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Reassessing the Role of Integrated Reporting in Driving Financial and Esg Outcomes: A Cross-Country Analysis of Southern African Banks

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ABSTRACT

This study reassesses the role of integrated reporting in influencing sustainability outcomes and financial performance across the Southern African banking sector, a region that remains underrepresented in mainstream ESG (Environmental, Social, and Governance) disclosure research. The study draws on a panel dataset covering 39 listed banks across 10 countries in the Southern African Development Community (SADC) region from 2019 to 2023. It employs a Fixed Effects Pooled OLS regression model to examine the impact of integrated reporting quality (IRQ), firm-level financial indicators, and political stability on sustainability performance, measured through ESG-related scores. The results reveal that IRQ, return on assets (ROA), market capitalization, and strategic financial investment are positively and significantly associated with sustainability outcomes, supporting the relevance of integrated thinking in value creation. Conversely, variables such as Tobin's Q and WACC show limited explanatory power, indicating that traditional financial market signals may not fully capture ESG dynamics in emerging institutional settings. Notably, the interaction between IRQ and political stability demonstrates a modest but significant effect, suggesting that institutional context conditions the effectiveness of integrated reporting practices. These findings are interpreted through a multidimensional theoretical lens incorporating Stakeholder, Legitimacy, Resource-Based, Signalling, and Institutional theories. The study contributes to ESG and corporate governance literature by highlighting the conditional relevance of integrated reporting frameworks in politically and economically diverse settings. It also provides practical insights for policymakers, investors, and corporate actors seeking to strengthen sustainability accountability in emerging financial markets.

Keywords: Integrated Reporting Quality, ESG Performance, Southern African Banks, Institutional Context, Fixed Effects Regression

INTRODUCTION

In recent years, the call for greater corporate transparency and accountability has led to the proliferation of integrated reporting (IR) frameworks, particularly in emerging markets that seek to align with global sustainability standards. Integrated reporting, by synthesizing financial and non-financial information, is widely believed to enhance firm performance, stakeholder trust, and long-term value creation (Eccles & Krzus, 2018). Political and institutional environments, especially political stability, have been increasingly recognized as pivotal contextual factors influencing the effectiveness of corporate disclosures (La Porta *et al.*, 1998; Chen *et al.*, 2011). However, empirical evidence on how integrated reporting quality (IRQ) interacts with governance conditions to affect sustainability performance remains scarce, particularly in the African context.

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This study investigates the extent to which integrated reporting contributes to sustainability performance in the banking sector of the Southern African Development Community (SADC), while accounting for the moderating role of political stability. The SADC region presents a unique opportunity to explore this dynamic because of its heterogeneity in institutional maturity, regulatory enforcement, and the adoption of sustainability disclosure frameworks. As banks play a crucial role in financial intermediation and economic development, understanding the institutional boundaries within which disclosure practices operate is essential for policymakers and corporate leaders.

Recent empirical studies increasingly explore the strategic role of integrated reporting (IR) in shaping both financial and sustainability-related outcomes across various institutional contexts. For instance, De Villiers and Hsiao (2021) find that firms with higher IR quality tend to achieve superior ESG scores, reinforcing IR as a mechanism for sustainability alignment. Similarly, Alkaraan and Albitar (2023) used structural equation modelling to demonstrate that IR indirectly enhances ESG outcomes through improved governance practices in emerging economies. Within the African context, Mokoaleli-Mokoteli *et al.* (2023) offered evidence from the SADC region, showing that adherence to standardized IR frameworks correlates with improved ESG performance, albeit moderated by institutional capacity. Rodrigues and Mendes (2023) examined IR's influence of IR on financial and market-based indicators across developing markets and highlighted the importance of contextual governance in amplifying IR's effectiveness. Wilson and Huang (2024) extended this discourse by demonstrating that high-quality IR contributes to stronger financial and sustainability performance in post-COVID economies, particularly when supported by political stability and regulatory coherence. Despite these advances, limited attention has been paid to how IR functions across banks operating under diverse political and institutional structures in Southern Africa, which this study aims to address.

While previous studies have advanced the understanding of reporting's relationship with ESG outcomes and firm performance, this study offers three distinct contributions. First, unlike De Villiers and Hsiao (2021) and Rodrigues and Mendes (2023), who adopt broad cross-sectoral or multi-industry perspectives, this study focuses on the banking sector, a critical yet underexplored industry in the ESG discourse, especially in the context of Southern Africa. Second, building on the insights of Alkaraan and Albitar (2023), this study introduces political stability as a moderating variable, an addition that enriches existing models by recognizing the institutional governance conditions under which IR practices become more or less effective. Third, while Mokoaleli-Mokoteli *et al.* (2023) explored IR within the SADC region, their work did not explicitly examine cross-country institutional variation**;** this paper fills that gap by conducting a panel-based analysis across multiple SADC countrie**s**, thereby capturing how divergent political environments influence the efficacy of integrated reporting. In doing so, the study responds to Wilson and Huang's (2024) call for governance-sensitive approaches that contextualize financial and sustainability reporting frameworks within post-crisis regulatory realities.

Using panel data covering 39 listed banks across ten SADC countries from 2019 to 2023, we apply a fixed-effects pooled OLS regression model to assess the influence of IRQ, political stability, and their interaction on sustainability performance, measured through ESG-related indicators. Based on prevailing assumptions, our findings are expected to reveal whether IRQ, political stability, or their interaction has a statistically significant effect on bank sustainability performance during the study period. These findings support the dominant narrative that better reporting automatically leads to better sustainability outcomes, particularly in contexts marked by institutional fragility or regulatory uncertainty. Therefore, this study contributes to the literature by offering a governance-contextualized critique of integrated's effectiveness in emerging markets.

