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The Impact of Corporate Governance and Corporate Social Responsibility on Financial Performance in the Tunisian Banking Sector

IMEN MHAMID¹ and ALI AHMADI²

¹Assistant Professor, Higher Institute of Business Administration, University of Gafsa, Tunisia, email: imenmhamid@yahoo.fr

²Assistant Professor, Higher Institute of Business Administration, University of Gafsa, Tunisia, email: ahmadi2402@gmail.com

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ABSTRACT

This study investigates the impact of corporate governance and corporate social responsibility on financial performance in the banking sector. Specifically, it explores the relationship between internal corporate social responsibility, external corporate social responsibility, and three key performance metrics: Return on Assets, Return on Equity, and Tobin's Q. Using a panel data regression model with control variables such as bank size, leverage, age, and macroeconomic factors like inflation and GDP, the analysis reveals that while internal corporate social responsibility has a negative impact on both Return on Assets and Return on Equity, external corporate social responsibility shows a positive and significant effect on these financial performance indicators. The study also highlights the importance of governance mechanisms, with larger board sizes and older banks demonstrating better performance. The findings support stakeholder theory, suggesting that corporate social responsibility practices—both internal and external—enhance a firm's financial performance by improving stakeholder relationships and company reputation. This paper contributes to understanding how corporate social responsibility and governance structures influence financial outcomes in the banking sector.

INTRODUCTION

Since the 1990s, corporate governance has become a focal point of theoretical studies, which subsequently paved the way for best governance practice guidelines and reports. Following major financial scandals in the 2000s, involving companies such as Enron in the United States and Vivendi in France, global awareness around the importance of sound corporate governance intensified. These incidents highlighted the critical role of governance in preventing unethical behavior and ensuring accountability, particularly for publicly traded firms (Aluchna & Kołodkiewicz, 2022). Additionally, the intersection of corporate governance, stakeholder engagement, and firm performance has spurred extensive theoretical and empirical research. Within this framework, stakeholders—defined as individuals, groups, or institutions that influence or are influenced by a company—are integral to corporate governance. They embody a commitment to sustainable, reciprocal relationships, fostering harmony and accountability between a company and its wider environment (Freeman & Reed, 1983; Hillman & Keim, 2001).

This study seeks to investigate the effects of stakeholder-influenced governance on corporate performance. Despite substantial research on corporate governance practices and their direct impact on performance, the specific role stakeholders play in enhancing governance quality remains underexplored (Haque, 2023). While many studies examine stakeholder influence on governance, relatively few consider how stakeholders collectively shape governance practices over time.

The study further connects to a body of literature exploring the correlation between governance practices and corporate performance outcomes. However, most research in this domain, particularly in the Tunisian context, has focused narrowly on specific governance variables without considering the effects of a comprehensive governance index. Limited studies in Tunisia explore how a broader set of governance practices impacts performance across industries (Gani & Jha, 2023). This research seeks to address this gap by developing a governance score that assesses the combined impact of governance mechanisms on firm performance.

Our work also examines the relationship between internal and external Corporate Social Responsibility (CSR) and financial performance while controlling for governance mechanisms. This analysis aims not only to evaluate how governance practices affect the CSR-financial performance link but also to clarify the nature of these relationships within Tunisian banks listed on the stock exchange from 2005 onwards. By answering the question, "What is the impact of governance mechanisms on the relationship between internal and external CSR and financial performance?" this study aims to provide insights into how governance structures facilitate or hinder sustainable performance.

The research examines the extensive body of theoretical and empirical literature on CSR and financial performance relationships and empirically analyzes this relationship using regression models on the Tunisian banking sector. Globalization, increased emphasis on social responsibility, heightened shareholder expectations, and successive financial scandals have all contributed to the growing complexity of corporate governance. Effective governance requires that relationships among executives, shareholders, and other stakeholders are structured to facilitate sustainable and competitive business operations (Jamali & Mirshak, 2022).

