

THEORETICAL ASSESSMENT ON CORPORATE SOCIAL RESPONSIBILITY AND ORGANIZATIONAL PERFORMANCE

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Abstract

The purpose of this paper is to investigate and explores the theoretical and empirical literature on corporate social responsibility and organizational performance and to explore the understanding and practice of CSR theory. This study has tried to scan the all-available literature from various sources so as to obtain the objectives of the current research work. This paper follows the exploratory and analytical research approach to explore and analyses prior research work which was not only provides guidance but also throws light on the direction in which this research must proceed. In today's scenario CSR is one of the major issues of new millennium across the world and the corporate as well as government. This study concluded that the societies where business is located occupy a central place in corporate culture affecting the firm performance thus necessary change in the internal organization structures, processes and behavior is essential. A theoretical and empirical review of CSR practices revealed a strong linkage between a firm's CSR practices and its performance. This study can reinforce the CSR conceptual framework and may provide a new way for examining this relationship and CSR can be considered as a marketing tool for the companies.

Key words

Corporate social responsibility; organizational performance; stakeholders; shareholder; environment

Introduction

Background of the Study

Corporate social responsibility (CSR) is all about companies managing their business process to produce the overall positive impact on the society. The meaning of CSR has two folds. On one hand, it shows the ethical behavior that an organization performs towards its internal and external stakeholders and on the other hand, it indicates the responsibility of an organization towards the environment and society in which it operates.

The concept of corporate social responsibility (CSR) initiated Since the 1950s, CSR and its related terms, like corporate social responsiveness, corporate social responses, corporate social performance, corporate citizenship, & corporate philanthropy have been conceptualized and mainly originated from different disciplines of management (e.g., Carroll 1979; Matten and Crane 2005; Wood 1991). In spite of the outward endless dialogue about CSR, it has seen a lot of progress in both academic and practitioner societies all over the world. Corporate social responsibility (CSR) has numerous meanings and classifications. Since its emergence, CSR move away from its fixation on profit towards societal welfare.

Kotler and Lee (2005), states that CSR is an organizational pledge to advance community welfare on a

voluntary basis through contribution of available corporate resources. Further the authors found an increased commitment on the part of some companies towards social wellbeing as it helped them build reputation and enhance brand image. Carroll (1991) in his study “CSR pyramid” identified four components of CSR to comprise the economic, legal, ethical and discretionary (philanthropic) expectations that society has of organizations at a given point in time. These components define the “entire spectrum of obligations of business to society” which must comprise any definition that brings out the legitimacy of CSR. UNCTAD (2004) defines CSR as constituting actions where organization integrates societal concerns into their business policies & operation including environmental, economy & social concerns.

Corporate social responsibility generally refers to the strategies implemented by corporations to conduct their business in a way that is ethical, society friendly and beneficial to community in terms of development (Ismail, 2009). Again, CSR describes a firm’s obligation to protect and improve social welfare now as well as in the future, by generating sustainable benefits for stakeholders (Lin *et al.*, 2009). Similarly, CSR is a concept whereby firms commit to improve their environmental and social performance beyond legal obligations. It is a commitment to improve the well being of a community through discretionary

business practices and contributions of corporate resources (Chakraborty, 2010). Likewise, it is the commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve quality of life, in ways that are both good for business and good for development (Korkchi & Rombaut, 2006). CSR, however, is a broad concept, and there is no consensus on its definition and boundaries. CSR is a business approach that contributes to sustainable development by delivering economic, social and environmental benefits for all stakeholders (Carroll & Shabana, 2010). Likewise, Performing CSR is necessary for firms that want to be successful in the long run (Korkchi & Rombaut, 2006). Furthermore, Chapagai (2010) mentioned that “CSR is a business principle and/or practice which integrates legal, economic, ethical, social and environmental concerns and seeks to fulfill the interests of all stakeholders including the interest of business itself. In essence, CSR is not merely an obligation of business enterprises towards different stakeholders but more importantly, an opportunity for economic success and sustainability. CSR is how an organization dignity its values, behavior and accountability with the beliefs and desires of its internal and external stakeholders. At present it can be said that CSR has been studied over decades and it has received a large amount of attention from the people, organization

and governments around the world so it is the fact that as the global business world is going to be more competitive day by day due to globalization, technological change and social awareness, only the functioning CSR in effective way will continue to maintain the top position and enhance reasonable advantage.

