

## The Impact of Rule of Law on Sustainable Development Goals Disclosure: Evidence from European Countries

Ammar Salem<sup>1,\*</sup>, Abdunaser Ibrahim Nour<sup>1,2</sup>, Muiz Abu Alia<sup>1,3</sup>, Raed Abdelhaq<sup>1,4</sup> & Aladdin Dwekat<sup>1,5</sup>  
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**Abstract: Purpose:** This study aims to examine the impact of national governance, specifically the rule of law, on corporate disclosure of the (SDGs) in Europe, addressing the corporate quality dimension beyond company-level determinants. **Methodology:** The analysis is based on 6,480 year-long observations from non-financial companies in 21 European countries between 2019 and 2024. A fixed-effects panel regression was used, controlled for sector, country, and year. The dataset integrates governance, financial disclosure, and SDG indicators. The rule of law, along with company-level controls, is the main independent variable. SDGD is measured as the proportion of 17 goals disclosed, resulting in an index from 0 to 1. **Results:** The findings reveal that strong rule of law significantly and positively on SDGD. CSRC, CS, PRO, and BI also show positive effects, while FL is not significant. **Recommendations:** Strengthening governance mechanisms and law enforcement to enhance the reporting of the Sustainable Development Goals. **Keywords:** Sustainable Development Goals (SDGs), SDG Disclosure, Rule of Law, National Governance.

### أثر سيادة القانون على الإفصاح عن أهداف التنمية المستدامة: دليل من الدول الأوروبية

عمار سالم<sup>1,\*</sup>، وعبد الناصر نور<sup>1,2</sup>، معز أبو عليا<sup>1,3</sup>، راند عبد الحق<sup>1,4</sup>، علاء الدين دويكات<sup>1,5</sup>  
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**ملخص: الهدف:** تهدف هذه الدراسة إلى دراسة تأثير الحوكمة الوطنية، وتحديدًا سيادة القانون، على إفصاح الشركات عن أهداف التنمية المستدامة في أوروبا، مع معالجة بُعد جودة الشركات بما يتجاوز محددات مستوى الشركة. **المنهجية:** يستند التحليل إلى 6480 ملاحظة على مدار عام من الشركات غير المالية في 21 دولة أوروبية بين عامي 2019 و2024. وقد استُخدم انحدار لوحة التأثيرات الثابتة، مع التحكم في القطاع والبلد والسنة. تدمج مجموعة البيانات مؤشرات الحوكمة والإفصاح المالي وأهداف التنمية المستدامة. تُعد سيادة القانون، إلى جانب الضوابط على مستوى الشركة، المتغير المستقل الرئيسي. يتم قياس SDGD كنسبة من 17 هدفًا تم الكشف عنها، مما ينتج عنه مؤشر من 0 إلى 1. **النتائج:** تكشف النتائج أن سيادة القانون القوية لها تأثير كبير وإيجابي على أهداف التنمية المستدامة. كما تُظهر CS و CSRC و PRO و BI آثارًا إيجابية، في حين أن FL ليست ذات دلالة إحصائية. **التوصيات:** تعزيز آليات الحوكمة وإنفاذ القانون لتحسين الإبلاغ عن أهداف التنمية المستدامة. **الكلمات المفتاحية:** أهداف التنمية المستدامة، الإفصاح عن تحقيق أهداف التنمية المستدامة، سيادة القانون، الحوكمة الوطنية.

1 Department of Accounting, Faculty of Business and Communication, An-Najah National University, Nablus, Palestine.

\* Corresponding author: ammar.salem@ptuk.edu.ps

Orcid: <https://orcid.org/0009-0003-9751-3792>

2 E-mail: a.nour@najah.edu. Orcid: <https://orcid.org/0000-0001-8525-9799>

3 E-mail: muizabualia@najah.edu. Orcid: <https://orcid.org/0000-0002-6056-0814>.

4 E-mail: raed.abdelhaq@najah.edu. Orcid: <https://orcid.org/0009-0008-5175-8213>

5 E-mail: aladdin.dwekat@najah.edu. Orcid: <https://orcid.org/0000-0003-1282-5141>

1 قسم المحاسبة، كلية الأعمال والاتصال جامعة النجاح الوطنية نابلس، فلسطين.

\* الباحث المراسل: ammar.salem@ptuk.edu.ps

orcid: <https://orcid.org/0009-0003-9751-3792>

2 البريد الإلكتروني: a.nour@najah.edu

Orcid: <https://orcid.org/0000-0001-8525-9799>

3 البريد الإلكتروني: muizabualia@najah.edu

Orcid: <https://orcid.org/0000-0002-6056-0814>.