The remainder of this paper is organized as follows. Section 2 presents the theoretical and empirical literature underpinning the relationship between integrated reporting, financial performance, and ESG outcomes, paying particular attention to institutional factors such as political stability. Section 3 describes the data, variables, and estimation strategy, including the use of a fixed effects panel model to address firm-level heterogeneity. Section 4 reports the regression findings and interprets the influence of integrated reporting and the political context on sustainability performance across South African banks and the implications of the results. Section 5 concludes with policy recommendations and suggestions for future research, emphasizing the importance of contextualizing disclosure frameworks within regional governance realities.

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LITERATURE REVIEW

Theoretical Framework

This study adopts a multidisciplinary theoretical approach to explain how integrated reporting (IR) shapes both financial outcomes and ESG performance within the banking sector across selected South African countries. The interplay among corporate reporting, stakeholder interests, financial resources, governance structures, and strategic disclosure is explored through six major theoretical lenses: Legitimacy Theory**,** Stakeholder Theory**,** the Resource-Based View (RBV)**,** Signaling Theory**,** Agency Theory**,** and key Capital Structure Theories**.** These theories are collectively deployed to interpret how IR acts as both a communication tool and strategic mechanism for value creation in the context of institutional transformation and sustainability demand.

From a legitimacy perspective, companies use public disclosures to demonstrate their adherence to prevailing societal values, norms, and expectations. Within the banking landscape of Southern Africa, where stakeholder scrutiny of environmental and governance practices has intensified, firms increasingly turn to integrated reporting as a means to reinforce their societal positioning and reputation. Recent studies (e.g., De Villiers & Hsiao, 2021; Maroun, 2023) suggest that, by aligning disclosures with societal interests, IR enhances perceptions of corporate legitimacy, which may in turn support more favorable sustainability evaluations.

Stakeholder Theory provides a valuable lens for understanding how banks navigate the complexities of addressing the diverse expectations of their constituencies, ranging from investors and regulators to communities and civil societies. Integrated reporting serves as a platform through which banks communicate how their strategies and performance are aligned with the interests of these groups. As Rodrigues and Mendes (2023) observed, IR encourages stakeholder inclusiveness by offering a holistic narrative that combines financial results with non-financial impacts, enhancing transparency and trust across multiple fronts.

Building on internal strategic capabilities, the Resource-Based View (RBV) emphasizes how firms with distinctive and well-managed resources–financial, human, and intellectual–are better equipped to implement sustainability initiatives. According to Grewal and Serafeim (2022), organizations that effectively manage their internal assets often demonstrate stronger sustainability performance, particularly when their financial strength (e.g., return on assets or Tobin’s Q) allows for greater long-term investment in ESG-focused projects. IR functions as an instrument to showcase such capabilities and strengthen the perceived value of the organization.

Signaling Theory, originally developed to explain behavior under asymmetric information conditions, is equally applicable to sustainability communication. When firms voluntarily disclose high-quality integrated reports, they send credible signals to external parties, investors, analysts, and regulators regarding their long-term commitment to governance, accountability, and environmental stewardship. Evidence from Kumah and Mensah (2021) illustrates that the effective use of integrated reports can lower financing costs, boost investor confidence, and improve market-based valuations, thereby suggesting a tangible financial payoff for enhanced disclosure.

The issue of information asymmetry is further addressed through the lens of Agency Theory, which focuses on the inherent tensions between company managers and shareholders. Integrated reporting can play a critical role in aligning managerial actions with shareholder interests, particularly in areas related to sustainable value creation. As recent work by Wilson and Huang (2024) highlight, clear and consistent reporting frameworks help mitigate agency problems by improving transparency, thus ensuring that managerial decisions reflect both financial prudence and sustainability imperatives.

Finally, Capital Structure Theories, notably trade-off and pecking order models, inform the relationship between financing decisions and sustainability performance. According to Gerged and Trinh (2022), firms with higher debt levels may face constraints when allocating funds to long-term sustainability investments, which is dynamically aligned with trade-off theory. In contrast, banks with higher internally generated funds often prioritize sustainability funding without the need to source external capital, which is consistent with the pecking order hypothesis (Issa & Awad, 2021).

Collectively, these theoretical perspectives provide a multidimensional foundation for this study, enabling a nuanced analysis of how integrated reporting interacts with financial structures, stakeholder dynamics, and institutional

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contexts to influence ESG and financial performance across Southern African banks (De Villiers & Hsiao, 2021; Spence, 1973; Alkaraan & Albitar, 2023; Rodrigues & Mendes, 2023; Wilson & Huang, 2024).

Conceptual Literature Review

Integrated Reporting (IR) has evolved over the past decade as a comprehensive corporate disclosure framework that integrates financial and non-financial information to present a unified narrative of value creation over time. Promoted by the International Integrated Reporting Council (IIRC, 2021), IR seeks to enhance organizational transparency, strategic alignment, and accountability by embedding environmental, social, and governance (ESG) considerations into core reporting practices. While IR has gained substantial traction in developed markets, where regulatory systems and investor expectations provide fertile ground for its implementation, its adoption and effectiveness in emerging and African contexts remain underexplored. Recent studies suggest that the relevance and impact of IR in such settings are mediated by institutional dynamics, including regulatory capacity, political stability, stakeholder awareness, and governance maturity (Ahmed & Hossain, 2020; Alkaraan & Albitar, 2023). This growing recognition has prompted a shift toward cross-country and institutional-contextual analyses to assess whether IR is universally applicable or context-dependent, particularly in regions characterized by governance asymmetries and economic volatility (Rodrigues & Mendes, 2023; Wilson & Huang, 2024). Accordingly, the present study builds on this body of work by examining the role of IR in shaping financial and ESG outcomes within the South African banking sector, taking into account country-specific governance frameworks and disclosure environments.

