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Analyzing the relationship between banking performance and CSR in the Tunisian context: a comparative study of conventional and Islamic banks

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Abstract

This study conducts a comparative analysis of the relationship between Corporate Social Responsibility (CSR) and financial performance in Tunisian banks. The research focuses on an extensive sample of Tunisian banks operating between 2018 and 2022. Two models are employed: one based on Return on Equity (ROE) and the other on Return on Assets (ROA). The findings reveal that Islamic banks benefit from robust CSR practices, leading to enhanced ROA and aligning with ethical principles inherent in Islamic finance. In contrast, conventional banks demonstrate no significant correlation between CSR and ROE and exhibit a negative impact of CSR on ROA. These results underscore the sector-specific nuances of CSR and its influence on financial performance, highlighting the necessity for customized CSR strategies. The study offers valuable insights for banking professionals, policymakers, and stakeholders, aiding their comprehension of the role of CSR in shaping financial outcomes in distinct banking sectors.

Keywords: *Corporate Social Responsibility (CSR), - Financial Performance - Tunisian Banks -Islamic Finance*

1. Introduction

The banking sector's role in a country's environmental, social, and economic development is crucial. Banks have evolved beyond their traditional functions of investment and deposits to become socially responsible entities, encouraging savings accounts for environmental and social benefits. However, the global financial crisis severely impacted the banking sector's

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financial performance and eroded shareholder trust, necessitating a reform. To regain this lost trust, banks have turned to corporate social responsibility (CSR) strategies, as suggested by Hajji and Ghazali (2012). Post-crisis, the banking sector has become more accountable to society, strengthening its credibility and trust among stakeholders, as noted in studies by Lauesen (2013) and Esteban-Sanchez, de la Cuesta-Gonzalez, and Paredes-Gazquez (2017).
Furthermore, in line with the 2030 sustainable development goals, all sectors, including banking, are expected to contribute through CSR, supporting low-carbon projects, gender diversity, and good corporate governance. Therefore, this systematic review aims to delve deeper into the relationship between CSR disclosure and the financial performance of banks, as previous studies have addressed various CSR aspects, emphasizing the need for a more comprehensive understanding of this connection within the banking sector.

The differences between conventional and Islamic banks encompass their legal, ethical, and operational aspects. Islamic banks adhere to Shariah principles, including prohibiting interest and certain investments, in contrast to conventional banks. A key distinction is the risk-sharing model prevalent in Islamic banks but not in conventional banks (Zafar and Sulaiman 2019). Islamic banks' Corporate Social Responsibility (CSR) disclosures vary due to their focus on Shariah-compliant ("Halal") investments and the avoidance of non-compliant products like alcohol and gambling. The Accounting and Auditing Organization for Islamic Financial Institutions (AAOIFI) has established CSR guidelines for Islamic financial institutions, covering areas such as environmental impact assessment, responsible client interactions, compliance with Islamic law in earnings and expenditures, employee welfare, and charitable activities (AAOIFI 2010).

CSR, encompassing environmental, social, and governance (ESG) indicators, wields a substantial influence on banks' financial performance. Semenova and Hassel (2015) have emphasized that the contemporary concept of social responsibility revolves around three key stakeholder relationships: environmental, social, and governance. The financial performance of banks is contingent upon their disclosures in these three domains, with prior studies reporting varying outcomes when assessing CSR in the banking sector through ESG disclosure (Buallay 2019; Jan et al. 2019; Shakil et al. 2019).

From a theoretical perspective, CSR establishes a significant relationship with conventional and Islamic banks. CSR disclosure enables continuous monitoring of how equity holders impact banks' financial performance. According to agency theory, equity holders can influence management decisions based on the profitability or additional costs associated with CSR initiatives (Cherian et al., 2020). The stakeholder theory underscores the importance of creating value for stakeholders alongside profit maximization (Freeman, 1984). CSR concepts prioritize stakeholder needs, leading to enhanced motivation, increased productivity, and positive effects on a bank's financial performance. The Good Management Theory, an extension of the stakeholder theory, supports a positive relationship between corporate social performance and CSR (Platonova et al., 2018).

Furthermore, Quinn and Jones (1995) emphasize the role of stakeholders as influential drivers of an organization's financial performance. Legitimacy theory conceptualizes CSR by emphasizing an organization's responsibility toward society and highlighting the importance of community consideration for actions taken (Forgione, Laguir, and Staglianò, 2020). The Slack Resource Theory posits that businesses with more slack resources are better positioned to generate finances for sustainability practices (Jan et al., 2019). In addition, the Maqasid-Al-Shariah theory, commonly employed in Islamic banking, defines preservation principles, prevention of harmful effects, and maintaining equality (Jan et al., 2019).

Furthermore, while the existing literature has extensively explored the relationship between CSR and banking performance, there is a notable gap in research focusing on the context of Tunisian banks. The specific dynamics, challenges, and opportunities within the Tunisian banking sector have not yet been comprehensively examined within this context. This paper aims to address this research gap by conducting a comparative study of conventional and Islamic banks in Tunisia. In doing so, it will contribute to the existing body of knowledge by shedding light on the unique features and factors that characterize the Tunisian banking landscape regarding CSR and its impact on financial performance. The chosen time frame for this study spans from 2018 to 2022, ensuring a contemporary analysis of these banks considering evolving economic, social, and regulatory conditions.

Our study reveals distinct patterns of CSR-performance relationships in Tunisian banks, which highlight the crucial role of corporate social responsibility in the financial performance of both conventional and Islamic banks. These findings signify the importance of examining the Tunisian context, as they challenge some prevailing assumptions about the impact of CSR on banking performance. Therefore, this research contributes to the knowledge base and provides valuable insights for policymakers, practitioners, and stakeholders in the Tunisian banking sector as they navigate the evolving landscape of corporate social responsibility and its implications for financial performance.

