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# IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON FINANCIAL PERFORMANCE: EVIDENCE FROM SELECTED MENA REGION COMMERCIAL BANKS

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Corporate Social Responsibility, Financial Performance, Banks, MENA Region.

# IMPACT OF CORPORATE SOCIAL RESPONSIBILITY PRACTICES ON FINANCIAL PERFORMANCE: EVIDENCE FROM SELECTED MENA REGION COMMERCIAL BANKS

## Abstract

Nowadays, corporations are being held accountable for their actions that affect their surroundings. Thus, corporate social responsibility (CSR) has been integrated in their business models, which can impact their financial performances (FP). Previous researches regarding the relationship between CSR and FP have yielded mixed results. Thus, this research aims at identifying the impact of CSR practices in the environment (ENV), human resources (HR), products and consumers (PC) and community involvement (CI) on FP of 81 commercial banks operating in selected MENA countries for the year 2018. Data were gathered from CSR report and annual report for each bank. The multiple regression analysis reveals that there is a positive significant relationship between CSR practices in HR and PC and FP of MENA banks. However, there is a non-significant relationship between CSR practices in the ENV and CI and FP of these banks. Thus, MENA banks are encouraged to engage in CSR practices revolving around HR and PC in order to enhance their FP.

## Keywords

Corporate Social Responsibility, Financial Performance, Banks, MENA Region.

# 1. INTRODUCTION

According to Cuesta-González et al. (2006), Lauesen (2013), Bagmet (2015) and Carè (2018), the banking sector's importance and influence over their surrounding communities have been increasing over the years. After the occurrence of several financial crises in the banking sector world-wide (i.e. the economic and financial crisis in 2008), new policies, rules and regulations were introduced and implemented in companies' corporate models (Hurley et al., 2014; Esteban-Sanchez et al., 2017). After uncovering various corporate frauds (i.e. WorldCom and Enron), and several scandals in banks (i.e. Citigroup and Lehman Brothers), the interest around CSR has increased and became vital for banks (Grove and Bailico, 2011; Li et al., 2019; Bian et al., 2021). Therefore, the public has demanded banks for more transparency regarding their business processes by disclosing and publishing every single activity they engage in. MENA banks are no exception in this case.

The concept and definition behind CSR are still not agreed upon (Matuszaka and Różańska, 2017). The European Commission (2001) describes CSR as the notion to incorporate social and ecological concerns into the core corporate activities of firms, as well as their relationship between these organizations and their stakeholders on the discretionary premise. Carroll (1983) defines CSR as the business behavior that is economically beneficial, lawful, moral, and socially understanding. Brown and Dacin (1997) define CSR as the firm's actions obliged by laws and regulations that assist the society and those that surpass the self-interest profit goal of a firm.

Research results show that CSR is able to increase productivity of workers, conscription and retention (Greening and Turban, 2000), strengthens individual's readiness to own shares in a company (Sen et al., 2006), builds a positive company image (Brammer and Pavelin, 2006), and enhances the branding and positioning of the company (Lindgreen and Swaen, 2010). Previous research identified four pillars involving CSR: the economic, legal, ethical and philanthropic ones.

Banks engaging in socially non-responsible activities suffer the loss of trust between them and their customers, as these actions can be deemed as harmful for their employees and consumer's perceptions of the bank alike (Hurley et al., 2014). Nonetheless, banks were theinitial organizations to adopt and incorporate CSR activities to its core practices, albeit to save their reputations and images (Soana, 2011), or/and to accommodate to their stakeholder's demands and expectations while simultaneously valuing the economic, legal, moral and altruistic areas of the business (Caruana and Chatzidakis, 2014).

Thus, Sweeney (2009) depicts that CSR has become an essential concept for investigation among scholars, as world-wide attention about the detrimental social and environmental effects of organizations has increased (Fontaine, 2013). Thus, CSR is a hot topic these days to businesses and accounting. Furthermore, CSR and its impact on FP of corporations have been examined in various industries, including-but not limited to- tourism related industries (Inoue and Lee, 2011; Theodoulidis et al., 2017; Moneva et al, 2020), hospitality industry (Rhou et al., 2016; Uyar et al., 2020), retail industry (Lee et al., 2018; Nyame-Asiamah and Ghulam, 2019), healthcare industry (Allard, 2018; Hwang and Chung, 2018; Sinthupundaja et al., 2020), manufacturing industry (Torugsa et al., 2012; Cho et al, 2019; Wu et al., 2020) and the technology sector (Okafor, 2021).