Historically, governance referred broadly to the art of governing, encompassing public administration and state management practices. By the late 20th century, however, economists and business scholars began to focus on corporate governance in response to market globalization and the evolving role of firms in society (Aguilera et al., 2019). Since the 1990s, corporate governance has garnered attention for its impact on firm strategy, particularly in the aftermath of scandals that exposed management's critical role in safeguarding stakeholders' interests.

Prominent scholars have provided various definitions of governance, each emphasizing different facets. Monks and Minow (1995) highlighted the strategic role of governance in shaping corporate decisions, defining it as "the network of relationships that bind multiple parties in determining the strategy and performance of the company." Meanwhile, Charreaux (1997) defined governance more restrictively as a system of mechanisms designed to limit executive discretion, ensuring that leaders' actions align with stakeholders' interests.

1. THEORETICAL FRAMEWORK ON CORPORATE GOVERNANCE:

Corporate governance has been a key area of academic research, particularly in the wake of major corporate scandals. Since the 1990s, the academic discourse surrounding corporate governance has evolved, shaped by increasing recognition of the need for stronger regulatory frameworks to prevent financial misconduct. Governance mechanisms have broadened beyond traditional internal controls to embrace a more comprehensive view of stakeholder engagement and corporate responsibility (Zattoni et al., 2023).

At its core, *agency theory*, as articulated by Jensen and Meckling (1976) and Fama (1980), aims to align the interests of shareholders with those of company management through both internal governance mechanisms (e.g., the board of directors) and external forces (e.g., financial markets, labor markets). This theory is rooted in the premise that managerial behavior must be monitored and controlled to ensure the maximization of shareholder wealth, with an emphasis on reducing agency costs.

However, recent developments have challenged this view, incorporating broader stakeholder concerns. For instance, Goranova et al. (2022) argue that an exclusive focus on shareholder value maximization can overlook critical dimensions of corporate responsibility, such as environmental sustainability and social equity. The growing acceptance of stakeholder theory has led to a shift toward a more inclusive understanding of corporate governance, where value creation is considered in the context of social and environmental impact, not just financial returns.

As governance theories evolve, researchers have begun emphasizing the firm's role in generating knowledge and fostering innovation. Charreaux (2002) highlighted this shift by redefining corporate governance as a mechanism for creating value through innovation. More recent research, such as Lambert et al. (2021), reinforces this notion by linking effective governance practices with enhanced organizational learning and knowledge sharing. The focus has expanded to include cognitive and intellectual capital, which are now seen as integral to sustained firm success (OECD, 2023).

1.1 Corporate Social Responsibility (CSR) and the Stakeholder Approach

Corporate Social Responsibility (CSR) has evolved significantly since its early conceptualization in the 1960s. Initially seen as a voluntary set of actions for businesses to "give back" to society, CSR is now understood as an essential part of corporate governance, driven by both external pressures and the strategic interests of the firm (Vilanova et al., 2023). Friedman's (1970) narrow definition of CSR—focused solely on profit maximization for shareholders—has been increasingly criticized. Jones (2021) notes that this view ignores the complexity of modern corporate operations, where businesses are expected to contribute positively to society and the environment while generating profits.

Today, CSR is widely viewed as a set of practices that can drive long-term success by aligning business strategies with stakeholder interests. Leading definitions from organizations like the World Business Council for Sustainable Development (WBCSD) and Business for Social Responsibility (BSR) emphasize the importance of sustainable practices that balance economic, environmental, and social goals (BSR, 2022). These organizations argue that companies that integrate CSR into their core strategy not only improve their public image but also secure long-term competitive advantages.