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2. Theoretical framework

In exploring corporate performance and social responsibility, it is imperative to consider various theoretical lenses that offer distinct perspectives and insights. Our analysis is structured around four key theoretical frameworks: Stakeholder Theory, Legitimacy Theory, Slack Resource Theory, and Maqasid-Al-Shariah Theory (Campra et al., 2021). Each framework contributes uniquely to understanding how businesses can navigate the intricate balance between financial success and ethical obligations. The following sectionsf delve into each theory's core principles and implications, shedding light on the intricate interplay between corporate performance and social responsibility.

2.1. Stakeholder theory

A stakeholder-centric perspective on strategic management, as proposed by Freeman (1984), is founded on instrumental principles. This approach advocates that for organizations to attain effectiveness, they should prioritize relationships that can either influence their objectives or be influenced by them. In essence, stakeholder management is inherently pragmatic, as highlighted by Freeman (1994) when he stated, "That is, stakeholder management is fundamentally a pragmatic concept" (p. 234). Nevertheless, it is crucial to note that the endorsement of instrumental stakeholder theory does not equate to a lack of values, merely because it underscores the significance of consequences, as emphasized by Freeman (1994)

Instrumental stakeholder theory, utilizing stakeholder management, emphasizes achieving anticipated outcomes, particularly profitability (Kakabadse et al. 2005). It highlights the link between stakeholder management and overall corporate performance (Donaldson and Preston 1995), suggesting that such an approach can positively impact financial performance (Berman et al. 1999; Donaldson and Preston 1995). Furthermore, Jones (1995) underscores the theory's potential in explaining the connection between corporate social performance and financial performance, emphasizing trust and cooperation between firms and stakeholders.

The positive link between corporate social performance and financial performance, often referred to as 'good management theory,' posits that stronger stakeholder relationships enhance efficiency and performance. Socially responsible firms, through proactive CSR, safeguard their reputation and financial results, potentially gaining a competitive edge (Soana 2011; Barnett and Salomon 2006). This association also suggests that strong financial performance allows for increased allocation of resources to social projects. Moreover, proponents of 'slack theory' propose that channeling surplus resources into CSR initiatives enhances social performance, particularly for financially robust companies (Preston and O'Bannon 1997; Waddock and Graves 1997).

2.2. Legitimacy theory

From the legitimacy theory perspective, a firm's relationship with society can be likened to an implicit "social contract" whose terms are shaped by the collective expectations of various social groups (Deegan, 2002). Within this framework, trade-offs are made based on both societal and economic considerations (Meiseberg & Ehrmann, 2012). A firm's legitimacy is, in part, determined by its capacity to engage in and influence the processes of legitimation that showcase its alignment with societal values (Magness, 2006). Consequently, firms are expected to be attuned to community concerns and take proactive measures to ensure their actions and performance align with the community's expectations.

Legitimacy can be seen as a valuable operational resource, as Suchman (1995) described. This resource must be nurtured and preserved to ensure continued support. Such support can materialize in various forms, including increased capital investments, heightened appreciation from customers and suppliers, active involvement of employees, government approval, and community acceptance. It is often echoed by media recognition, especially when the firm actively upholds its role as a responsible "corporate citizen." Maintaining legitimacy is crucial for securing various forms of support and engendering a positive reputation.

2.3. Slack Resource Theory

Focusing on the "slack resource theory," this perspective offers insights into the causal link between sustainable business practices and a firm's financial performance. According to this theory, sustainable business practices are treated as a dependent variable, while a firm's financial performance is an independent factor. The theory contends that companies equipped with surplus resources, or "slack," are better equipped to allocate additional financial resources to sustainability initiatives. This

implies a causality where a firm's financial performance significantly influences its ability to invest in and prioritize sustainable practices (Meiseberg & Ehrmann, 2012).

In summary, the slack resource theory emphasizes that a firm's financial strength, often characterized by surplus resources, is pivotal in determining its capacity to allocate funds to sustainability initiatives. This theory provides a specific perspective on the relationship between sustainable business practices and financial performance and underscores the influence of financial resources in driving sustainability efforts (Meiseberg & Ehrmann, 2012).

2.4. Maqasid-Al-Shariah theory

Islam combines enduring principles with adaptability. While its core tenets, such as creed, worship, and morality, remain constant, their applications in secondary areas like economics and business require flexibility. This is embodied in the Shariah, a comprehensive system of ethics and values that covers all aspects of life and serves as a means of adapting to change. The Shariah, as discussed in the work of Dusuki and Abdullah (2007), cannot be separated from Islam's fundamental beliefs and reflects a holistic view of life, encompassing individual and social aspects in this world and the Hereafter.

To understand the Shariah, one must comprehend its objectives, which allow flexibility and creativity in social policy. According to Imam al-Ghazzali, the objective of the Shariah is to promote the well-being of all mankind by safeguarding their faith, human self, intellect, posterity, and wealth. Anything that ensures the protection of these five elements serves the public interest and is desirable.

In Islam, Corporate Social Responsibility (CSR) assumes a holistic role rooted in taqwa (God-consciousness), where corporations are seen as servants of God, ultimately accountable to Him. This moral and religious perspective prioritizes moral integrity over financial outcomes (Dusuki et Abdullah., 2007; Campra et al., 2021).