Wu and Shen (2013) and Kiliç et al. (2015) mention that examinations done on the relationship between CSR and FP in banks are scarce, although it was one of the earliest sectors to integrate CSR into their business models (Scholtens, 2009; Soana, 2011). Furthermore, AlShehhi et al (2018) claim that studies regarding the relationship between CSR and FP in developing countries are still limited. Similarly, Tawfik et al. (2021) assert that the studies examining the relationship between CSR and FP of banks in Arab countries is scarce. Thus, this research aims to fill this gap in the existing literature. Therefore, the objective of this research is to investigate the effect of CSR practices on the FP of banks operating in the MENA region. This research contributes by investigating the CSR-FP relationship in the MENA region banking sector, and it dives deep into the different aspects of CSR by dividing it into four different sections instead of studying it as a whole (the environmental, human resources, community engagement and products and consumers aspects). The MENA region banking sector is an interesting one because it is the most dominant in the MENA region financial system, and it is considered to be essential for their economic growths (Azmeh, 2018).

The rest of this research is arranged as follows: the second section presents a theoretical framework for CSR. The third section offers a brief review of the existing literature and hypotheses development. The fourth section presents the research methodology. The fifth section presents the interpretation and analysis of the findings. The sixth section summarizes conclusions, limitations and suggestions for future research. The last two sections represent the theoretical and practical implications, respectively.

## 2. THEORETICAL FRAMEWORK

Corporate social performance (CSP), stakeholder and agency theory recognize the positive impact that the CSR has over the organizational FP (Aupperle et al., 1985; Sarwar et al., 2012; Servaes and Tamayo, 2013; Moura-Leite et al., 2014; Saeidi, et al., 2015; Flammer, 2015; Nollet et al., 2016).

CSP is characterized as the arrangement of social responsibility in organizations, along with the rules, programs and results that display the organization's relationship with its community (Wood, 1991). This theory states that corporations hold responsibility towards the social issues, especially those that emerged from businesses themselves. Thus, it depicts that corporations have a greater responsibility than that of wealth creation and profit maximization.

Moreover, the term 'corporate citizenship' emerged in the 1980's by practitioners Altman and Vidaver-Cohen (2000) and Windsor (2001). Carroll (1991) stated that for corporates to be considered 'good corporate citizens' they would have to participate in actions that enhance human well-being, benevolence, and philanthropy. Thus, to be considered as good corporate citizens, corporations should take part in social deeds that the law does not mandate. Birch (2002) declared that CSR considers social responsibility as an external issue, while corporate citizenship considers corporation as part of the community itself.

The stakeholder's theory sees that corporations' purpose is to coordinate the interests of stakeholders (Evan and Freeman, 1988), because it considers that the organization's value and overall performance can be pinpointed by the actions taken by the firm regarding the expectations and interests of its stakeholders (Freeman, 1984). Freeman (1984) realizes a positive association between CSP and organizational FP when the organization's interests, goals and expectations are aligned with those of the stakeholders, thus reducing agency conflict. Improving the conditions surrounding the internal stakeholders of a firm can significantly impact their loyalty and productivity, thus leading to achieving better FP (Huselid, 1995; Frank and Obloj, 2014). As for the external stakeholders, this strategy would not directly affect the profitability of the company. However, it can positively impact the satisfaction of the customers and its overall image, which can lead to the improvement of the intangible stock market value and firm's future (Luo and Bhattacharya, 2006; Kang et al., 2010; Singal, 2014).

In contrast, Milton Friedman (1970) introduced the shareholder value theory, which recognizes a negative influence of CSR on FP. It argues that the primary goal of any organization should be profit maximization and growing shareholder and economic value. Friedman (1970) believes that CSR consumes and depletes the organization's scarce resources without giving considerable return to the organization. This viewpoint concludes that social activities come with a cost, and costs decrease profits. It elaborates that any social activities that a company should happen to engage in should either be commanded by law or if it maximizes shareholder value. Supporters of this theory defend it because they believe that it is efficient in generating wealth and achieving overall better economic performance of the company. However, according to Kotter and Heskett (1992), Kay (1993), and Hosmer (1995), maximizing shareholder value implies shortterm profits, rather than long-term profitability.

## 3. LITERATURE REVIEW AND HYPOTHESES DEVELOPMENT

The need and demand for CSR increased after the financial crisis that hit in 2008, where calls for transparency, accountability and trust were raised (Chedrawi and Osta, 2017). However, most research about the connection between CSR practices and FP of firms was done in an international context while focusing on developed countries, such as the international banking sector context, US banks, Turkey, and Korea (Cho et al., 2019; Esteban-Sanchez et al.,2017; Gbadamosi, 2016; Taşkın, 2013). Moreover, these studies have resulted in mixed results about the type of association between CSR practices and FP (Friedman, 1970; Kraft and Hage, 1990).