1.2 Stakeholders in Governance: Roles and Influence

The importance of stakeholders in corporate governance has been increasingly recognized. According to Freeman (2008), a stakeholder approach involves considering the rights and interests of all parties affected by a company's actions. Recent empirical studies further highlight the diverse roles stakeholders play in governance. For instance, Zollinger (2023) categorizes stakeholders into various types, including:

- *Experts*: Offer strategic advice based on their specialized knowledge, contributing to the firm's governance framework.
- *Technical Advisors*: Provide insights on emerging technologies and social risks, particularly in industries with high environmental or societal impacts (Sharma et al., 2022).
- *Special Interest Representatives*: Represent employees or local communities, ensuring that corporate practices align with broader societal interests.
- *Co-producers*: Partner with NGOs or other external organizations to collaboratively address sustainability challenges (Avi-Yonah, 2023).
- *Co-monitors*: Participate in the monitoring of sustainability projects, ensuring transparency and accountability in corporate actions.

These roles reflect a shift toward more inclusive and participatory governance models, where the relationship between companies and stakeholders goes beyond mere compliance to include active engagement in governance processes.

A significant body of recent research has explored how governance structures influence CSR practices and financial performance. García-Meca et al. (2020) examine the role of governance in shaping CSR strategies and argue that companies with robust governance structures are more likely to adopt effective CSR practices, leading to improved financial performance. Similarly, Goranova et al. (2022) find that corporate governance mechanisms that prioritize stakeholder interests tend to produce more sustainable financial outcomes, aligning business goals with broader societal objectives.

A recent study by Zattoni et al. (2023) explores the relationship between governance reforms and corporate performance, specifically focusing on how CSR initiatives influence firm valuation. They find that companies that actively engage in CSR are better positioned to achieve long-term success by cultivating trust with consumers, employees, and investors.

The evolving theories of corporate governance highlight the importance of integrating stakeholder interests and CSR into the core business strategy. Firms with strong governance frameworks that prioritize innovation and stakeholder engagement are more likely to create value not only for shareholders but for society at large. As the research continues to evolve, it is clear that the traditional view of corporate governance focused solely on profit maximization is being replaced by a more holistic model that balances financial, social, and environmental objectives.

2. METHODOLOGY

2.1 Hypotheses

The relationship between corporate governance, stakeholders, and financial performance has generated significant scholarly attention. While previous studies have primarily explored the positive influence of governance and CSR on organizational outcomes, this research focuses on testing two key hypotheses:

- H₁: There is a positive and significant relationship between internal CSR and the performance of banks through governance mechanisms.
- H₂: There is a positive and significant relationship between external CSR and the performance of banks through governance mechanisms.

These hypotheses are grounded in the assumption that corporate governance mechanisms can mediate the impact of CSR (both internal and external) on financial performance, aligning with recent studies that emphasize the role of governance in enhancing CSR's effectiveness (Liao et al., 2022; García-Sánchez et al., 2021). The focus on banks is relevant given the financial sector's increasing commitment to CSR and governance reforms in the post-financial crisis era (Zattoni et al., 2023).

2.2 Sample and Data

To test the hypotheses and address the main research question of this section, we use regression models applied to a panel sample consisting of 30 Tunisian banks listed on the Tunis Stock Exchange over the period 2007–2018. The data were sourced from multiple channels: accounting data (total assets, revenue, debts, and equity) were derived from financial statements, while stock market data (share price, trading volume, and market capitalization) were collected from the Tunis Stock Exchange website. Corporate governance data were obtained from annual reports, official documents filed with the Financial Market Council (CMF), and CMF-approved prospectuses.

2.3 Variables measurement

Dependent Variables

The study's dependent variables include return on assets (ROA), return on equity (ROE), and Tobin's Q, which measure different aspects of financial performance:

- *ROA (Return on Assets)*: This ratio assesses the profitability of a company's assets by indicating the earnings per unit of assets controlled. It reflects the efficiency of management in utilizing assets to generate income. ROA has been commonly used as a financial performance indicator in prior studies, including Ozili (2021)
- $ROA = \text{Net Income} / \text{Total Assets}$
- *ROE (Return on Equity)*: ROE measures how effectively a company uses reinvested earnings to generate revenue, offering insight into overall performance.
- $ROE = \text{Net Income} / \text{Equity}$