Muslims, guided by the Five Pillars of Islam, are inherently concerned for others and the environment. CSR, within this framework, goes beyond profit maximization. It prioritizes the pursuit of ultimate happiness in both this life and the Hereafter, with a focus on the welfare of various stakeholders, including consumers, employees, shareholders, and local communities.

This Islamic CSR perspective promotes moderation, social responsibility, and a spirit of sacrifice, making it a duty for all community members, including corporations, to share their wealth with the needy. This approach is deeply rooted in Islamic values, emphasizing ethical conduct and a sense of duty to others.

2.5. Historical Development of CSR

The concept of Corporate Social Responsibility (CSR) was formally introduced by Sheldon in 1924, emphasizing that businesses should not only seek to maximize their interests but also consider the needs of various stakeholders, both within and outside the organization, and contribute to society. Despite nearly a century of theoretical and practical development, a clear and precise definition of CSR remains elusive. From an economic perspective, it is argued that a company's primary responsibility is to pursue profits within the boundaries defined by the law continuously (Friedman et al., 2007). Conversely, from a sociological standpoint, companies are expected to balance their obligations to shareholders and profit generation with active engagement in social welfare initiatives and a focus on improving people's quality of life and ecological sustainability. Howard Bowen, often called the "father of corporate social responsibility," emphasized that managers are responsible for formulating policies, making decisions, and taking actions following established social norms and values. In this context, CSR is seen as an enterprise's obligation to pursue long-term objectives and as an integral component of socially sustainable development (Lu et al., 2018). Furthermore, CSR plays a pivotal role in disclosing non-financial information, mitigating information asymmetry, strengthening internal controls, and preventing insider trading.

2.6. Diverse Perspectives on CSR and Financial Performance

The increasing significance of CSR for corporate and societal development has positioned it as a prominent research area within management and accounting (Zhou et al., 2019; Boubaker et al., 2019). Prudent resource management is key, and activities that contribute to CSR are viewed as instrumental in helping companies gain a competitive edge (Muhmad et al., 2018). As highlighted by Hu et al., corporate actions that enhance stakeholder value have emerged as a new benchmark for evaluating financial performance (Hu et al., 2018). Examining the relevant literature, it becomes evident that research on the relationship between CSR and financial performance (FP) has been a consistently significant and widely explored topic since the 1970s (Zhou et al., 2021).

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2.7. *Impact of CSR on Financial Performance*

However, it is worth noting that the outcomes of these studies vary significantly, leading to diverse conclusions about the relationship between CSR and financial performance. These divergent findings can be attributed to various factors, including using different CSR metrics and financial performance indicators, which inevitably yield dissimilar results (McGuir et al., 2021). In the existing body of research, a predominant perspective held by many scholars suggests that CSR can indeed facilitate enhancements in financial performance (Chang et al., 2021; Wei et al., 2020). For instance, a study conducted by Chen and Wang in the Chinese market revealed that fulfilling corporate social responsibility obligations can yield positive impacts on a company's financial performance, not only in the current year but also in subsequent years (Chen et al., 2021). Maqbool and Zameer's investigation demonstrated that CSR initiatives can improve the profitability and stock returns of Indian banks. Cochran and Wood, in their research, found that companies actively engaged in CSR activities throughout their regular production and operational processes exhibit superior financial performance compared to those that do not prioritize CSR integration (Cochran et al., 2021). Stakeholder theory, which outlines the objectives and scope of corporate social responsibility, posits that by engaging in CSR endeavors, companies can mitigate conflicts of interest between various stakeholders and the organization itself (Clarkson et al., 1995). Consequently, this fosters a positive reputation for the company, allowing it to reduce costs and gain differentiated competitive advantages, ultimately leading to enhancements in financial performance (Harrison et al., 1999; Feng et al., 2022).

However, it is essential to acknowledge that not all scholars share the same perspective on the wisdom of investing in fields unrelated to the core operations of an enterprise, considering it a potential misallocation of valuable resources. The Agency Theory, for instance, presents a contrasting viewpoint, positing that CSR activities can sometimes be seen as a form of excessive investment by managers. In this view, managers might divert corporate profits towards improving either their reputation or the organisation's, potentially at the expense of corporate performance (Barnet et al., 2021; Sameer et al., 2021). Consequently, this perspective suggests that enterprises should prioritize enhancing their operational efficiency instead of diverting resources towards social initiatives that may not directly align with their core functions.

Moreover, there is a subset of scholars who contend that there exists either no discernible relationship between CSR and financial performance (Lys et al., 2015), or that the relationship between the two is nonlinear and multifaceted (Ji et al., 2016; Cordeiro et al., 2021). These scholars emphasize the complexity of the CSR-FP nexus and highlight that the extent and way CSR initiatives influence financial performance can vary significantly depending on various contextual factors, including industry, region, and the specific CSR activities undertaken. In essence, the debate surrounding the impact of CSR on financial performance is multifaceted, with contrasting viewpoints reflecting the diverse range of circumstances and perspectives within the academic and business communities. Consequently, the decision to engage in CSR activities remains a complex strategic choice that necessitates careful consideration of an organization's unique context and goals.