4 البريد الإلكتروني: raed.abdelhaq@najah.edu

Orcid: <https://orcid.org/0009-0008-5175-8213>

5 البريد الإلكتروني: aladdin.dwekat@najah.edu

Orcid: <https://orcid.org/0000-0003-1282-5141>

## Introduction

The Sustainable Development Goals (SDGs) are a global universal agenda adopted by the United Nations in September 2015 under the 2030 Agenda for Sustainable Development. Building on the achievements and failures of the Millennium Development Goals (MDGs, 2000–2015), the SDGs were developed to address an even broader agenda of world challenges, such as poverty eradication, reduction of inequality, avoidance of climate change, environmental sustainability, and the promotion of peace, justice, and good institutions. Unlike their predecessors, the SDGs are universal in their scope and cover developed as well as developing countries, and they mandate intertwining economic, social, and environmental dimensions of development. Comprising 17 goals, 169 targets, and 232 indicators, the SDGs offer a holistic framework to direct policymaking, corporate activities, and civil society actions towards achieving inclusive and sustainable development by 2030 (United Nations, 2015; United Nations, 2025).

At the European level, the implementation of the Sustainable Development Goals (SDGs) has been strongly rooted in the policymaking mechanism and governance structure within the continent. The European Union (EU) has pursued a certain "alignment" of the SDGs with its strategic planning, namely through the European Green Deal and the European Semester, which integrate the goals of sustainability into economic, social, and environmental policymaking. The latest Eurostat report indicates that European countries have made positive strides in poverty reduction, renewable energy use, and climate action. Nevertheless, the narrowing of inequalities, aligning consumer behavior with sustainable levels of consumption, and achieving the goal of being carbon neutral at a much rapid pace are challenges that are yet to be addressed. Moreover, the European Union

has emerged as a world-leading champion of sustainability reporting, and it has already endorsed extensive reporting requirements, such as the High-Level Advisory Committee on Sustainability, which strengthens the corporate accountability of a company's contribution to the achievement of the (SDGs).

While institutional and economic capacities are important, national governance arrangements remain an important determinant in the realization of SDGs in Europe. *WORLDWORK* goes beyond these in determining the degree of implementation and reporting of sustainability goals. In this respect, among the six dimensions of governance noted by the World Bank, the rule of law is an important dimension, especially considering that it reflects the likelihood that property rights are protected, contracts fulfilled, and judicial bodies would function impartially (World Bank, 2025). In light of the European context, the notion of the rule of law encourages a culture where companies are more inclined to disclose transparently and accountably for information relevant to the SDGs, hence promoting more sophisticated regulatory environments. These institutional arrangements enhance stakeholder oversight and strengthen confidence in sustainability reporting as a means of reconciling corporate actions with societal and environmental requirements, thereby reducing management opportunism (Petzi et al., 2024; Awad and Salem, 2025; Alia et al., 2023a). Despite growing academic interest in disclosure within the framework of the Sustainable Development Goals, there has been little attention paid to the role of national governance, particularly through the rule of law, in shaping reporting on the Sustainable Development Goals. While Nicolo *et al.* (2023) see increasing importance of institutional quality in sustainability practice, Cassello *et al.* (2025) and Achim *et al.*, (2023) argue that knowledge of the impact of governance

arrangements on disclosure remains limited. In Europe, however, empirical evidence is very limited, and existing studies have prioritized corporate-level determinants, such as board composition, size, and sector, over institutional factors that directly affect disclosure credibility and comparability. This study investigates how the rule of law, the most important dimension of governance, impacts SDG reporting in European countries to address this knowledge gap. It empirically illustrates how national-level Rule of Law influences corporate SDG disclosure by combining the World Bank's Worldwide Governance Indicators with firm-level data (World Bank, 2025) and contributes theoretically through Stakeholder, Agency, Political Economy, and Legitimacy theories (Freeman, 1984; Jensen and Meckling, 1976; Tinker, 1980; Suchman, 1995; Deegan, 2002). The study provides new evidence on regulatory and legal influences of disclosure, using 6,480 firm-year observations from 21 European nations for the period of 2019–2024 shaped by NFRD and CSRD reforms (European Commission, 2025; Eurostat, 2025). This paper's contribution is singly focused on isolating the rule of law effect and, first, provides a large-scale assessment focused on the quality of legal institutions in Europe. Theoretically, the European context is distinct because strong sustainability regulation combines with heterogeneous legal enforcement, enabling this study to show variations in institutional factors not evidenced in prior studies. It provides policy insights that demonstrate how strengthening the legal institutions serves to advance credibility of SDG reporting (Batool *et al.*, 2023; Nicolò *et al.*, 2023).

The European context is also highly relevant in this analysis because of current regulatory reforms, including the CSRD, the NFRD, and the European Green Deal, which significantly expand mandatory sustainability disclosure

requirements, increase legal liability, and reinforce enforcement mechanisms within a regulatory framework where the rule of law has the determining role in shaping corporate SDG reporting behavior.

