Determinants and Consequences of Corporate Social Responsibility and the Role of Management Control Systems: Evidence from a Developing Country, Nepal

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LIST OF ABBREVIATIONS

Abbreviation	Meaning
ABC	Activity-based Costing
AVE	Average Variance Extracted
BSC	Balanced Scorecard
CBS	Central Bureau of Statistics
CEO	Chief Executive Officer
CFO	Chief Financial Officer
CFP	Corporate Financial Performance
CO	Case Organisation
CR	Composite Reliability
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
EMCS	Environmental Management Control Systems
EPI	Environmental Performance Indicators
EPM	Environmental Performance Measures
EVA	Economic Value Added
FNCCI	Federation of Nepalese Chamber of Commerce and Industry
GDP	Gross Domestic Product
GM	General Manager
GNI	Gross National Income
GRI	Global Reporting Initiative
HCM	Hierarchical Component Models
HDI	Human Development Index
HR	Human Resource
IATA	International Air Transport Association
ICAO	International Civil Aviation Organization
ILO	International Labour Organization
IMF	International Monetary Fund
ISO	International Organization for Standardization
IV	Instrument Variable
KPI	Key Performance Indicators
LOC	Levers of Control
MCS	Management Control Systems

MD	Managing Director
NGO	Non-government Organisations
OCP	Organisational Cultural Profile
OECD	Organisation for Economic Co-operation and Development
PhD	Doctor of Philosophy
PLS	Partial Least Squares
PMS	Performance Measurement Systems
RBV	Resource-based View
ROA	Return on Assets
ROI	Return on Investment
SAARC	South Asian Association for Regional Cooperation
SCM	Supply Chain Management
SCS	Sustainability Control Systems
SD	Standard Deviation
SEM	Structural Equation Modelling
SR	Socially Responsible
SRI	Socially Responsible Investment
SR-SCM	Socially Responsible Supply Chain Management
STOL	Short Take-off and Landing
TQM	Total Quality Management
UK	United Kingdom
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
USA	United States of America
VBM	Value-based Management
WBCSD	World Business Council for Sustainable Development
WCED	World Commission on Environment and Development
WTO	World Trade Organization

ABSTRACT

Doing business in a responsible, ethical and more transparent manner is essential in order to remain competitive in the current global environment and to ensure the long-term survival of organisations. The traditional concept of profit maximisation or creating value for shareholders has been called into question by the social and environmental impacts of organisations. Organisations are under increasing pressure from their stakeholders to consider the impacts of their commercial and industrial activities. By ignoring stakeholder pressure, organisations may face penalties and consumer boycotts or worse, in having their licence to operate cancelled. In response to increased stakeholder pressure, organisations practise corporate social responsibility (CSR) to balance their obligations to be socially responsible, environmentally sustainable and economically competitive. However, achieving these goals simultaneously is often viewed as contradictory.

While the prior literature on CSR mostly focuses on its ethical aspects or the relationship between CSR and performance, little is known about why and how CSR diffuses, the association between strategy and CSR, and the mediating role of management control systems (MCS) on adoption and implementation of CSR. Therefore, the aim of this study is to make an original and significant contribution by addressing these empirical gaps in the exiting literature. The format of this thesis is 'thesis by publication' consisting of three separate but interrelated comprehensive research papers.

The purpose of paper one is to explore the determinants of CSR, by addressing the following two research questions. (i) Why and how was CSR diffused within the case organisation operating in a developing country? (ii) What factors influenced the diffusion of CSR within the case organisation? To address these research questions, the study draws on the diffusion of innovations theory (Rogers, 1995, 2003) and Abrahamson's (1991) theoretical perspectives. Data were collected from a Nepalese airline company through semi-structured interviews and relevant documents to examine CSR diffusion. The findings of this study suggest that perceived benefit facilitates the diffusion of CSR within the organisation. The adoption of CSR is also seen as a proactive strategy to avoid any future risk associated with an organisation's environmental impact. The findings reveal that organisations' strategy, cultural values and beliefs, and top management support are important predictors of the adoption of CSR. The empirical findings of this study provide valuable insights into how CSR can enhance organisations' performance if CSR is used in a strategic way. This study extends the diffusion of innovations theory by focusing on both the initial and post-adoption process

(primary and secondary stage of diffusion) of CSR within a single airline company operating in a developing country, Nepal.

The aim of paper two is to investigate whether adoption of CSR is associated with differentiation strategy and, if so, whether the association is mediated by organisational culture (in particular, innovation and respect for people dimensions of O'Reilly et al.'s (1991) organisational cultural profile), using survey data collected from 132 companies in Nepal. The results of the study suggest that adoption of CSR is directly linked to differentiation strategy, while further analyses reveal that the link is fully mediated by the innovation and respect for people dimensions of organisational culture. Overall, the findings highlight the important role of organisational culture, which is often cited as a decisive factor for the success or failure of implementing new management practices, including CSR. This study provides valuable insights into the role of organisational culture in general, and innovation and respect for people dimensions in particular on (re) aligning CSR into business strategy, which in turn may help organisations create value for shareholders as well as stakeholders.

Paper three examines the association between CSR and organisational performance, and the mediating role of MCS on the association between these two. Drawing on the resource-based view (Barney, 1991) and Simons' (1995, 2000) levers of control (LOC) framework (in particular, the use of interactive and diagnostic controls), hypotheses were tested by using the survey data collected from 120 companies operating in Nepal. This study finds that CSR is positively associated with organisational performance and further analyses reveal that MCS (in particular the use of interactive controls) partially mediate the relationship between CSR and organisational performance. The mediating role of interactive controls on association between CSR and organisational performance highlights the need for regular management attention and face to face dialogue between senior managers and subordinates. Even if the use of interactive controls can be seen as time consuming and costly, the findings suggest that the use of such controls is an important means for enhancing the performance effect of CSR. This study contributes to the management accounting literature by responding to the call for research in management accounting in the context of developing countries in general and research on the role of MCS on CSR in particular.

Keywords: Corporate social responsibility; Diffusion of innovation; Adoption; Organisational culture; Differentiation strategy; Management control systems; Levers of control; Resource-based view; Partial Least Square; Endogeneity; Developing country; Airline; Nepal

DECLARATION

I, Bedanand Upadhaya, certify that this thesis is my own original research work, and does not contain any material that was previously submitted to qualify for any academic degree or award to any other university or institution. To the best of my knowledge, this thesis does not contain any published or unpublished work written by another person, except where due reference is cited in the thesis. Any substantial contribution made by others including the contribution of co-authors of the papers presented in the thesis and editorial service provided by the third party is acknowledged. Ethics approvals for this study were obtained from the Faculty of Business and Economics Human Research Ethics Sub-Committee (Reference Numbers: 5201300795 and 5201401157). The copies of ethics approvals are provided in Appendices B and E.

Signature………………

Bedanand Upadhaya

Student ID: 42919797

Date: December 2016

DEDICATION

This thesis is dedicated to the memory of my mother (Shova Pokharel) and my father (Gopal Prasad Pokharel), who were strongly committed to the education of their children but sadly did not see their son complete this thesis.

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CHAPTER ONE: INTRODUCTION

1.1 BACKGROUND

Doing business in a responsible and ethical manner is seen as essential in order to ensure the long-term survival of organisations and remain competitive in the current global environment (Adams & Zutshi, 2004; Cresti, 2009; Huang & Watson, 2015). The traditional concept of creating value for shareholders has been called into question by the environmental and social impacts of organisations (Milne, 1996; Benn et al., 2014; Cresti, 2009; Gadenne et al., 2012; Madein & Sholihin, 2015). Widespread concern for human rights, poverty, fair trade, resource scarcity, vulnerable ecosystems, and climate change is fuelled by numerous industrial accidents (e.g., the BP oil spill in 2010 and the Bhopal disaster of 1984) and a growing list of corporate scandals, such as the Enron bankruptcy and James Hardie asbestos cover-up (Benn et al., 2014; McWilliams & Siegel, 2000; Porter & Kramer, 2006; Werther & William, 2011). These social and environmental impacts of organisations, and numerous corporate scandals, have attracted increased public attention, heightened by incidents such as the recent collapse of the Rana Plaza factory building in Bangladesh, which killed more than 1,000 people (Al-Janadi et al., 2013; Jackson & Apostolakou, 2010; Aguilera et al., 2007; Porter & Kramer, 2006; Ditillo & Lisi, 2014; Lund-Thomsen & Lindgreen, 2014). All of these highlight the need for responsible business practices.

Organisations are also under increased pressure from their stakeholders, such as customers, employees, suppliers, investors, the government, media, activist groups and the community to consider the impacts of their commercial and industrial activities on the natural environment and broader society (Torugsa et al., 2013; Benn et al., 2014; McWilliams & Siegel, 2000; Porter & Kramer, 2006; Spencer et al., 2013; Werther & William, 2011). In order to respond to environmental and social concerns, and meet stakeholders' demands, some organisations adopt corporate social responsibility (CSR) in a reactive manner, while others adopt CSR in a proactive way either for normative purposes or for instrumental/business case purposes. While the reactive approach is referred to as unwilling adoption of CSR (i.e., institutional/stakeholder pressure), proactive adoption of CSR is intended to enhance organisational performance (Aguinis & Glavas, 2012). The focus of this study is on proactive adoption of CSR, which includes organisations' voluntary integration of social and environmental concerns, such as pollution control, improved health and safety in the workplace, maintaining relationships with stakeholders for decision making purposes, business processes, operations and strategies (Branco & Rodrigues, 2006).

Variously referred to as sustainable development, corporate sustainability and CSR, which are often used interchangeably in the literature (WCED, 1987; Elkington, 1999; Carroll, 1979; 1999; Huang & Watson, 2015; Epstein & Roy, 2003), the basic premise behind voluntary adoption of responsible business practices is “business and society are interwoven rather than distinct entities” (Wood, 1991, p. 695) and “society has expectations in terms of appropriate business behaviour” (Epstein & Roy, 2003, p. 16). Although CSR is defined in various ways in the literature (Carroll, 1999; Dahlsrud, 2008), this study adopts the definitions of CSR proposed by McWilliams and Siegel (2001, p. 117) as “... actions that appear to further some social good, beyond the interests of the firm and that which is required by law” because of its relevance to the research objective underpinning this study.

Various streams of research have examined CSR in the accounting literature, such as CSR disclosure and reporting (see, Gray et al., 1995; Al-Tuwaijri et al., 2004; Clarkson et al., 2013; Dhaliwal et al., 2011, 2012), environmental management accounting (e.g., Burritt & Schaltegger, 2002; Burritt, 2004; Bebbington et al. 1994) and sustainability control systems or eco-control (see, Henri & Journault, 2010; Schaltegger & Burritt, 2000). Although these studies provide significant insights, they typically focus on either CSR disclosures (the former stream) or only one aspect (i.e., environmental management and performance) of CSR (latter two streams). While different aspects of CSR (disclosures, environmental management, sustainability control or eco-control) have been extensively studied in the accounting literature, little empirical research has been conducted on CSR within the management accounting literature (Gond et al., 2012; Berry et al., 2009; Albelda, 2011; Lisi, 2015; Arjalies & Mundy, 2013).

More specifically, although an extensive body of research has examined the link between management control systems (MCS) and strategy in the management accounting literature (Simons, 1990; Langfield-Smith, 1997; Ferreira & Otley, 2009; Tucker et al., 2009), little is known about the role of MCS on CSR strategy implementation in the empirical context (Lisi, 2015; Ditillo & Lisi, 2014; Berry et al., 2009; Morsing & Oswald, 2009; Crutzen & Herzig, 2013; Pondeville et al., 2013; Arjalies & Mundy, 2013; Gond et al., 2012). Therefore, this study aims to investigate the role of MCS (informal and formal controls) on adoption and implementation of CSR.

The wider concept of MCS includes formal as well as informal control systems (Chenhall, 2003; Ouchi, 1979; Langfield-Smith, 1997). Formal controls are visible control systems and include written procedures and policies, rules, budgets, performance appraisals and codes of ethics that managers use to guide employees’ behaviours to achieve organisational goals, while informal controls are less explicit and comprise unwritten policies of the organisation, such as social and self-controls (Langfield-Smith, 1997; Norris & O'Dwyer, 2004; Ouchi, 1979; Simons, 1995). More specifically, informal controls are related to shared values, norms and beliefs and traditions of organisations, which influence the attitudes and behaviours of employees despite not being explicit (Schein, 1985; O'Reilly & Chatman, 1996; Hogan & Coote, 2014; Norris & O'Dwyer, 2004). These shared norms and values direct employees to adopt the attitude and behaviour that is consistent with their organisational culture (O'Reilly & Chatman, 1996; Schein, 1985). The use of MCS provides managers with useful information in terms of decision making, planning and evaluation/control purpose (Widener, 2007).

MCS are essential tools to integrate the social, environmental and economic dimensions of CSR into business strategy, which can help organisations achieve their CSR objective and create value (Arjalies & Mundy, 2013; Gond et al., 2012; Crutzen & Herzig, 2013; Durden, 2008; Norris & O'Dwyer, 2004). This is because MCS can be used to design, develop and implement CSR strategy in an effective way (Arjalies & Mundy, 2013; Epstein & Roy, 2003). An appropriate use of MCS is considered a necessity for successful adoption and implementation of CSR, which can have a positive effect on organisational performance. Therefore, this study contributes to the literature by investigating the determinants and consequences of CSR, and the mediating role of informal controls (organisational culture) on adoption of CSR, and the role of formal control systems using Simons' (1995, 2000) levers of controls (LOC) framework in the association between CSR and organisational performance within a less researched context: a developing country, Nepal.[1]

The rationale behind choosing a developing country in general and Nepal in particular as a research context is three-fold. First, developing countries represent 85.1% of the world's population and account for 48.9% of the world's GDP (IMF, 2012). Developing countries are growing faster than their developed counterparts and are seen as a strong growth engine and attractive investment destination for foreign investors in recent times due to the emergence of large middle class (Dobbs et al., 2015; Peng et al., 2008). As Nepal occupies a strategic spot between two giant emerging economies, China and India, the country has the potential to be an attractive destination for investors (*The Economist*, 2014; The World Bank, 2016). Second, the purpose, practices and priorities of CSR in developing countries are quite different from those in developed countries in terms of socioeconomic priorities, political systems, regulatory frameworks, stakeholder demands and cultural context (Matten & Moon, 2008;

[1] Among the various country classifications, Nepal can be described as a developing country (UNDP, 2009; IMF, 2012; The World Bank, 2015) or land locked developing country or least developed country (UNCTAD, 2014; 2016; WTO, 2017). Nepal as a research context is discussed in detail in chapters three and four, and a country profile of Nepal is provided in Appendix A.