Corporate Social Responsibility (CSR) is pivotal in enhancing an organization's financial performance due to its multifaceted impact on various aspects of business operations. One of the fundamental ways CSR contributes to improved financial outcomes is by fostering greater efficiency within the organization. By integrating socially and environmentally responsible practices into their operations, companies can optimize resource utilization, minimize waste, and reduce costs. For instance, implementing energy-efficient technologies reduces a company's carbon footprint and lowers energy bills, directly improving the bottom line. Furthermore, CSR initiatives often align with the overarching objectives of an organization, including profitability. Companies that invest in CSR demonstrate their commitment to societal well-being, which can enhance their reputation and brand value. As consumers and investors become increasingly conscious of environmental and social issues, organizations with strong CSR programs can attract a more loyal customer base and secure long-term financial stability. For example, studies in the banking sector have shown that shareholders place significant importance on CSR efforts (Farrukh et al., 2017; Dakhlallh et al., 2019). By meeting these expectations, banks can build trust and confidence among their investors, leading to increased investments and improved financial performance. Moreover, CSR is a regulatory framework for ethical business conduct, which can indirectly impact financial performance. By adhering to CSR principles and aligning with social norms, organizations can avoid legal and reputational risks resulting from unethical practices. This can save a company substantial amounts in legal fees, fines, and damage control, which can negatively affect profitability. In sum, CSR is not merely a philanthropic endeavor but a strategic investment that enhances efficiency, brand reputation, customer loyalty, and risk management, all contributing significantly to an organization's financial performance. Therefore, our hypothesis is:

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H1: Corporate Social Responsibility (CSR) positively affects bank performance

3. Methodology

This section outlines our research methodology, encompassing data collection, research design, and statistical models. We comprehensively analysed Tunisia's banking sector, focusing on the interplay between Corporate Social Responsibility (CSR) and financial performance.

3.1. Data

Our research methodology involved a comprehensive sample analysis representing a substantial percentage of Tunisia's banking sector. We must note that we excluded five banks, namely BTK, QNB, BFT, BFPME, and Citi Bank, from our study. These exclusions were necessitated by their unavailability on the stock exchange and the absence of publicly accessible annual reports. Additionally, these excluded banks also had a limited number of branches.

Our study covers the period from 2018 to 2022, a timeframe carefully chosen to provide an extensive view of the relationship between corporate social responsibility (CSR) and financial performance within the selected banks over a five-year duration. This duration facilitates a comprehensive and in-depth analysis of evolving trends and patterns over this period, enhancing our comprehension of the dynamics between CSR practices and financial performance in the Tunisian banking sector.

The final sample that emerged after these exclusions comprised a significant proportion of the total number of banks in Tunisia. It includes a mix of conventional and Islamic banks, with approximately 83.3% conventional and 16.7% Islamic. These criteria were established to ensure that our dataset represents the Tunisian banking industry while maintaining a manageable and feasible dataset for our detailed analysis. By examining this dataset, we aim to contribute valuable insights into the interplay between CSR and financial performance in the context of Tunisian banks.

3.2. Research design

In the subsequent sections, we delve into the specifics of our research design, elucidating the financial performance measures, the assessment of corporate social responsibility, and the statistical models employed for our analysis.

3.3. The bank's financial performance measures

The assessment of financial performance in the banking sector employs two main approaches: market-based and accounting-based methods (Pieter van Beurden and Tobias Gossling, 2008). However, this study exclusively concentrates on accounting-based measures of financial performance. Within accounting-based assessments, several profitability ratios serve as pivotal indicators for monitoring bank performance. Among these, the most significant include Return on Assets (ROA), Return on Equity (ROE), and Net Interest Margin (NIM).

ROA gauges managerial efficiency and their ability to convert the bank's assets into net earnings. On the other hand, NIM reflects the extent to which banks successfully utilize their assets to generate a satisfactory return from loans. Griffin and Mahon (1997) advocate for using multiple measures of financial performance and contend that accounting-based metrics, rather than market-derived metrics, should be preferred. Their rationale is rooted in the possibility that market-derived metrics may capture factors beyond the scope of financial performance.

This study adopts two well-established accounting measures of financial performance recognized across the banking industry, which are considered to accurately mirror banks' financial performance.

3.4. Measuring Corporate Social Responsibility

Corporate Social Responsibility (CSR) encompasses obligations associated with adhering to social norms and addressing environmental concerns that organizations must incorporate to safeguard society and the environment. Companies that actively embrace and adhere to CSR principles are seen as more effective in terms of societal standards and environmental concerns and exhibit a greater propensity for achieving robust financial performance, as indicated by Asmeri et al. in 2017.

In this context, organizations that have embraced and actively practised CSR have a value of '1,' while those that have not been designated a value of '0'. External observers tend to rely more heavily on objective evaluation criteria, primarily due to their limited familiarity with business operations and corporate practices, allowing for post-facto financial oversight to assess managerial conduct. In contrast, insiders employ more subjective criteria informed by their deep understanding of business operations and firm-specific knowledge from their prior experiences. Consequently, insiders can establish proactive strategic

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controls on managerial decisions, thus evaluating their behaviour. The pertinent variables used in the analysis are summarized in table 1.

Table 1. Variable Measurements

Variable Name	Variable description
• Financial Performance - Dependent Variable	
Return on Assets	Net operating Income / Average Total Assets
Return on Equity	Net operating Income / Average Total Equity
• Independent Variable CSR - Independent Variable	
Corporate Social Responsibility	
• Control Variables	
Leverage metric incorporates both operational and financial leverage to assess the overall level of leverage	
Total Assets	Natural logarithm of Average Total Assets

Source: Authors' elaboration

3.5. Statistical model

We will utilize a multiple linear regression analysis, and the following equation has been developed:

$$\textbf{Bank's Financial Performance}_{i\,t} = \beta_0 + \beta_1 (CSR_{i\,t}) + \beta_2 (Leverage_{i,t}) + \beta_3 (Total\ Asset_{i,t}) + \varepsilon_i \quad (1)$$