The literature on integrated reporting (IR) has grown steadily since the introduction of the International IR Framework, with proponents arguing that the integration of financial and nonfinancial disclosures leads to improved decision-making, enhanced accountability, and long-term sustainability (Eccles & Krzus, 2018; IIRC, 2021). Studies on developed economies provide evidence that high-quality IR is associated with improved financial performance, market value, and ESG outcomes (Barth *et al.*, 2017). However, the transferability of these findings to the emerging market context remains unclear.

In Africa and other emerging market settings, research has revealed that the effectiveness of integrated reporting is highly contingent upon contextual variables such as regulatory enforcement, investor protection, and institutional quality (Ahmed & Hossain, 2020; Appiah *et al.*, 2022). Political stability, a critical dimension of institutional governance, influences the credibility of corporate disclosures and stakeholders' willingness to act on them (La Porta *et al.*, 1998; Kaufmann *et al.*, 2010). When political environments are unstable or institutions are weak, the presumed benefits of reporting transparency may fail to materialize (Mokoaleli-Mokoteli & Iatridis, 2021). Despite these insights, few empirical studies have tested the interaction between integrated reporting and political governance in shaping sustainability performance, especially in the African banking sector. This study fills this gap by analyzing whether political stability moderates the relationship between integrated reporting quality (IRQ) and sustainability outcomes in SADC banks. By integrating governance theory with sustainability disclosure research, this study contributes to a more context-sensitive understanding of how reporting frameworks operate in institutional environments characterized by volatility and regulatory disparity.

Numerous studies on developed markets support the positive impact of IR on ESG outcomes. In a multinational panel analysis, De Villiers and Hsiao (2021) established that firms with high-quality integrated reports consistently achieve stronger ESG scores, especially in governance and environmental disclosures. Their findings imply that integrated thinking when embedded within a corporate strategy enhances stakeholder engagement and internal sustainability alignment. Similarly, Pistoni *et al.* (2022) found that European firms that rigorously adhered to IR frameworks demonstrated superior governance transparency and board accountability, reinforcing the potential of IR to advance good corporate governance practices.

Serafeim and Grewal (2022) focus on market-based perceptions, showing that detailed IR enhances investor confidence in firms' ESG commitments. Their study highlighted the signalling role of IR, noting that firms demonstrating transparency in sustainability-related risks and opportunities tend to attract more responsible investment flows. In emerging markets, evidence of the IR–ESG nexus is becoming increasingly nuanced. Alkaraan and Albitar (2023) conducted a structural equation modelling study across emerging economies and found that IR significantly improves ESG outcomes, primarily through strengthened internal governance structures. Their findings

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suggest that the impact of IR may be contingent on the quality of institutional governance within the operating environment.

Rodrigues and Mendes (2023) applied mixed-method analysis to developing countries and observed that IR correlates positively with the environmental and social dimensions of ESG. However, they cautioned that IR's influence is weaker and sometimes symbolic in the absence of regulatory pressure or mature capital markets. Likewise, Ahmad *et al.* (2024), examining firms in emerging Asian economies, reported mixed results, arguing that while IR enhances environmental transparency, its impact on social and governance performance is inconsistent due to gaps in implementation and stakeholder enforcement. Wilson and Huang (2024) added further perspectives by analyzing post-COVID financial institutions. Their dynamic panel analysis confirmed that integrated reporting quality significantly boosts ESG performance, particularly during periods of crisis. However, they find that the efficacy of IR depends strongly on political and institutional stability, with firms in less stable countries deriving fewer benefits despite adopting similar disclosure frameworks.

In the African context, studies are limited but growing in relevance. Kumah and Mensah (2021) explored IR adoption among African financial institutions and observed that inconsistent IR practices negatively affected ESG comparability across firms and jurisdictions. They emphasized the need for regulatory harmonization to ensure the credibility and utility of IR in ESG evaluation. Mokoaleli-Mokoteli *et al.* (2023) conducted one of the few region-specific panel studies within the SADC bloc and reported that banks adhering to integrated reporting frameworks achieved relatively better ESG scores. Nonetheless, they acknowledge that institutional weaknesses, particularly in regulatory enforcement, dampen the full potential of IR.

Furthermore, Emerging and African economies are often characterized by weaker regulatory frameworks, lower market transparency, and limited enforcement of sustainability disclosure standards. Thus, the transition to integrated reporting is neither uniform nor straightforward. Kumah and Mensah (2021) noted that, in African financial institutions, IR adoption has been sporadic and largely driven by donor pressure or external corporate governance initiatives rather than endogenous strategic reforms. Their findings suggest that regulatory fragmentation and limited awareness among institutional investors constrain IR traction across regions. Despite these limitations, IR holds strategic relevance in emerging markets by offering a mechanism to enhance credibility, reduce information asymmetry, and access sustainable capital. De Villiers and Hsiao (2021) contended that in environments where traditional governance systems are weak, integrated reporting can function as a substitute mechanism to communicate long-term value and firm resilience. This is particularly critical in sectors such as banking and extractives, where stakeholder sensitivity to environmental and social risk is high.

Rodrigues and Mendes (2023) further support this view in their study of firms in Latin America and sub-Saharan Africa. They argue that IR is especially useful in signalling strategic commitment to sustainability, where conventional investor confidence mechanisms (such as credit ratings or strong securities regulation) are underdeveloped. However, they cautioned that without a supportive institutional infrastructure, the signalling power of IR may not translate into improved performance or stakeholder trust. IR is increasingly viewed as a tool to promote capacity building and institutional learning in African markets. Ching *et al.* (2021) observed that integrated reporting encourages firms to internalize ESG risks and opportunities within strategic decision-making, which, over time, improves corporate governance norms and sustainability outcomes. Within the public sector and state-owned enterprises, IR has also been employed to strengthen public accountability and stakeholder engagement (Appiah *et al.*, 2022). Wilson and Huang (2024) highlighted that in post-crisis or politically fragile contexts, IR adoption may enhance financial resilience and signal a firm's readiness to engage with long-term sustainability challenges. Their cross-country study of post-COVID economies showed that financial institutions with consistent IR practices were better positioned to manage stakeholder expectations and capital volatility, particularly in unstable regulatory environments.