Visser, 2008; McWilliams et al., 2006; Jamali, 2014). However, despite these differences between the developed and developing countries, relatively little attention is paid by researchers to the CSR practices of developing countries (Visser, 2008; Jamali, 207, 2014; Azizi & Jamali, 2016). Third, although the term CSR is seen as a Western concept, the social responsibility of business is not a new phenomenon in developing countries like Nepal. Nepalese businesses have been contributing to society for over 100 years by donating their resources to community welfare activities and for building schools and temples (Adhikari, 2012). Therefore, the long-standing history of corporate philanthropy in Nepal provides a unique research setting to enhance our limited understanding of the determinants and consequences of CSR and the mediating role of organisational culture and MCS on adoption and implementation of CSR in a less researched country and context.

This thesis follows the ‘thesis by publication’ format, which includes three separate but interrelated empirical research papers. The first paper explores how and why CSR is diffused within the organisation investigated, and examines the factors that influence the diffusion of CSR in the context of a developing country. Paper two examines whether adoption of CSR is associated with differentiation strategy, and if so, whether the association is mediated by organisational culture (in particular, innovation and respect for people dimensions). The third paper examines the association between CSR and organisational performance, and whether the association is mediated by the interactive and diagnostic use of the LOC framework. The first paper adopts a qualitative case study approach using data collected from semi-structured interviews from a Nepalese domestic airline company, while the second and third papers are based on a quantitative research method using survey data collected from organisations operating in Nepal.

This chapter is organised as follows. The next section provides the motivation of the study, where the research aims and objectives are discussed followed by the conceptual framework of the study in Section 1.3. Section 1.4 outlines the research methodology adopted in each of the three empirical papers of this thesis. Section 1.5 highlights the contribution of the study, which is followed by the structure of the thesis in Section 1.6. Finally, a chapter summary is provided in Section 1.7.

1.2 MOTIVATIONS AND RESEARCH OBJECTIVES

1.2.1 To explore why and how CSR practices diffuse within organisations

Using evidence from the existing literature, this section explains why a study on CSR is important. In response to their social and environmental impacts, organisations are facing immense pressure from their stakeholders to practise CSR (Jackson & Apostolakou, 2010;

Aguilera et al., 2007; Porter & Kramer, 2006). Consumers are more aware than ever before and are better organised, through bodies, such as consumer watchdogs, and this, coupled with increased media scrutiny has placed more pressure on organisations. By ignoring their social and environmental impacts, organisations may face penalties and consumer boycotts or, in the worst cases, have their licence to operate cancelled (Van de Ven & Jeurissen, 2005; Werther & William, 2011). In order to meet organisations' social, environmental and economic obligations, CSR has become an integral part of business imperatives and management practices in recent times (KPMG, 2011; Economist Intelligence Unit, 2010). According to a recent report (KPMG, 2011), many organisations around the world practise and report CSR, and this trend is increasing.

CSR is also promoted by various governments, non-government organisations (NGOs) and civil society. In addition, transnational organisations, such as the United Nations (UN), the International Labour Organization (ILO), the International Organisation for Standardization (ISO), the Organisation for Economic Co-operation and Development (OECD) and the World Bank not only endorse CSR, but have also established guidelines to promote CSR (see Lee, 2008). Some examples include the United Nations Global Compact, which is the "UN's CSR initiative for development, implementation, and disclosure of CSR activities" (Huang & Watson, 2015, p. 10), and Global Reporting Initiative's (GRI) G4 reporting guidelines, (see, GRI, 2016).

All of these demonstrate the importance of CSR, which is also becoming an area of growing research interest for the academic community (Searcy, 2012; Huang & Watson, 2015; Carroll & Shabana, 2010; Malik, 2015). Increases in CSR investment and disclosures, and a growing amount of CSR related research, clearly indicate that CSR has become an important research topic in the academic literature (Malik, 2015). Although there exists a long-standing tradition of academic research on CSR, which examines risks and opportunities associated with the design, use and implementation of CSR and its consequences on organisational performance, there is still no consensus as to whether CSR generates benefits (both tangible and intangible) or adds additional financial burden (as cost) to organisations (Carroll & Shabana, 2010; Searcy, 2012; Wood, 2010; Crane et al., 2008; Margolis & Walsh, 2003; Malik, 2015).

Proponents of CSR argue that CSR is an alternative paradigm for profit maximisation, a strategic tool through which organisations can enhance long-term value, achieve sustainable competitive advantage and improve relationships with multiple groups of stakeholders (Arjalies & Mundy, 2013; Porter & Kramer, 2006; McWilliams & Siegel, 2001; 2011; Malik, 2015; Carroll & Shabana, 2010; Mackey et al., 2007; Burke & Logsdon, 1996). In contrast, others view CSR as a financial burden due to associated additional cost, and argue that organisations should not adopt CSR at the cost of shareholders (Friedman, 1970; Karnani, 2011).

These contrasting views on CSR have triggered a large number of empirical studies examining the link between CSR and organisational performance in the last 40 years. However, the results of prior studies are mixed and inconclusive (see, Margolis et al., 2009; Peloza, 2009; Margolis & Wash, 2003; Orlitzky et al., 2003). While some studies have found a positive relationship (e.g., Choi et al., 2010; Orlitzky et al., 2003; Waddock & Graves, 1997), others have found negative results (e.g. Brammer et al., 2006; Vance, 1975), and several others (e.g., Surroca et al., 2010; McWilliams & Siegel, 2000) have reported no significant relationship. From the above discussion, there seems no explicit evidence that suggests why organisations adopt or practise CSR if it may destroy shareholders' value, and if CSR enhances organisations' efficiency and effectiveness why not more (if not all) organisations practise CSR (Tsui, 2013).

However, the number of organisations adopting, practising and reporting CSR is increasing around the globe (KPMG, 2011; Economist Intelligence Unit, 2010). Various reasons for the adoption of CSR are provided in the literature, which include institutional pressures, stakeholder demands, to appear legitimate and to address the environmental and social impacts of business activities (Huang & Watson, 2015; Campbell, 2007; Rodrigue et al., 2013; Aguilera et al., 2007; Jackson & Apostolakou, 2010; Matten & Moon, 2008; Bansal & Roth, 2000). Although these factors explain some of the primary drivers behind the adoption of CSR, "there is still little insight into how the adoption of CSR can be achieved inside organizations" (Linnenluecke & Griffiths, 2010, p. 357) and what factors influence internal diffusion (Huang & Watson, 2015; Bansal, 2005; Perera et al., 2003; Gallivan, 2001; Searcy, 2012).

Moreover, while prior empirical research on CSR has focused almost exclusively on the North American and European (Western) contexts, relatively little is known about CSR practices in developing countries (Moon & Shen, 2010; Saeidi et al., 2015; Maignan & Ferrell, 2001; Visser, 2008; Frynas, 2006). The research findings obtained from the studies conducted in established or large organisations of developed countries may not represent the organisations operating in developing countries because it is likely that the purpose and practices of CSR may differ due to different institutional contexts, stakeholder demands, cultural influence and socioeconomic circumstances (Valente & Crane, 2010; Visser, 2008; McWilliams et al., 2006; Waldman et al., 2006; Maignan & Ralston, 2002). Therefore, the first aim of this study is to explore why and how CSR diffuses within organisations and what factors influence the diffusion of CSR in the context of a developing country, Nepal.

1.2.2 To examine the association between differentiation strategy and adoption of CSR

Once CSR is diffused, the question arises as to how organisations can be socially and environmentally responsible while aiming to achieve their primary purpose of creating value for their shareholders (Moon & Shen, 2010). Achieving these three goals (i.e., social, environmental and economic) simultaneously is often viewed as contradictory (WCED, 1987; Bansal, 2005; Glavas & Mish, 2015; Margolis & Walsh, 2003; Milne, 1996). In order to meet their social, environmental and economic responsibilities, organisations need to integrate CSR into their business strategies (Schaltegger & Burritt, 2010; Hoejmose et al., 2013; McWilliams et al. 2006; McWilliams & Siegel, 2001). This is because strategic CSR is designed to create value and meet the interests of diverse stakeholders (Carroll & Shabana, 2010; Mackey et al., 2007; McWilliams & Siegel, 2001).

A review of the literature suggests that organisations committed to strategic CSR activities can receive long-term benefit in terms of increased brand image and goodwill, customer satisfaction, employee motivation and loyalty, which can ultimately be translated to profitability (Arjalies & Mundy, 2013; Porter & Kramer, 2006; Greening & Turban, 2000; Turban & Greening, 1997; Kaplan & Norton, 1996; Epstein & Roy, 2001; Torugsa et al., 2013; Gadenne et al., 2012). In other words, strategic CSR is linked to social and environmental investment and building reputation, which ultimately enhances organisational performance and benefits society as well (McWilliams & Siegel, 2001; 2011; Barnett, 2007; McWilliams et al., 2006; Orlitzky et al., 2003; McWilliams & Siegel, 2000; 2001; Carroll, 1999). Although there is abundant literature on strategy and CSR (Baron, 2001; Burke & Logsdon, 1996; McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006), relatively little is known about the association between these two in the empirical context (Hoejmose et al., 2013). Therefore, the second research objective of this study is to fill this empirical gap by examining the association between business strategy (differentiation strategy, in particular) and adoption of CSR.

Further, an appropriate organisational culture is considered essential in terms of integrating CSR into organisations' business strategies (Linnenluecke & Griffiths, 2010; McWilliams et al., 2006). Without having an appropriate strategy and organisational culture, CSR can be a waste of resources or an additional cost (Ramchander et al., 2012; Barnett, 2007; Linnenluecke & Griffiths, 2010). Therefore, this study also examines the mediating role of organisational culture on the association between differentiation strategy and CSR.

1.2.3 The role of MCS on association between CSR and organisational performance

Even after extensive investigation over time and by a large number of researchers, there is no consensus on whether CSR enhances organisational performance or is an additional cost. Researchers hold two distinct views on cost and benefits of CSR (i.e., shareholder versus stakeholder perspectives). From the shareholder perspective, CSR is seen as an additional cost to organisations (Friedman, 1970; Karnani, 2011), while the stakeholder perspective views CSR as a source of innovation, opportunity and competitive advantage (Porter & Kramer, 2006; McWilliams & Siegel, 2001; 2011; Mackey et al., 2007). From the management accounting point of view, it is important to identify social and environmental costs and benefits, and whether CSR contributes to organisations' performance or creates loss. This is because the fundamental role of accounting is to measure organisational performance based on cost and benefit analysis while making decisions (Balakrishnan et al. 2011; Moser & Martin, 2012). Although a majority of empirical studies has examined the association between CSR and financial performance in the past, the findings are mixed (positive, negative and neutral) and inconclusive (see, Margolis et al., 2009; Peloza, 2009; Margolis & Wash, 2003; Orlitzky et al., 2003). These conflicting empirical findings provide little or no evidence as to whether CSR benefits organisational performance or is just an additional cost, suggesting further research in this field is warranted (Huang & Watson, 2015; McWilliams & Siegel, 2000).

A review of the literature highlights that the conflicting findings of prior studies examining the relationship between CSR and performance may be due to the omission of important mediating variables (McWilliams & Siegel, 2000; Surroca et al., 2010; Galbreath & Shum, 2012). Although few studies (see, Aguinis & Glavas, 2012; Surroca et al., 2010; Galbreath & Shum, 2012) have examined the role of mediating variables, such as customer satisfaction, employee motivation and reputation and goodwill, on the association between CSR and financial performance, the literature is relatively silent on the underlying mechanisms (or the role of MCS) through which CSR has an impact on organisational performance (Aguinis & Glavas, 2012).

Prior studies suggest that MCS are essential tools to integrate CSR into core business strategy as well as for the implementation of such strategies (Arjalies & Mundy, 2013; Gond et al., 2012; Crutzen & Herzig, 2013). As a result, CSR can have a performance effect through various channels, such as by reducing cost, minimising risk and enhancing operating efficiency and increasing sales (Dhaliwal et al., 2012). Therefore, the use of an appropriate MCS is considered essential for organisations to identify risk and opportunities related to

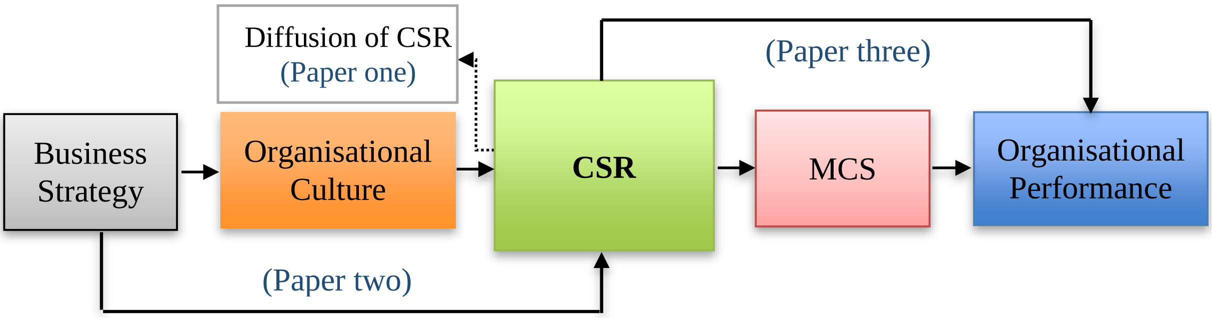
CSR, facilitate decision making and guide employees to achieve CSR objectives (Epstein & Roy, 2001; Arjalies & Mundy, 2013; Henri & Journeault, 2010; Lisi, 2015; Gond et al., 2012).

On this basis, the use of MCS can have an important role in the association between CSR and organisational performance. Without an adequate and appropriate use of MCS, organisations may not be able to reap the benefits associated with CSR (Epstein & Roy, 2003). While prior research has extensively examined the relationship between MCS and strategy in the management accounting literature (Simons, 1990; Langfield-Smith, 1997; Ferreira & Otley, 2009; Tucker et al., 2009), little empirical evidence exists on the role of MCS on adoption and implementation of CSR strategy (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013; Pondeville et al., 2013; Lisi, 2015). Accordingly, the third objective of this study is to address this gap in the literature by examining the mediating effect of MCS on the association between CSR and organisational performance.