The bank's financial performance is the dependent variable, represented by "ROA" and "ROE", as various factors influence it. These include the CSR dummy variable, which acts as the independent variable. Additionally, the model accounts for the bank's "Total Assets" and “Leverage" as control variables. However, it's important to note that the symbol ε represents the model's error, as no model is entirely error-free and perfectly accurate. "Total Assets" reflects the bank's size, while "leverage" signifies the bank's level of leverage and financial risk. Here are the two detailed equations made for regression analysis:

$$ROE_{i,t} = \beta_0 + \beta_1 (CSR_{i,t}) + \beta_2 (Leverage_{i,t}) + \beta_3 (Total\ Asset_{i,t}) + \varepsilon_i \quad (2)$$
$$ROA_{i,t} = \beta_0 + \beta_1 (CSR_{i,t}) + \beta_2 (Leverage_{i,t}) + \beta_3 (Total\ Asset_{i,t}) + \varepsilon_i \quad (3)$$

3.6. Data analysis

In this section, we delve into the heart of our study, conducting a detailed analysis of the data collected from Islamic and conventional banks. Using Stata software, we focus on key financial performance indicators and their interactions with Corporate Social Responsibility (CSR), Leverage, and Total Assets. This section serves as the foundation for uncovering valuable insights into the financial dynamics of these two banking sectors.

4. Results

4.1. Descriptive statistics

In this section, we comprehensively analyse the data collected from Islamic and conventional banks, aiming to understand better their financial performance and Corporate Social Responsibility (CSR) practices. To facilitate this understanding, we begin with a detailed exploration of descriptive statistics for both types of banks. These statistics shed light on key financial indicators and their variations within the selected banks, ultimately forming the basis for our subsequent analyses. We delve into Return on Equity (ROE), Return on Assets (ROA), CSR scores, Leverage, and Total Assets to offer a comprehensive overview of the financial dynamics of Islamic and conventional banks in our study.

4.2. Descriptive Statistics for Islamic banks

Descriptive statistics for Islamic banks are summarized in the next Table 2.

Return on Equity (ROE): The dataset presents insights into the financial performance of a sample of 15 Islamic banks. The average Return on Equity (ROE) for these Islamic banks is approximately 5.91%, with a standard deviation of about 5.33%. ROE is a critical financial metric that assesses a company's profitability of its shareholders' equity. In this context, the dataset's

ROE values range from a minimum of -3.51% to a maximum of 12.64%. The positive mean ROE suggests that, on average, these Islamic banks are generating a return on equity, indicating a moderate level of profitability. However, the variation in ROE values implies that profitability among these Islamic banks differs significantly. Further analysis is necessary to discern the underlying factors contributing to this diversity within Islamic banking institutions.

Return on Assets (ROA): For Islamic banks, the dataset reveals an average Return on Assets (ROA) of approximately 0.344, with a standard deviation of roughly 1.25. ROA is a key financial metric that measures how efficiently a bank utilizes its total assets to generate profit. In this dataset, the ROA values range from a minimum of -3.65 to a maximum of 1.37. The average ROA of 0.34 suggests that, on average, these Islamic banks are generating a profit of approximately 34.4 cents for every dollar of assets they hold. However, the wide dispersion in ROA values, similar to ROE, indicates significant variability in asset utilisation efficiency among Islamic banks. Some Islamic banks may excel in generating profits from their assets, while others might face challenges in optimizing their asset base for earnings. A more detailed analysis is required to understand the factors contributing to this diversity within Islamic banking institutions.

Corporate Social Responsibility (CSR): The average CSR score for Islamic banks is around 0.57, indicating that, on average, these banks have a positive orientation toward CSR. The standard deviation of 0.50 highlights some variations in CSR activities among these institutions, suggesting a dynamic landscape in implementing CSR initiatives.

Leverage: The average leverage is approximately 6861809, with a standard deviation of 5028195. The wide range of leverage, from 184931 to 19200000, reflects Islamic banks' varying degrees of financial risk. Some may employ higher leverage levels to magnify returns, while others may adopt a more conservative approach.

Total Assets: The average Total Assets for Islamic banks are around 15.47, with a standard deviation of 1. This indicates that the sample of Islamic banks generally maintains similar total asset sizes with limited variability, potentially reflecting a common scale of operations in this subset.

Table 2. Descriptive statistics Islamic banks

	Mean	Minimum	Maximum	Std deviation
	Statistic	Statistic	Statistic	Statistic
ROE	5.91162	-3.5109	12.64	5.330532
ROA	0.344	-3.65	1.37	1.24997
CSR	0.5333333	0	1	0.5163978
LEVERAGE	2.38e+08	2203387	1.09e+09	3.71e+082
TOTAL ASSET	16.858	14.68	20.94	0.714672

Source: Authors' elaboration

4.3. Descriptive Statistics for Conventional Banks

5. Descriptive statistics for Conventional banks are summarized in the next Table 3.

Return on Equity (ROE): measures a bank's profitability about its shareholders' equity. The data shows that the conventional banks in the sample have an average ROE of 8.84, with a standard deviation of 18.02, indicating a relatively wide range of profitability. The minimum ROE observed is -76.43, suggesting that some banks in the sample experienced negative returns on equity, while the maximum ROE is 75, signifying the potential for high returns. The positive mean ROE implies that, on average, these banks profit from their shareholders' equity. However, the significant standard deviation points to the variance in ROE performance across the banks, which may warrant further investigation into the factors influencing profitability within this group.