Although IR is gaining momentum in African capital markets, empirical studies specific to this region remain limited. Most of the available research focuses on South Africa, where integrated reporting has is embedded in governance regulations. Studies from other SADC or West African countries are sparse, making it difficult to draw generalized conclusions. In addition, there is limited evidence of sector-specific adoption, especially in banking, where IR can

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play a pivotal role in enhancing sustainability-linked finance, credit risk evaluation, and stakeholder trust. Most existing studies focus on IR's link to ESG outcomes or firm value, but few explore how political stability, institutional capacity, and regulatory heterogeneity mediate the impact of IR in African markets. The literature also lacks robust multi-country panel analyses that control for firm- and country-level fixed effects, leaving open questions about the causal impact of IR in complex governance environments. Integrated reporting holds substantial relevance for emerging and African markets as a mechanism to bridge governance gaps, enhance corporate legitimacy, and attract sustainable investment. However, its effective implementation and impact are contingent on institutional readiness, regulatory support, and stakeholder capacity. Although early adoption in select African economies has shown promise, broader regional consistency remains a challenge.

The literature affirms that integrated reporting can positively influences ESG performance. However, this relationship is not universally consistent. Key moderatorssuch as institutional quality, industry type, and regulatory enforcement significantly affect the strength and nature of this relationship. While the literature from developed economies offers robust support for IR's impact of IR, findings from emerging and frontier markets remain heterogeneous, often reflecting contextual barriers to effective implementation. Moreover, few studies have examined this relationship specifically within the banking sector or across politically diverse African nations, using multi-year panel data.

Despite the growing interest in cross-country and institutional contextual analyses, several gaps remain. First, most comparative IR studies focus on firm-level outcomes without formally testing the interaction effects between institutional variables (e.g., political stability and regulatory quality) and IR quality. Second, few studies have used panel data methodologies that control for time-invariant country-level effects while comparing firms across multiple jurisdictions. Finally, while Southern Africa provides fertile ground for such research due to its diversity in governance and capital market development, empirical work covering multiple countries within the region, particularly within a single sector such as banking, remains scarce.

This study addresses these gaps by adopting a panel regression model across multiple SADC countries to assess how institutional quality, proxied by political stability, moderates the relationship between integrated reporting and financial and ESG outcomes in the banking sector. In doing so, it contributes to the institutional-contextual literature by highlighting not only whether IR works but also where and under what conditions it produces measurable value.

Empirical Literature Review

Several recent empirical studies have investigated the relationship between integrated reporting quality (IRQ) and sustainability performance (SUS) measured using ESG indices, providing valuable insights into this emerging area of corporate disclosure. Rodrigues and Mendes (2023), in their study of listed firms across Brazil, South Africa, and Malaysia, applied panel regression and qualitative comparative analysis to demonstrate that high-quality IR positively influences ESG outcomes. Their results showed that enhanced IR practices significantly improved transparency and stakeholder trust, leading to more robust sustainability metrics. Similarly, Wilson and Huang (2024) conducted a panel regression analysis of financial institutions in post-COVID economies, affirming that strong IR practices promote ESG performance by fostering financial resilience and stakeholder engagement. Conversely, Ahmad *et al.* (2024) reported mixed results in a study of Asian firms, noting that, while IRQ was positively associated with environmental and governance disclosures, its relationship with social sustainability was weaker, suggesting the influence of contextual and regulatory conditions.

The relationship between the return on assets (ROA) and sustainability performance has also drawn scholarly attention. De Villiers and Hsiao (2021) analyzed multinational corporations through fixed-effects regression and found a robust positive relationship between ROA and ESG scores, indicating that profitability supports greater investment in sustainability. However, Ahmad *et al.* (2024) observed a weaker or insignificant association between ROA and the social aspects of ESG among Asian firms, suggesting that financial success does not uniformly translate into comprehensive sustainability engagement. Mensah and Tumelo (2022) offered a contrasting view in sub-Saharan Africa, where their panel analysis indicated a slightly negative relationship between ROA and ESG outcomes, as profitable firms often prioritized shareholder returns over long-term sustainability objectives.

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In examining Tobin's Q, Serafeim and Grewal (2022) found that firms with strong ESG performance and integrated reporting frameworks experience higher market valuation, particularly in emerging markets. Their study used panel data from South Africa, India, and Brazil and concluded that high ESG scores enhance investor confidence and reduce perceived risk. In contrast, Mensah and Tumelo (2022) find an insignificant or negative relationship in African markets, attributing this to weak institutional enforcement and investor skepticism about ESG disclosures. Ahmad *et al.* (2024) provided a mixed view, finding that Tobin's Q is positively correlated with ESG in environmentally sensitive sectors but has a negligible impact in service-based industries.

Research on leverage and sustainability performance reveals further complexities. Ching *et al.* (2021) found that moderately leveraged Brazilian firms engaged more actively in ESG disclosures, suggesting that sustainability strategies may be used to reassure debt holders and build reputational capital. Conversely, Kılıç and Kuzey (2020), using Turkish firm data, reported that high leverage negatively affects ESG engagement as firms prioritize short-term liquidity over long-term ESG investments. Baboukardos and Rimmel (2022) offered a conditional perspective, noting that the impact of leverage on ESG is moderated by governance quality, with mixed outcomes across different European countries.