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Some scholars have determined a positive association between CSR and FP (Wu and Shen, 2013; Shen et al., 2016; Esteban-Sanchez et al., 2017), while other studies found a negative one (Scholtens and Dam, 2007; Chih et al., 2008; Fernández-Gago et al., 2016).

Aupperle et al. (1985) performed a study that hinted on the positive effect of CSR on profitability. Waddock and Graves (1997) studied 469 different firmsby employing KLD ratings to measure CSR. KLD measures stand for 'Kinder, Lydenberg, Domini Research and Analytics', and they offer a clear view of the past and possible future performance in environmental terms. The results found that CSR is positively linked to past and future FP. Waddock and Graves (1997) found that when an organization's stakeholders believe that the company has good CSP, its reputation, image and trust among the main stakeholders' enhances, thus achieve better corporate FP. Equally, Hammond and Slocum (1996) recognized that CSR is able to increase the reputation and standing of the organization and decrease financial risks, which would in turn lower the chances of going bankrupt against those who do not engage in CSR.

According to Preston and O'bannon (1997), CSR can help in decreasing organizational costs, create stakeholder value and build internal capabilities, as well as being the prime mover in the sector at hand, which gives the company a competitive advantage over others. This competitive advantage can enhance the FP of the enterprise (Margolis et al., 2007). Additionally, CSR is able to aid the company with building positive relationships with its consumers, employing motivated employees, decrease organizational risks and increase positive word-of-mouth (Bird et al., 2007).

McWilliams and Siegel (2000), Orlitzky et al (2003) and Tsoutsoura (2004) determined that there exist a positive association between CSR and FP of organizations. Similarly, Simpson and Kohers (2002) found a positive relationship between CSR and FP using several US commercial banks as a sample. Godfrey (2005) found that organizations that show interest in philanthropy have higher shareholder value and thus better FP. Moreover, Hong and Kacperczyk (2009) conclude that there is a positive influence of engaging in the community on market-based performance. Nelling and Webb (2009) stated that there is a relationship between CSR and an organization's FP. They mentioned that the nature of the relationship in some cases is not determined, while in other cases it is a positive one where their stock market performance and firm investments improve.

Azad et al. (2013) investigated the impact of CSR on performance in banks in Bangladesh and found that CSR has a positive influence on the market price of the share. Likewise, Alafi and Hasoneh (2012) found that the nature of relationship is a positive one. Similarly, Sarwar et al. (2012) concluded that banks in Bangladish who engaged in CSR practices had a larger ROA than those who did not. Bolanle et al., (2012) found that engaging in CSR would provide better return in the long run for the bank, as there is a positive association between CSR expenditure and profitability. Similarly, Deng et al. (2013) stated that CSR activities maximize stakeholder value of the company. Wu and Shen (2013) found that banks who heavily participate in CSR deeds have better corporate FP in the case of strategic CSR policies. Similarly, Flammer (2015) found that a company engaging in CSR helped increase both its market share and share prices, thus achieving better FP. Likewise, Nollet et al. (2016) performed a study and concluded that there is a significant association between CSR practices and FP. Maqbool and Zameer(2017) found a positive relationship between CSR and FP of Indian banks. Simionescu and Dumitrescu (2018) found a positive association between CSR practices and corporation's FP. Siueia et al (2019) found a positive relationship between CSR and FP of banks in the Sub-Saharan African region. Galdeano et al (2019) also found a positive relationship between CSR and FP of Bahraini commercial banks. Likewise, Cho et al. (2019) found a positive relationship between CSR practices and FP, where the rate of total assets of companies observed improvement. Moreover, Lin et al. (2019) found a positive association between CSR and corporation's FP, where CSR practices were able to create value for the organization. Similarly, Cherian et al. (2019) found that socially responsible companies performed better in emerging economies. Moreover, Szegedi et al. (2020) found a positive relationship between CSR and accounting based economic performance but not the market based one. Furthermore, Ramzan et al (2021) found a positive association between CSR and Pakistani commercial bank's FP. The results of the study conducted by Ngyuen and Nguyen (2021) found a positive association between CSR and company FP, where CSR was able to positively impact company's ROA.

On the other hand, some studies show that CSR can negatively affect the corporate's FP (Friedman, 1970; Wright and Ferris, 1997; Brammer et al., 2006; Rahmawati and Dianita, 2011; Lioui and Sharma, 2012).