1.3 CONCEPTUAL FRAMEWORK

In order to achieve the above mentioned three research aims and objectives of this study, a conceptual framework was developed (see, Figure 1.1). The framework is based on the review of the relevant literature (see, Chapter 2), theoretical framing, research questions/objectives and methods adopted in this study. Taken together, the diagram provides a roadmap for the study, which guides the investigation of the determinants and consequences of CSR and the mediating role of MCS (formal and informal control systems) on adoption and implementation of CSR. More specifically, paper one explores the determinants of CSR (i.e., factors influencing the diffusion of CSR) drawing on the diffusion of innovation theory (Rogers, 2003) and Abrahamson's (1991) framework, while paper two examines whether business strategy (differentiation strategy, in particular) affects the adoption of CSR and if so, whether the association is mediated by organisational culture (informal control systems) using O'Reilly et al.'s (1991) organisational cultural profile framework. Finally, paper three examines the consequences of CSR (i.e., association between CSR and organisational performance), and the mediating role of MCS (formal control systems) on the association between these two using the resource-based view theory (Barney, 1991) and LOC framework (Simons, 1995, 2000). The conceptual framework of the study, which represents the three empirical research papers is discussed in more detail in chapters three, four and five of the thesis.

Figure 1.1 Conceptual framework of the study



1.4 RESEARCH METHODOLOGY

The previous sections provided the background of the study and stated the aims and objectives of the research by identifying the research gap in the extant literature. This section discusses the research methodology adopted in this study. In particular, a brief description on research approach, design, ethical issues, data collection and data analysis procedures is provided. A detailed explanation and justification on research methodology is provided in chapters three, four and five.

In order to achieve the research aims and objectives and to address the research questions, this study employed both qualitative and quantitative research methods. As the purpose of paper one was to explore how and why CSR is diffused within the organisation and investigate the factors that influence the diffusion of CSR in the context of a developing country, a qualitative case study method was deemed appropriate (Yin, 2009). In particular, a case study is viewed as an appropriate research method in CSR research to help develop our knowledge of organisational phenomena that is not well understood (O'Dwyer et al., 2011; Norris & O'Dwyer, 2004). Further, Aguinis and Glavas (2012) recommend that more qualitative studies be undertaken in order to enhance our limited understanding of CSR. The relevance of the case study method in CSR research is further justified by Bebbington and Thomson (2013, p. 279) as:

> The case studies provide an 'inside-out' view and enhance our understanding of the more nuanced and complex ways in which decisions relating to corporate social responsibilities, environmental pressures, legitimacy threats, stakeholder power and engagements, risk management and reputations are taken.

Papers two and three used a quantitative research method because the research objectives of both papers were to test the proposed hypotheses by examining the relationships among variables (Creswell, 2014; Sekaran, 2003). More specifically, paper two examined the direct association between differentiation strategy and adoption of CSR, and the mediating role of organisational culture on that association, while paper three examined the direct association between CSR and organisational performance, and the mediating effect of MCS on the CSR–

performance relationship. Therefore, the use of a quantitative research method to test the hypotheses proposed in papers two and three seemed appropriate (Creswell, 2014; Sekaran, 2003).

1.4.1 Data collection procedures

For paper one, this study employed a qualitative case study method. The case study was based on a privately owned domestic airline company operating in Nepal. The field study was conducted between December 2013 and January 2014 at the head office of the case company in Kathmandu, Nepal. Data were collected using semi-structured interviews, document analysis (internal and publicly available documents) and informal discussions with the staff members of the case company. The semi-structured interviews were conducted with 13 senior and middle-level managers of the case company and additional interviews were also conducted with five external stakeholders, who represent consulting firms, academic institutions, NGOs and multinational companies. All interviews were audio recorded except one, for which the interviewee did not give consent to record the interview.

The data for papers two and three were collected from the listed and non-listed companies operating in Nepal using online and postal surveys. The survey was administered using Dillman's (2000) Tailored Design Method. In total, 302 surveys (online and postal) were sent to the CEOs, GMs or senior-level managers of the selected companies, which include 232 listed companies and 72 non-listed[2] large and medium sized companies. The data collection period ranged from January to April 2015.

1.4.2 Ethical considerations

In conducting research, especially when collecting data from people, a number of ethical considerations must be taken into account throughout the research process, which applies to qualitative, quantitative and mixed methods (Creswell, 2014; Punch, 2005). Creswell (2014) suggests that researchers need to consider ethical issues in different stages of research, such as prior to conducting the research study, collecting and analysing data, reporting the findings and storing the data. This study addressed these ethical issues, seeking approval from the *Human Research Ethics Sub-Committee* of the university in the following ways. First, prior to conducting this research study, the ethics applications[3] were prepared using the Macquarie

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[2] Non-listed large and medium companies include privately owned companies including multinationals operating in Nepal having more than 50 employees, but not listed on the Nepal Stock Exchange at the time of data collection.

[3] The format of this study is thesis by publication, which includes three empirical research papers. Paper one is based on qualitative case study, while papers two and three use a quantitative research method. The data for this study were collected (i.e., using semi-structured interview for paper one and survey questionnaire for papers two and three) in two stages. Therefore, two separate ethics applications were prepared and submitted to the *Human Research Ethics Sub-Committee, Macquarie University*, and approval obtained prior to conducting the research.

University Human Research Ethics Application Form and submitted. The application process required the inclusion of an information letter, participant consent form (see, Appendices D and F) and research instruments to be used (see, Appendices C and G) for the present study. After addressing the issues raised by the Ethics Committee, this study obtained approval (see, Appendices B and E) from the *Faculty of Business and Economics Ethics Sub-Committee, Macquarie University,* including approval for *Research to be undertaken outside Australia.* This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007).

Following Creswell (2014), other ethical considerations taken into account in this study included obtaining necessary permission, addressing the issue of confidentiality, avoiding disclosing only positive results, respecting the privacy of participants and storing raw data and other materials securely for the mandatory period of time in accordance with Macquarie University policy. Among these, informed consent is seen as central to most ethical guidelines (Silverman, 2014). To address the issue of informed consent, an information letter was provided to the participants, and written informed consent was obtained from each participant for both qualitative and quantitative studies. In the information letter, it was clearly stated that participation in this study was entirely voluntary and participants could withdraw at any time without providing any reason, if they wished to do so. Participants were also advised in the information letter that any information or personal details gathered for the purpose of this study would remain confidential and no individual would be identified in the publication of the results.

1.4.3 Data analysis procedures

The qualitative data were analysed using NVivo 10 software. The transcribed interviews and documentary evidence were analysed using three-stage coding: open, axial and selective coding (Strauss & Corbin, 1998). In total, 24 codes and six major themes emerged from the NVivo data analysis. A detailed description on the qualitative data analysis is provided in chapter three.

The quantitative data were analysed using statistical software, namely Partial Least Squares–Structural Equation Modelling (PLS-SEM), SPSS and STATA. These statistical software programs were used to test the reliability and validity of the collected data and test the proposed hypotheses of the present study. In order to test the hypotheses in papers two and three this study used SmartPLS3 Software (Ringle et al., 2015). The PLS-SEM approach was considered suitable for the quantitative data analysis because it was able to deal with multiple predictors and criterion variables simultaneously (Hair et al., 2014; Klarner et al., 2013). A detailed description on quantitative data analysis is provided in chapters four and five.

1.5 CONTRIBUTION OF THE STUDY

This study makes a number of contributions to the limited, albeit growing, stream of research on CSR, organisational culture and MCS. First, by investigating less explored country and cultural contexts (i.e., a developing country in this case), this study uncovers insights into the determinants and consequences of CSR, the role of organisational culture on adoption of CSR and the mediating effect of MCS on the CSR–performance relationship. More specifically, the case study (paper one) findings reveal that organisations' strategy, cultural values, beliefs and top management support are important predictors of the adoption of CSR in the context of a developing country, Nepal. The findings provide valuable insights into how CSR can help enhance organisations' performance if it is used in a strategic way. The empirical findings obtained from the survey data collected from the organisations operating in Nepal suggest that adoption of CSR is directly linked to the business (differentiation) strategy and the link is fully mediated by innovation and respect for people dimensions of organisational culture (paper two). This highlights the important role of organisational culture on adoption of CSR, which is often cited as a decisive factor for the success or failure of implementing new management practices including CSR. The findings of the study (paper three) further reveal that CSR is positively associated with organisational performance and the use of interactive controls partially mediates the CSR–performance relationship. The empirical findings provide valuable insights into the need for regular management attention to enhance the performance effect of CSR. In this way, this study provides a holistic and practical understanding on the adoption of CSR, and its strategic implications for organisational performance.

Second, this study assimilates the three streams of research (i.e., CSR, organisational culture and MCS) and provides a better understanding of the relationships among these variables in the empirical context of a developing country, Nepal. Third, this study contributes to the literature by responding to the call for empirical research in CSR in the context of developing countries in general (Visser, 2008; Saeidi et al., 2015) and the role of organisational culture and MCS on adoption and implementation of CSR in particular (McWilliams et al., 2006; Hoejmose et al., 2013; Linnenluecke & Griffiths, 2010; Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013; Gond et al., 2012; Huang & Watson, 2015).

Further, the findings of this study have some implications for practitioners, especially in the context of developing countries. In particular, this study provides managers with valuable insights into the important role of organisational culture (in particular, the innovation and respect for people dimensions) on integrating CSR into organisations' business strategy. The findings of this study emphasise the need for integrating the economic dimension of CSR into organisations' business strategy, focusing on the innovation and respect for people dimensions of organisational culture. By failing to integrate all three (i.e., social, environmental and economic) dimensions of CSR into their business strategy, organisations may not be able to reap the benefits of CSR. Similarly, without focusing on an appropriate culture, successful implementation of strategy may not be possible (Linnenluecke & Griffiths, 2010).

Moreover, in order to translate organisations' CSR strategy into improved performance, the findings of this study emphasise the important role of interactive use of MCS. The use of an appropriate MCS is considered essential for organisations to identify risk and opportunities related to CSR, develop or alter CSR strategy, set CSR related targets and compare these against performance (Epstein & Roy, 2003; Epstein & Roy, 2001; Arjalies & Mundy, 2013; Henri & Journeault, 2010; Lisi, 2015; Gond et al., 2012). In this way, CSR can have a performance effect through various channels, such as by reducing cost, minimising risk and enhancing operating efficiency (Dhaliwal et al., 2012). Therefore, the findings offer important insights into the role of MCS (in particular, interactive use of controls) on the CSR–performance relationship. Overall, the findings of this study enhance our understanding of determinants and consequences of CSR, which can have important implications for not only organisations' managers, but also for investors and policy makers.

1.6 OUTLINE OF THE THESIS

This thesis is structured in six chapters. The second chapter reviews the literature on CSR, diffusion of innovations, organisational culture and MCS. Chapters three, four and five include papers one, two and three respectively, which contain separate lists of references, appendices, tables and figures. It is followed by the concluding chapter, where research contributions and practical implications are discussed, the limitations of this study presented and the direction of future research is outlined. A brief overview of each chapter is presented below.

1.6.1 Chapter one

This chapter introduces the thesis. Specifically, this chapter begins with the background of the present study followed by the motivations and aims of this study, where the conceptual model of the present study is presented. Next, the research methodology applied in this study is described, where ethical considerations, data collection and data analysis procedures are discussed. Then, the research contributions of this study are highlighted and practical implications are discussed. Finally, the structure of the thesis is outlined, which is followed by the chapter summary.

1.6.2 Chapter two

Chapter two starts with the review of relevant literature on CSR, diffusion of innovations, business strategy, organisational culture and MCS. The review is designed to provide a broad conceptual analysis of prior empirical studies in order to establish the relevance of the present study, and identify the research gaps in the existing literature. First, this chapter describes the evolution, definitions and the critique of CSR, which is then followed by the discussion on the key empirical research findings of the prior CSR studies. As this study is based on a developing country context (i.e., Nepal), a review of literature on CSR in developing countries is also provided. By critically evaluating the existing literature on CSR, business strategy, organisational culture and MCS, this study identifies the research gaps (discussed in chapter two in detail) in the literature, which the present study aims to address. Accordingly, the chapter focuses on three research objectives underpinning the present study as (i) to explore why and how CSR diffuses within organisations and what factors influence the diffusion (primary and secondary stage) of CSR, (ii) to examine the association between business strategy and adoption of CSR, and the mediating role of organisational culture on the association between the two, and (iii) to examine the association between CSR and organisational performance, and the mediating role of MCS on the CSR–performance relationship.

In order to achieve these research objectives and address the research questions, the chapter identifies the relevant theoretical frameworks and provides a detailed discussion on the relevance and application of the frameworks proposed for this study. As this study follows the format of 'thesis by publication' and includes three empirical research papers, each paper has different research aims (objectives) and, therefore, applies different theoretical frameworks. More specifically, paper one draws on diffusion of innovations theory (Rogers, 2003) and Abrahamson's (1991) framework, while paper two applies O'Reilly et al.'s (1991) organisational cultural profile framework, and paper three builds on the resource-based view (Barney, 1991) and Simons' (1995, 2000) LOC framework. This chapter provides a detailed discussion on the relevance of these theoretical frameworks, and also provides a review of prior studies using these frameworks. The chapter ends with the chapter summary.

1.6.3 Chapter three (paper one)

Based on the qualitative case study method, paper one aims to explore the following two research questions: (i) why and how was CSR diffused within the case organisation operating in a developing country? (ii) what factors influenced the diffusion of CSR within the case organisation? To address these research questions, the study draws on the diffusion of innovations theory (Rogers, 2003) and the theoretical foundation proposed by Abrahamson (1991). Drawing on these theoretical frameworks, data were collected from a private airline company through semi-structured interviews and document analysis.

The findings of this study indicate that the airline company's CSR practices are aimed at enhancing organisational performance. The adoption of CSR is seen as a proactive strategy to avoid any future risk associated with the organisation's environmental impacts. The findings reveal that organisations' strategy, cultural values and beliefs and top management support are important predictors of the adoption of CSR. The empirical findings of this study provide valuable insights into how CSR can enhance organisations' performance if CSR is used in a strategic way. This study contributes to the literature by addressing the call for research on CSR in the airline industry, which is relatively less explored in both the developed and developing country context (Lee et al., 2013; Sheldon & Park, 2011; Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008).

1.6.4 Chapter four (paper two)

Paper two examines the association between business strategy (differentiation strategy, in particular) and adoption of CSR within the context of a developing country, Nepal. Further, the study also examines the mediating role of organisational culture (in particular, innovation and respect for people dimensions) on the association between differentiation strategy and CSR, drawing on O'Reilly et al.'s (1991) organisational cultural profile (OCP) framework, and using survey data collected from 132 companies operating in Nepal.

The results of the study suggest that adoption of CSR is directly linked to differentiation strategy, while further PLS-SEM analyses reveal that the link is fully mediated by the innovation and respect for people dimensions of organisational culture. Overall, the findings highlight the important role of organisational culture on adoption of CSR. More specifically, the findings emphasise the strong need for integrating the economic dimension of CSR into organisations' business strategy, focusing on the innovation and respect for people dimensions of organisational culture in order to achieve their strategic objective and create value.