## **Literature Review and Development of Hypotheses**

### **Theoretical background**

This study primarily builds on Stakeholder Theory and Agency Theory to explain the influence of the rule of law on SDG disclosure. Stakeholder Theory (Freeman, 1984) suggests that stronger legal systems enhance stakeholders' ability to demand transparent sustainability reporting. Agency Theory by Jensen and Meckling (1976) further complements this view, stating how strong legal enforcement decreases information asymmetry and managerial opportunism, and therefore, enhances the credibility of SDG disclosure. Other theories will be referred to in context; however, hypothesis and interpretation rely on Stakeholder Theory: Freeman (1984) states that businesses need to consider several stakeholders' interests, such as employees, customers, governments, and investors. According to the World Bank, the Rule of Law is "the extent to which agents have confidence in and obey the rules of society, in particular, the quality of contract enforcement, property rights, the police, and the courts, and the probability of crime and violence" (World Bank, 2025). In the context of this definition, strong legal frameworks increase stakeholders' bargaining power. Where the legal frameworks are strong, stakeholders can make companies accountable for ESG practices, a factor that will force firms to improve the transparency and credibility of SDG disclosures (Troy *et al.*, 2025). Agency Theory focuses on the agency conflicts between managers and shareholders due to information asymmetry (Jensen and Meckling, 1976). The Rule of Law mitigates

agency conflicts by making managerial opportunism costly through legal frameworks and judicial oversight. Hence, managers accomplish the stakeholders' expectations by presenting them with credible SDG disclosures. Therefore, the Rule of Law enhances monitoring, restricts information asymmetry, and makes transparency a strategic tool for agency cost reduction and the building of trust (Lodhia *et al.*, 2023). According to the theory of Political Economy inspired by Tinker (1980), disclosure routines emanate from socio-political as well as institutional contexts rather than economic interests alone. The World Bank in 2025 defined Rule of Law as creating regulative certainty, compliance, and the ability of stakeholders to demand substantive sustainability reporting. Such companies, therefore, in good legal frameworks, are able to frame SDG disclosure as a substantive move in the wake of political and public demands that build legitimacy (Botchway and Bradley, 2023). Finally, Legitimacy Theory (Suchman, 1995; Deegan, 2002) suggests firms strive to be consistent with the values and norms of society to stay legitimate. Rule of Law has a framework that facilitates society's requirements of transparency and accountability. In stronger legal systems of states, firms are driven towards greater SDG reporting, not only to obtain symbolic legitimacy but to demonstrate substantive compliance. Enforcement arrangements heighten the reputational costs of nonobservance, thereby facilitating SDG disclosure as a strategic instrument of legitimacy in European markets (Lodhia *et al.*, 2023).

## Literature Review

SDG release is also an issue of corporate sustainability disclosure that gives stakeholders in-depth information regarding how companies map global sustainability agendas to strategy, operations, and performance. Disclosures

include environmental actions, such as carbon footprint mitigation and consumption of renewable energy; social contributions, such as gender equity, human rights, and community development; and governance actions, including transparency, ethicality, and institutional cooperation. According to this position, SDG disclosures build an institution for enhanced accountability, reduced information symmetry, and legitimacy of corporations in trying to meet the enhanced expectations from society and also the regulatory institution. Recent studies identify religiosity, social responsibility, and stakeholder behavior to have caused a broader dimension of sustainability shaping reporting practices, emphasizing the multidimensional influences driving SDG disclosure. Casciello *et al.* (2025) also add that even while interest in sustainability disclosures has risen, empirical proof of the effects of the quality and enforcement of laws on SDG reporting is still scant, especially in Europe, which faces high regulatory expectations but whose reporting practice is heterogeneous. Lending credence to the above, Nicolò *et al.* (2023) show how institutional strength-including legal strength-is an important determinant of the quality of sustainability disclosures made by European firms. Furthermore, Hasan (2025) reveals that the sustainability practices of emerging economies, including those dealing with environmental efficiency and governance, are very strongly influenced by institutional environments, thereby further reinforcing the relevance of governance quality in shaping disclosure behavior. As stakeholder pressures grow, companies in robust rule-of-law regimes will be most likely to adopt robust SDG reporting frameworks that place heavy focus on accountability, transparency, and credibility. A legally binding environment enhances the cost of non-conformity and facilitates corporate legitimacy and thus pressures companies to

depart from symbolic communication. Moreover, Ansell *et al.* (2022) also speak of the enabling role played by decentralized legal instruments in enabling localized SDG achievement by interpreting legal expectations into institutional practice. This is also in line with DiMaggio and Powell's (1983) institutional theory that companies working under institutionally organized legal systems would move towards characteristic forms of disclosure due to normative as well as coercive pressures. Cumulatively, the study demonstrates that European rule of law is not only a defensive shield but also an effective catalyst for substantive SDG-driven corporate reporting. Indeed, Dodoo (2023) argues that companies based in strict governance environments are likely to exceed minimum levels of compliance in assuming global best practices in response to stakeholder demand. Similarly, Huang *et al.* (2025) find that good governance facilitates institutional isomorphism, making firms imitate each other's sustainability behavior under normative and coercive pressures.

In this overall governance framework, the rule of law is a pillar of European institutional design principles. It includes independence of the judiciary, equality before the law, and periodic application of rights and obligations. The World Bank (2025) explains that the rule of law describes people's views of the extent to which individuals and institutions follow sets of agreed-upon norms, particularly with regard to contract enforceability, property rights, the judiciary's effectiveness, and crime and violence. In the European Union, regulatory regimes have been universally identified as highly procedurally transparent and with strong investor protection, reliable mechanisms of enforcement-all conditions that favor institutional trust and market stability. Such conditions of governance not only subject firms to environmental and social legislation but also

provide incentives that lead them to create formalized disclosure processes, which ensure compliance and result in reputational capital (Salem and Awwad, 2025). Al Amosh and Khatib (2022) further show that governance structures-in particular, ownership and board independence-play an important role in shaping ESG disclosure, supporting the broader argument that institutional governance mechanisms are crucial in affecting SDG reporting practices.

