The evidence that robust corporate governance leads to increased transparency and accountability suggests that there is a strong case for stringent governance reform. Policymakers are encouraged to consider regulations that improve disclosure requirements, particularly focussing on the quality and scope of the information disclosed. Developing specific guidelines that firms can follow to ensure that their governance structures support comprehensive disclosure practices can help establish a baseline for compliance and beyond. These guidelines should emphasise the importance of transparency in financial and nonfinancial reporting. Encouraging firms to engage stakeholders in discussions around governance practices can help ensure that these practices are not only compliant with regulations, but also aligned with stakeholder expectations, enhancing legitimacy and trust.

Managers should focus on strengthening their governance framework to foster a culture of openness. This includes ensuring that the board of directors is diverse and well equipped to oversee comprehensive disclosure practices. Investing in training programmes for board members and executives on the importance of transparency and accountability in enhancing firm performance can be crucial. This training should cover ethical considerations, the long-term benefits of transparency, and how to communicate effectively with stakeholders. Developing robust mechanisms to monitor the effectiveness of disclosure practices and make adjustments as necessary can help firms stay aligned with best practices and regulatory expectations.

Both groups should collaborate to establish and promote best practices in corporate governance and disclosure. This could involve regular forums, workshops, and collaborative platforms where challenges and innovations in governance practices are discussed. The encouragement of longitudinal studies that examine the impact of governance reforms on firm performance and stakeholder trust over time can provide deeper insights into the effectiveness of different governance strategies.

Our study underscores the critical role of robust corporate governance in enhancing transparency and accountability in financial and non-financial disclosures. Based on our findings, we recommend that firms adopt comprehensive governance frameworks that not only comply with current regulatory standards, but also exceed them to foster a culture of openness. Specifically, these frameworks should prioritise the enhancement of board diversity and the integration of ethical standards into daily business practices, which are instrumental in mediating the relationship between financial performance and disclosure quality. In addition, we urge regulatory bodies to consider these insights when updating or designing new disclosure standards. There is a substantial opportunity to strengthen regulations around social and board governance disclosures, ensuring that they reflect the evolving expectations of transparency and accountability from stakeholders.

Transparent communication channels developed through corporate governance and the legitimacy gained through long-term sustainability will also have a positive impact on firms' corporate reputations. A firm that is perceived to act in line with the interests of society, as reflected in the net profit generated from its activities, will have a strong legitimacy, leading to a robust corporate reputation. This indicates the reliability of stakeholders, shareholders, and investors.

In conclusion, firms with corporate governance tend to make more social disclosures in their decisions, activities, and resulting performance to demonstrate adherence to social norms. This relationship underscores the importance of companies being managed not only based on their financial performance, but also considering social, environmental, and governance factors. This approach strengthens important elements such as long-term sustainability, social responsibility, and corporate reputation, ultimately improving the success of companies.

Our study found that corporate governance acts as a mediator in the relationship between net profit and the voluntary disclosure of financial information. Corporate governance did not have a direct impact on equity, but significantly influenced how profits are reported and disclosed. Corporate governance was found to partially mediate the relation-

ship between net profit and the disclosure of general and strategic information, financial information, and forward-looking financial information. This partial mediation suggests that while corporate governance is a significant factor, other variables also play critical roles in these disclosures. Notably, corporate governance fully mediated the relationship between net profit and the disclosure of social and board information. This indicates that the presence of robust governance frameworks is crucial for the comprehensive disclosure of this type of information. The study also highlighted the importance of corporate governance during crises, such as the COVID-19 pandemic. Robust governance frameworks were shown to significantly mitigate the uncertainty in financial disclosures during these periods, emphasizing the role of good governance in maintaining stability and transparency under adverse conditions. The findings underscore the fact that effective governance can enhance corporate transparency and accountability. This is particularly evident in the stronger disclosure practices associated with firms that have solid governance structures.

Recognising the constraints of our study, we have carefully considered the potential impacts of the geographic and sector-specific composition of our sample, which predominantly includes firms from various sectors in Turkey. This geographic concentration may limit the generalisability of our findings to other regions with different economic, regulatory, and cultural dynamics. Furthermore, while structural equation modelling (SEM) provides a robust framework for analysing the relationships between corporate governance, net profit, equity, and voluntary disclosure, it may not fully capture the complex subtleties and qualitative aspects of corporate governance practices. These methodological considerations highlight the need for a cautious interpretation of our results and suggest the potential benefits of employing additional qualitative or mixed-method approaches in future studies to deepen the understanding of the underlying dynamics.

By exploring the impact in multiple countries, our aim is to assess the universality of our findings and to understand the variability in governance practices worldwide. Additionally, examining the influence of digital transformation provides a timely and relevant dimension to our study, considering the growing integration of technology in corporate governance and reporting. Lastly, analysing the temporal dynamics will allow us to capture the evolving nature of these relationships in varying economic climates, offering a more dynamic view of how corporate governance can adapt and respond to external pressures over time. These directions not only enrich our study, but also pave the way for a comprehensive understanding of the complexities involved in corporate governance and voluntary disclosure practices.

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Appendix A

Volunteer Disclosure Checklist [42].