Return on Assets (ROA): is a metric that evaluates a bank's efficiency in generating profits from its total assets. The dataset reveals that the 70 conventional banks have an average ROA of 1.51, with a standard deviation 3.52. This metric helps assess how well a bank uses its assets to produce earnings. The minimum ROA of -2.48 suggests that some banks in the sample experienced losses relative to their assets, while the maximum ROA of 18 showcases the potential for high profitability. The positive mean ROA indicates that, on average, these banks can profit from their assets. However, the significant standard deviation highlights the diversity in ROA performance among the banks, underscoring the importance of further investigation to understand the underlying factors contributing to this variability.

Corporate Social Responsibility (CSR): Similar to Islamic banks, conventional banks also exhibit a positive orientation toward CSR, with an average CSR score of approximately 0.57 and a standard deviation of 0.50. This implies that CSR is an area of focus for these banks, with some variation in CSR practices among them.

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Leverage: The measure of leverage in conventional banks showcases substantial variability, with an average of 6861809 and a standard deviation of 5028195. This reflects the differing financial risk profiles and debt management strategies adopted by conventional banks, resulting in various leverage levels.

Total Assets: The average total assets for conventional banks is around 15.47, with a standard deviation 1. Similar to Islamic banks, this suggests that conventional banks in the sample maintain similar total asset sizes, indicating some level of homogeneity in the scale of their operations.

Table 3. Descriptive statistics of conventional banks

	Mean	Minimum	Maximum	Std deviation
	Statistic	Statistic	Statistic	Statistic
ROE	8.844854	-76.43	75	18.02623
ROA	1.514429	-2.48	18	3.523278
CSR	0.5714286	0	1	0.4984448
LEVERAGE	6861809	184931	1.92e+07	5028195
TOTAL ASSET	15.46835	13.63281	16.88945	1.000453

Source: Authors' elaboration

5.1. Regression analysis

5.1.1. The Impact of CSR on financial performance in Islamic banks

In our analysis of Islamic banks, we examined the relationship between Corporate Social Responsibility (CSR) and financial performance using two distinct models. Model 1.1 employed Return on Equity (ROE) as the performance metric, while Model 2 utilized Return on Assets (ROA) (Table 4). For Model 1, which was based on ROE, the coefficient of determination (R^2) was 0.91, indicating that the model could explain approximately 91.86% of the variation in financial performance, as measured by ROE. The adjusted coefficient of determination (adjusted R^2) was 0.84 for Model 1.1.

On the other hand, Model 1.2, which employed ROA as the performance metric, yielded an R^2 value of 0.95, with an adjusted R^2 of 0.61. These results suggest that, for Islamic banks, both models provided strong explanatory power, with Model 1.2 (ROA) having a slightly higher R^2 and adjusted R^2. This demonstrates the robust relationship between CSR and financial performance in Islamic banking, highlighting the importance of considering different performance metrics for a comprehensive analysis.

Table 4. Model 1 Summary

Model	R	R^2	Adjusted R^2
1.1	0.8812	0.9186	0.8488
1.2	0.6973	0.9577	0.6148

Source: Authors' elaboration

5.1.2. The impact of CSR on Islamic bank performance using ROE as a measure

Within our study on Islamic banks, we explored the determinants of Return on Equity (ROE) using Model 1. The results reveal a significant and positive relationship between Corporate Social Responsibility (CSR) and ROE within Islamic banks. Specifically, the coefficient for CSR stands at 5.66, with a standard error of 1.02. The t-statistic registers at 5.52, with a p-value of 0.000, indicating a robust and statistically significant relationship between CSR practices and ROE within Islamic banks. These findings suggest that Islamic banks that emphasize CSR tend to generate higher Returns on Equity, highlighting the impact of responsible business practices on shareholder returns.

Conversely, the relationship between Leverage and ROE within Islamic banks appears less pronounced. The coefficient for Leverage is -4.34e-09, with a standard error of 4.12e-09. The t-statistic stands at -1.06, and the p-value is 0.29. Although the relationship is statistically significant, the low t-statistic suggests that the strength of the relationship is limited. Nevertheless, the negative coefficient implies that higher leverage levels may be associated with lower ROE, underscoring the importance of prudent leverage management in optimizing shareholder returns within Islamic banks.

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Furthermore, our analysis indicates that the size of Islamic banks, represented by Total Assets, negatively influences ROE. The coefficient for Total Assets amounts to -0.84, with a standard error of 0.56. The t-statistic is -1.49, and the p-value is 0.13. These findings suggest that larger Islamic banks, as measured by total assets, tend to display lower Returns on Equity. This highlights potential challenges associated with size within Islamic banking, with larger banks potentially struggling to achieve ROE levels similar to their smaller counterparts.

In summary, our analysis of the determinants of ROE within Islamic banks underscores the significance of Corporate Social Responsibility (CSR) in driving higher Returns on Equity (Table 5). While Leverage exhibits a less pronounced relationship, it nevertheless emphasizes the importance of responsible leverage management in optimizing ROE. The negative impact of total asset size on ROE highlights the complexity of achieving high returns for larger Islamic banks. These findings hold significant implications for stakeholders in the Islamic banking sector, emphasizing the benefits of CSR practices and the necessity for prudent management of size and leverage to enhance ROE.

Table 5. Regression Results for ROE-based Performance

ROE	Coef	Std. Err	T	P>|t|
CSR	5.661145	1.025133	5.52	0.000
Leverage	-4.34e-09	4.12e-09	-1.06	0.291
Total Assets	-0.8470756	0.5681743	-1.49	0.136

Source: Authors' elaboration

5.1.3. The impact of CSR on Islamic bank performance using ROA as a measure

Our study, which focuses on Islamic banks, analysed the relationship between financial performance, as measured by return on assets (ROA), and various determinants, revealing a significant role played by corporate social responsibility (CSR). Specifically, the coefficient for CSR in the model is 0.76, with a standard error of 0.38. The t-statistic records 1.99, accompanied by a p-value of 0.046. These outcomes highlight a noteworthy and positive association between CSR and ROA, indicating that Islamic banks with higher CSR scores tend to experience higher Returns on Assets. These findings underscore responsible corporate practices' pivotal role in enhancing Islamic banking's financial performance.