The more recent literature emphasizes the importance of the rule of law in shaping sustainability and SDG disclosures. For example, Batool *et al.* (2023) argue that a quality legal system is enforceable, credible, and effective; it detests selective compliance and thus improves corporate reporting legitimacy. Similarly, Achim *et al.* (2023) observe that legal institutions directly influence the practice of corporate responsibility, contending that good legal systems influence the extent to which firms publish information related to social and environmental goals. Casciello *et al.* (2025) also report that despite the growing interest in sustainability disclosures, there is still limited empirical research on the effect of the quality and enforcement of laws and regulations on SDG reporting, particularly in Europe, where regulatory expectation is high but reporting practices are divergent. In this respect, Nicolò *et al.* (2023) show that the strength of the institutional settings, also of the legal one, influences the quality of the sustainability disclosures of firms in Europe.

With increasing stakeholder pressure, firms headquartered in favorable rule-of-law environments will be more likely to adopt robust SDG reporting systems grounded in accountability, transparency, and credibility. A binding regime amplifies the cost of non-compliance and firm legitimacy and creates pressure on firms to go beyond symbolic

communication. Furthermore, Amer (2022) acknowledge that decentralized legal tools allow achieving the SDGs locally by anchoring legal expectations within institutional practices. The trend is an expression of the extension of the institutional theory of DiMaggio and Powell (1983) that companies operating within institutionally structured legal systems would be attracted to normalized patterns of disclosure resulting from normative and coercive pressures. Overall, the findings indicate that the rule of law in Europe is not only a protective law but also an efficient driver of substantive SDG-conform corporate reporting.

### **Development of Hypotheses**

Clearly, the rule of law is among the governing forces in realizing how corporate responsibility and the development of even disclosure policies emerge within European economies, as the writings above show. Provided the legal systems are commensurate, equitable, and accessible, then corporations will be forced to adopt sustainability reporting as something less than a voluntary action but more a legally obliged courtesy. Empirical evidence supports this perception: Al-Sartawi and Nour (2023) demonstrated that firms that face intense legal pressure possess greater environmental disclosure, both public-interest based and rule based. Nicolò *et al.* (2023) also demonstrated that existing rule bases, strengthened by additional empowerment through the application of digital monitoring technology, facilitate the process of disclosure and enhance transparency so that firms are able to release SDG-related information securely and seamlessly. Also, Lepenies *et al.* (2023) are quoting that rule-of-law-based indicator systems ensure institutionalization of sustainability issues in a way where selective compliance is avoided and common reporting standards are embraced.

Drawing on Stakeholder and Agency theories, stronger rule-of-law environments enhance stakeholder pressure and restrict managerial discretion, leading firms to disclose more substantive SDG information (Freeman, 1984; Jensen and Meckling, 1976). Thus, the study proposes the following hypothesis:

*H1: There is a positive and significant association between the Rule of Law and SDG disclosure*

### **Methodology**

#### **Sample and Data Collection**

This study employs a quantitative research design with panel data analysis to examine the impact of the rule of law on corporate disclosure of the Sustainable Development Goals (SDGs) in Europe. The analysis relies on data from the Refinitiv Eikon database and the World Bank's Global Governance Indicators for 2019-2024. The resultant dataset contains 6,480 yearly observations of non-financial firms in ten major industry sectors from 21 European countries between 2019 and 2024. Financial firms were excluded because of their unique regulatory conditions, and their exclusion would inhibit cross-sectoral bias. Firm corporate data, such as ESG metrics and SDG disclosure ratios, was retrieved from the Refinitiv Eikon database. In this study, the dependent variable is the SDG disclosure ratio, defined as the proportion of disclosed targets to the 17 SDGs; this is an index that varies from 0 to 1. The rule of law index is obtained from the World Bank's Global Governance Indicators, with controls at the firm level. The rule of law, derived from the World Bank's Global Governance Indicators, is the main independent variable. In addition, to ensure differentiation at the firm level, the model controls for board independence, a corporate social responsibility committee, firm size, firm leverage, and profitability. This sample was constructed in two steps: first, by extracting all the available

firm-year observations for European listed firms, and second, by restricting the dataset to non-financial firms. From an initial pool of 30,912 firm-year observations, listwise deletion of cases with missing SDG disclosure data or incomplete financial information and unavailable governance indicators resulted in a final balanced dataset of 6,480 observations. This framework provides a robust design for studying corporate and corporate governance drivers for achieving the Sustainable Development Goals within the evolving EU regulatory landscape on sustainability, especially with regard to the National Sustainability Framework and the Central Sustainability Framework.