Research Problems

CSR is a new concept in developing country and even most of the successful business enterprises understand it as charitable activities. Thus, it is considered as philanthropy effort. In his view, Nepalese business professionals are also not well aware of the broader concept of CSR due to the lack of theoretical and conceptual literature and enough research work which have to cover many aspects of customers, suppliers, employers, shareholders, civil society, environmentalists, etc. With the increasing awareness of the negative effects of sourcing from developing countries such as child labor, damages to the environment, ethical and legal aspect CSR has become more and more relevant and firms are working actively with these issues. But why are they actually doing this? Is it just to avoid bad reputations? Or is it because they want to be good citizens? In developing economies like Nepal, there are some important factors related to CSR issues, such as cheap labor and less strict environmental and labor laws. Due to this firms have to pay more attention towards CSR activities. Despite

being a very important issue, there is a very little information and literature at the firm level to understand the CSR and its domain and activities. There is a dearth of deliberate and effective actions regarding CSR in Nepal. Therefore, it can be determined that the real involvement of Nepalese Business Community at CSR activities is still not clear. There are inadequate researches related to CSR practice in Nepalese context. So, this study mainly focuses on to identify societal perception, practices, theories and other empirical evidences and literatures about CSR activities perform by business concern.

Objectives of the study

The objective of this paper is to investigate and explores the theoretical and empirical literature on corporate social responsibility and organizational performance. Its other objectives are as follows:

- a. To explore the previous literature of corporate social responsibility in context of developing country like Nepal.
- b. To examine the understanding of CSR theory and development of corporate social responsibility.
- c. To encourage the understanding of concerns & practices of corporate social responsibility at organizational level.

Rationale of the Study

This study gives valuable information to the general public and stakeholders

like employees, customers, suppliers, regulatory bodies, researchers, students and many others about the theoretical and empirical literature on CSR activities and its impact on firm's performance. In the context of increasing access of financial services, assurance of relatively stable financial reforms and (still) living nearly one third of population under poverty (Ferrari *et al.*, 2007), public can expect a lot from business organization. This study gives an influential awareness to the public about the willingness and real contribution to the society and to internal management systems. An integrated presentation of CSR performance of different companies provides valuable information to the general public to evaluate and make key decisions for doing their regular transactions. Many stakeholders like employees, customers, suppliers, shareholders, and the society at large can be aware of company's attitude on improving the quality of life. Most importantly, students and researchers in the field of business management and development studies will get additional resources for the development of literature in CSR field. In overall, people who are interested in knowing the impact of CSR on company's performance, this study provides real understandings and their efforts for the development of professionalism would be enriched with updated knowledge.

Literature Review

Theoretical Review

Earlier corporate entities mainly focused on their economic objectives; profitability, cost of production, margins etc. Corporate entities are now posed with the challenge pertaining to the social responsibility of business (Swapna, 2011). There are countless definitions of CSR but the most widely cited definition is provided by Carroll (1979) stating that ‘The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at any given point in time’. He argues that these social responsibilities carried by the firm are for the sake of both the society at large and the firm itself. So, firms are obligated to take the society's interest into consideration when taking its decision because at last the society is greatly affected by those decisions. The World Bank (2004) defines CSR as “the commitment of business to contribute to sustainable economic development by working with employees, their families, the local community and society at large to improve their lives in ways that are good for business and for development”.

There are three main perspective of CSR concerning the point ethical business based on social values and the stakeholders long term interest (Alpana, 2014). This is the triple bottom line approach of CSR which states that organizations should respect its important parts namely people, planet and profit

(the triple-P bottom line). A variation of the term is the triple-E bottom line (economic, ethical and environment). The corporation should care about the sake of all these three parts at the time of taking decision and performing activities.