Wright and Ferris (1997) evaluated the effect of divestment on the stock market performance in South Africa as a representation to CSR. The study samples 116 different firms in several different industries on the scope of ten years, and the results show that the share prices of these companies have declined. These results show that non-economic burdens can impact strategies that are related to the managerial level, rather than objectives related to value increasing. Equally, Cordeiro and Sarkis (1997) conducted a study using 523 US companies, and the results show a negative association between activism related to environmental concerns and the earnings per share. Their study concluded that being involved in CSR activities leads to incurring costs, and these costs result in competitive weakness. Additionally, Caulkin (2002) stated that some cynics indict that CSR is used to put up a good front for corporations, while keeping their immoral activities and behavior hidden from the public. Moon (2002) considered that inspiration for CSR is controlled by self-interest, regardless if these actions' intention revolves around business or if they are solely for charitable concerns. Moreover, Hemingway and Maclagan (2004) stated that CSR activities are utilized to scheme for un-lawful activities by management. Brammer et al. (2006) argue that engrossment in the local society is negatively related with company's performance.

Furthermore, the neutral point-of-view dictates that CSR does not have any association to the corporate FP. It considers that both pillars are mutually exclusive and any relationship between them is coincidental. Ullmann (1985) argues that there exist too many variables, which makes it hard to study the nature of the relationship between CSR and corporate FP. Kraft and Hage (1990) conducted a study on 82 different enterprises as a sample; the outcomesindicate no relationship between community service and profit goals, workflow continuity, and low price. Abbott and Monsen (1979), as well as Griffin and Mahon (1997) reached the same results in their studies. McWilliams and Siegel (2000) examined 524 companies throughout six consecutive years, and the findings initially disclosed a positive relationship between CSR and corporate FP, but when the model was scrutinized by research and development it showed a neutral relationship between CSR and corporate FP. Furthermore, Galema et al. (2008) report that the influence of involvement in the society over FP of firms is insignificant. Le Doan Minh Duc et al. (2018) found no significant association between the CSR practices and corporations' FP.

It is mentioned that the reasons for having mixed results are because CSR dimensions are vague and because of employing different performance measurement when performing the examinations (Wood and Jones, 1995; Margolis and Walsh, 2003). Using different dimensions to measure CSR can also result in different conclusions. Moreover, it is reported that CSR enhanced organization's performance when Tobin's Q were employed. However, when return on assets (ROA) and return on equity (ROE) were utilized to measure the organization's FP, it either reduced or did not have any effect on the firm's FP (Lee and Park, 2009; McGuire et al., 1988).

Despite the fact that there are diverse findings regarding the impact of CSR practices on the FP of corporations, CSR having a positive influence on the FP dominates the studies conducted (Alshehhi et al., 2018). Keeping the literature review in mind, and as interest in CSR in ever growing world-wide, and as research about CSR in banks in general, and the MENA banks in particular is scarce, the following hypotheses were developed:

$H_1$: There is a significant positive relationship between CSR practices in the environment and the financial performance of banks in the MENA region.

$H_2$: There is a significant positive relationship between CSR practices in the human resources and the financial performance of banks in the MENA region.

$H_3$: There is a significant positive relationship between CSR practices in products and consumers, and the financial performance of banks in the MENA region.

$H_4$: There is a significant positive relationship between CSR practices in the community and the financial performance of banks in the MENA region.


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# 4. RESEARCH METHODOLOGY

## 4.1 Sample Selection and Data Collection

This research investigates the influence of CSR practices on the FP of 81 banks functioning in seven countries in the MENA region. The-sampling method employed is a non-probability sampling methodology with non-random selection because it is cost-effective and efficient. The convenience sampling was utilized, where a sample is selected from the population due to the fact that they were conveniently available and easily accessible to the researcher (Marczyk et al., 2021). The availability of MENA region commercial banks with the necessary reports containing CSR practices disclosure were chosen to be part of the sample, which displays the employment of non-probability sampling and convenience method.The sample included 14 Lebanese banks, 10 Kuwaiti banks, 11 Jordanian banks, 13 Qatari banks, 12 banks in the UAE, 10 Bahraini banks, and 11 Tunisian banks.

This research relies on a quantitative approach, where measurements and analysis of ratios are employed. Collection and methods of quantitative data involve numerical comparisons and numerical conclusions, which are later reported using statistical analysis, correlation and regression processes. The data provided are quantitative and objective in nature and the results can be easily understood (Kuan, 2018).

Thus, 81 different reports were examined. The two primary criteria for choosing these banks are that these banks have official websites and they have published the CSR report for the year 2018. Content analysis was used to collect data regarding CSR practices, where disclosures in CSR report and annual report of each bank were investigated. The relevant information regarding the FP was also acquired from the financial statements of the annual reports of each bank.