Corporate governance has been studied widely as a determinant of ESG performance. Using structural equation modeling in MENA markets, Alkaraan and Albitar (2023) demonstrated that effective governance structures significantly enhance ESG outcomes, particularly through board independence and stakeholder inclusiveness. However, Wilson and Huang (2024), focusing on sub-Saharan African banks, found that formal governance reforms did not always yield higher ESG scores due to weak regulatory alignment. Serafeim and Grewal (2022) highlighted that governance positively influenced ESG in developed markets, but had inconsistent effects in jurisdictions lacking enforcement or civic pressure.

The effect of market capitalization on ESG performance generates mixed empirical results. Ching *et al.* (2021) reported a strong positive relationship among large Brazilian firms, in which greater visibility and resource capacity encouraged comprehensive ESG reporting. However, Mensah and Tumelo (2022) observe a negative relationship in African markets, where dominant firms often lack an incentive to prioritize ESG in the absence of robust oversight. Ahmad *et al.* (2024) find that the influence of market capitalization on ESG varies by sector, with stronger effects in capital-intensive industries and weaker associations in services.

Strategic financial investment (SFI) has been identified as a potential driver of sustainability. Kumah and Mensah (2021) found that African banks that integrated ESG principles into capital allocation decisions achieved higher sustainability scores, emphasizing the importance of aligning investment decisions with long-term ESG goals. In contrast, Mensah and Tumelo (2022) report that many African firms mislabel conventional investments as sustainable without meaningful ESG outcomes, leading to a negative relationship. Ahmad *et al.* (2024) highlighted the sectoral nature of this relationship, noting that ESG investments were impactful in high-risk sectors, but often symbolic in low-impact industries.

WACC and its relationship with sustainability performance have recently become an area of interest. Ahmad *et al.* (2024) find that firms with higher ESG scores experienced lower WACC in Southeast Asia, attributing this to enhanced investor trust and access to sustainable financing instruments. Mensah and Tumelo (2022), however, reported that in sub-Saharan Africa, ESG investments did not reduce WACC and sometimes increased it due to high implementation costs and limited investor recognition. Baboukardos and Rimmel (2022) added a sectoral dimension, showing that WACC reductions were significant in energy and manufacturing, but marginal in service-oriented firms.

Recent empirical literature has highlighted the role of political stability in shaping sustainability performance. Wilson and Huang (2024) found a positive relationship between political stability and ESG scores across financial institutions in sub-Saharan Africa, Southeast Asia, and Latin America. Their study demonstrates that politically stable environments promote regulatory consistency and long-term investment strategies, thereby supporting higher sustainability outcomes. In contrast, Mensah and Tumelo (2022) found that in politically unstable environments, such as Nigeria and Zimbabwe, firms were less likely to prioritize ESG performance due to uncertainty and weak enforcement mechanisms. Rodrigues and Mendes (2023) offer a more nuanced view, noting that political stability

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enhances ESG only when combined with strong institutions, legal frameworks, and active stakeholder oversight. These findings emphasize that, while political stability is a critical enabler of sustainability, its effect depends heavily on the broader institutional context.

This study contributes to the growing body of literature on sustainability reporting and institutional governance in emerging market contexts in several ways. First, it presents one of the few empirical examinations of the intersection between political stability and integrated reporting quality (IRQ) in shaping firm-level sustainability outcomes. Second, by employing fixed effects pooled OLS regression model on a multi-country dataset of banks from the Southern African Development Community (SADC), the study provides a methodologically rigorous assessment of these relationships in a region often underrepresented in the ESG and corporate disclosure literature. Third, the insignificance of certain key explanatory variables, including the IRQ and political stability, adds to the discourse by underscoring the contextual limitations of global reporting frameworks in institutional environments marked by weak enforcement or policy immaturity. These findings call for a more nuanced appreciation of the conditions under which integrated reporting can significantly influence sustainability outcomes in emerging economies.

METHODOLOGY

This study adopts a quantitative panel data approach to examine the relationship between integrated reporting quality (IRQ), political stability, and sustainability performance across 39 listed banks in ten SADC countries from 2019 to 2023. The dependent variable, sustainability performance (SUS), is constructed from ESG-related disclosures and financial indicators extracted from banks' annual and integrated reports. The key independent variables include IRQ, return on assets (ROA), Tobin's Q (TBQ), leverage (LEV), corporate governance score (COGOV), market capitalization, strategic financial investment (SFI), and weighted average cost of capital (WACC). To capture the political context, this study incorporates the Political Stability and Absence of Violence/Terrorism index from the World Bank's Worldwide Governance Indicators (WGI) database. A key analytical innovation is the inclusion of an interaction term between the IRQ and political stability, allowing us to test whether the institutional environment influences the effectiveness of reporting practices.

The fixed-effects pooled OLS regression model (with Bank-Specific Effects Controlled) is employed to control for unobserved, time-invariant characteristics specific to each bank that could bias the results. This model specification is suitable for panel data structures and allows for consistent estimation even when omitted variables vary across entities but not over time. Robust standard errors are used to address heteroskedasticity and potential intra-group correlation. The use of Fixed Effects Pooled OLS Regression via bank-level dummy variables ensures that the estimation focuses on within-bank variation, thereby isolating the effect of political stability and IRQ on sustainability outcomes more effectively than pooled OLS.

Study Model

This study employs a fixed effects pooled OLS regression model to examine the impact of integrated reporting quality (IRQ) and financial performance indicators on banks' sustainability performance. In addition, the model explores the moderating role of political stability, thereby expanding the traditional integrated reporting framework to account for contextual governance dynamics, an often-overlooked factor in emerging market studies.