Moreover, our analysis demonstrates a pronounced connection between Leverage and ROA within Islamic banks (Table 6). The coefficient for Leverage is 3.21e-09, with a standard error of 1.54e-09. The associated t-statistic is 2.09, and the p-value is 0.037. These results imply that Islamic banks' leverage level has a statistically significant influence on their ROA. It suggests that increasing leverage is linked to a higher ROA, emphasizing the importance of financial decisions related to leverage within Islamic banking institutions.

Conversely, Total Assets (Size) appear to substantially and negatively impact ROA within Islamic banks. The coefficient for Total Assets is -0.68, with a standard error of 0.21. The t-statistic is -3.23, and the p-value is 0.001. These findings indicate that larger Islamic banks, as measured by their total assets, tend to exhibit lower Returns on Assets. This implies that while size offers certain advantages, such as economies of scale, it also presents challenges regarding operational efficiency and ROA within the context of Islamic banking.

Our analysis unveils the intricate relationships between CSR, Leverage, and Size within Islamic banks and their impact on financial performance, as measured by ROA. Corporate Social Responsibility emerges as a significant driver of higher ROA, while Leverage and Size exhibit contrasting effects. These insights are particularly important to decision-makers in Islamic banking, emphasizing the potential benefits of prioritizing CSR practices and making prudent financial management decisions, particularly regarding leverage. It also highlights the need to consider the complexities of size when assessing financial performance within the unique context of Islamic banking.

In our study focusing on Islamic banks, we conducted an in-depth analysis of the relationship between Corporate Social Responsibility (CSR) and financial performance, measured through both Return on Assets (ROA) and Return on Equity (ROE). The findings underscore that CSR practices exhibit a significant and positive association with ROE, highlighting that Islamic banks emphasizing CSR tend to generate higher Returns on Equity. In contrast, the relationship appears somewhat weaker but still statistically significant when considering ROA as the measure of financial performance. This indicates that while CSR significantly enhances shareholder returns within Islamic banks, its impact on overall asset efficiency, as reflected by ROA, is slightly more nuanced. These insights provide valuable guidance for Islamic banks and their stakeholders, emphasizing the multifaceted relationship between CSR and financial performance.

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Table 6. Regression Results for ROA-based Performance

ROA	Coef	Std. Err	t	P>|t|
CSR	0.7641637	0.3837603	1.99	0.046
Leverage	3.21e-09	1.54e-09	2.09	0.037
Total Assets	-0.686154	0.212697	-3.23	0.001

Source: Authors' elaboration

5.1.4. The Impact of CSR on financial performance in Conventional banks

In our analysis of conventional banks, we explored the relationship between Corporate Social Responsibility (CSR) and financial performance using two distinct models. Model 1 employed Return on Equity (ROE) as the performance metric, while Model 2 utilized Return on Assets (ROA). For Model 1, the coefficient of determination (R^2) was 0.4627, indicating that the model could explain approximately 46.27% of the variation in financial performance, as measured by ROE. In contrast, Model 2 yielded an R^2 value of 0.3172, which means that the model explains 31.72% of the total variance. These results suggest that, for conventional banks, Model 1 incorporating ROE as the performance metric provides a more suitable framework for understanding the relationship between CSR and financial performance. The significance of this distinction underscores the importance of selecting an appropriate performance metric for a comprehensive analysis (Table 7).

Table 7. Model 2 Summary

Model	R	R^2	Adjusted R^2
2.1	0.2249	0.4627	0.1897
2.2	0.2144	0.3172	0.1787

Source: Authors' elaboration

5.1.5. The impact of CSR on Conventional bank performance using ROE as a measure

Under Model 1 (ROE), the regression results reveal several significant insights in the context of conventional banks (Table 8). Firstly, it is important to note that the Corporate Social Responsibility (CSR) variable displays a negative coefficient of -1.21. Still, this coefficient is not statistically significant, as indicated by the high p-value 0.79. These results suggest that, for conventional banks, there is no statistically significant relationship between corporate social responsibility practices and profitability as measured by ROE. This lack of statistical significance may raise questions about the impact of CSR initiatives in this sector.

On the other hand, the Leverage variable shows a negative coefficient of -1.79e-06 and has a p-value of 0.06. While the coefficient is negative, indicating an inverse relationship, the low statistical significance suggests a marginal impact of leverage on the ROE of conventional banks. This finding might warrant further investigation.

Finally, the Total Assets variable exhibits a significant positive coefficient of 16.36 with a p-value of 0.001. This means that an increase in total asset size is associated with a significant increase in ROE for conventional banks. Total asset size appears to play a crucial role in profitability for these banks. These results underscore the importance of asset size in determining ROE for conventional banks, while other factors, such as CSR practices and leverage, do not appear to significantly impact profitability.

Table 8. Regression Results for ROE-based Performance

ROE	Coef	Std. Err	z	P>|z|
CSR	-1.216442	4.595983	-0.26	0.791
Leverage	-1.79e-06	9.67e-07	-1.86	0.064
Total Assets	16.363994	69.42794	3.35	0.001

Source: Authors' elaboration

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5.1.6. The impact of CSR on Conventional bank performance using ROA as a measure

Within the context of conventional banks, Model 2 focuses on assessing financial performance through Return on Assets (ROA). This model investigates how various factors influence ROA within the conventional banking sector, shedding light on the specific dynamics affecting asset-related profitability.