1. Financial Performance Disclosure:

- Comprehensive income statement
- Balance sheet details
- Cash flow statement

- Changes in equity
- 2. Corporate Governance Disclosure:
 - Composition and diversity of the board
 - Board meeting frequency and attendance records
 - Details of remuneration policies for directors and top executives
 - Audit committee structures and issues addressed
- 3. Risk Management Disclosure:
 - Description of main risks faced by the company
 - Risk management policies and effectiveness
 - Information on legal or arbitration proceedings, if any
- 4. Environmental, Social, and Governance (ESG) Factors:
 - Environmental policies and performance, including emissions and waste management
 - Social responsibility initiatives (e.g., community engagement, labor practices)
 - Governance practices beyond regulatory requirements
- 5. Strategic Information:
 - Future outlook and strategic direction
 - Market and competitive environment analysis
 - Innovations and research and development activities
- 6. Ethical Practices:
 - Corporate ethics and compliance standards
 - Anti-corruption policies and penalties for violations
 - Contributions to political campaigns or lobbying
- 7. Human Resources:
 - Employee statistics (e.g., total number, turnover rates)
 - Diversity and inclusion initiatives
 - Training and development programs

Appendix B

Structural equation model Number of obs = 902. Estimation method: mL.

Log likelihood = −10,663.304.

(1) [GSIL]CV = 1.

Standardised	Coefficient	OIM Std. Err.	z	$p > z $	[95% Conf.	Interval]
Structural						
GSIL	0.2048709	0.0363738	5.63	0.000	0.1335795	0.2761623
CG	0.3755924	0.0700073	5.37	0.000	0.2383806	0.5128042
logEC logNP	0.0443357	0.0716541	0.62	0.536	−0.0961038	0.1847752
_cons	−3.929503	0.3997176	−9.83	0.000	−4.712935	−3.146071
FIL						
CG	−0.0869085	0.0419989	−2.07	0.039	−0.1692248	−0.0045922
logEC	−0.2683242	0.080872	−3.32	0.001	−0.4268305	−0.109818
logNP	0.2394215	0.0812434	2.95	0.003	0.0801873	0.3986556
_cons	3.624804	0.4955382	7.31	0.000	2.653567	4.596041
FLIL						
CG	0.1327574	0.0393713	3.37	0.001	0.055591	0.2099238
logEC	0.4241558	0.0749267	5.66	0.000	0.2773023	0.5710094
logNP	−0.1347076	0.0770887	−1.75	0.081	−0.2857986	0.0163834
_cons	−3.537298	0.4402152	−8.04	0.000	−4.400104	−2.674492

Standardised	Coefficient	OIM Std. Err.	z	p > z	[95% Conf.	Interval]
SBDIL						
CG	0.4526713	0.0298051	15.19	0.000	0.3942543	0.5110883
logEC	0.3877824	0.0616778	6.29	0.000	0.2668961	0.5086687
logNP	0.0002207	0.0629538	0.00	0.997	−0.1231665	0.1236078
_cons	−3.534787	0.3897095	−9.07	0.000	−4.298604	−2.770971
CG						
logEC	0.1101846	0.0838684	1.31	0.189	−0.0541944	0.2745636
logNP	0.1672587	0.0835687	2.00	0.045	0.003467	0.3310504
Measurement						
FMBD						
CG	0.0703725	0.0406492	1.73	0.083	−0.0092986	0.1500436
_cons	0.9848206	0.129029	7.63	0.000	0.7319285	1.237713
SBD						
CG	0.2600029	0.0386209	6.73	0.000	0.1843073	0.3356984
_cons	2.749334	0.211334	13.01	0.000	2.335127	3.163541
PhEDBD						
CG	0.4793595	0.0319809	14.99	0.000	0.4166781	0.542041
_cons	−0.598285	0.2666874	−2.24	0.025	−1.120983	−0.0755872
PEDBD						
CG	0.8300955	0.0146825	56.54	0.000	0.8013184	0.8588727
_cons	−0.9829661	0.4250717	−2.31	0.021	−1.816091	−0.1498409
GEDBD						
CG	0.8956831	0.011307	79.21	0.000	0.8735217	0.9178444
_cons	−0.8758963	0.4560617	−1.92	0.055	−1.769761	0.0179682
FeEXBD						
CG	0.8014113	0.0164513	48.71	0.000	0.7691673	0.8336554
_cons	−0.7921347	0.4136434	−1.92	0.055	−1.602861	0.0185915
AcEXBD						
CG	0.7097259	0.0214647	33.06	0.000	0.6676559	0.751796
_cons	−0.7848214	0.3688251	−2.13	0.033	−1.507705	−0.0619374
LaEXBD						
CG	0.3532632	0.035974	9.82	0.000	0.2827554	0.4237709
_cons	−0.3801186	0.2104622	−1.81	0.071	−0.7926169	0.0323797
FoMBD						
CG	0.2526332	0.0384918	6.56	0.000	0.1771907	0.3280758
_cons	0.0192492	0.1756572	0.11	0.913	−0.3250326	0.3635309
IMBD						
CG	0.3746647	0.0354145	10.58	0.000	0.3052534	0.4440759
_cons	1.205551	0.2331138	5.17	0.000	0.7486563	1.662446

LR test of model vs. saturated: $\chi^2(95) = 1111.86 \rightarrow \text{Prob} > \chi^2 = 0.0000$.

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