1.6.5 Chapter five (paper three)

Paper three examines the association between CSR and organisational performance, and the mediating effect of MCS on the association between the two. Drawing on the resource-based view (Barney, 1991) and Simons' (1995, 2000) levers of control framework, hypotheses were tested using the survey data collected from 120 companies operating in Nepal. The findings suggest that CSR can enhance organisational performance if social, environmental and economic dimensions of CSR are integrated into organisations' business strategy. The empirical evidence confirms the positive association between CSR and organisational performance, which can help reduce the existing tension between shareholder and stakeholder perspectives of CSR. This study contributes to the limited management accounting literature on CSR by addressing the call for research on the role of MCS in CSR research (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013; Pondeville et al., 2013; Gond et al., 2012). Further, even if the use of interactive controls is seen as time consuming and costly (Simons, 1995; Widener, 2007), the findings suggest that the use of such controls is an important means for enhancing the performance effect of CSR.

1.6.6 Chapter six

This chapter concludes the thesis by summarising the key findings of each of the three empirical papers of this study, and drawing an overall conclusion from them. The chapter then highlights the major research contributions and practical implications of this study. Further, the limitations of this study are discussed and avenues for future research are outlined. The research instruments (i.e., interview guide and survey questionnaire) used for all three papers and the ethics approval are provided in the Appendices at the end of the thesis.

1.7 CHAPTER SUMMARY

This chapter begins with the background of the study, articulates the motivations and significance of the study and states the research aims and objectives, which is followed by the conceptual framework of the study. Next, the research methodologies adopted for each of the three empirical papers of this thesis are discussed. Then, research contribution to the extant literature and practical implications of the study are discussed. Finally, the structure of the thesis is provided.

CHAPTER TWO: LITERATURE REVIEW

2.1 INTRODUCTION

The purpose of this chapter is to provide an insight into the existing literature by critically reviewing prior studies on CSR, diffusion of innovations, organisational culture and MCS. The literature review in this chapter begins with the evolution, definitions and critique of CSR, followed by discussion of the key research findings of the prior relevant empirical studies. In so doing, the chapter establishes the relevance of this study, and identifies the significant gaps in the existing literature. Section 2.3 evaluates the literature on the factors influencing the diffusion of CSR in the context of developing countries, which is the first research objective of this study. Following this analysis, the second research objective, which is focused on the role of organisational culture on adoption of CSR is discussed in section 2.4. Then, the mediating role of MCS on the association between CSR and organisational performance is highlighted as the third research objective in section 2.5. Finally, a summary of the chapter is provided in section 2.6 with the outline of the thesis.

2.2 CORPORATE SOCIAL RESPONSIBILITY

2.2.1 Evolution and development of CSR

Although the history of CSR has its origins before the 1950s, it was mainly considered as philanthropy until that time (Carroll & Shabana, 2010; Carroll, 2008). Murphy (1978) classifies the history of CSR in four different categories based on the time period. For instance, the period up to the 1950s is described as the ‘philanthropic’ era, from 1953–1967 as the ‘awareness’ era, 1968–1973 as the ‘issue’ era, and from 1974–1978 as the ‘responsiveness’ era of CSR. In the philanthropic era of CSR, organisations donated to charities (Carroll, 2008). Beyond philanthropy, there were very few CSR-type actions during the 1950s, which according to Carroll (2008, p. 26) was “… more ‘talk’ than ‘action’ with respect to CSR”. In the awareness era, the main focus was on the recognition of organisations’ overall responsibility for, and involvement in, community affairs (Carroll, 2008; Carroll and Shabana, 2010; Murphy, 1978). In the issue era organisations paid specific attention to CSR related issues, such as racial discrimination and pollution controls, while the responsiveness era saw organisations begin to take management action to address CSR issues, such as business ethics, stakeholder management and CSR disclosures (Carroll, 2008). In other words, CSR was basically driven by “… socially conscious motivations, and businesses were not looking for anything specific in return” (Carroll & Shabana, 2010, p. 87).

In a similar vein, Frederick (2008) describes evolution of CSR in four chronological phases, which include CSR_1: corporate social stewardship (1950s–1960s), CSR_2: corporate social responsiveness (1960s–1970s), CSR_3: corporate / business ethics (1980s–1990s), and CSR_4: corporate global citizenship (1990s–2000s). According to Frederick (2008), CSR_1 is related to philanthropy or charitable giving, while CSR_2 goes beyond voluntary philanthropy to address societal problems, such as industrial pollution, discrimination in the work place and health and safety conditions. While CSR_3 includes promoting socially responsible goals, such as fostering ethical organisational culture, respecting stakeholders' rights, and fairness and justice, CSR_4 is related to being a global corporate citizen and complying with global codes of conduct in terms of human rights, environmental impacts and transparency (Frederick, 2008). Frederick's (2008) four stages of CSR are summarised in Table 2.1.

In a review of the CSR literature, Lee (2008) identifies several development stages of CSR and suggests that ethics and social responsibilities of organisations remained a dominant theme in the 1950s and 1960s, while the 1970s represented enlightened self-interest. The 1980s saw the focus shift to the corporate social performance model then strategic management and stakeholder management in the 1990s (Lee, 2008). It follows that the concept and practice of CSR has become widespread in the late 1990s and thereafter (Lee, 2008; Aguinis & Glavas, 2012; Carroll & Shabana, 2010). Since that time CSR has also been promoted by various organisations, governments, NGOs and civil society (Lee, 2008).

Apart from these constituents, transnational organisations, such as the UN, the ILO, ISO, OECD, and the World Bank have not only endorsed CSR, but also established guidelines to promote CSR (Lee, 2008). Some examples include the UN Global Compact, UN Framework for Business and Human Rights, revised OECD Guidelines for Multinational Enterprises (May 2011), ILO Declaration on Fundamental Principles and Rights at Work (1998), ISO 26000 CSR guidance and GRI reporting guidelines (Windsor, 2013; Moon & Vogel, 2008; GRI, 2016). According to recent surveys (KPMG, 2011; Economist Intelligence Unit, 2010), the number of organisations adopting CSR is growing around the globe. A KPMG (2011) report, which contains a survey of 3,500 companies worldwide, shows that 95% of the world's largest organisations (G250) practise CSR and produce CSR reports. Among others, 71% of organisation operating in Europe, 69% in America, and 49% operating in the Asia – Pacific region have implemented and disclosed their CSR practices in their annual reports. Spencer et al. (2013, p. 76) suggest that the disclosure of organisations' social and environmental performance information to their stakeholders is "an essential step to demonstrating good corporate citizenship and gaining favour from investors and customers".

This demonstrates the importance of CSR in recent times. While scholarly research identifies that CSR has become an area of growing interest for business organisations and researchers in recent times (Sidhu, 2012; Carroll & Shabana, 2010), the rise of CSR has not been a smooth one, and there is still debate as to what CSR actually means in terms of its definitions (Crane et al., 2008).

Table 2.1 Stages of CSR

	Four Stages of CSR
CSR_1	**Corporate Social Stewardship (1950s–1960s)**
	Guiding CSR Principle: Corporate managers are public trustees and social stewards
	Main CSR Action: Corporate philanthropy
	CSR drivers: Executive conscience and company reputation
	CSR policy Instruments: Philanthropy and public relations
CSR_2	**Corporate Social Responsiveness (1960s–1970s)**
	Guiding CSR Principle: Corporations should respond to legitimate social demands
	Main CSR Action: Interact with stakeholders and comply with public policies
	CSR Drivers: Stakeholder pressures and government regulations
	CSR Policy Instruments: Stakeholder negotiations and regulatory compliance
CSR_3	**Corporate / Business Ethics (1980s–1990s)**
	Guiding CSR Principle: Create and maintain an ethical corporate culture
	Main CSR Action: Treat all stakeholders with respect and dignity
	CSR Drivers: Human rights and religio-ethnic values
	CSR Policy Instruments: Mission statements, ethics codes, social contracts
CSR_4	**Corporate Global Citizenship (1990s–2000s)**
	Guiding CSR Principle: Accept responsibility for corporate global impacts
	Main CSR Action: Adopt and implement global sustainability programs
	CSR Drivers: Globalisation disruptions of economy and environment
	CSR Policy Instruments: International code compliance, sustainability policy

Source: Adapted from Frederick (2008, p. 525)

2.2.2 Concepts and definition of CSR

Several concepts, such as sustainable development, triple bottom line, business ethics, corporate sustainability, corporate social performance, corporate citizenship and corporate responsibility exist in the literature (WCED, 1987; Elkington, 1999; Carroll, 1979, 1999; Glavas & Mish, 2015; Huang & Watson, 2015; Arjalies & Mundy, 2013; Dhaliwal et al., 2012; Van Marrewijk, 2003). Although these terms are related and used interchangeably in the literature, CSR has been established as the umbrella term and remains dominant in concept and practice (Carroll & Shabana, 2010). In order to avoid confusion, this study uses the term ‘CSR’, which is consistent with prior studies in the field of management accounting (see, Arjalies & Mundy, 2013).

Even though the topic of CSR has been studied for several decades, there is no common definition of CSR. The academic debate on CSR began in the 1970s, although the concept has its foundations in the 1950s (Carroll, 1999; Lee, 2008). In his detailed analysis of the histories and definitions of CSR, Carroll (1999) shows that CSR has been defined in various ways since its evolution in the 1950s. Initially, CSR was defined by Bowen (1953, p. 6) as the social responsibilities of businessmen, “… to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and value of our society”. Bowen’s (1953) argument is more focused on the social responsibilities of businessmen than of business organisations. In other words, the individual responsibilities of managers were in the spotlight rather than organisational responsibilities. McGuire (1963, p. 144), who is regarded as another earlier contributor to definitions of CSR, presents his view as, “the idea of social responsibilities supposes that the corporation has not only economic and legal obligations but also certain responsibilities to society which extend beyond these obligations”. On the other hand, Nobel Laureate and economist Milton Friedman argues that business organisations have no social responsibilities. According to Friedman (1970), the only social responsibility of business organisations is to increase profits for shareholders.

In 1979 a comprehensive three-dimensional conceptual model of CSR was developed by Carroll (1979, p. 500), who presented a four-part definition of CSR as follows; “The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time”. Among these four core responsibilities, Carroll (1979) presents economic responsibility as the most important, because of its focus on increasing economic profit and remaining competitive. Second most important is legal responsibility, where organisations have to abide by the law to perform their business. The third, ethical responsibility, is not required by the law, but instead reflects the standards or norms regarded as fair by communities. Discretionary responsibility (later changed to philanthropic by Carroll, 1991), includes contributing organisational resources either in monetary or non-monetary form to the communities in which the organisation operates. Carroll’s (1991) *Pyramid of Corporate Social Responsibility* framework (see, Figure 2.1) entails economic, legal, ethical and philanthropic responsibilities. While economic and legal responsibilities are mandatory, ethical responsibility is regarded as ‘expected’ and discretionary/philanthropic responsibilities as ‘desired’ (Carroll & Shabana, 2010).

Figure 2.1 The pyramid of corporate social responsibility

Source: Adapted from Carroll (1991, p. 42).

While Carroll's (1979, 1991) model includes a comprehensive set of organisational responsibilities, Wood (1991) advanced the concept of CSR by introducing the term 'outcome' or 'performance' in her model, which was not explicit in the previous models of CSR. Wood (1991, p. 693) defines CSR as:

> a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships.

Wood (1991) uses the term corporate social performance (CSP) in her paper, which assumes that CSP is broader than CSR. Wood's (1991) CSP model includes:

- principles of CSR, which extends the focus to three distinct levels of analysis: institutional, organisational and individual
- processes of corporate social responsiveness
- outcomes of corporate behaviour

According to Wood (1991, p. 695) the basic idea of CSR is that "… business and society are interwoven rather than distinct entities; therefore, society has certain expectations for appropriate business behavior and outcomes".

Apart from Carroll's (1999) review article, which traces the definitions of CSR in the academic literature since the 1950s and provides a comprehensive overview of CSR definitions, a recent study by Dahlsrud (2008) has found 37 definitions[4] of CSR. By using

[4] In the study of CSR definitions, Dahlsrud (2008) analyses the definitions of CSR covering a time period of 1980–2003.

content analysis of CSR definitions, Dahlsrud (2008) identifies five dimensions of CSR (based on the dimension score), which include stakeholder, social, economic, voluntariness and environmental dimensions. Dahlsrud (2008) also provides the most frequently cited definition of CSR and some of these definitions are provided by the Commission of the European Communities (2001) and the World Business Council for Sustainable Development (WBCSD, 1999). The Commission of the European Communities (2001, p. 6) defines CSR as:

> A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis.

According to the WBCSD (1999, p. 3),

> Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.

Among the various existing definitions of CSR in the literature, this study adopts the definition provided by McWilliams and Siegel (2001, p. 117), who define CSR as "… actions that appear to further some social good, beyond the interests of the firm and that which is required by law". From this perspective, CSR is seen as a voluntary undertaking by organisations that entails a wide range of activities, such as poverty alleviation, health care, infrastructure development, treatment of women and minorities, pollution control and development of organic or green products. The definition of CSR provided by McWilliams and Siegel (2001), which is one of the commonly used definitions of CSR in the academic literature, is deemed suitable for this study considering its relevance to the research objective underpinning it.

2.2.3 Social, environmental and economic dimensions of CSR

While some researchers define CSR as an obligation that organisations have towards society or focus on the relationship between business and society as a whole (Carroll, 1979, 1991; Wood, 1991; Carroll & Shabana, 2010), others argue that the focus should be narrowed to stakeholders[5] (Freeman, 1984; Clarkson, 1995; Jones, 1995; Donaldson & Preston, 1995; Lee, 2008). Clarkson (1995, p. 100) argues that "it is necessary to distinguish between stakeholder issues and social issues because corporations and their managers manage relationships with their stakeholders and not with society". The purpose of narrowing the focus from society as a whole to a particular stakeholder group, such as employees, customers, suppliers, investors, media and the government, is to measure the effects of CSR in terms of performance

[5] Stakeholders are defined as "any group or individual who can affect or is affected by the achievement of an organization's purpose" (Freeman, 1984, p. 46). Although stakeholder theory does not focus directly on social or economic performance of organisations, it has some implications on CSR (Lee, 2008; Donaldson & Preston, 1995).

(Clarkson, 1995; Lee, 2008; Matten et al., 2003; Wood, 2010). Lee (2008) argues that a stakeholder model helps solve the problem of measurement because it is much easier to manage and measure managers' responsibility to stakeholders than responsibilities towards the whole society.