The Corporate Social Responsibility (CSR) variable features a negative coefficient of -2.282, indicating an inverse relationship between CSR activities and ROA (Table 9). Furthermore, the negative coefficient is statistically significant, as denoted by the low p-value of 0.012. These results imply that conventional banks emphasizing CSR might experience diminished ROA. This raises important questions about the potential trade-off between social responsibility efforts and asset-related profitability in the sector.

Shifting to the Leverage variable demonstrates a negative coefficient of -5.07e-07, with a significant p-value of 0.008. This suggests that leverage has a notable, albeit somewhat marginal, impact on ROA. The negative coefficient signifies increased leverage, associated with lower ROA for conventional banks. Therefore, effective leverage management is pivotal in preserving asset-related profitability within the sector.

Lastly, the Total Assets variable shows a positive coefficient of 3.71 and a highly significant p-value of 0.000. This finding underscores a strong positive connection between the size of total assets and ROA in conventional banks. It suggests that larger total asset bases correlate with higher ROA, emphasizing the vital role of operational scale in enhancing asset-related profitability.

Model 2's results provide insights into the complex interplay of factors influencing ROA in conventional banks. While CSR practices may lead to lower ROA, managing leverage wisely is crucial for preserving asset-related profitability. The size of total assets significantly contributes to higher ROA, underlining the importance of operational scale in determining profitability within the conventional banking industry.

In summary, the comparison between Model 1, where performance is measured by Return on Equity (ROE), and Model 2, where performance is measured by Return on Assets (ROA), within the sample of conventional banks, reveals contrasting insights. In Model 1, Corporate Social Responsibility (CSR) practices lack statistical significance and do not significantly impact ROE, consistent with prior studies. Model 2, however, shows a statistically significant and negative relationship between CSR and ROA, aligning with previous research. Furthermore, while Model 1 does not find a significant relationship between Leverage and ROE, Model 2 emphasizes the importance of leverage management, like earlier studies. In both models, Total Assets exhibit a positive and statistically significant relationship with performance, highlighting the significance of operational scale. These results emphasize the multifaceted nature of financial performance in conventional banks and the role of the chosen performance measure in yielding distinct insights regarding key determinants.

Table 9. Regression Results for ROA-based Performance

ROA	Coef	Std. Err	z	P>|z|
CSR	-2.282348	0.9043818	-2.52	0.012
Leverage	-5.07e-07	1.90e-07	-2.66	0.008
Total Actif	3.711052	0.9621243	3.86	0.000

Source: Authors' elaboration

6. Discussion

The results highlight the distinctive nature of the relationship between CSR and financial performance in these two banking sectors. In the case of Islamic banks, the findings suggest a positive link between CSR practices and ROA. This implies that as Islamic banks prioritize and enhance CSR activities, they experience improved financial performance based on their assets. The results align with the underlying ethical principles of Islamic finance, emphasizing the importance of ethical conduct and social responsibility.

Conversely, the relationship between CSR and ROA between conventional banks takes a different course. The findings indicate a statistically significant negative association between CSR and ROA. This implies that intensifying CSR efforts may adversely affect asset-based financial performance in conventional banking. The negative coefficient emphasizes the potentially detrimental effect of CSR practices in the conventional banking context.

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These divergent outcomes underscore the sector-specific nuances of CSR and its influence on financial performance. Islamic banks appear to benefit from robust CSR practices regarding ROA, while conventional banks encounter an adverse relationship. These distinctions may be attributed to these banking sectors' unique ethical and strategic orientations.
The adverse impact of CSR on ROA in conventional banks emphasizes the necessity for a nuanced understanding of CSR strategies, especially within the conventional banking landscape. It reminds us that implementing CSR initiatives in conventional banks may involve trade-offs and complex dynamics. These findings emphasize the intricate interplay between CSR and financial performance, underscoring the need for tailored CSR strategies in different banking sectors.

7. Conclusion

In conclusion, our study has analyzed the relationship between Corporate Social Responsibility (CSR) and financial performance in Tunisia, focusing on Islamic and conventional banks. The results shed significant light on the nuances of this relationship in these two distinct banking contexts.
First and foremost, we have found a positive and significant association between CSR and Return on Assets (ROA) for Islamic banks. These findings align with the ethical principles of Islamic finance, underscoring the importance of ethics and social responsibility in these financial institutions. They indicate that Islamic banks prioritising CSR tend to exhibit better financial performance based on their assets.
However, the relationship between CSR and financial performance is more complex for conventional banks. In the model based on Return on Equity (ROE), CSR does not exhibit a statistically significant relationship with profitability. Conversely, we observe a statistically significant negative relationship in the model based on ROA. This suggests that, in the context of conventional banks, increasing CSR efforts may lead to a decrease in asset-based financial performance.
The results also emphasize the importance of managing leverage to maintain asset-related profitability in both banks. Furthermore, a larger total asset size is associated with higher financial performance, highlighting the crucial role of operational scale.
Finally, comparing Islamic and conventional banks highlights significant differences in the relationship between CSR and financial performance. While Islamic banks benefit from strong CSR practices regarding ROA, conventional banks experience an unfavorable relationship.
In summary, this study reveals the complexity of the relationship between CSR and financial performance, with sector-specific dynamics in each banking context. It underscores the importance of tailoring CSR strategies to the unique characteristics of each banking context. These findings provide valuable insights to Tunisian banks, helping them make informed CSR and financial management decisions.

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