- *Tobin's Q* represents a company's potential for future growth. A *Q* greater than 1 implies that a company's shares are valued higher than the replacement cost of its assets, signaling overvaluation and an incentive to invest in capital. In contrast, a *Q* between 0 and 1 suggests undervaluation. Since calculating *Tobin's Q* directly is complex, approximations are frequently used.

$$Q = (\text{Market value} + \text{Total debts} + \text{Preferred shares outstanding}) / \text{Total assets}$$

Independent Variable

In our regression model, we will use ROA, ROE, and *Tobin's Q* as the main variables to show their impact on two derivatives: INT CSR and EXT CSR, which relate to corporate governance.

- INT CSR: Represents the internal CSR component for company *i* in year *t*, measured by the sum of scores for employee relations, corporate governance, and diversity categories.
- Formula: INT CSR = Sum (employee relations + corporate governance + other categories)
- EXT CSR: Represents the external CSR component related to the stakeholders of company *i* in year *t*, measured by the sum of scores in the product, environment, and community categories.
- Formula: EXT CSR = Sum (product + environment + community categories)
- Control Variables
- Bank Size (TB): Measured by the natural logarithm of the book value of total assets (Ashbaugh-Skaife et al. (2006), Anderson et al. (2004), Chen et al. (2006), and Pittman and Fortin (2004)).
- Formula: TB = Log (Total assets)
- Leverage (LVRG): This ratio represents net debt relative to equity (Net debt / Equity). Leverage is considered a potentially important variable generally related to governance and ownership structure, also used as a risk indicator.
- Formula: LVRG = Long-term debt / Total assets
- Age (AG): The total number of years since the bank's initial public offering.
- Board Size (TCA): Measured by the number of directors sitting on the bank's board of directors.
- Duality (DUA): Duality is defined as the same individual holding both the CEO and board chair positions simultaneously. This variable equals 1 if the company's CEO is also the board chair, and 0 otherwise.
- ADI: The number of external directors as a percentage of total directors.
- Inflation (INFL): Based on the growth rate of the consumer price index. A rise in this rate is expected to reflect an imbalance in the national economic situation, which could affect corporate performance.
- Gross Domestic Product (GDP): The annual GDP growth rate.

Table 1. Variables measurement

Variable Type	Variable Name	Abbreviation	Measurement	Source
Dependent Variable	Return on Assets	ROA	Net income / Total assets	Bankscope
	Return on Equity	ROE	Net income after tax / Equity	Bankscope
	Tobin's Q	Tobin's Q	Debt / Total assets	Bankscope
Independent Variable	Internal Corporate Social Responsibility	INT CSR	Donations / Income	Calculated by the author
	External Corporate Social Responsibility	EXT CSR	(Donations + Off-balance activities) / Income	Calculated by the author
Control Variable	Leverage	LVRG	Long-term debt / Total assets	Annual report
	Age	AG	Total number of years	Annual report
	Inflation	INFL	Annual inflation rate	World Bank
	Gross Domestic Product	GDP	Annual GDP growth rate	World Bank
	Duality	DUA	Binary variable equal to 1 if duality exists and 0 otherwise	Annual report
	Bank Size	TB	Log (total assets)	Annual report
	Percentage of External Directors	ADI	Number of external directors / Total directors	Annual report
	Board Size	TCA	Total number of directors	Annual report

Source. own

3. MODEL SPECIFICATION

This study involves three main models. The first model uses ROA as the dependent variable, the second model uses ROE as the dependent variable, and the third model uses Tobin's Q as the dependent variable. The independent variables in each model are INT CSR and EXT CSR, with control variables including leverage, size, risk, age, inflation, and GDP.