In recent time, researchers have not only shifted their attention from society to the stakeholder group as the unit of analysis, but also started to examine the strategic implications of CSR (McWilliams & Siegel, 2001, 2011; McWilliams et al., 2006). It is managers' responsibility to determine how their organisations can produce improved economic profit at the same time as being socially responsible and environmentally sustainable (Orlitzky et al., 2011). This view is consistent with the principle of sustainable development (WCED, 1987; Bansal, 2005) and triple bottom line (Elkington, 1999), which includes social, environmental and economic dimensions of CSR. The social dimensions of CSR represent being a good corporate citizen, which includes a wide range of activities, such as health, safety and wellbeing of employees, and considering the interests of other stakeholders in decision making (Bansal, 2005; Torugsa et al., 2013). Environmental dimensions include pollution control, recycling of waste materials, controls on emissions and toxic discharges, and adopting environmental management systems (Bansal, 2005; Henri & Journeault, 2010; Torugsa et al., 2013). The economic dimension of CSR is related to profit maximisation and being competitive in the marketplace (McWilliams & Siegel, 2001). Although CSR activities can help organisations achieve social, environmental and economic benefits, these benefits depend on the extent to which CSR activities are aligned with business strategies (Porter & Kramer, 2006; McWilliams et al., 2006; McWilliams & Siegel, 2001).

2.2.4 Strategic use of CSR

Strategy is defined as the long-term action plan of an organisation, which is used "… to achieve its goals" (Zahra & Corvin, 1993, p. 452), and "… to meet the needs of markets and fulfil stakeholder expectations" (Johnson & Scholes, 1997, p. 10). Porter (1980, 1985) identifies two successful 'generic' strategies – 'cost leadership' and 'differentiation' (with or without focus) – that a firm can choose to achieve a sustainable competitive advantage. Cost leadership strategy focuses on becoming the low-cost producer in an industry and requires tight cost control throughout the value chain (Johnson & Scholes, 1997). Cost leaders try to produce goods or services that are cheaper than those of competitors without compromising quality, service and other areas (Miller, 1986; Porter, 1980). The second generic strategy is 'differentiation', which aims to offer high quality and innovative products or services that are somehow unique and valued by customers (Porter, 1985). The aim of differentiation strategy is to increase market share either by offering better products or services at the same price, greater convenience and more reliable services to customers, or to increase margin by pricing slightly higher. As a result, differentiated products or services help create brand loyalty and reputation, and ultimately charge a higher price (Hart, 1995; Miller, 1986). These two generic strategies (i.e., cost leadership and differentiation) are regarded as two important sources of competitive advantage (Hart, 1995). The focus strategy concentrates on particular groups of customers, products or segments of the geographic market. These generic strategies (i.e., cost leadership, differentiation and focus) represent the types of strategy from which organisations can choose "… which strategic group to compete in" (Porter, 1980, p. 149).

A review of the literature suggests several ways in which CSR can be implemented as part of an organisation's business strategy (Porter & Kramer, 2006; Siegel & Vitaliano, 2007; McWilliams & Siegel, 2001; McWilliams et al., 2006). In the management and accounting literature, researchers stress implementing a strategic form of CSR, which is also called strategic CSR or profit maximising CSR (Baron, 2001; Porter & Kramer, 2006; Arjalies & Mundy, 2013; McWilliams & Siegel, 2001; 2011). Strategic CSR is defined in the literature in various ways. According to Burke and Logsdon (1996, p. 496),

> Corporate social responsibility (policy, programme or process) is strategic when it yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to its mission.

While Baron (2001) refers to strategic CSR as a profit maximising strategy, Porter and Kramer (2006, p. 85) claim "it is through strategic CSR that the company will make the most significant social impact and reap the greatest business benefits". It follows that any CSR activities that are intended to benefit organisations can be considered strategic CSR (Baron, 2001; McWilliams & Siegel, 2011; Branco & Rodrigues, 2006; Porter & Kramer, 2006; Burke & Logsdon, 1996; Arjalies & Mundy, 2013). Strategic CSR can be used to achieve product differentiation (McWilliams & Siegel, 2001, 2011), make the most significant social impact and, if implemented properly, "it can be a source of opportunity, innovation, and competitive advantage" (Porter & Kramer, 2006, p. 80). Strategic CSR is linked to social and environmental investment and building reputation, which can enhance organisational performance and benefit society as well (McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006). However, there is evidence to suggest that some organisations integrate CSR into their business strategies to achieve competitive advantage (Schaltegger & Burritt, 2010; Hoejmose et al., 2013; McWilliams et al., 2006; McWilliams & Siegel, 2001), while others practise CSR for philanthropic or even for greenwashing[6] purpose (Aguilera et al., 2007; McWilliams & Siegel, 2001; Bansal, 2005; Carroll, 1979, 1991).

Strategic CSR is also concerned with cost benefit analysis (Husted & de Jesus Salazar, 2006). In other words, strategic CSR is linked to social and environmental investment and building reputation, which ultimately enhances organisational performance (McWilliams & Siegel, 2001; 2011; Barnett, 2007; McWilliams et al., 2006; Orlitzky et al., 2003; McWilliams & Siegel, 2000; 2001; Carroll, 1999). Therefore, CSR is no longer limited to large and established organisations; rather it has become an inescapable strategic priority for all business organisations (Porter & Kramer, 2006). Lee (2008, p. 63) concludes that one of the reasons behind organisations' adoption of CSR is that "investment in CSR will eventually pay off". However, CSR also costs shareholders money and distracts managers from their assigned roles and responsibilities (Friedman, 1970).

2.2.5 Arguments for and against CSR

Researchers hold two distinct views on CSR practices with considerable debate remaining about the extent of the adoption of CSR in the organisational context. The first perspective is the shareholder perspective, which emphasises that CSR should not be practised by managers at the cost of shareholders (Dhaliwal et al., 2011; Karnani, 2011; Friedman, 1970). Taking the shareholder perspective, Friedman (1970) argues that the only social responsibility of business is to increase profit, and social issues are out of the scope of businesses and their managers. Friedman's (1970) view is based on an agency relationship, which is defined by Jensen and Meckling (1976, p. 308) as:

> A contract under which one or more persons (the principal(s)) engage another person (the agent) to perform some service on their behalf which involves delegating some decision making authority to the agent.

The primary focus of agency theory is on the relationship between the principal (stockholders/shareholders) and the agent (managers) as the theory assumes that the interests of principals and agents vary (Hill & Jones, 1992). From the perspective of agency theory, the principal delegates authority to the agent to act in the best interest of the principal (Jensen & Meckling, 1976), however, agents seek their own interests rather than the interests of the principals (Salazar & Husted, 2008).

According to Friedman, managers are the agent of shareholders and their fundamental duty is to increase shareholder profit. Friedman's (1970) argument is based on the assumption that

[6] In contrast to strategic use of CSR, greenwashing refers to the adoption and practice of CSR by organisations to show that they are concerned about societal and environmental issues, but in reality they do not have any intention of improving their social or environmental performance (Schaltegger & Burritt, 2010).

CSR destroys shareholders' profit, and distracts managers from their assigned responsibilities. Karnani (2011) supports this view by claiming CSR as an illusion and an irrelevant topic for business managers. Karnani (2011) views CSR as a financial penalty to shareholders. According to this perspective, CSR practice is a misuse of organisations' resources, which can be better used to maximise shareholder profit. Therefore, managers should not adopt CSR at the cost of shareholders.

The second perspective is the stakeholder perspective, where 'stakeholder' is viewed as "any group or individual who can affect or is affected by the achievement of an organisation's purpose" (Freeman, 1984, p.46), such as shareholders, creditors, managers, employees, customers, suppliers, local communities and the general public (Hill & Jones, 1992). Each group of stakeholders is seen as important because they supply critical resources to the organisation and in exchange they want their interests to be fulfilled. Hill and Jones (1992, p. 133) provide an example of the exchange relationship as:

> … employees provide the firm with time, skills, and human capital commitments. In exchange, they expect fair income and adequate working conditions. Customers supply the firm with revenues and expect value for money in exchange. Suppliers provide the firm with inputs and seek fair prices and dependable buyers in exchange. Local communities provide the firm with locations, a local infrastructure, and perhaps favourable tax treatment. In exchange, they expect corporate citizens who enhance and/or do not damage the quality of life.

The central theme of stakeholder theory is the survival of the organisation, which is contingent not only on shareholders, but also other stakeholders, such as customers, employees and governments. Although stakeholder theory does not focus directly on the social or economic performance of organisations, it has some implications for CSR (Lee, 2008; Donaldson & Preston, 1995).

In contrast to the shareholder perspective, researchers taking the stakeholder perspective argue that organisations should take responsibility for their social and environmental impacts and invest in CSR even though it may reduce their immediate cash flow or profit (Mackey et al., 2007). According to this perspective, organisational performance should not be viewed on a narrow dimension or on the basis of short-term profit because of the undermining effects to other important non-owner stakeholders, such as customers, employees, suppliers, investors and the community (Cohen et al., 2012). For instance, organisations may increase their profit by exploiting workers and natural resources and by damaging the environment. However, without taking into account the interests of important stakeholders and the environment, organisations may not be able to achieve long-term economic success and survival (Mele, 2008).

Werther and William (2011) argue that the success and the survival of businesses can be affected by an overemphasis on profitability, stability and growth, and undermining the broader interest of other important stakeholders. These days organisations are "… viewed as the major cause of social, environmental, and economic problems" (Porter & Kramer 2011, p. 64). These kind of organisational activities can have significant influence, including penalties, legal actions and consumer boycotts (Werther & William, 2011; Norman & MacDonald, 2004). It can be argued that excessive short-term profit oriented performance can also have negative consequences on the long-term performance of organisations (Cohen et al., 2012; Langfield-Smith et al., 2012; Benabou & Tirole, 2010). For example, by compromising safety or pollution control, managers may be able to increase short-term profit, but risk future penalties or lawsuits, which may create huge financial losses or the loss of the organisation's licence to operate (Benabou & Tirole, 2010). Researchers taking a stakeholder perspective argue that organisations need to recognise the legitimate interests of their stakeholders and maintain a good relationship in order to achieve long-term success and survival (Mele, 2008; Donaldson & Preston, 1995; Jones, 1995).

The controversy between advocates of shareholder and stakeholder or social responsibility perspectives is widespread in the literature. The different views of the shareholder and stakeholder perspectives have stimulated numerous studies in the last four decades (Barnett & Salomon, 2012; Surroca et al., 2010; Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al. 2003). Researchers have tried to find a direct link between CSR and corporate financial performance (CFP) in their empirical studies in the last 40 years. However, the results are mixed and inconclusive (see, Margolis et al., 2009; Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003).

2.2.6 A review of literature on CSR and organisational performance

Previous studies have examined the practical implications of CSR in terms of organisational performance (McWilliams & Siegel, 2011). There are various interpretations of organisational performance in the management and accounting literature. Lebas and Euske (2007) refer to the word 'performance' as an action or an event, while Ittner (2008) defines it as a perceptual outcome of the process or the result of business activities. Organisational performance is evaluated in terms of financial or non-financial performance in the management accounting literature (Langfield-Smith et al., 2012). However, in the CSR literature numerous empirical studies have investigated the relationship between CSR and CFP by using either financial performance measures, such as 'return on assets' (ROA), 'return on equity', 'return on sales' or market based measures (share price, stock returns and Tobin's q) (e.g., Bird et al., 2012; Lee et al., 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003; McWilliams & Siegel, 2000;

Waddock & Graves, 1997; Griffin & Mahon, 1997). A review of the literature on the relationship between CSR and CFP suggests that share price and ROA are the most commonly used financial performance measures (Margolis & Walsh, 2003; Orlitzky et al., 2003; Peloza, 2009).

The relationship between CSR and performance is seen as one of the most controversial research topics in the CSR literature (Malik, 2015; Crane et al., 2008; Margolis et al., 2009). A large number of studies have examined the association between CSR and financial performance in the last 40 years, however, the results are inconclusive and mixed (see, Margolis et al., 2009; Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). While some of the studies have found a positive relationship (e.g., Choi et al., 2010; Orlitzky et al., 2003; Waddock & Graves, 1997), others have found negative results (e.g., Brammer et al., 2006; Vance, 1975), and several others (e.g., Surroca et al., 2010; McWilliams & Siegel, 2000) have reported no significant relationship.

Numerous researchers, such as Surroca et al. (2010), McWilliams and Siegel (2000) and Aupperle et al. (1985) have found no significant or direct relationship between CSR and CFP in their empirical studies. Aupperle et al. (1985) examine the association between social responsibility and profitability by using a forced-choice survey instrument, where the researchers have used Carroll's (1979, p. 500) CSR model, which includes "economic, legal, ethical, and discretionary" components to measure the social responsibility of organisations. To measure profitability of the organisations, Aupperle et al. (1985) use ROA based on both short-term for one year and long-term for five years. Their findings do not reveal any established relationship between CSR and profitability. A similar non-significant and indirect relationship is found in the empirical studies of McWilliams and Siegel (2000) and Surroca et al. (2010).

Other researchers (e.g., Brammer et al., 2006; Vance, 1975) report a negative relationship between CSP and financial performance. In his study of 14 established and large organisations, Vance (1975, p. 19) finds the market performance record of organisations "considerably worse than that of the Dow Jones Industrials, the New York Stock Exchange Composite Index, and the Standard and Poor's Industrials". Based on his negative findings, Vance (1975, p. 24) concludes "socially responsible do not seem to be good investment risks". In a more recent study, Brammer et al. (2006) examine the association between CSP and CFP based on stock returns in UK sample organisations finding a negative relationship between CSP and CFP. These finding support the argument that expenditures on CSR reduce shareholders' value (Friedman, 1970).

In contrast to the studies cited above, several studies have found a positive association between CSR and CFP. Integrating 30 years of empirical research Orlitzky et al. (2003) conduct a meta-analysis of 52 quantitative studies in which the researchers found that CSP is positively associated with CFP. Orlitzky et al. (2003) conclude that organisations do not have to bear any additional financial loss for being socially responsible, therefore managers can afford to practise CSR. This conclusion also rejects the claim made by neoclassical economists (e.g., Friedman, 1970) that CSP destroys shareholder wealth. Similar conclusions are drawn by Margolis and Walsh (2003), who report that most studies investigating the association between CSR and performance indicate a positive association between CSR and financial performance. Margolis and Walsh (2003, p. 278) conclude:

> Although it can be argued that a company's resources might be used to produce even more wealth, were they devoted to some activity other than CSP, studies of the link between CSP and CFP reveal little evidence that CSP destroys value, injures shareholders in a significant way, or damages the wealth-creating capacity of firms.