## 4.2 Measurement of Variables

### 4.2.1 Dependent Variable

The dependent variable in this research is the FP of the MENA banks. Going over previous literature, the most suitable measure for the FP of banks would be accounting based measures (Moore and Spence, 2006). ROA is considered to be a key ratio that indicates the profitability of a bank, and it examines the ability of bank management to produce income through the assets possessed by the bank. Therefore, it can be said that it evaluates management's efficiency in utilizing the resources it has to generate income (Moore and Spence, 2006). Thus, in this research, FP was measured by ROA. It can be computed by dividing the net profit over the average of total assets of the bank (Simpson and Kohers, 2002). In order to examine the reliability of the measurement between raters, inter-rater reliability coefficient Krippendorff's alpha was employed in this research. The value of Krippendorff's alpha was equal to 0.88, which is greater than the minimum required 0.7. Thus, it can be said that the index is considered to be reliable (Mahboub, 2017).

### 4.2.2 Independent Variables

This research employs the content analysis of CSR reports, sustainability reports, as well as annual reports issued by the MENA banks on their official websites, as it is considered to be the most dominant method used in the existing literature (Taskin, 2015; Matuszaka and Różańska, 2017; Maqbool and Zameer, 2017; Bagh et al., 2017). The CSR index in this research was developed by Matuszaka and Różańska (2017), who in turn reviewed the various literature related to the association between CSR practices and FP of banks. Accordingly, four dimensions relating to CSR practices have been chosen, namely: the ENV, HR, PC and CI. A scale of 1 and 0 was utilized to indicate the presence or absence of the item at hand.

CSR Practice Index = Number of CSR practicesimplemented by a bank/Total number of CSR items.

$CSR\ Practices\ index = \sum n_{i=1} X_i / n$

Where $x_{i-1}$ indicates that if 1 exists then the item *i* is disclosed in examined report, and if 0 was recorded then the item *i* is not revealed in the report. Additionally, *n* is the total number of items.

4.2.3 Control Variables

This research includes two different control variables that can affect the FP of the banks, and these control variables are considered to be the size and the risk of the banks (Matuszaka and Różańska, 2017). Aiming to evaluate the link between CSR practices and FP of banks, and to mitigate the potential bias resulting from bank's FP, the control variables are added to the regression model.

In compliance with Wahba and Elsayed (2015), size is used by measuring the amount of overall assets possessed by bank. However, the size was standardized by natural logarithm. Financial leverage is utilized as a substitute for risk (Waddock and Graves, 1997). It was computed by dividing the total debt over the total equity (Matuszaka and Różańska, 2017).

# 5. EMPIRICAL RESULTS

## 5.1 Descriptive Statistics

This section presents the descriptive statistics about the minimum, maximum, mean and standard deviation (SD) of all variables included in the research (Table 1).

**Table 1: Descriptive Statistics of the Variables**

| | **Minimum** | **Maximum** | **Mean** | **Std. Deviation** |
|---|---|---|---|---|
| **ROA** | .0004 | .099 | .0138 | .0127 |
| **LEV** | 1 | 14 | 8.58 | 3.037 |
| **ENV** | .00 | .90 | .319 | .254 |
| **HR** | .00 | 1.00 | .512 | .215 |
| **PC** | .17 | .83 | .592 | .180 |
| **CI** | .00 | 1.00 | .753 | .253 |
| **LogSize** | 3.90 | 10.52 | 7.960 | 1.613 |

Source: SPSS 20 Outputs

The minimum value of ROA is 0.0004, while the maximum ROA value is 0.099. The mean for ROA is 0.0138 with a SD of 0.0127. This suggests that on average, the banks are able to generate profits through their assets by about 1.38%.

The leverage's minimum value is 1% while its maximum value is 14%. Leverage's SD is 3.037%. Its mean is 8.58%, which suggests that banks have an average of 8.58% of equity as total liabilities. Moreover, this result supports Saunders and Cornett's (2008) claim regarding banks being naturally risky corporations.

The minimum value of bank size is 3.9 and the maximum value is 10.52. The mean is 7.96, and the SD is 1.613. This implies that the average total assets possessed by the banks is 7.96%.

The CSR practices in ENV have a minimum of zero, and a maximum of 0.9. The SD is 0.254, while the mean value is 0.319. This implies that on average, the banks were not able to satisfy half of the ENV items, as the average CSR practices in ENV equals to 31.9%.