### **Measurement of Variables:**

#### **The dependent variable (SDG Disclosure)**

According to recent studies on SDG disclosure (Meqbel *et al.*, 2025; Rosati and Faria, 2019), SDG disclosure (SDGD) can be defined as a compliance ratio based on the 17 SDGs. Each goal receives a score of 1 when a company discloses related initiatives or activities towards that specific SDG within a reporting period and a score of 0 otherwise. The aggregate of these values is averaged over 17 to give the compliance degree and that gives a baseline to measure how far companies are from incorporating the SDGs into reporting practice.

$$\text{SDG DISC} = (\text{sum SDG } i) / 17)$$

#### **Independent Variable (Rule of Law)**

The independent variable for this research is the Rule of Law (RL), which comes from the World Bank's Worldwide Governance Indicators (WGI). This indicator measures people's attitudes on the extent to which institutions and individuals have trust and respect in the rules of society, particularly in contract enforcement, protection of property rights, independence of the judiciary, efficiency of the courts and police, and crime

and violence. The index is reported every year on a continuous scale that ranges from -2.5 (weak governance performance) to +2.5 (strong governance performance) thereby facilitating comparable cross-country and time-series analysis (World Bank, 2025).

#### **Control Variables**

Besides the primary independent variable, there are some control variables for the firm level to capture internal governance structure and financial characteristics that may affect SDG disclosures. These include board independence, CSR committee, firm size, leverage of firm, and profitability (ROA). Board independence and CSR committees are most commonly mentioned devices that facilitate transparency and voluntary disclosure. Independent boards improve monitoring efficacy and mitigate managerial opportunism, and CSR committees play a strategic role in guiding sustainability practice and disclosure programs (Abdelhaq and Dwekat, 2024; Abdelhaq *et al.*, 2024; Salem *et al.*, 2025 Alia *et al.*, 2024. Abdeljawad *et al.*, 2023). Firm size is seen as a critical determinant as larger firms experience greater public scrutiny and stakeholder pressure, which lead them to provide more extensive sustainability disclosures (Nour *et al.*, 2024; Alia *et al.*, 2023b). Financial structure does come into play, with highly leveraged firms likely to be constrained in their ability to invest capital in sustainability reporting, while more profitable firms (as measured by ROA) will have improved disclosure practices due to their greater capability to meet stakeholder demands and regulation needs (Abdeljawad *et al.*, 2025; Nour *et al.*, 2025).

In including these firm controls, the study guarantees that the estimated relationship between rule of law and SDG disclosure is internal corporate governance characteristics or financial ability free, thus confirming the strength of the analysis.

### Regression Model

The Hausman specification test was conducted to determine whether the fixed-effects model or the random-effects model is more appropriate for the data. The test evaluates whether the unique errors are correlated with the regressors.

Test Statistic	Chi-square ( $\chi^2$ )	Degrees of Freedom	p-value
Hausman Test	32.47	6	0.0001

The Hausman test gives a statistically significant ( $\chi^2 = 32.47$ ,  $p < 0.001$ ), which indicates that the fixed-effects model should be preferred to the random-effects model. This suggests that the unobserved firm-specific heterogeneity is correlated with the explanatory variables; thus, the fixed-effects estimator provides consistent and reliable estimates of the impact of the rule of law on SDG disclosure.

To empirically confirm the association between the rule of law and the extent of SDG disclosure, this study employs a panel data regression model. The dependent variable is the SDG Disclosure, SDG disclosure (SDGD) which is measured as the ratio of disclosed goals to the 17 SDGs, an index ranging from 0 to 1. Rule of law is retrieved from the World Bank's Worldwide Governance Indicators with firm-level controls., as has been done in prior disclosure studies (Abdelhaq *et al.*, 2025a). The Rule of Law (RL), one of the World Bank's Worldwide Governance Indicators (WGI), is the primary explanatory variable, measuring contract enforceability, judicial independence, and legal framework overall effectiveness (Abdelhaq *et al.*, 2025b). To improve validity and counter omitted variable bias, several firm-level control variables are introduced, i.e.:

board independence, enhancing monitoring quality (Dwekat *et al.*, 2025); the existence of a CSR committee, instilling sustainability engagement and responsibility (Dwekat and Abdelhaq, 2025); firm size, representing visibility and stakeholder pressures (Nour *et al.*, 2022); firm leverage, which represents financial constraints (Al-Koni *et al.*, 2025); and profitability (ROA), representing availability of resources to support disclosure practices (Abdeljawad *et al.*, 2025). This specification makes it possible to isolate the impact of the rule of law on SDG disclosure while accounting for variation in governance and firm characteristics.

The model for estimation is described as follows:

$$SDGDisclosure_{it} = \beta_0 + \beta_1 RuleOfLaw_{ct} + \beta_2 BoardIndp_{it} + \beta_3 CSRCommittee_{it} + \beta_4 FirmSize_{it} + \beta_5 Leverage_{it} + \beta_6 ROA_{it} + \varepsilon_{it}$$

The model defines  $SDGDisclosure_{it}$  as the SDG disclosure index for company "i" in year "t". The main independent variable is  $RuleOfLaw_{ct}$ , which is the level of rule of law in country "c" in year "t". Adjustment variables include  $Leverage_{it}$  for capital structure measured using the debt-to-equity ratio,  $CSRCommittee_{it}$  for the presence of a CSR committee,  $BoardIndp_{it}$  for board independence,  $FirmSize_{it}$  for firm size measured by the natural logarithm of total assets, and  $ROA_{it}$  for profitability measured by return on assets. Finally,  $\varepsilon_{it}$  is the margin of error.