Peloza (2009) reviews 128 studies examining the relationship between CSR and CFP published from 1972 to 2008, finding 59% report a positive relationship, 27% report a mixed relationship and 14% report a negative relationship. In a more recent and comprehensive study, Margolis et al. (2009) conduct a meta-analysis of 251 studies that include journal articles, books, dissertations and working papers published in and after 1998 to examine the link between corporate social and financial performance, finding an overall positive effect. Although only 2% of studies have found a negative association, 28% of results were positive and 59% of studies found a non-significant relationship between CSP and CFP.

Although a large number of researchers from various disciplines (e.g., marketing, management, human resources, economics and others) have investigated the relationship between CSR and organisational performance, the empirical evidence does not provide clear evidence as to whether CSR benefits organisations or is an additional cost to them. However, in reality, the number of organisations adopting, practising and reporting CSR is increasing around the world (KPMG, 2011; Vidal et al., 2010). CSR has become an integral part of business strategy and management practices in recent times (KPMG, 2011; Economist Intelligence Unit, 2010). Crane et al. (2008, p. 572) suggest that “one of the issues central to CSR, but often left unexamined is what drives CSR?” In a recent review article on CSR research in accounting, Huang and Watson (2015) recommend additional research to investigate the drivers of CSR. Therefore, the first research objective of this thesis is to fulfil the empirical gap in the literature by investigating the factors influencing diffusion of CSR.

2.3 FACTORS INFLUENCING DIFFUSION OF CSR

Management accounting researchers have used a number of theories from other social sciences, which include economics, sociology, psychology and organisational and behavioural theories (see, Baxter & Chua, 2003; Luft & Shield, 2003; Chenhall & Smith, 2011; Malmi & Granlund, 2009). Contingency theory, which is a combination of various organisational theories (Hopper & Powell, 1985; Chenhall, 2003) is one of the most widely used theories in the management accounting literature. Researchers have used contingency theory to examine the effect of different contingent factors, such as environment, technology, structure and size (Chenhall, 2003; Otley, 1980) on adoption and implementation of new management practices. However, contingency theory is criticised for "paying insufficient attention to the discretion possessed by key decision-makers and how beliefs and ideologies may influence choices" (Hopper & Powell, 1985, p. 441). Considering the limitation of the contingency theory, this study explores a wide range of factors including internal and external or micro and macro that can influence the diffusion of CSR in the context of a developing country drawing on the diffusion of innovation theory (Rogers, 2003) and Abrahamson's (1991) framework.

Various internal and external factors are mentioned in the literature that can influence the diffusion of CSR (Bansal & Roth, 2000; Engert et al., 2016). While globalisation is seen as one of the important factors that influence the diffusion of innovations, diffusion of CSR is largely seen as context specific (Vidal et al., 2010). A review of the literature suggests that diffusion of CSR practices is driven by a number of factors, such as legal compliance (Engert et al., 2016), institutional pressure (Campbell, 2007), cost benefit analysis (McWilliams & Siegel, 2001), competitive advantage (Porter & Kramer, 2006; McWilliams et al., 2006), instrumental or normative reasons (Aguinis & Glavas, 2012; Bansal & Roth, 2000), risk management, reputation enhancement and stakeholder demands (Aguilera et al., 2007; Jackson & Apostolakou, 2010; Porter & Kramer, 2006; Fombrun & Shanley, 1990; Engert et al., 2016). Several other factors, such as industry, economic conditions, regulatory environment, organisational size, structure, organisational culture and key individuals (top management) within the organisation are also mentioned in the literature as influencing the adoption of CSR (Aguinis & Glavas, 2012; Engert et al., 2016; Gordon et al., 2012; McWilliams et al., 2006; Peloza, 2009). Some of these factors are discussed below.

Organisations adopt CSR practices because of social as well as institutional pressures (Aguilera et al., 2007) and to appear legitimate (Matten & Moon, 2008). Matten and Moon (2008) affirm that 'new institutionalism' (DiMaggio & Powell, 1983) provides a theoretical perspective to understand the process of CSR adoption among organisations. According to DiMaggio and Powell (1983) the mechanism through which organisations adopt systems and procedures to be considered legitimate is called institutional isomorphism. The three mechanisms (pressure) are coercive, mimetic and normative pressures. It is argued that because of these three mechanisms (institutional pressure) organisations adopt CSR practices (Matten & Moon, 2008). Institutional pressures, such as public and private regulation, and forces operating outside the organisation, play an important role in terms of influencing organisations to adopt CSR (Campbell, 2007). Organisations are also facing increased pressure from their stakeholders, such as customers, employees, suppliers, investors, community, activist groups and the media to practise CSR (Jackson & Apostolakou, 2010; Aguilera et al., 2007; Porter & Kramer, 2006). By ignoring this pressure, organisations may face penalties, consumer boycotts or the loss of their licence to operate in the worst cases. One example of a strategic response to stakeholder (consumer and activist) pressure is Nike, which faced severe consumer boycotts because the media (*New York Times* and other print media) reported on the poor working conditions in its factories in South-East Asia in the 1990s (Matten & Moon, 2008; Porter & Kramer, 2006).

While some organisations adopt CSR in a reactive manner, others adopt CSR in a proactive way either for normative purposes or for business case purposes. Organisations practise CSR as a precaution to mitigate against future undesirable impacts and risks and to protect their reputation. Proactive CSR is important in terms of avoiding consumer boycotts, future law suits, penalties, or the cancellation of organisations' licence to operate (Husted & de Jesus Salazar, 2006). According to Jackson and Apostolakou (2010, p. 387) organisations adopt CSR "as a way of managing their reputation by efforts to use CSR to legitimate their business practices and thereby address the expectations of stakeholders". It follows that organisations either adopt CSR practices to respond to stakeholders' pressure or as a precaution against any future risk associated with their negative externalities. However, it is not only reactive or proactive initiatives that makes organisations adopt or engage in CSR practices; rather CSR is seen as a strategic resource through which organisations can achieve sustainable competitive advantage (McWilliams et al., 2006; Hart, 1995; Lee, 2008). This is because CSR is no longer seen as just the social responsibility of organisations in recent times but also as a means to develop business strategy (see, Section 2.2.4). Moreover, many organisations also adopt CSR to appear modern or innovative to their customers and employees (Abrahamson, 1991; Aguilera et al., 2007).

Although various factors are mentioned in the literature that influence the adoption of CSR, few studies have examined the factors that influence the diffusion of CSR in the empirical context. For instance, Corbett and Kirsch (2001) investigate the international diffusion of ISO

14000 using both qualitative and quantitative data. The researchers have found that "… the forces behind ISO 14000 are not exclusively environmental" (Corbett & Kirsch, 2001, p. 339). In their study, Vidal et al. (2010) examine the diffusion of CSR in the context of the forestry industry in Brazil, Canada and the US. Using a qualitative research method, the researchers find that three major factors influence the diffusion of CSR to forest companies, which are "(i) external contextual characteristics, (ii) connectors, and (iii) experts and expert organizations" (Vidal et al., 2010, p. 563). In a more recent study, Rodrigue et al. (2013) find that pressure from various stakeholders has a great impact on the case organisation's choice of internal environmental performance indicators (EPI). While these studies provide insight into understanding the diffusion of CSR, there remains limited understanding and explanation of the factors that influence the internal diffusion of CSR (Linnenluecke & Griffiths, 2010), especially in the context of developing countries (e.g., Chapple & Moon, 2005; Visser, 2008; Jamali, 2014).

The next section provides an extensive review of empirical studies examining the factors influencing the diffusion of CSR in the context of developing countries. Before discussing the diffusion of CSR in developing countries, it is essential to highlight the general understanding (both theoretical and empirical)[7] of CSR studies in the context of developing countries. Therefore, a brief review of the literature on CSR in developing countries is presented first.

2.3.1 CSR in developing countries

Before the review of CSR studies on developing countries, a classification of the countries is provided as there remains considerable debate on this topic. Various country classifications exist in the literature. Several international organisations, such as the UNDP, the World Bank and the IMF have classified countries in different ways. For instance, the *Human Development Report 2009* of the UNDP classifies countries as very high human development, high human development, medium human development and low human development (UNDP, 2009). According to the UNDP (2009), the first category (i.e., very high human development) of countries refers to developed countries, and all other remaining countries (i.e., high human development, medium human development and low human development) are referred to as developing countries. The IMF (2012) classifies countries in two groups – advanced economies, and emerging and developing economies. According to the IMF (2012, p. 177), "The country classification in the *World Economic Outlook* divides the world into two major groups: advanced economics and emerging and developing economies". The World Bank's

[7] There is also a sharp contrast between the theoretical and empirical CSR research conducted in the context of the developed and developing countries. For example, Moon and Shen (2010) find that 90% of CSR studies are empirical in the context of Asian countries, while Locket et al.'s (2006) study shows that 53% of CSR studies were empirical and 47% theoretical, which is almost equal.

(2015) classification of countries is based on the gross national income (GNI) per capita. According to the *World Development Indicators 2015* of the World Bank, economies are classified as low-income economies, middle income economies and high-income economies. "The low and middle income economies are sometimes referred to as developing economies" (The World Bank, 2015, p. 9). From the above classifications, developing countries can be described as those with low and/or medium income and human development. The above discussion clearly indicates that developing countries are usually those with a lower level of human development, less industrialised and less developed economy, lower per capita income, and more inequality and poverty (Belal et al., 2013; Visser, 2008).

The rationale behind focusing on CSR in developing countries is threefold. First, developing countries represent 85.1% of the world's population and account for 48.9% of the world's GDP (IMF, 2012). Developing countries are growing faster when compared to their developed counterparts and are seen as a strong growth engine and attractive investment destination for foreign investors in recent times due to the emergence of a large middle class (see, Dobbs et al., 2015; Peng et al., 2008). Second, along with the advent of globalisation and continuous economic growth, there are more likely to be positive as well as negative social and environmental impacts and there have been widespread social and environmental crises in developing countries in recent times (Visser, 2008). Third, although CSR has become popular and is growing in developed countries, such practices are regarded as new and in an emerging stage (KPMG, 2011; Matten & Moon, 2008). According to Visser (2008, p. 474), "The developing countries present a distinctive set of CSR agenda challenges which are collectively quite different to those faced in the developed world". The purpose and practices of CSR in developing countries are quite different from those in developed countries in terms of political systems and circumstances, regulatory frameworks, socioeconomic priorities, stakeholder demands and cultural context (Matten & Moon, 2008; Visser, 2008; McWilliams et al., 2006; Maignan & Ralston, 2002; Jamali, 2014).

2.3.2 Review of CSR studies in developing countries

From the above discussion (see, Section 2.2.6) it can be argued that there has been a great deal of research into the field of CSR, especially in the past two decades, however, the majority of these studies are based in the context of developed countries (Kim & Moon, 2015; Chapple & Moon, 2005). Relatively little is known about CSR in the context of developing countries (Visser, 2008; Blowfield & Frynas, 2005; Azizi & Jamali, 2016; Jamali, 2007, 2014). According to Jamali and Mirshak (2007, p. 260) "there is a scarcity of research addressing the philosophy and practice of CSR in developing countries". The prior literature on CSR in developing countries indicates that the purpose and practice of CSR is different in developing countries because of the different political, economic and cultural context (Maignan & Ralston, 2002; Matten & Moon, 2004). This statement is also supported by the study of Chapple and Moon (2005). In their study, Chapple and Moon (2005) find that there is no single pattern of CSR even in Asian countries. According to Campbell (2007, p. 950), CSR may mean “different things in different places to different people and at different times”.

However, a review of the literature indicates that there is a surge of interest amongst researchers in the field of CSR in developing countries in recent times (Kim & Moon, 2015; Moon & Shen, 2010; Yin & Zhang, 2012; Lindgreen et al., 2009; Baskin, 2006; Blowfield & Frynas, 2005; Frynas, 2006). This statement is supported by studies conducted by Moon and Shen (2010) and Kim and Moon (2015). Moon and Shen (2010) investigate the development of CSR practices in the context of China. The authors find that the initial focus of CSR research was ethical (right thing to do), which is gradually changing, with the focus shifting towards more specific issues such as social, environmental and stakeholder agendas. In particular, “the environmental focus is becoming of growing significance in CSR in China” (Moon & Shen, 2010, p. 624). According to Moon and Shen (2010), the growth in CSR in China may be fuelled by a number of factors including international interest in CSR in China, the greater emphasis placed by the Chinese government and business leaders on CSR and the new corporate law (2006) and guidelines for listed companies that encourage CSR related information to be disclosed. Similar findings are presented by Kim and Moon (2015, p. 349), “CSR in Asia research is shown to be growing”.

The OECD commissioned a study by Baksin (2006) investigating the extent of CSR in the context of emerging markets compared to the high-income OECD countries context. Adopting a comparative approach, Baskin (2006) examines the CSR practices and behaviours of 127 large organisations operating in 21 emerging or developing economies from Asia, Africa, Latin America and Central and Eastern Europe and compared the findings to the 1700 leading organisations operating in the OECD countries. Although the author did not find a vast difference between large organisations operating in emerging and developing countries and their developed counterparts, Baskin (2006, p. 46) concludes that CSR in emerging markets, “… is less embedded in corporate strategies, less pervasive and less politically rooted than in most high-income OECD countries”.

Another comparative study is conducted by Chapple and Moon (2005), who investigate the CSR practices of 50 organisations operating across seven Asian countries that include India, Indonesia, Malaysia, the Philippines, South Korea, Singapore and Thailand. Chapple and Moon (2005) find that education and training is the most important issue in terms of CSR across all countries, followed by environment conservation, community development and employee welfare. Chapple and Moon (2005, p. 436) further confirm that "there is no single pattern of CSR in Asia". The authors conclude that multinational companies are more likely to adopt CSR practices compared to local/domestic organisations operating in the sample countries. Similar results are reported for Sri Lanka in the empirical study conducted by Fernando et al. (2015).

Visser (2008) suggests that most CSR practices in developing countries are related to philanthropy or charity as a way of giving back to society. This statement is supported by the empirical evidence provided by the previous CSR studies conducted in the context of developing countries (Amaeshi et al., 2006; Jamali & Mirshak, 2007; Arora & Puranik, 2004; Adhikari, 2012; Moyeen & West, 2014; Fernando et al., 2015). In an African context, Amaeshi et al. (2006) investigate the purpose and practices of CSR amongst indigenous (or local) organisations operating in Nigeria by conducting semi-structured interviews and document (web content) analyses. The authors find that CSR in Nigeria is mostly aimed at addressing the socioeconomic development challenges of the country, and philanthropic responsibilities were emphasised over the other responsibilities outlined by Carroll (1991), such as economic, legal and ethical. Amaeshi et al. (2006, p. 94) conclude "In summary, the results / analyses show that the understanding and practice of CSR in Nigeria is still largely philanthropic and altruistic".