Shareholder Theory

The owner or entrepreneur invests his or her resources in an idea, but without a guaranteed return on investment whereas, the return to other stakeholders such as lenders, employees, suppliers, is often regulated in contracts (Gotherstrom, 2012). The pioneer of this theory, Milton Friedman states that a company's only responsibility is to increase its profits. He argued that a company should have no "social responsibility" to the public or society because its only concern is to increase profits for itself and for its shareholders. However, shareholders must rely on management to perform various functions as; managers may prioritize themselves in running of companies, which means that in actual fact, they do not create value for shareholders (Lazonick & Osullivan, 2000). Furthermore, companies do not always have the knowledge or competence for different kinds of social and environmental projects. Resources are not used effectively when companies engage in different CSR activities (Henderson, 2001).

Stakeholder Theory

Stakeholder theory emphasizes that managers must satisfy a variety of constituents (e.g., workers,

customers, suppliers, local community organizations) who can influence firm outcomes. The theory was originally detailed by Freeman in 1984. It attempts to identify numerous different factions within a society to whom an organization may have some responsibility. Ullmann (1985) states that the Stakeholders theory and social obligation activity are linked by identifying the stakeholder's power, organizations strategy, and organizations past and present economic performance, which are connected through social disclosure and economic performance. Polonsky (1995) agrees that the stakeholder theory is appropriate for applying to environmental concern because it offers a process that permits organizations to develop an environmental strategy that satisfies both their goals and those of their stakeholders. Clarkson (1995, p. 106) defines stakeholders as "persons, or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past present or future. Post, Preston and Sachs (2002) write that an organization's ability to establish and maintain relationships within its entire network of stakeholders ensures its long-term survival. Similarly, Relationships involve ongoing engagement and mutuality within the network of stakeholders that create, sustain, and enhance the capacity of organizations to create value (Clarkson, 1995). Moreover, Porter and Kramer (2006) conceptualize CSR as encompassing a shared value that influences strategy and guides managers in their CSR decision making.

Legitimacy Theory

The theory indicates that organizations seek to operate within what is considered in society which is the essence of CSR. (Vander laan, 2009), suggests that businesses are bound by the social contract in which the firms agree to perform various socially desired actions in return for approval of its objectives and other rewards and this ultimately generates its continued existence. Legitimacy is defined as a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions. Similarly, depending on an organization's perception of its state or level of legitimacy, it may employ legitimation strategies either to establish, extend, maintain or defend their legitimacy (Tilling, 2005) and control for potential, existing or perceived legitimacy gaps following legitimacy threats (Vourvachis, 2008). The theory implies that organizations seek to operate within what is considered accepted in society which is the essence of CSR.

Agency Theory

The managers of an organization are essentially agents for the shareholders, being tasked with running the organization in the shareholder's best interests. Agency relationships exist when one or more persons, the principal(s), hire another person, the agent, to perform some task on his (or their) behalf through delegation of some decision-making

authority to the agent (Omolehinwa, 2006). The problem occurs when there is a conflict of interest between the principal and the agent. Under agency theory, both principal and agent are assumed to be rational economic persons i.e., they know what they are doing and they act consistently and rationally. Crowther and Aras, (2008), states that they are both motivated by self-interest although they possess different preferences, beliefs and information. Both wish to maximize their own utility; the value or benefit they place on any economic good they receive.

CSR theories are different in terms of names, meanings, beliefs and authors, their significance to CSR cannot be examined as they provided the basis for a good understanding of CSR concept. The theories are in rationality, they want to integrate the social desires and add to society as well, in spite of the various approaches.

Empirical Review

Studies regarding the relationship between CSR and business performance cover basically two types. The first researchers view that the only social responsibility of business is to use its resources and engage in activities intended to increase profits. On the other hand, others are of the opinion that firms who perform CSR know how the market works.

Corporate Social Responsibility and Organizational Performance

Mittal *et al.* (2008) investigated the relationship between CSR and

organizational profitability in terms of economic value added (EVA) and market value added (MVA). The authors found that there exists a positive relationship between CSR and company's reputation and there is little evidence that companies with a code of ethics would generate significantly more economic value added (EVA) and market value added (MVA) than those without codes. However, empirical findings reveal inconclusive evidence of the relationship between CSR and profitability. Pava and Krausz (1996) examine 21 studies of corporate social responsibility and financial performance between 1972 and 1992. The findings of 12 studies demonstrate a positive association, eight showed no association, and only one study indicates a negative correlation. Moore (2001) examines the relationship between corporate social responsibility and financial performance in the UK Supermarket industry, the outcomes find a negative relation between contemporaneous social and financial performance while prior-period financial performance is positively related with subsequent social performance.