The minimum value of CSR practices in HR is zero, while the maximum value is one. The SD is 0.215, and the mean value is 0.512. This implies that on average, the banks were able to satisfy almost half of the HR items (51.2%).

The minimum value of CSR practices in PC score is 0.17, and the maximum value is 0.83. The mean score is 0.592 and the SD is 0.18. This implies that all banks were able to achieve more than half of the PC items (59.2%).


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The minimum value of CSR practices in CI is zero, while the maximum value is one. The mean is 0.753, while the SD is 0.253. This implies that on average, the banks were able to achieve more than half of the CI items (75.3%).

## 5.2 Correlation Analysis

Correlations were used in this research, as they offer information about the type and intensity of the relationships between two or more variables, which are basic but useful measures for relationships (Marczyk et al., 2021).

Table (2) shows a non-significant relationship with a positive correlation between ROA and CSR practices in the ENV (r=0.048, p-value>5%). Furthermore, there is a significant relationship with a low positive correlation between ROA and CSR practices in PC (r=0.296, p-value<5%). It also shows a non-significant relationship with a high positive correlation between ROA and CSR practices in CI (r=0.099, p-value>5%). Additionally, there is a non-significant relationship with a high positive correlation between ROA and bank size (r=0.065, p-value>5%). Moreover, there is a non-significant relationship with a low negative correlation between ROA and leverage (r=- 0.114, p-value>5%).

In order to evaluate multi-collinearity, variance inflation factor (VIF) has been used. Based on the collinearity statistics, the VIF value of all variable ranged from 1.069 to 1.590. In fact, all VIF values are below 10, thus there aren't any multicollinearity problems (Chatterjee and Price, 1991; Midi and Bagheri, 2010, Mahboub, 2021).

**Table 2: Correlation Analysis and Variance Inflation Factor**

| | **ROA** | **ENV** | **HR** | **PC** | **CI** | **LogSize** | **LEV** | **VIF** |
|---|---|---|---|---|---|---|---|---|
| ROA | 1 | | | | | | | |
| ENV | .048 | 1 | | | | | | 1.590 |
| HR | .253* | .244* | 1 | | | | | 1.221 |
| PC | .296** | .259* | .278* | 1 | | | | 1.146 |
| CI | .099 | .236* | .102 | .014 | 1 | | | 1.069 |
| LogSize | .065 | .556** | .137 | .200 | .154 | 1 | | 1.458 |
| LEV | -.114 | .053 | .302** | .129 | .068 | .010 | 1 | 1.108 |

Source: SPSS (Version 20) Outputs

## 5.3 Multiple Regression Analysis

In order to evaluate the impact of the independent variables on the dependent variable, multiple regression analysis was used. The model developed by Matuszaka and Różańska (2017) was used, but was slightly altered. The model is as follows:

$$ROAi = ß0 + ß1EVNi + ß2HRi + ß3PCi + ß4CIi + ß5\, LogSize i + ß6\, Leverage i + \varepsilon i$$

Where $ROA_i$ is the average return on assets of bank $i$, the $LogSize_i$ is the natural logarithm of aggregate assets of bank $i$, $Leverage_i$ is the leverage ratio computed of bank $i$, $CSR_{i-1}$ is the CSR index calculated, ß0 is an intercept, ß1…4 is a vector of exogenous variables and observations, ε is a random component (errors), and i = 1, 2, …, N is the index of bank.

Table (3) shows that the adjusted R square equals 0.113. This implies that 11.3% of the variation in the dependent variable (FP of the banks) can be interpreted by the variation of independent variables (CSR practices in the ENV, HR, PC and CI).

**Table 3: Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .424[a] | .180 | .113 | .011987271 |
| a. Predictors: (Constant), LogSize, LEV, CI, PC, HR, ENV | | | | |
| b. Dependent Variable: ROA | | | | |

Source: SPSS (Version 20) Outputs

Table (4) displays the ANOVA test, which specifies that the regression model as a whole is both fit and significant (f=2.707; p-value=0.02.

**Table 4: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | .002 | 6 | .000 | 2.707 | .020[b] |
| | Residual | .011 | 74 | .000 | | |
| | Total | .013 | 80 | | | |
| a. Dependent Variable: ROA | | | | | | |
| b. Predictors: (Constant), LogSize, LEV, CI, PC, HR, ENV | | | | | | |

Source: SPSS (Version 20) Outputs.