Similar findings are reported by Jamali and Mirshak (2007), who examine the understanding and practices of CSR in eight[8] active organisations operating in Lebanon drawing on the CSR frameworks of Carroll (1979) and Wood (1991). Jamali and Mirshak (2007, p. 260) reveal that CSR is still largely considered as philanthropic in the Lebanese context, where "none of the companies interviewed have developed clear targets, rigorous metrics, and due diligence in their pursuit of CSR". In a recent study, Yin and Zhang (2012) study the CSR philosophy and approach in China based on inductive case studies in an attempt to understand how Chinese organisations interpret and practise CSR. Yin and Zhang (2012, p. 301) find that Chinese CSR understanding is "largely grounded in the context of ethical and discretionary actions".

In their review of CSR initiatives in the Indian context, Arora and Puranik (2004) find that most of the organisations operating in India are involved in CSR activities, such as healthcare, education, sanitation, micro-credit and empowerment of women, which are philanthropic in

[8] The sample of Jamali and Mirshak (2007) includes two banks, one insurance company, one hotel, one manufacturing company, one bottling company, one food processor and one IT company.

nature. The reason, according to Arora and Puranik (2004, p. 98), is that "Nearly all companies with CSR embedded in the core corporate activity do so because of company tradition rather than a company strategy leading to ad hoc and largely CEO-driven CSR policy". In a more recent empirical study on CSR in India, Arevalo and Aravind (2011) find that managers in Indian organisations still view CSR as a values-driven rather than a profit-driven strategy although the latter is seen as an important factor.

In the context of Bangladesh, Moyeen and West (2014) study the attitudes and perceptions of senior managers in Bangladesh towards CSR through conducting semi-structured interviews with a group of 32 mangers of large organisations. The authors reveal that senior managers in Bangladesh have a positive view of CSR, however, most CSR practices are focused on philanthropy. In a similar vein, Ahmad (2006) finds that CSR practices in Pakistan are concentrated on employee welfare and corporate philanthropy, such as health, education and social welfare. In Sri Lanka, Fernando et al. (2015) find that there is greater focus on social issues, such as involvement in local community projects and contributing to charity, than environmental issues. In the context of Nepal, Adhikari (2012) studies CSR practices in Nepal, finding that although Western concepts of CSR are emerging, philanthropy is not a new concept in Nepal, where business organisations have been involved in philanthropic activities for over 100 years. Adhikari (2012, p. 652) further suggests that employees have a positive attitude towards CSR in Nepal. It is apparent from the above discussion that most of the CSR practices of developing countries are focused on philanthropic CSR practices.

However, contrary to prior findings some researchers have found opposing results in the context of developing countries. In their empirical study, Lindgreen et al. (2009) investigate CSR in the context of Botswana and Malawi. The authors report that their sampled managers recognise the economic benefits of CSR. Lindgreen et al. (2009, p. 439) further reveal,

> Both countries had a relatively positive perception of CSR practices as improving economic performance, rated their ethical policies and practices highly, and there was no clear predilection for philanthropy as had been suggested.

In their empirical study conducted in the Middle Eastern developing countries, Jamali et al. (2009) find that there is a rise in the modern view of CSR, with increasing awareness of CSR and managers taking a more proactive approach towards strategic use of CSR. It follows that there is evidence to suggest that organisations operating in developing countries are shifting their focus in recent times from the philanthropic nature of CSR to strategic CSR. Although these studies provide important insight into the CSR practices of the developing countries, relatively little is known about the factors that influence the propensity of CSR adoption in the context of developing countries (Visser, 2008; Lindgreen et al., 2009; Baskin, 2006).

Existing literature suggests that the factors that appear to have a strong influence on adoption of CSR in organisations operating in developed countries may have no influence, or a small or negative influence, on organisations operating in developing countries due to the unique institutional setting and different socioeconomic and environmental conditions within which they operate (Dhaliwal et al., 2012; Maignan & Ralston, 2002; McWilliams et al., 2006). The next section reviews the literature on diffusion of CSR in developing countries.

2.3.3 Diffusion of CSR in developing countries

In an OECD commissioned study, Baskin (2006) finds that there are a number of key drivers, such as regulatory pressure, foreign ownership and corporate governance code that influence the adoption of CSR. A summary of key drivers of CSR in the context of developing countries is presented in Table 2.2.

Table 2.2 Summary of existing CSR trends in developing countries and key drivers

Region	Current state of CSR	Key drivers
Central and Eastern Europe	• Companies from Poland, Slovenia, Hungary and Czech Republic show most evidence of incorporating CSR approaches • Pockets of interest in many other states • Disclosure is increasing overall • Russia, Bulgaria and Estonia show least interest	• Foreign ownership • Accession (or the goal of accession) to EU membership • Competitive advantage • Influence of corporate governance codes
Africa and Middle East	• South Africa has the most developed CSR situation and socially responsible investment (SRI) interest • Minimal interest in CSR elsewhere	• Domestic pressure for CSR • Threat of regulation • Significant SRI market • Influence of corporate governance code
Latin America	• Most activity in Brazil, Mexico, Chile, Uruguay, Argentina • Focus is on philanthropy • Some SRI funds emerging	• Nascent public interest and domestic inequalities • Regulatory pressures
Asia	• Companies from India and Malaysia beginning to incorporate CSR • Pockets of interest elsewhere • China has especially low take-up of CSR	• Global pressures • Strategy for competitive advantage • Strong external investor interest in corporate governance and SRI in Asia

Source: Adapted from Baskin (2006, p. 31)

Although the institutional context plays an important role in terms of CSR adoption in both developed and developing countries (Campbell, 2007; Jamali & Mishrak, 2007; Matten & Moon, 2008), the institutional environment and forces may be different in the context of developing countries. For example, the governments of the developed countries can enforce and encourage organisations to adopt CSR. Some examples of government promotion of CSR practices promoted can be found in the UK, Denmark and Australia, which have developed public policy frameworks to address unemployment problems and expand public–private partnerships (Moon & Vogel, 2008). In contrast, the governments of developing countries may not be able to exert such pressure on organisations to behave responsibly due to weak judicial infrastructure, limited enforcement of regulation and legislation, political instability, poor governance and lack of accountability (Jamali, 2014; Visser, 2008; Belal et al., 2013).

Adoption of CSR in developing countries is also promoted by the various stakeholder groups, such as development agencies, international and local NGOs, business associations, trade unions and the media (Visser, 2008; Jamali, 2014). These stakeholder group exert pressure on organisations to consider their industrial impact on society and the environment, such as deforestation, waste dumping, excessive greenhouse gas emission, and to abide by the international laws regarding human rights, fair pay, child labour, work place safety and sustainability (Fernando et al., 2015; Jamali, 2014). However, in contrast to developed countries, where civil society or the general public are seen as the most powerful stakeholder group, the situation in developing countries may be different, as according to Belal et al. (2013, p. 85) "those living in poverty in remote areas are rarely considered to be stakeholders".

Apart from limited legal and regulatory enforcement and stakeholder pressure, the socioeconomic and environmental context is also different in developing countries. While the social aspects of CSR dominate in the context of developing countries, CSR priorities in developed countries may include environmental, ethical or stakeholder concerns (Visser, 2008; Lockett et al., 2006). For example, while organic (green) or recycled products may be regarded as a part of strategic CSR in developed countries, such strategies may not be suitable in the context of developing countries, where social issues such as poverty alleviation, health care and infrastructure may be higher priorities (Valente & Crane, 2010; Visser, 2008).

A recent study conducted by Valente and Crane (2010) among the 'for profit' organisations operating in the developing countries of Africa, Latin America and Asia shows that these organisations are facing different challenges related to CSR practices from those in developed countries. Unlike product differentiation, CSR strategies implemented in these regions are not targeted to the products or services the organisations produce. Rather, organisations adopt different types of CSR strategies, such as public responsibility supplement and support strategies. Valente and Crane (2010, p. 55) refer to public responsibility strategies as intending to

> … address public problems in the absence of effective governmental infrastructure or processes … in developing countries, typically as a result of deficits in public resources and capabilities, poor governance, or corruption.

Carroll's (1991) CSR Pyramid (see, Figure 2.1), which entails economic, legal, ethical and philanthropic responsibilities is well-suited to developed countries. According to Carroll (1991), economic responsibilities are the first priority of organisations, that is, improving economic performance and remaining competitive and profitable. This may be because without sound economic performance, organisations may not be able to survive in the long-term. Legal responsibility refers to legal compliance, that is, operating according to existing laws and regulations. Ethical responsibility reflects the standards or norms that are regarded as fair. Examples of ethical responsibility include avoiding discrimination or harm in the work place. Philanthropic responsibility is at the top of the CSR pyramid and includes contributing monetary or non-monetary resources to communities or charities. However, researchers have raised questions about the applicability of Carroll's (1991) model in the global context (Visser, 2008; Lindgreen et al., 2009), especially in the context of the developing countries. For instance, Visser (2008, p. 488) questions, "Are current Western conceptions and models of CSR adequate for describing CSR in developing countries?"

After reviewing Carroll's (1991) CSR pyramid Visser (2008) suggests that the ranking of responsibilities in developing countries is different. Although the economic responsibilities of organisations, such as providing employment, investment and tax, remain at the bottom of the CSR pyramid (see, Figure 2.2), philanthropic responsibility is seen as the second highest priority in the context of developing countries, followed by legal and ethical responsibilities (see, Figure 2.2). Visser (2008, p. 493) concludes "In developing countries, CSR is most commonly associated with philanthropy or charity, i.e. through corporate social investment in education, health, sports development, the environment, and other community service".

Figure 2.2 CSR pyramid for developing countries

Source: Adapted from Visser (2008, p. 489).

The previous section reviewed the literature on the factors influencing the diffusion of CSR in the context of developing countries. By suggesting a number of factors that influence the diffusion of CSR, the previous studies contribute to our understanding of the diffusion of CSR in the context of developing countries. However, all of these studies discuss external factors, such as institutional and regulatory pressure, stakeholder demands and other key drivers, ignoring the important internal factors that can have significant influence on diffusion of CSR. Therefore, in order to explore the factors influencing the diffusion of CSR in the context of a developing country, this study draws on the theoretical foundation of 'diffusion of innovations' theory (Rogers, 1995, 2003) and Abrahamson's (1991) framework. These theoretical frameworks are discussed next.

2.3.4 Diffusion of innovations

A recent survey shows that 80% of executives believe innovation is more important for the benefit of organisations in the long run than mere cost reduction (Rigby & Bilodeau, 2011). Understanding of an innovation and its associated costs and benefits are essential because it is a fundamental role of management accounting, which provides required information to managers for taking decisions about whether to accept or reject innovation (Balakrishnan et al., 2011).

Innovation is defined as "… an idea, practice, or object that is perceived as new by an individual or other unit of adoption" (Rogers, 2003, p. 12), while Firth (1996) defines innovation as an adoption of an old idea in a new context. According to Chenhall and Moers (2015, p. 2),

> Innovation has been defined in general terms as the adoption of an idea or behavior, pertaining to a product, service, device, system, policy, or programme, that is new to the adopting organization.

In the literature two types of innovations are generally cited: technical and administrative (also called managerial) innovation.[9] Technical innovation includes new technologies, products and services that are meant to improve the technical performance of the organisation, whereas administrative (managerial) innovation includes new administrative procedures, practice, policies, strategy, structure and new reporting systems that occur in the social system of the organisations (Evan, 1966; Van de Ven, 1986; Damanpour & Evan, 1984; Damanpour & Aravind, 2012). While technical innovation has been widely researched in the academic literature, administrative (managerial) innovation has been less explored (Damanpour & Evan, 1984; Damanpour & Aravind, 2012).

In the diffusion of innovation literature, the term 'diffusion' is defined in various ways. While Strang and Soule (1998, p. 266) refer to diffusion as "… spread of something within a social system", Webster (1971, p. 178) defines it as "… the social process by which an innovation spreads though a social system over time". Strang and Soule's (1998) 'spread of something' refers to the diffusion of practices, such as behaviour, strategy, belief, technology or structure, whereas Webster emphasises 'adoption of innovation' by individual units, such as persons, households and organisations. In his seminal book *Diffusion of Innovations*, Rogers (2003, p. 5) describes diffusion as "… the process in which an innovation is communicated through certain channels over time among the members of a social system".

Rogers (2003) identifies four elements in the diffusion process, which are innovation, communication channel, social system and time. The individual or organisation passes through different stages, for instance, knowledge, persuasion, decision, implementation and confirmation before taking the decision to adopt or reject the innovation. Adopting units are regarded as the final element in the diffusion; these may be individuals, groups or organisations in which the diffusion takes place. According to Rogers (2003), diffusion takes place when an innovation is spread through certain channels over time among the adopter population.

However, the adoption of innovation does not depend solely on the desire or situation of adopters; rather cost of innovation also plays a significant role in making decisions to adopt innovation (Rogers, 2003). Attewell (1992) describes two innovation diffusion processes. First, the communication channel influences potential adopters to use a new technology or

[9] For details on innovation typology, see Damonpour and Aravind (2012), Chenhall and Moers (2015), Van de Ven (1986), Damanpour and Evan (1984) and Evan (1966).

innovation. Second, a cost benefit analysis in which the "higher the cost, the slower diffusion will occur ... higher the perceived profit from an innovation, the faster adoption will occur" influences adoption (Attewell, 1992, p. 2). To differentiate early adopters from late adopters, Attewell (1992) emphasises four factors: size of the organisation, profitability, innovation champions, and organisational attributes. For instance, large firms adopt innovation earlier than smaller ones, and if the innovation is profitable for the firms those firms adopt innovation earlier. Apart from these factors, adoption of innovation also depends on whether the organisation has sufficient resources. According to Firth (1996, p. 630),

> adoptions of innovation depend on whether an organization has sufficient existing labour skills to implement the innovation, or is able to provide training for such skills, or is able to hire experienced labour.