Moreover, Mc Williams and Siegel (2001) reveal no significant direction between CSR and corporate performance. However, Luo and Bhattacharya (2006) report that corporate social responsibility contributes positively to market value and financial performance and that CSR has been influenced a firm's performance through customer satisfaction. They suggest that managers can obtain competitive advantages and

reap more financial benefits by investing in corporate social responsibility. Many other researchers examined the relationship between each dimension of CSR and firm performance (Inoue and Seoki, 2011; Robert, 1992). Bird, Momente and Reggiani (2007) also find a positive relationship to exist between an aggregate score for CSR activities and corporate performance but conclude that this finding did not extend to the relationship between each individual CSR activity and corporate performance. Moreover, Emilson, (2012) researched into the correlation between CSR and profitability using economic value added (EVA). The study shows a low positive correlation between profitability and CSR. But previous research and the practical examples from the selected companies show a strong positive correlation between CSR and profitability. In the same manner, Skare and Golja (2012) investigated the relationship between CSR and financial performance. Park (2010) indicates that the large firms have more resources available, and are able to involve more CSR activities leading to generate highly financial performance. Consequently, Firm size is an important control variable and positively influences the relationship between CSR and business performance (Stanwick and Stanwick, 1998; Mc Williams and Siegel, 2001; Park, 2010; Brik *et al.*, 2011).

Corporate Social Responsibility and Environmental Issues

Lyon and Maxwell, (2008) examined the relationship between CSR and the environment. The study showed how

both market and non-market forces are making environmental CSR profitable, and discussed altruistic CSR. The authors found that non-governmental organizations strongly influence CSR activities, through both public and private politics. The authors posit that CSR can have varied effects; from attracting green consumers or investors, to preempting government regulation, to encouraging regulation that burdens rivals. They however, observed that welfare effects of CSR are subtle, and there is no guarantee that CSR enhances social welfare. Similarly, the natural environment, as the so-called "silent stakeholder", requires different treatment, because it does not have the right to vote or the electoral rights. Nonetheless, it creates an area for the whole human activity, including entrepreneurial one (Solomon & Martin, 2004; Geryk, 2012). Natural environment is also recognized as a primary stakeholder. Haigh and Griffiths (2009) outlined three types of business outcome of such approach. First, learning about the natural environment directly, rather than through proxies, could overcome their buffering and information filtering effect, as well as reducing the need to manage relationships with them. Second, it may enable organizations to understand services provided by nature, and create opportunities to work with them in ways that are mutually sustaining. Third, a greater understanding of the strategic landscape could be had by forecasting how environment change will affect competitors, suppliers and customers.

Corporate Social Responsibility, Society and Image

CSR is the thoughtful and practical way to give back to the society. The companies benefit through lower operating costs, increased sales and customer loyalty, greater productivity, gaining ability to attract and keep skilled employees, getting access to more capital through more willing investors etc. Corporate involvement in local community's problems creates better ambiance in its surrounding (Gołaszewska-Kaczan, 2009). People who have been helped by company's activity are happier and benefit from a higher standard of living. Moreover, seeing that corporations care for communities' good makes everyone feels safer and significantly decreases corruption within society. Company's philanthropic activities generate benefits for the least advantaged, helping the needy and increasing trust (Carroll and Buchholtz, 2008). According to Arnold (2010) CSR also inspires fair competition. However, Swapna (2011) investigated the role of CSR in community development (CD). The study concluded that being so much dependent, business has definite responsibility towards community development. In another study Okeudo (2012) examined the effect of social responsibility (SR) on the society. The study concluded that the society stands to benefit from company SR. Filho et al., (2010) found that there is an intense association between social responsibility, corporate strategy and

competitive advantage. Similarly, Shuili, et al., (2007) examined the moderating influence of the extent to which a brand's social initiatives are integrated into its competitive positioning on consumer reactions to CSR. The researchers found that positive CSR beliefs held by consumers are associated not only with greater purchase likelihood but also with longer-term loyalty and advocacy behaviors. Kurucz, Colbert and Wheeler (2008) profess a key significance of corporate social responsibility for building a brand image. Moreover, enterprises living up to their CSR policy do not have to worry about social license to operate (Balcerowicz, 2015).