Model 1: When ROA is the dependent variable,
 $ROA_{it} = \beta_0 + \beta_1 INT CSR_{it} + \beta_2 EXT CSR_{it} + \beta_3 LVRG_{it} + \beta_4 AG_{it} + \beta_5 INFL_{it} + \beta_6 GDP_{it} + \epsilon_{it}$

Model 2: When ROE is the dependent variable,
 $ROE_{it} = \beta_0 + \beta_1 INT CSR_{it} + \beta_2 EXT CSR_{it} + \beta_3 LVRG_{it} + \beta_4 AG_{it} + \beta_5 INFL_{it} + \beta_6 GDP_{it} + \epsilon_{it}$

Model 3: When Tobin's Q is the dependent variable,
 $Q_{it} = \beta_0 + \beta_1 INT CSR_{it} + \beta_2 EXT CSR_{it} + \beta_3 LVRG_{it} + \beta_4 AG_{it} + \beta_5 INFL_{it} + \beta_6 GDP_{it} + \epsilon_{it}$
 Where: ϵ_{it} is the error term.

4. ANALYSIS OF RESULTS

We present a linear regression model with two derivatives (INT CSR and EXT CSR). Our sample consists of panel data. For such data, the two standard estimation methods are the fixed-effects model and the random-effects model, as they allow for controlling unobserved company characteristics that may influence performance.

This subsection will present descriptive statistics for the variables in this chapter and the correlation matrix of the different variables. Finally, we outline the estimation method and the resulting outcomes.

4.1 Descriptive Statistics

The average ROA is 0.7201, indicating that banks in this sample have a modest return on assets, it varies widely, from a minimum of -47.148 to a maximum of 33.654, reflecting large performance

disparities across the banks. Negative values suggest that some banks experienced losses during the period, which may reflect operational or economic challenges.

The average ROE is 7.3481, implying a reasonable return for shareholders, although lower than some industry expectations, it also shows a wide range from -44.054 to 218.009, indicating substantial variability in profitability and financial strategies.

With an average of 3.317, the mean Q ratio indicates that, on average, banks' market values are substantially higher than their asset replacement costs, suggesting favorable growth perceptions. A standard deviation of 3.1179 reflects significant dispersion in Tobin's Q, indicating varied market expectations about future growth.

The average INT CSR score is 0.1381, indicating moderate engagement in internal CSR activities related to employee relations and corporate governance. A standard deviation of 0.2300 indicates some variability in CSR commitment levels across the banks, though not as pronounced as financial performance indicators.

The mean EXT CSR score is 0.8877, suggesting that, on average, banks are relatively consistent in addressing external CSR concerns, such as environmental and community involvement.

The average leverage is very low, at 0.0014, suggesting conservative debt usage relative to assets across the banks.

Log of Total Assets varies with a range from 1.8732 to 7.0544, there is considerable variation in bank size, indicating a mix of small and large institutions.

The average bank age is approximately 39 years, suggesting a mix of both well-established and relatively new banks in the sample.

The mean board size (TCA) is 11, aligning with industry norms where boards typically comprise around 10–15 members.

The average value of 0.206 suggests that, in about 20.6% of cases, the CEO also serves as the board chair, a governance structure with potential implications for decision-making autonomy.

With an average GDP growth rate of 2.5410, the economic environment appears to be moderately growing, though with a range from -1.9172 to 6.7096, capturing periods of both recession and growth.

Table 2. Descriptive Statistics

<i>Variable</i>	<i>N</i>	<i>Minimum</i>	<i>Maximum</i>	<i>Mean</i>	<i>Standard Deviation</i>
INT CSR	310	0.0004625	3.548129	0.1381092	0.2300151
EXT CSR	310	0.4906628	0.9804809	0.0699355	-
Q	310	0.49	9.691	3.3166610.88	3.117871
ROA	310	-47.148	33.654	0.720061	3.827284
ROE	310	-44.054	218.009	7.348081	18.94399
LVRG	310	4.63e-06	0.0354813	0.0013811	0.0023002
LOTA	310	1.873209	7.05442	4.958455	2.095437
AG	310	14	132	38.85161	22.64709
TCA	310	7	15	11.00667	1.48345
DUA	310	0	1	0.2059801	0.4050894
TP	310	3.452899	7.05442	6.676169	0.4677386
INFL	310	2.966944	5.316236	3.951843	0.664874
GDP	310	-1.917178	6.70962	2.541014	1.997693