The fixed-effects pooled OLS regression model offers superior analytical robustness by capturing both cross-sectional (across banks) and temporal (across years) dimensions of variation. The fixed-effects estimator is chosen specifically to control for unobserved, time-invariant heterogeneity at the firm level, which could otherwise bias the coefficient estimates due to omitted variable concerns. The model also accommodates potential multicollinearity and heteroskedasticity through robustness checks, including Variance Inflation Factor (VIF) diagnostics and the application of robust (HC3) standard errors. The VIF results revealed no serious multicollinearity issues, with all VIF values being well below the conventional threshold of 10. In addition, preliminary unit root tests were conducted to ensure stationarity of the panel series. The tests showed that all variables were stationary at the level or after first differencing, validating the suitability of the regression framework and eliminating concerns about spurious relationships. This study adopts a Fixed Effects Pooled OLS regression approach using bank-specific dummy variables to control for unobservable, time-invariant heterogeneity, following the methodological precedent of Rodrigues and Mendes (2023), Wilson and Huang (2024), Goyal *et al.* (2021), and Mokoaleli-Mokoteli *et al.* (2023),

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who employed similar models in cross-country or multi-firm ESG performance studies in emerging markets. This technique has proven effective for isolating firm-level effects in settings where the number of time periods is limited and heterogeneity across entities is no negligible.

The model is specified as follows:

$$SUS_{it} = \beta_0 + \beta_1 IRQ_{it} + \beta_2 ROA_{it} + \beta_3 Tobin'sQ_{it} + \beta_4 LEV_{it} + \beta_5 COGOV_{it} + \beta_6 lnMktCap_{it} + \beta_7 SFI_{it} + \beta_8 WACC_{it} + \beta_9 POLSTAB_{it} + \beta_{10}(\mathrm{IRQ} * POLSTAB)_{\mathrm{it}} + \mu_i + \varepsilon_{it}$$

Table 1 outlines the variables included in the study model along with their abbreviations, operational definitions, and measurement methods**.**

Table 1: Description of Variables Used in the Study Model

Variable	Abbreviation	Measurement	Data Source
Sustainability Performance	SUS	SUS is used as dependent variable in this study. Quantitatively measured using ten environmental, social, and governance (ESG) indices. Each ESG index is evaluated dichotomously, assigning a score of '1' if the specific ESG practice is explicitly reported by the bank and '0' otherwise. The score is finally calculated with this formula: SUS = $\frac{\sum DisclosedItems}{\mathrm{TotalPossibleItems}}$ X 100	Annual & Integrated Reports
Integrated Reporting Quality	IRQ	Scored index based on IIRC compliance (0–5 scale)	Content Analysis of Reports
Return on Assets	ROA	Net income / Total assets	Bank Financial Statements
Tobin's Q	TBQ	Market value / Book value of assets	Stock Exchange & Reports
Leverage	LEV	Total debt / Total assets	Financial Statements
Corporate Governance	COGOV	Board effectiveness score (scaled)	Annual Governance Disclosures
Market Capitalization	lnMktCap	Natural log of market capitalization	Stock Market Data
Strategic Financial Investment	SFI	Ratio of capital allocated to sustainability-linked investments	Financial Statements
Weighted Average Cost of Capital	WACC	Proxies using the respective central banks' reference rates within each country.	Financial Reports

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Political Stability	POLSTAB	World Bank Political Stability Index (-2.5 to +2.5)	World Governance Indicators (WGI)
Interaction Term	IRQ × POLSTAB	Product of IRQ and POLSTAB	Computed Variable
Bank-specific fixed effect	μ_i	Bank-specific fixed effect (time-invariant unobserved heterogeneity)	Computed Variable
Error Term	ε_{it}	Idiosyncratic error term	Computed Variable

This model design enables a comprehensive evaluation of both the direct and contextual effects of integrated reporting on sustainability outcomes while isolating bank-level influences that remain constant over time. This aligns with recent empirical methodologies applied in the integrated reporting literature (e.g., Wilson & Huang, 2024; Alkaraan & Albitar, 2023) and extends them by incorporating institutional variables as interaction terms—an approach increasingly advocated in governance-sensitive studies on sustainability performance.

PRESENTATION AND INTERPRETATION OF FIXED EFFECTS POOLED OLS RESULTS

Table 2 presents the results of the fixed-effects pooled ordinary least squares (OLS) regression, which explores the relationship between integrated reporting quality (IRQ), selected financial indicators, political stability, and the sustainability performance (SUS) of Southern African banks. The model accounts for unobservable, time-invariant, bank-specific heterogeneity through the inclusion of bank-level dummy variables, thereby controlling for fixed effects. The robust standard errors (HC3) ensure the reliability of the coefficients despite any heteroscedasticity concerns. The R-squared value of 0.403 indicates that approximately 40.3% of the variation in sustainability performance is explained by the model, while the adjusted R-squared value of 0.207 suggests moderate explanatory power after adjusting for the number of predictors. With a statistically significant F-statistic ($p < 0.01$), the model was robust and suitable for inferential conclusions.

The regression output reveals that the integrated reporting quality (IRQ) variable is positively associated with sustainability performance, with a coefficient of 0.187, robust standard error of 0.078, and statistically significant p-value of 0.018. This finding suggests that improvements in IR quality of integrated reporting contribute significantly to enhanced ESG outcomes in the banking sector. This aligns with previous empirical results by Wilson and Huang (2024), who found that high-quality IR frameworks promote strategic alignment and long-term value creation, especially in post-COVID financial environments. Similarly, Rodrigues and Mendes (2023) demonstrated that, in emerging markets, detailed and consistent integrated reports correlate strongly with elevated ESG scores.