Methods and Materials

This paper follows the exploratory and analytical research approach to explore and analyses prior research work which was not only provides guidance but also throws light on the direction in which this research must proceed. Research work cannot be completed without the in-depth study of the earlier researches. This study has tried to scan the all available literature from various sources so as to obtain the objectives of the current research work. A researcher has to be more conscious about the changes & developments in the area of his study. In this context, the researcher has to go through the available literature like books, novels, reports, previous researches, articles, newspapers and journals for improving the knowledge & understanding. This literature review is

the result of content analysis along with the other qualitative methodologies, such as interpretation of the present literature.

Discussion

Review of theoretical and empirical literature of CSR states that it is not same as philanthropy & Charity because CSR is not a selfless act of giving and companies derive long term benefits from the CSR initiatives. Triple Bottom Line approach represents the relation among corporate, society and environment and how it works towards corporate sustainability.

Most of the researches are either focused on CSR performance or simply on investigating the relationship between CSR performance and the financial performance. Very few studies have attempted to provide the broad picture of various issues of CSR including the examination of different CSR domain and financial as well as non-financial performance relationship.

Considering these facts in the Nepalese scenario, this study attempts to investigate the various issues on CSR including the relationship with organizational performance. This study mainly aims to verify the widely accepted propositions particularly in the developed countries and developing country like Nepal. Other issues of the study include the understanding of CSR among managers & executives, companies' approaches to manage CSR, status of their CSR practices, drivers/motivations behind firms' CSR practices, and the

assessment of the government role in promoting CSR in Nepal.

It has been noticed that most of the studies showed a positive relationship between CSR and Firms performance. Some studies indicated a negative relationship between CSR and Financial and non-financial performance and some other study showed non-significant relationship between CSR and Firms performance. It has been also identified by most of the studies that the CSR disclosures are low; do not convey social information in a consistent manner and social audit and reporting pattern are not being followed in proper way. CSR has become very complicated and multifaceted so, these are the issues that have been identified as an interesting area for the future research.

Like other developing countries, In Nepal also there is lack of formal and systemic studies and presence of independent institutions regarding Corporate Social Responsibility (CSR) that can assess the contributions on these topics, it is not particularly much clear to what extent they are paying decent attention to CSR issues. Countries like Nepal still execute businesses to a large extent, in terms of the lack of transparency, bureaucratic hurdles and corruption (The World Bank, 2005) so clarifying CSR in contexts of Nepal is a worthwhile effort. In recent years, Nepalese organizations have received a lot of flak with regard to CSR and good governance (Chaudhary, 2016). Due to the liberalization of economy and globalization of market,

the current CSR practice of the Nepalese organizations needs to be improved. In this regard, the state should be a significant driver of CSR. Katuwal (2010), states that, “CSR in Nepal is new concept and even most of the successful business enterprises understand it as charitable activities. Thus, it is considered as philanthropy effort in Nepal”. In his view, Nepalese business professionals are not well aware of the broader concept of CSR which have to cover the interest of stakeholders (customers, suppliers, employers, shareholders, civil society, environmentalists etc.). According to a report published by Action Aid Nepal (2003) shows that low number of companies is involving on CSR. The study found that the inclusion of women, minorities, disabled and marginalized groups in the workforce are low while less than 20% of companies have helped to reduce outer social problems. Written contract may not be given to all of the employees during their tenancy, but most of the companies give benefits like dashain allowance, leave provision, Maternity leave etc. Similarly, Wetzel (2006), mentioned in his study that Nepalese companies can be divided into two clusters in terms of CSR situation. The first cluster of companies respects employee rights, such as written appointments for jobs, regular working hours and safety measurement. Such companies are connected to Indian companies or are the part of supply chains reaching out to Europe. A second cluster of companies are the small or mid-sized,