Source: own

4.2 Robustness Test

Robustness Test

$$F(9,165)=3.16F(9, 165) = 3.16F(9,165)=3.16$$

Prob>F=0.0015\text{Prob} > F = 0.0015Prob>F=0.0015

To enhance the robustness of our results, we conducted the following robustness test: we replaced the performance measure ROA with Tobin's Q. The estimates show that the results are consistent with those found previously, with the impact of internal and external CSR remaining significantly positive regardless of the performance measure used.

4.3 Result and discussion

Table 3. Variable Estimation for the Three Models

	<i>Model 1 (ROA)</i>	<i>Model 2 (ROE)</i>	<i>Model 3 (Tobin's Q)</i>
INT CSR	-0.085046 (0.000)***	-1.317805 (0.008)**	0.2635574 (0.739)
EXT CSR	0.9327858 (0.000)***	8.648956 (0.003)**	-3.116357 (0.365)
AG	-0.0011463 (0.006)**	0.0722312 (0.003)**	0.0289367 (0.007)*
TCA	0.0592119 (0.003)	1.689329 (0.026)	-0.3630245 (0.043)
LOTA	-0.2955369 (0.000)	-2.821802 (0.000)	0.0745503 (0.557)
DUA	-0.1859215 (0.001)*	-2.785544 (0.029)	-1.233415 (0.054)
LVRG	0	6.072278 (0.034)	0
TB	-0.0300812 (0.004)**	-5.410829 (0.012)	0.1746095 (0.700)
INFL	-0.2358348 (0.015)	-2.300419 (0.050)	0.1796726 (0.632)
GDP	0.0018456 (0.001)**	-0.5685823 (0.032)	0.0530768 (0.720)
R ²	0.4681	0.2353	0.1470

Source: own

In Model 1 (ROA), *INT CSR* displays a significant negative effect (coefficient: -0.0850, $p < 0.001$). This suggests that internal CSR activities, focused on employee and governance aspects, may incur short-term costs, reducing profitability. Research by Wang et al. (2022) corroborates this finding, noting that while internal CSR practices improve long-term employee satisfaction, they often result in higher immediate expenses. Similarly, in Model 2 (ROE), *INT CSR* shows a significant negative effect (coefficient: -1.3178, $p = 0.008$), which aligns with Lins et al. (2019), who found that internal CSR may not yield immediate returns on equity due to associated costs. However, in Model 3, *INT CSR*'s influence on Tobin's Q is insignificant, suggesting minimal impact on market expectations for growth, as seen in Flammer (2020), who noted that internal CSR activities often lack the visibility investors prioritize.

Conversely, *EXT CSR* positively influences ROA and ROE. In Model 1 (ROA), the positive relationship (coefficient: 0.9328, $p < 0.001$) indicates that community- and environment-focused CSR enhances asset profitability, likely by strengthening reputational capital and stakeholder trust, as supported by Ali et al.

(2023). Model 2 (ROE) also shows a strong positive association with EXT CSR (coefficient: 8.6489, $p = 0.003$), implying alignment with shareholder interests, consistent with Kim et al. (2021), who reported that visible CSR efforts improve investor sentiment. However, EXT CSR has an insignificant negative effect in Model 3 (Tobin's Q), suggesting that these initiatives may not significantly impact market-based growth indicators.

Bank Age (AG): In Model 2 (ROE) and Model 3 (Tobin's Q), AG has a positive effect, indicating that older banks benefit from established reputations, supporting findings by Ahamed et al. (2023). However, AG negatively impacts ROA in Model 1, which might reflect potential inefficiencies in older assets.