## Results and Discussion

### Descriptive Statistics and Correlation Analysis

In this section, descriptive statistics of all variables involved in the analysis are presented, accompanied by a correlation matrix. This initial analysis gives an overview of the nature

of the dataset and relationships between the variables before the main regression analysis.

**Table (1):** Descriptive Statistics.

Variable	Obs	Mean	Std. Dev.	Min	Max
SDGD	6480	.284	.308	0	1
RL	6480	1.428	.641	-.86	2.12
CSRC	6480	.622	.485	0	1
FSIZE	6480	13.929	2.349	1.609	21.69
FPROF	6480	4.976	7.454	-13.17	20.09
FLE	6480	.552	.235	.1	.943
BINDP	6480	53.813	26.627	0	100

Table 1 shows the description of the variables used for the study over the 6,480 firm-year observations. The first variable, SDG Disclosure (SDGD), has a mean of 0.284 and a standard deviation of 0.308, implying that European firms are disclosing less than a third of the total available SDG indicators with considerable variability (between 0 and complete disclosure). This shows that although full SDG reporting for a large number of firms exists, the overwhelming majority have a shallow understanding of the UN’s 2030 Agenda. The first key explanatory variable, Rule of Law (RL), provides a high average of 1.428 (between -2.5 and +2.5), implying sound institutional and legal frameworks within European nations. The lowest average of -0.86, however, indicates that poor aspects of independence and enforcement of the law exist within a few of these nations that could influence the variability of the disclosures.

**Table (2):** Matrix of Correlations.

Variables	(1)	(2)	(3)	(4)	(5)	(6)	(7)
(1) SDGD	1.000						
(2) RL	0.164	1.000					
(3) CSRC	0.405	-0.090	1.000				
(4) FSIZE	0.427	-0.177	0.463	1.000			
(5) FPROF	0.045	-0.019	0.041	0.038	1.000		
(6) FLEV	0.186	-0.111	0.229	0.391	-0.239	1.000	
(7) BINDP	0.071	0.153	0.127	0.149	0.073	-0.064	1.000

Table 2 present the correlation coefficients for the variables of the study. The dependent variable, SDG disclosure (SDGD), is positively correlated with most of the firm-level characteristics, most notably firm size (0.427) and having a CSR committee (0.405). This

Results of control variables show that around 62% of the sampled firms have CSRC, which points to the increasing importance of committees in managing sustainability initiatives. The average level of BINDP is 53.8%, indicating that European boards have a moderate level of independence; the extreme dispersion from a minimum of 0 to a maximum of 100, however, indicates significant variability in governance structure. Firm-specific characteristics show interesting trends: Firm Size or FSIZE averages 13.9 in log value but is quite dispersed, indicating heterogeneity of firm size across industries. Profitability or FPROF averages 4.98 with a fairly high standard deviation at 7.45, reflecting that some firms have negative profitability while the others are very profitable. Firm Leverage at 0.552, as measured by FLE, shows reliance on debt financing with values ranging from 0.1 representing low leverage to 0.94 representing near-complete use of debt.

Overall, the descriptive results point out the heterogeneity of firms across governance structures, financial capacity, and institutional environments, and hence offer a justification for the use of panel regression analysis to control for unobserved heterogeneity and test the hypothesized relationships.

means that larger firms and firms that have established institutionalized sustainability structures are likely to adopt SDG reporting. Profitability (0.045), board independence (0.071), and leverage (0.186) share weak but positive correlations with disclosure, meaning that financial performance, governance

structure, and capital structure are weak determinants of transparency.

Rule of Law (RL) is highly related to SDG disclosure (0.164), confirming that stronger institutional contexts facilitate more developed sustainability reporting. RL is negatively related to some firm-level attributes such as firm size (-0.177) and leverage (-0.111), which may reflect variation in country-level institutional contexts.

Moderate correlations exist between the independent variables, with firm size and CSR committee recording the highest correlation (0.463), suggesting that larger firms are more probable to possess sustainability governance mechanisms. None of the variables' coefficients are discovered to be excessively high, which reduces multicollinearity concerns in the regression models.

### Variance Inflation Factor (VIF) Test

The Variance Inflation Factor (VIF) test was conducted to diagnose the multicollinearity among independent and control variables. It follows that all VIF values are below common thresholds of 5 and 10, which also supports that multicollinearity issues do not exist. The mean VIF is also low, which shows that the coefficients are stable and not inflated because of the correlation among predictors.

**Table (3):** VIF Results.

Variable	VIF	1/VIF
FSIZE	2.45	0.408
FLEV	2.12	0.472
CSRC	1.98	0.505
BINDP	1.74	0.574
RL	1.52	0.658
FPROF	1.31	0.765
<b>Mean VIF</b>	<b>1.85</b>	

All the variables are within an acceptable range as shown by the VIF test with VIF values between 1.31 and 2.45, hence no harmful multicollinearity appears to be present in this model. Its mean VIF of 1.85 supports that correlations among predictors are small and do not pose any serious threat to the reliability of the regression estimates.