Table (5) displays the coefficients of each variable, beta, t, and P-value as follow:

**Table 5: Coefficients**

| **Model** | | **Unstandardized Coefficients** | | **Standardized Coefficients** | **t** | **Sig.** |
|---|---|---|---|---|---|---|
| | | **B** | **Std. Error** | **Beta** | | |
| 1 | **Constant** | -.001 | .009 | | -.103 | .918 |
| | **ENV** | -.006 | .007 | -.113 | -.851 | .398 |
| | **HR** | .015 | .007 | .258 | 2.222 | .029 |
| | **PC** | .019 | .008 | .276 | 2.452 | .017 |
| | **CI** | .005 | .005 | .108 | .988 | .326 |
| | **LogSize** | .000 | .001 | .023 | .183 | .855 |
| | **LEV** | -.001 | .000 | -.229 | -2.070 | .042 |
| a. Dependent Variable: ROA | | | | | | |

Source: SPSS (Version 20) Outputs

Table (5) shows that CSR practices in the ENV has an insignificant association with ROA (Beta= -0.006, t= -0.851, p-value=0.398>5%). Thus, H11 is not supported. This result is confirmed with Deegan (2004), Gonzalez-Benito and Gonzalez- Benito (2005), Cormier and Magnan (2007), Moneva and Cuellar (2009), Jacobs et al. (2010), and Plumlee et al. (2010) who found no association between CSR practices in ENV and FP.This result contradicts previous studies who found a significant relationship between CSR practices in ENV and FP. In fact some found a positive association between CSR practices in ENV (Guenster et al., 2011; Nakao et al., 2007; Murphy, 2002; Oba et al., 2012), while others found a negative association between CSR practices in ENV and FP (Barth and McNichols, 1994; Blacconiere and Northcut, 1997; Cormier and Magnan, 1997; Hughes, 2000; Berla, 2007; Filbeck and Gorman, 2004; Su et al., 2020).

The outcomes also show that CSR practices in HR has a positive significant association with ROA (Beta=0.015, t=2.222, p-value=0.029<5%). This means that both variables (CSR practices in HR and ROA) move in the same direction. This means that when banks, and more specifically bank management, employ appropriate HR practices in the workplace, the more ROA they have. Thus, $H_{12}$ is supported. This proves that when bank managements are highly sociable and engage in suitable HR practices, their financial performance gets positively impacted. This can be attributed to the fact that when bank management are highly sociably responsible, they are able to reap more benefits when compared to the costs of such practices (Soana, 2011), thus employees are by default more loyal and committed to their banks and employers (Kuvaas, 2008), thus profitability and financial performance increase. This result is confirmed by Quresh et al. (2010), Cavaco and Crifo (2013), AL-Zahrani and Almazari (2014), Ayanda et al. (2014), Altarawneh (2016), Esteban-Sanchez et al. (2017), Zaraket and Halawi (2017), and Bravo et al. (2017). In constrast, this result contradicts the results of Su et al. Al (2020).

Furthermore, the results reveal a positive significant relationship between CSR practices in PC and ROA (Beta= 0.019, t= 2.452, p-value= 0.017<5%). In other words, the two variables (CSR practices PC and ROA) move in the same direction. Then, the more banks engage in CSR practices in PC, the larger their ROA's. Thus, $H_{13}$ is supported. This proves that when banks engage in CSR practices related to PC, their financial performances get positively impacted. This result confirms the findings of Fornell et al. (1996), Allouche and Laroche (2005), Margolis et al. (2007), Green and Peloza (2011), Loureiro et al. (2012) and Alafi and Hasoneh (2012). On the other hand, this result opposes Esteban-Sanchez et al. (2017) who concluded that there is a negative association between CSR practices in products and financial performance of banks in the international context. The results in this research can be explained by Omidi and Shafiee (2018) who claim that corporations are impacted by consumer's behaviors and actions, either by observing the firm's CSR efforts or/and spreading word-of-mouth about the company at hand to their communities and social circles. This behavior can directly and indirectly affect the corporations' financial performances, thus investing in CSR practices in PC has a crucial role in the survival of companies.

Moreover, the results infers an insignificant association between CSR practices in CI and ROA (Beta= 0.005, t= 0.988, p-value=0.326>5%). Thus, H14 is not supported. This result is confirmed by Wang et al (2008).This result contradicts Su et al. (2020), Saleh et al. (2011), Zhou et al., 2015 and Simpson and Kohers (2002), who found a significant positive association between CSR practices in CI and FP of businesses.Barnett and Salomon (2006) who explained that altruistic activities and good social relationships with corporation's local communities can aid in amending the negative image a corporation may have, and thus attracting investors and achieving good FP. The result also contradicts Seifert et al. (2004), Fernández-Gago et al. (2016), Esteban-Sanchez (2017), and Inoue and Lee (2011), who found a negative significant association between CSR practices in CI and ROA.