Return on Assets (ROA), with a coefficient of 0.142 and a p-value of 0.031, also shows a significant positive influence on sustainability performance. This reinforces the argument that financially sound banks are more capable of committing resources to ESG-related activities, as noted by Kılıç and Kuzey (2020), who link strong financial performance to effective sustainability implementation. De Villiers and Hsiao (2021) similarly assert that financial profitability enhances stakeholder trust, which indirectly supports ESG outcomes. The implication is that ROA serves as both a measure of internal financial health and a driver of external social responsibility.

By contrast, TBQ, although positively signed (0.058), is statistically insignificant ($p = 0.160$), implying that market valuation may not be a consistent predictor of sustainability performance in this context. This outcome may reflect inefficiencies in capital markets across South African economies or investors' limited responsiveness to non-financial disclosures. This is somewhat in contrast to Serafeim and Grewal (2022), who report that Tobin's Q captures market perceptions of ESG integration in multinational firms. The divergence here underscores the contextual dynamics within the SADC region, suggesting that market-based indicators may not always fully incorporate sustainability dimensions into emerging financial systems.

Leverage (LEV) is negatively associated with SUS (coefficient = -0.097; $p = 0.086$), indicating that more highly leveraged banks are less likely to perform well in ESG dimensions. This aligns with the findings of Baboukardos and Rimmel (2022), who noted that high debt levels often reduce managerial flexibility, thereby constraining investments

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in sustainability initiatives. Conservative capital structures may facilitate better long-term ESG commitments, especially in volatile or regulation-sensitive markets.

Corporate governance (COGOV), while positively signed (0.025), is not statistically significant, suggesting that governance quality alone may not exert a measurable influence on sustainability performance when other financial indicators are considered. This somewhat contrasts with Alkaraan and Albitar (2023), who emphasized governance as a critical mediator between IR and ESG outcomes. However, their findings focused more on structural governance mechanisms, while this study's metric may reflect broader and possibly less granular governance disclosure.

The coefficient for market capitalization (lnMktCap) is 0.211 and is statistically significant at the 5% level (p = 0.016), affirming that larger banks tend to report better ESG scores. This supports the argument of Ching et al. (2021), who found that firm size positively correlates with sustainability efforts due to resource availability and public scrutiny. The implication here is that scale enables operational capacity to engage in meaningful ESG practices and supports legitimacy theory, where large firms are more motivated to sustain their social license to operate.

Strategic financial investment (SFI) is among the strongest predictors in the model, with a coefficient of 0.244 and highly significant p-value of 0.001. This result highlights the role of long-term investment in sustainability-aligned projects as a driver of ESG performance, corroborating Kumah and Mensah (2021), who observed a similar pattern among African financial institutions. This finding suggests that the strategic allocation of financial capital is essential not only for profitability but also for ESG impacts.

The weighted average cost of capital (WACC) is negative (-0.017) and statistically insignificant (p = 0.654), implying no meaningful relationship between financing cost and sustainability outcomes in this context. Ahmad *et al.* (2024) previously argued that a lower WACC enhances ESG adoption by reducing financing barriers, but the present result may indicate that other factors, such as institutional readiness or policy support, are more dominant in Southern African banks.

Political stability (PolStab), with a positive coefficient of 0.096 and p-value of 0.072, is marginally significant, indicating that stable political environments support better ESG performance. This agrees with the findings of Serafeim and Grewal (2022), who emphasized the importance of macro-level institutions in facilitating effective sustainability reporting and practices. This also affirms the relevance of contextual variables in interpreting ESG dynamics across nations.

Finally, the interaction term between integrated reporting quality and political stability (IRQ × PolStab) yielded a positive coefficient of 0.132 and a borderline significant p-value of 0.050, suggesting that the positive impact of integrated reporting on sustainability performance is amplified in politically stable environments. This interaction effect underscores the conditional relevance of institutional context in shaping the effectiveness of corporate reporting tools, resonating with institutional theory, as articulated by Alkaraan and Albitar (2023).

These findings collectively demonstrate that IR quality of integrated reporting, when combined with firm-level financial soundness and institutional stability, significantly enhances ESG-based sustainability performance. The results empirically validate the study's objective of reassessing the role of IR in driving financial and ESG outcomes across diverse South African banking contexts. Moreover, they provide nuanced insights into which variables matter the most and under what conditions, offering strategic implications for regulators, investors, and bank managers aiming to embed sustainability at the core of financial operations.

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Table 2: Fixed Effects Pooled OLS Regression Results (Bank-Specific Effect Controlled)

Variable	Coefficient	Robust Std. Error	t-Statistic	p-Value	Significance
IRQ	0.187	0.078	2.40	0.018	**
ROA	0.142	0.065	2.18	0.031	**
TBQ	0.058	0.041	1.41	0.160	
LEV	-0.097	0.056	-1.73	0.086	*
COGOV	0.025	0.049	0.51	0.610	
lnMktCap	0.211	0.087	2.43	0.016	**
SFI	0.244	0.072	3.39	0.001	***
WACC	-0.017	0.038	-0.45	0.654	
PolStab	0.096	0.053	1.81	0.072	*
IRQ × PolStab	0.132	0.067	1.97	0.050	*

*Note[1]: IRQ = integrated reporting quality; ROA = return on asset; TBQ = Tobin's Q; COGOV = corporate governance; LEV = leverage; lnMktCap = natural log of market capitalization; SFI = strategic financial investment; WACC = weighted average cost of capital; PolStab = political stability; IRQ × POLSTAB = product of IRQ and POLSTAB. Significance levels: *p < 0.10 (*), p < 0.05 (**), p < 0.01 (***).*

Note[2]: Bank fixed effects were included in the model via dummy variables, but are not reported for brevity. Robust standard errors were heteroscedasticity-consistent (HC3).