### Regression Analysis

This is the results section of the regression analysis that considers the influence of independent and control variables on the extent of Sustainable Development Goals-related disclosure. Three models in a sequence were employed to control fixed effects: the first model contains only year-specific fixed effects, the second model incorporates country-specific fixed effects, and the third model contains fixed effects for year, country, and industry. This last model is the most powerful and reliable for generating predictions from the outcome.

**Table (4):** Regression Results.

VARIABLES	(1) SDGD	(2) SDGD	(3) SDGD
RL	0.0520*** (0.00704)	0.0476*** (0.00703)	0.0462*** (0.00704)
CSRC	0.149*** (0.00777)	0.123*** (0.00790)	0.123*** (0.00790)
FSIZE	0.0455*** (0.00193)	0.0520*** (0.00214)	0.0513*** (0.00215)
FPROF	0.00107*** (0.000404)	0.00126*** (0.000405)	0.00127*** (0.000405)
FLEV	0.0106 (0.0158)	0.0242 (0.0156)	0.0211 (0.0157)
BINDP	5.2105 (0.000116)	0.000269** (0.000115)	0.000315*** (0.000116)
Year FE	Yes	Yes	Yes
Country FE	No	Yes	Yes
Industry FE	No	No	Yes
Constant	-0.502*** (0.0283)	-0.604*** (0.0297)	-0.584*** (0.0310)

**Observations:** 6,480

**R-squared:** 0.292 (Model 1) | 0.323 (Model 2) | 0.324 (Model 3)

**Note:** \*, \*\*, \*\*\* denote statistical significance at the 10%, 5%, and 1% levels, respectively.

Table 4 presents the regression results with year, country, and industry fixed effects, which is the most conservative specification of the analysis. The findings indicate that the Rule of Law is positively and significantly associated with SDG disclosure (coefficient = 0.0462,  $p < 0.01$ ). This result aligns with extant literature (e.g., Nicolò *et al.*, 2023; Batoool *et al.*, 2023) that traces more reliable disclosure and reduced selective compliance as a function of more robust legal systems. The result is best interpreted through Legitimacy Theory, as firms headquartered in more robust legal environments are compelled towards more material SDG reporting to secure societal legitimacy and meet institutional expectations, rather than symbolic disclosure.

Therefore, the finding that the rule of law significantly and positively influences SDGs disclosure concurs with findings from the literature. Cassello *et al.* (2025) show that the quality and enforcement of the law play a significant and powerful role in shaping corporate sustainability disclosure practices. Nicolò *et al.*, (2023) noted that a stronger corporate environment positively influences credibility in the sustainability reporting of European companies, and thus this result largely corroborates the findings in the present study.

Among the control variables, the presence of a CSR committee significantly influences SDG disclosure positively. This contradicts Dwekat and Abdelhaq 2025, who cited the strategic role played by CSR committees in determining sustainability engagement. The correlation aligns with Stakeholder Theory, whereby CSR committees are a mechanism of governance following increased pressure from many stakeholders for transparency in sustainability practice.

Firm size is found to have a significant positive effect (Abdelhaq *et al.*, 2024; Nour *et*

*al.*, 2022), which posited that the larger the firms, the higher the disclosures as a result of greater external monitoring and scrutiny by the regulatory bodies. This effect is adequately supported by Political Economy Theory of accounting studies, which holds the view that economically and politically more visible firms develop more detailed disclosure policies as a measure to cope with external pressure and maintain legitimacy in the market.

Profitability obtained through ROA is also strongly related with SDG disclosure. The finding confirms Abdeljawad *et al.* (2025), which states that financially sounder companies are more inclined to invest in sustainability reporting. The Agency Theory framework believes that the relationship, where profit-maximizing firms minimize agency costs by disclosure due to managerial control of shareholders and information asymmetry reduction about their long-term sustainability plans.

Lastly, board independence is fairly high but strongly positive because, in comparative research, independent directors have been put at the forefront of improving transparency and oversight of managerial actions (Abdelhaq and Dwekat, 2024). This is again in accordance with Agency Theory because independent monitoring increases disclosure practice to discipline opportunistic managerial actions. In contrast to this, tight leverage is not playing any significant role, and thus it is an indicator that financial structure per se is not a factor influencing sustainability reporting under the European model.

The positive association between the rule of law and SDG disclosure reflects several institutional mechanisms: strong rule-of-law environments increase enforcement credibility and, consequently, the cost of non-compliance, which motivates firms to disclose proactively. These conditions also go along

with a high degree of trust and transparency norms within the institutions, and these pressures urge the firms to align the information presented within the expectations of the society. The combination of enforcement pressure, trust, and cultural factors explains why firms operating within strong-rule-of-law systems reveal more SDG information.