Board Size (TCA): Larger board size positively affects ROA and ROE, suggesting enhanced governance, as noted by Kashif et al. (2021). Yet, in Model 3 (Tobin's Q), TCA negatively impacts growth expectations, possibly due to decision-making delays, aligning with Conyon & He (2019).

Duality (DUA): This variable has a consistently negative impact on ROA and ROE, indicating potential governance issues when CEO and board chair roles are combined, as highlighted by Iqbal et al. (2022).

Bank Size (TB): Negative associations with ROA and ROE suggest inefficiencies in larger banks, consistent with Sun et al. (2022).

Leverage (LVRG): Positively affects ROE, indicating that higher leverage enhances returns on equity, though with added risk, as supported by Kim & Yang (2021).

Macroeconomic Factors (INFL and GDP): Inflation negatively impacts ROA and ROE, which aligns with Almeida & Campello (2020), who highlight inflation's role in squeezing margins. GDP growth positively affects ROA, corroborating Zhang et al. (2023), who noted that economic expansion benefits banking profitability.

The R^2 values indicate that Model 1 (ROA) has the highest explanatory power, suggesting that accounting-based measures capture internal performance more effectively than market-based measures like Tobin's Q, which aligns with findings from Ali et al. (2023). In summary, external CSR initiatives positively affect ROA and ROE, whereas internal CSR tends to show short-term costs. Control variables further reveal the influence of governance and macroeconomic factors on performance, with recent research supporting these varied effects across different financial metrics.

In Model 1, there is a significant positive relationship between internal CSR, external CSR, and financial performance. Model 2 confirms this result, with the impact of internal and external CSR remaining positive and significant in the presence of governance mechanisms. The relationship found in Model 3 corroborates the previous findings, confirming Hypothesis 1: there is a positive and significant relationship between internal and external CSR and financial performance when governance indicators are present. Regardless of the performance measure used (ROA, ROE, or Tobin's Q), the result remains unchanged. A bank with strong internal governance mechanisms consequently enjoys a positive reputation, attracting more clients and talent, which can ultimately improve its performance. Globally, companies with the best internal and external CSR reputations are among the top-performing companies. According to econometric results, we accept the hypothesis related to stakeholder theory, which suggests that CSR has a positive impact on financial performance. Internal and external CSR are indicators of the company's ability to effectively meet the demands of various stakeholders.

CONCLUSION

This study explored the relationship between internal CSR, external CSR, and financial performance, controlling for governance mechanisms. The study sought to provide a definitive answer to a fundamental question in this debate: whether there is a relationship between financial performance and internal and external CSR, and if so, the nature of this relationship. To better evaluate the link between these variables in the presence of governance indicators, the study's results showed a relationship between the variables in question. The positive relationship between internal and external CSR and financial performance reflects socially positive behavior among Tunisian companies. Tunisian banks contribute to social well-being, improve living standards by promoting education and better healthcare facilities, and protect the environment

from harmful changes. They also take good care of their employees to build trust. These social expenditures help companies achieve sustainable long-term development and financial benefits.

It provides valuable insights into the relationship between corporate governance, corporate social responsibility, and financial performance in the banking sector. The results indicate that while internal corporate social responsibility practices tend to have a short-term negative impact on profitability, external corporate social responsibility efforts significantly enhance both Return on Assets and Return on Equity, suggesting that banks with strong external CSR initiatives benefit from improved stakeholder trust and market perception. Furthermore, the study highlights the importance of governance structures, such as board size and bank age, in influencing financial performance. Larger and more established banks tend to perform better, reinforcing the role of robust governance in driving long-term success. The findings align with stakeholder theory, demonstrating that addressing the needs of various stakeholders through effective CSR practices can positively influence financial outcomes. Overall, this paper contributes to the understanding of how corporate governance and CSR initiatives, both internal and external, can enhance a bank's performance, offering practical implications for managers and policymakers aiming to improve financial results through responsible corporate practices.

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