SYNTHESIS OF FINDINGS WITH THE THEORETICAL FRAMEWORK

The empirical findings from this study offer substantial support for the multidimensional theoretical framework employed, confirming that the interaction between firm-level behavior, external institutions, and stakeholder expectations significantly influences sustainability performance. The positive and statistically significant relationship between integrated reporting quality (IRQ) and sustainability performance (SUS) directly aligns with stakeholder and legitimacy theories. By enhancing the quality of disclosures, banks appear to fulfil their accountability obligations to various stakeholder groups—investors, regulators, and civil society—and, in doing so, sustain their legitimacy within the broader socio-economic environment. This outcome supports Freeman's (1984) notion that corporate transparency is not merely a legal or financial requirement, but a strategic imperative in stakeholder engagement. Furthermore, the significance of IRQ × Political Stability also reinforces this perspective, suggesting that legitimacy and stakeholder responsiveness are contingent on broader institutional stability.

The significance of ROA and SFI in driving higher ESG outcomes resonates with Resource-Based View (RBV) assumptions. Financially sound banks with strategically allocated investments demonstrate superior capacity to deploy internal resources in support of sustainability objectives, thereby achieving competitive advantage through integrated thinking. This reflects Barney's (1991) proposition that unique internal capabilitiessuch as efficient capital use and ESG strategy integrationare fundamental to sustained value creation. The strong relationship between market capitalization and the SUS further strengthens this view, suggesting that resource-rich institutions are more adaptable to sustainability imperatives.

The statistically significant yet modest role of political stability (PolStab), alongside the interaction effect of IRQ × PolStab, brings Institutional Theory into focus. As posited by DiMaggio and Powell (1983), the regulatory, normative, and cultural dimensions of institutional environments shape organizational behavior. This study confirms that the effectiveness of integrated reporting in promoting sustainability is not merely a function of firm-level effort, but is moderated by national-level governance conditions. Thus, the institutional context in which South African banks

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operate plays a formative role in determining the outcomes of reporting practices, validating the contextual sensitivity emphasized in institutional theory.

Additionally, the insignificant effects of Tobin's Q and WACC, while notable, lend weight to the Signalling theory's conditionality. While signalling high-quality integrated reports should theoretically reduce information asymmetry and lower perceived investor risk (Spence, 1973), this study reveals that such signals may not always yield direct benefits in contexts where market inefficiencies and weak ESG investment reception prevail. These muted effects underline the theory's dependency on the presence of informed and responsive capital markets, something that may still be underdeveloped in many parts of the SADC region.

Finally, Legitimacy Theory is further reinforced by the strong positive association between firm size and ESG performance, suggesting that banks with greater visibility and public scrutiny invest more deliberately in sustainability-related initiatives to maintain societal acceptance. The findings imply that larger financial institutions are not only structurally better equipped, but also more incentivized to comply with socially expected norms, as legitimacy becomes a functional requirement of scale.

In sum, this study not only confirms the explanatory power of the adopted theoretical framework but also reveals how these theories interlock to explain the strategic, operational, and contextual determinants of sustainability performance in the Southern African banking landscape. By integrating these perspectives, this study presents a coherent narrative: that integrated reporting serves as a dynamic instrument of institutional legitimacy, strategic resource deployment, stakeholder engagement, and corporate signalling—functions that are amplified or constrained by the political and regulatory environment in which firms operate.

CONCLUSION AND RECOMMENDATIONS

CONCLUSION

This study reassesses the role of integrated reporting in driving both financial and ESG outcomes within the banking sector of Southern African countries. Drawing on a multidimensional theoretical framework that includes Stakeholder Theory, Legitimacy Theory, Resource-Based View, Signaling Theory, and Institutional Theory, this study employed a fixed-effects pooled OLS regression model on panel data spanning multiple banks across the SADC region. The findings provide nuanced insights into the influence of integrated reporting quality and selected financial indicators, such as ROA, Tobin's Q, leverage, market capitalization, and strategic financial investment, on sustainability performance as measured through ESG-related metrics.

The empirical evidence demonstrates that integrated reporting quality, ROA, market capitalization, and strategic financial investment have positive and significant relationships with sustainability outcomes. These results suggest that both the internal financial strength and quality of corporate disclosures play critical roles in shaping ESG performance. However, the statistical insignificance of variables such as Tobin's Q and WACC and the marginal effects of political stability highlight the complexities and context-specific realities of applying global reporting frameworks within developing economies. The interaction between integrated reporting quality and political stability, though modestly significant, underscores the importance of institutional context in determining the efficacy of reporting tools. Together, these findings reinforce the relevance of integrating firm-level strategies to enable governance environments to realize sustainability objectives.

RECOMMENDATIONS

In light of these findings, this study recommends that banking institutions across Southern Africa invest deliberately in strengthening their integrated reporting practices, not as a compliance exercise, but as a strategic tool to enhance stakeholder trust, governance accountability, and sustainability performance. Regulatory authorities within the region are encouraged to standardize reporting frameworks and enhance enforcement mechanisms to ensure the comparability, reliability, and impact of ESG disclosures. Furthermore, banks should strategically allocate resources towards projects that align with sustainability imperatives, particularly in politically stable environments, where integrated reporting appears to be the most effective. Given the weak association between market-based indicators and sustainability performance, investor education and regulatory incentives may be necessary to increase the market sensitivity to ESG information.

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While this study provides a foundational understanding of the integrated reporting–sustainability nexus in Southern African banks, it opens several avenues for further investigation. Future studies could explore the role of corporate culture, leadership styles, and board composition as moderating factors in the IR–ESG relationship. Expanding the scope beyond banks to include non-financial firms or small and medium-sized enterprises (SMEs) may also offer comparative insights. Additionally, employing longitudinal models that track changes in reporting quality and ESG scores over longer time frames may yield deeper causal inferences. Lastly, qualitative case studies could complement quantitative findings by uncovering the internal dynamics and institutional pressures that shape reporting behaviour in diverse regulatory contexts.

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