Overall, the findings of this study confirm that institutional determinants, namely the rule of law and corporate governance characteristics, are the primary drivers of Sustainable Development Goal (SDG) disclosure in Europe. This positive relationship can be explained by several mechanisms operating at the institutional level: first, it enhances trust in institutions, increases transparency standards, and incentivizes companies to align their reporting more closely with societal expectations; second, stronger rule of law environments bolsters the credibility of enforcement systems and increase the likelihood of non-compliance. Connecting these findings with insights from stakeholder and agency theory highlights the fact that disclosure practices are not arbitrarily chosen but rather reflect companies' strategic responses to the legal context, stakeholder pressures, governance structures, and economic requirements. Put together, these explain why firms in strong legal systems disclose more consistently and substantively on the SDGs.

## **Conclusion**

This research analyzed the effect of national rule of law, i.e., rule of law, on SDG disclosure by European companies. The empirical findings based on 6,480 firm-year observations for 2019-2024 data of 21 European countries established that better rule of law conditions have a significant impact on the level of SDG disclosure. This finding also supports the role of effective legal frameworks to facilitate transparency, accountability, and legitimacy

for sustainability reporting according to Legitimacy Theory. Other determinants at the firm level still as core drivers of disclosure as grounded on Stakeholder Theory, Agency Theory, and Political Economy perspectives are the firm-level corporate governance features of CSR committees, board independence, firm size, and profitability.

Collectively, results show that SDG disclosure is neither dependent on firm-level choice nor on institution and institutional settings in which businesses are located. The study contributes to the emergent directions of research in European corporate accountability and sustainability reporting by linking a cluster of governance mechanisms at firm level to country level quality of law. Usually, it calls for institutionalization and the strengthening of enforcement to make SDG reporting other than a mere token pronouncement and to play a considerable role in the 2030 Agenda. These findings have several important policy implications: Strengthening enforcement mechanisms for Sustainable Development Goal (SDG) reporting by EU regulators is a key way to improve the quality and consistency of such reporting. Improved contract enforcement, stricter compliance oversight, and increased judicial efficiency will be crucial in encouraging companies to disclose more substantial and comparable sustainability information. These institutional improvements will accelerate progress toward the 2030 Agenda and bolster the broader EU sustainability agenda.

## **Implications for Policy, Practice**

The significance of this study stems from its applicability on both theoretical and practical levels. The findings suggest to policymakers that if the corporate environment is supported through appropriate law enforcement and improved oversight mechanisms, companies will be better positioned to achieve the

Sustainable Development Goals (SDGs). This study also demonstrates that strengthening corporate governance structures, such as boards of directors and corporate social responsibility committees, will ultimately contribute to SDG achievement. If implemented, the study's findings can empower managers to develop internal systems that mitigate legitimacy risks while enhancing sustainability performance. Theoretically, the study reinforces both institutional and legal perspectives by showing how SDG disclosures are influenced not only by company characteristics but also by the broader legal environment. Furthermore, this study reinforces the coercive and normative pressures to compel companies to produce substantive, rather than merely symbolic, sustainability reports, underpinned by sound rule-of-law frameworks.

### **Study limitations**

These results should be viewed in the context of several limitations recognized in this study. First, the SDG disclosure index applied in this study is quantitative and does not distinguish between symbolic and substantive reporting, as indicated in prior research on sustainability communication. Second, the World Bank's Rule of Law Index is a proxy reflecting institutional perceptions rather than actual rule enforcement performance, which underestimates true rule-of-law effectiveness across countries. Third, although this regression framework reduces some subjectivity problems, subtle variation may still persist; further research may strengthen causal interpretations through the addition of lagged governance variables or using alternative measures of institutions. Furthermore, this analysis has not accounted for mechanisms of missing data other than case-by-case deletion, which could lead to selective effects depending on their disclosure practices. Another promising line of inquiry might concern subgroup analyses by regional blocs-such as

Western Europe versus Eastern Europe-or industry categorizations to capture structural variation in SDG disclosure behavior. These subgroups are likely to show whether the rule of law serves as a more substantial driver in more mature institutional jurisdictions or in industries with environmentally sensitive operations. In addition, a series of resilience tests, using alternative measures of the Sustainable Development Goals, different governance variables, among others, will better validate the stability and generalizability of such findings. In addition to the aforementioned limitations of perception-based governance indicators, and the SDG indicator's focus on the quantity and quality of disclosure, the research is also limited by a lack of robustness tests that directly examine subjective components. This research does not include lagging institutional variables, as well as other governance elements, to confirm the robustness of the rule of law within the framework of causality issues. This may affect the robustness of causal inferences, and therefore we recommend that future studies directly test subjective components, either through lagging or mechanistic variables.

### **Disclosure Statements**

- **Ethical approval and consent to participate:** Approval was obtained from all authors.
- **Availability of Data and Materials:** The panel dataset in this study cannot be publicly shared due to data licensing agreements and confidentiality constraints driven by the commercial data provider, Refinitiv Eikon. Access to these data may be granted upon reasonable request and with permission from the provider.
- **Author Contributions:** The lead author made the primary contribution, with substantial input from the co-authors.

- **Competing Interests:** The authors declare no conflicts of interest.
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