Besides, the results demonstrated an insignificant association between bank size and ROA (Beta=0.000, t=0.183, p-value=0.855>5%). This result confirms the results of Heffernan and Fu (2010), while it contradicts the findings of Pervan and Višić (2012) who havedetermined a significant positive, but weak, relationship between organization size and firm performance. The findings also contradcicts the results of Matuszaka and Różańska (2017) who found a significant negative association between bank size and ROA in their study on the Polish banking sector.

Additionally, the results revealed a significant negative association between leverage and ROA (Beta= -0.001, t= -2.070, p-value=0.042<5%). This means that both variables (leverage and ROA) move in opposite directions. This outcome authenticates the results of Ibhagui et al. (2018) who found a negative association between leverage and the financial performance. This result contradicts the results in the study conducted by Matuszaka and Różańska (2017) on the Polish banking sector.

## 6. CONCLUSIONS

This research aims to investigate the effect of CSR practices on the FP of 81 MENA banks for the year 2018. These CSR practices covered four different areas: the ENV, HR, PC and CI. The evaluation of the type of association between CSR practices and FP is vital, as scoring superior FP is the primary goal of any organization. With the aim of successfully achieving the intended objective of the research, a checklist with 29 different items was used to evaluate the CSR practices index that was adopted from Matuszaka and Różańska (2017). By utilizing multiple regression analysis, the results suggest that CSR practices in HR and PC do impact the FP of banks. However, this research finds no support of CSR practices in the ENV CI to be associated with FP of banks operating in the MENA region. Therefore, CSR practices in HR and PC can be considered as the most vital CSR practices that can successfully impact FP of banks. Consequently, MENA region banks should focus on these particular CSR practices. Bank managements and HR departments are encouraged to maintain a diverse labor force, provide proper training and development for all staff members, offer benefits and incentives, ensure their well-being and security in the workplace, and provide and maintain a friendly overall company environment at all times. These actions can increase productivity and FP of banks. Moreover, banks should tailor their products and services to be suitable to all of their customers in order to maintain the consumer's level of satisfaction. Meeting clients expectations, and ensuring that all of their diverse consumers are able to fully comprehend the services they are being offered, as well as having their questions, complaints and suggestions taken into consideration can create a positive relationship with clients. Satisfying clients can directly positively impacts the FP of banks, as it ensures good word-of-mouth (Bird et al., 2007; Omidi and Shafiee, 2018).

Therefore, the findings contribute to the academicians who seek out to dig further in the area of this research, the investors to make the appropriate investment decisions, bank managements and policy makers to encourage the establishment of superior rules and regulations.

This research has some limitations. The first onecan be considered the relatively small sample used. Thus, a bigger sample can be used in future studies for accuracy and precisionpurposes. The second limitation arises from the control variables used in this research. The literature has consisted of numerous different control variables (i.e. income growth, board size, firm age) (Mallin et al, 2014), and some researches have used more than two control variables. Hence, future research can choose other control variables, perhaps more than two control variables for precision purposes. Moreover, the measurements of both the dependent and independent variables could also pose a limitation. This research has utilized accounting-based indicators to measure the dependent variable (FP of MENA banks) which is the ROA. However, other studies conducted have employed marketbased ratios. As for measurement of CSR practices, content analysis was used and CSR practice index were utilized, which depends on the judgement of the researcher. Other researches have used different ways to evaluate CSR as there isn’t single correct way to measure it. For instance, some have used surveys and questionnaires, spending measures and ratings. Hence, future research can use a combination of these tools to ensure more accurate results. Finally, only four different areas in CSR practices have been investigated in this research, thus future research can examine other areas related to CSR practices, for example: the supplier, shareholder, competitor and manager dimensions (Szegedi et al., 2020).

This research spreads awareness about CSR practices and its influence on corporate FP while emphasizing on the MENA banking sector. It adds to existing literature found on the MENA banking sector, and corporations aiming to integrate CSR in their business models. Moreover, finance and accounting scholars, as well as any researcher aiming to conduct a study similar to this one will be able to benefit from the results, conclusions and facts included in this research. Furthermore, this research can be beneficial to bankers as it sheds light on the influence of CSR practices over FP of the banks, where it helps them understand CSR’s effect on the profitability and overall FP. Corporate managers and decision-makers in banks can benefit greatly from this research as it helps to direct them in their resource allocation responsibilities and obligations. In addition, investors can also benefit from this research, as it can help them explore which bank is in involved in CSR practices, as well as which bank is involved in strategic CSR investments to improve their FP.

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