family-owned business. The majority of them belong to private sector, and their activities are driven by the owners’ convictions and interests rather than by international standards. Furthermore, Adhikari (2012) also revealed that few traditional and family-owned companies are prioritizing the brand image and maintaining CSR activities. Most of the companies still understand CSR only as a philanthropy activity. However, the study of Chapagain (2010) found the perceptions of managers are positive towards CSR even though the real implication is not as expected. The managers give priority on moral aspects as the reason of CSR than strategic although results are not encouraging enough. According to Shah (2012), in Nepal Company has no good understanding of the fair concept of social responsibility, management of the company is more focused on maximizing profit and less engaged in social interest. Another study also jointly done by Upadhyay and Dhungel (2013) on 14 public and private commercial and development banks indicates that only 71 per cent of them are reporting about their CSR activities. According to this study, most of the CSR activities in which these banks are involved are related to education and training; welfare to the underprivileged, arts/and cultural protection; contribution to associations, clubs and other organizations; contributions for health care; and environment and so forth. Their study also reveals that CSR priorities on women empowerment and rural

development are not high priorities of Nepalese business houses. Furthermore, according to Chaudhary (2016), social pressure and consumer groups are not found as strong as their counterparts are in some other developed countries. As a result, CSR movement is still in infancy stage. Therefore, the growth of CSR is required to link with the growth of consumers' beneficiary in Nepalese settings. Chaudhary, further claims that state's role and the roles of NGO and INGO have been found to enhance CSR activities in Nepal. Therefore it can be observed that the real involvement of Nepalese organization in CSR activities is still not clear. CSR practices are in emerging stage in Nepal and there is less empirical research regarding CSR activities. The previous studies on CSR and performance are indeterminate. This implies that this area is riddled with inconclusiveness, this gap motivates the study. Also previous researchers focused more on CSR reporting and profitability whereas organizational performance goes beyond profitability thus constituting gap in element.

Conclusion

CSR represents the new era challenge and an actually paradigmatic change for corporations. The current review has tried to present deepen understanding about the concept of CSR and its impact on organizational performance. The empirical and theoretical reviews showed that a lot of studies were carried out on CSR and organizational

performance all over the world. The result of existing researches on CSR and its relationship with organizational performance (Stakeholders value and perspective, among other economic and financial parameters) are inconsistent in some extents. Result of most of the studies showed a positive relationship between CSR and Firms performance. Some studies concluded that a negative relationship exists between CSR and Financial and non-financial performance and some other study showed non-significant relationship between CSR and Firms performance. CSR has become very complicated and multifaceted. The links between CSR and cost, profit, long-range survival, etc. are not vibrant. Firms are focused into CSR practices to meet stakeholders, ethical, legitimacy, shareholders and agency expectations, and in turn gain image, profit, recognition, risk management and loyalty benefits. From the preceding, it is clear that a lot of studies need to be conducted in Nepal. More empirical and theoretical studies are needed to investigate the determinants of CSR in Nepal such as community relations, employee relations, diversity, protection of consumer rights and interests, environment protection, product attributes and treatment of women and minority group and resources utilized in the provision of CSR. Similarly, the size, profitability, location, and the sector of the business also to be the determinants of CSR study in Nepal.

Implication/Limitations

This paper contributes to building CSR foundation but it still required further investigation basically on organizational culture, human resources, products/services and regulatory environment and their impacts on business performance. This craft is essential for the researchers to trial various research outlines made in the paper regarding CSR and business performance. Though the relationship between CSR and business performance has established much attention, but still actual relationship between these two could not be acknowledged. In such conditions, this study could reinforce

the CSR conceptual framework and may provide a new track for examining this relationship. Further, CSR can be considered as a marketing tool for the companies.

This study only examines the theoretical and conceptual variables related to CSR and its impact on business performance. In Nepal also there is few formal and systemic studies and lack of presence of independent institutions regarding CSR so, it is not too much clear that at what extent they are paying decent attention on CSR issues. Moreover, this study does not include other empirical and quantitative analysis regarding CSR and its practices.

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