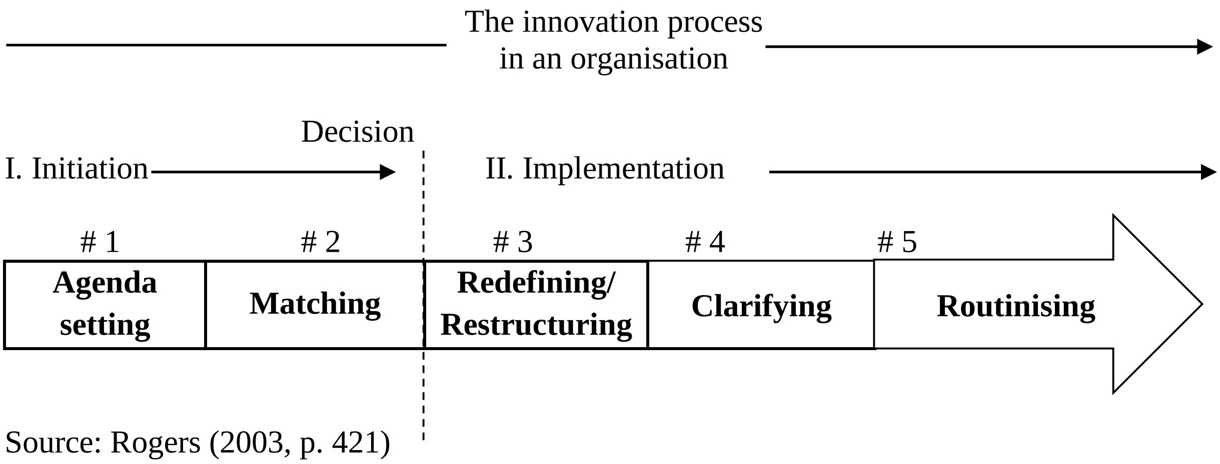
2.3.5 Initiation and implementation

Rogers (2003, p. 421) describes the innovation process in an organisation in five stages, "agenda setting, matching, redefining / restructuring, clarifying and routinizing". These five stages are part of two extensive phases: 'initiation' and 'implementation' (see, Figure 2.3). The first phase of adoption by an organisation is called the initiation process, which involves various activities, including collecting information about the innovation, conceptualisation and planning to adopt the innovation (Rogers, 2003). In the initiation process there are two stages, 'agenda setting' and 'matching'. Agenda setting is the first stage, which consists of identifying the problem and creating a perceived need for the innovation. Matching is a fit between an innovation and the organisation's perceived need. Matching also refers to feasibility testing of whether the innovation can solve the identified problems and will be sustainable. According to Rogers (2003, p. 424), the matching decision "marks the watershed in the innovation process between initiation and implementation" (see, Figure 2.3).

After the initiation or adoption of the innovation, the second phase or the implementation process commences, which consists of "all of the events, actions, and decisions involved in putting the innovation into use" (Rogers, 2003, p. 421). In the implementation phase there are three important stages, 'redefining/restructuring', 'clarifying' and 'routinizing' (Rogers, 2003). Redefining or restructuring occurs when either the innovation is adapted to accommodate the perceived need or the organisation's structure is modified to fit with the innovation. Clarifying relates to making widespread use of the innovation within the organisation so that organisation members become clearer on the meaning and use of innovation. Rogers (2003) argues that innovation champions play a vital role in facilitating or clarifying innovation. Routinising occurs "when an innovation has become incorporated into the regular activities of the organisation and has lost its separate identity" (Rogers, 2003, p.

428). Rogers (2003) argues that routinising is not a simple and straightforward process, rather it is the final stage where the innovation process is regarded as complete.

Figure 2.3 Five stages in the innovation process in organisations



Source: Rogers (2003, p. 421)

According to Gallivan (2001), diffusion of innovations occurs in two stages in organisations. The first stage is the organisational level decision to adopt the innovation, which is also called primary adoption. Second stage adoption refers to implementation (also called secondary adoption or internal diffusion) within the organisation, when innovation is accepted by individual levels or units. Gallivan (2001) argues that the secondary stage of adoption is more complex because initial adoption of innovation by the top management does not guarantee the effective implementation of innovation within the organisation (Perera et al., 2003). Gallivan (2001, p. 61) stresses that the second stage of adoption can be influenced by three main factors, “managerial interventions, subjective norms and facilitating conditions”. Managerial interventions refer to actions taken and resources provided by managers to further the implementation process while subjective norms refer to employees’ beliefs regarding innovation. Facilitating conditions refer to organisational context and culture and attributes of the innovation. While Lapsley and Wright (2004, p. 356) state that “Diffusion is not an automatic consequence of innovation and its ease of progress is subject to favourable factors existing within its environment”, Rogers (2003) points out that adoption of innovation does not depend solely on the desire or situation of adopters; rather it is the attributes of innovation that influence the acceptance or rejection of the diffusion of innovations.

2.3.6 Attributes of innovation

According to Rogers’ (2003, pp. 229-259) diffusion of innovations theory, five main attributes of innovation are: ‘relative advantage’, ‘compatibility’, ‘complexity’, ‘trialability’ and ‘observability’, which are discussed next.

Relative advantage

According to Rogers (2003, p. 229) relative advantage is “the degree to which an innovation is perceived as being better than the idea it supersedes”. The degree of relative advantage is often seen by adopting units or organisations in terms of financial benefits and social prestige. Examples of relative advantage can be seen as improved performance in terms of financial profitability, lower cost, as well as non-financial benefits, such as time saving and social prestige or improved reputation.

Compatibility

Compatibility is “the degree to which an innovation is perceived as consistent with the existing values, past experiences, and needs of potential adopters” (Rogers, 2003, p. 240). Incompatibility of innovation may hinder innovation from further diffusion, especially when it does not fit with existing attitudes, beliefs and value systems. According to Rogers (2003), an innovation can be compatible or incompatible with the cultural values and beliefs possessed by the adopting unit or organisation.

Complexity

Complexity is “the degree to which an innovation is perceived as relatively difficult to understand and use” (Rogers, 2003, p. 257). Perceived complexity of the innovation is often viewed as one of the major barriers to adoption. Complexity can also hinder a further diffusion process due to lack of familiarity and new skills and expertise required to integrate innovation with existing core organisational activities (Premkumar et al., 1994).

Trialability

Trialability is the “degree to which an innovation may be experimented with on a limited basis” (Rogers, 2003, p. 258). Rogers (2003) argues that innovations can be adapted over time according to an organisation’s needs, and can be tested by potential adopters. Testing a new innovation or idea may involve customisation, which can change the innovation to meet the adopters’ need.

Observability

Observability refers to how “the results of an innovation are visible to others” (Rogers, 2003, p. 258). While some innovations are easy to observe or communicate, others may be difficult.

According to Rogers (2003), the basic premise behind these attributes is that adopters first assess these attributes and then independently make a rational decision to adopt those innovations that show the most promising efficiency gains. The above five attributes – relative advantage, compatibility, complexity, trialability and observability – are believed to be useful for exploring why and how CSR is diffused within organisations (Bradford & Florin, 2003; Rogers, 2003).

However, a review of the literature suggests that the diffusion literature, which is more focused on the demand side, does not consider the supply-side perspective. According to Perera et al. (2003), multiple theories and literature help explain the diffusion process. Malmi (1999, p. 654) argues, "In some innovations a theory based on a single perspective may well explain the whole diffusion. In others, an explanation may require a combination of perspectives". Researchers who have studied the diffusion of management innovations emphasise the need for the supply-side perspective to gain a better understanding of diffusion (Bjornenak, 1997; Malmi, 1999; Ax & Bjornenak, 2005). This is because the demand perspective does not fully explain why some organisations adopt management innovations while others do not (Bjornenak, 1997). Therefore, Abrahamson's (1991) framework, which includes both demand and supply-side perspectives is believed to be a relevant and appropriate analytical lens to further explore the factors influencing the diffusion of CSR. To extend understanding of the diffusion process, this study draws on Abrahamson's (1991) 'Managerial fads and fashions: The diffusion and rejection of innovation' framework, which is described next.

2.3.7 Abrahamson's (1991) framework

Abrahamson's (1991) framework is designed to overcome the pro-innovation bias of the diffusion of innovations theory. Pro-innovation bias is considered one of the shortcomings in the diffusion of innovations literature (Rogers, 2003). Pro-innovation bias means that innovation should be adopted by all the population and should be diffused more rapidly, and it cannot be re-invented and modified or rejected. According to this view, innovation diffuses when it benefits organisations, and in the opposite case, it is rejected.

Diffusion of management innovations are generally believed to bring change in organisations in terms of improving efficiency and effectiveness, minimising risk or increasing profit. While some management innovations are widely cited for fulfilling these purposes of the organisations, such as Activity-based Costing (ABC) and the Balanced Scorecard (BSC), many others may not achieve this purpose. One such example is the 'quality circle', which "… did not enhance the performance of a single US organisation…" (Abrahamson, 1991, p. 608). According to Abrahamson (1991), not all innovations benefit organisations, with some management practices considered fashion or fad. These fashion and fad are promoted by fashion-setting organisations, such as business schools, consultants, and the mass media, which are regarded as the suppliers of management fashions or fads (Abrahamson, 1991).

Abrahamson (1991, p. 587) points out the limitations of pro-innovations bias and questions, "when and by what process are technically inefficient innovations diffused or efficient innovations rejected?" In contrast to this assumption of an 'efficient choice' perspective when organisations adopt an efficient innovation or reject an inefficient one, Abrahamson (1991) presents a framework that includes three more perspectives in addition to efficient choice: forced selection, fashion and fad perspectives. Researchers (e.g., Bjornenak, 1997) suggest that the demand perspective does not fully explain why some organisations adopt ABC and others do not. Therefore, these three additional perspectives – forced selection, fashion and fad – of Abrahamson (1991) provide insight into the role of supply-side factors, such as academic institutions, the mass media and consulting firms and NGOs. Abrahamson's (1991) framework can be useful in providing better understanding of diffusion of CSR practices.

According to the forced selection perspective, regulatory bodies, such as the government or any other powerful organisations (defence, union or employee association), force organisations to adopt or reject any innovation. In this perspective, the motives of adopters do not play any role, rather the supplier decides whether the organisations should adopt or reject the innovation. Abrahamson (1991) argues that the fashion perspective arises when organisations imitate other organisations because of uncertainty in their goals, efficiency and future environment. Consulting firms, business schools and the mass media are regarded as fashion-setting institutions. In this type of perspective, the suppliers (fashion-setting organisations) may use marketing techniques, such as propaganda or advertisements. The fourth perspective is the fad perspective. According to Abrahamson (1991), organisations imitate other organisations to appear legitimate. In the case of uncertainty, less reputable organisations imitate highly reputable organisations, but risk imitating inefficient innovations and rejection of efficient ones.

Combined with Rogers' (2003) five attributes of diffusion of innovations theory, Abrahamson's (1991) framework is considered more comprehensive, and includes demand as well as supply-side perspectives. Therefore, Abrahamson's (1991) framework is believed to be a relevant and appropriate analytical lens to further explore the factors influencing the diffusion of CSR. The next section reviews the literature on diffusion of management innovation.

2.3.8 A review of prior literature on diffusion of management innovation

Diffusion of innovations is regarded as important because it offers a common ground to the researchers of different disciplines and provides a better understanding of the process of change in management accounting systems (Rogers, 2003; Malmi, 1999). Change remains an important element, which drives improvement in management accounting systems to improve organisational performance, and many management accounting changes are regarded as the direct or indirect consequences of diffusion of innovations (Ax & Bjornenak, 2005; Malmi, 1999). Examples of recent innovations in management accounting include ABC, Economic Value Added (EVA), Total Quality Management (TQM), and the BSC (Ax & Bjornenak, 2005; Clarke et al., 1999; Gosselin, 2007; Malmi, 1999), key performance indicators (KPIs) (Lapsley & Wright, 2004), transfer pricing (Perera et al., 2003) and value-based management (VBM) (Cooper & Crowther, 2008). Although adoption of innovation is widely investigated in the diffusion of innovations literature by a large number of researchers from diverse disciplines (Rogers, 1995; 2003; Strang & Soule, 1998; Bjornenak, 1997), diffusion of innovation is relatively less explored in the field of management accounting. A review of prior empirical studies guided by the diffusion of innovations theory is discussed next.

Malmi (1999) studies the diffusion of ABC by collecting data from demand-side (ABC adopting) and supply-side (ABC promoting) organisations in Finland. Malmi (1999) could not find sufficient evidence in relation to the supply-side perspective (fashion and fad), and therefore recommends further research. Ax and Bjornenak (2005) examine the diffusion of a management innovation (the BSC, which they call administrative innovation) from the supply-side perspective in the context of Sweden. Their empirical results suggest "the communication structure of the BSC in Sweden exhibits obvious features of the fashion-setting process described by Abrahamson" (Ax & Bjornenak, 2005, p. 16). The fashion setters are exposed as accounting academics, consultancy firms and early adopters of the BSC.

Perera et al. (2003) study transfer pricing as a management accounting innovation in the Government Trading Enterprise (Energy) of Australia based on Rogers' (1995) diffusion of innovations theory and Gallivan's (2001) two-stage (primary and secondary) adoption theory. In their study, Perera et al. (2003) refer to transfer pricing as innovation[10] and explain the diffusion of transfer pricing as introduction, abandonment and reintroduction over a 10-year period. Perera et al. (2003) conclud that transfer pricing is adopted in response to government pressure for the reform process.

While Jackson and Lapsley (2003) investigate management accounting innovations in public sector organisations with a focus on the networking perspective of the diffusion literature, another public sector investigation of diffusion of accounting innovation is conducted by Lapsley and Wright (2004). Lapsley and Wright's (2004) findings are mixed. Unlike in

[10] Although transfer pricing is not a new practice among other private organisations, Perera et al. (2003) refer to transfer pricing as an innovation in their study using the definition provided by Rogers (1995) as it was new to the participating (case) organisation.

private sector organisations, government influence and that of traditional sources, such as professional membership and publications, were the dominant factors through which accounting innovations were diffused in public sector organisations. Government influence was linked to Abrahamson's (1991) forced selection perspective, whereas the spread of information was 'trickled down' as in the hierarchical diffusion model of Bjornenak (1997).

Various factors are described in the management accounting literature to explain the adoption of management accounting innovations. In Anderson's (1995) case study on implementation of ABC in General Motors, an automobile manufacturing organisation, the author identified 19 factors that influenced ABC's implementation either in a positive or negative way. Some important factors identified are competition, environmental uncertainty, compatibility with existing systems, top management support, training and satisfaction with the existing system. Shields (1995) examines the degree of behavioural, organisational and technical factors associated with the success of ABC implementation based on the theoretical model developed by Shields and Young (1989) and finds that top management support and training are some of the factors associated with ABC success. In his study, Firth (1996) finds that the size of a joint venture organisation was an important factor in the adoption of management accounting techniques. Apart from the size of the organisation, Firth (1996) finds a relationship between the rate of adoption and factors such as domicile of the foreign partner and the degree of competitive pressures.

Kasurinen (2002) studies BSC implementation and examines the factors influencing management accounting change. Kasurinen (2002, p. 328) develops Cobb et al.'s (1995) model and presents the "types of barrier, which may hinder, delay or even prevent management accounting change in practice". These barriers are divided into three subcategories: 'confusers', 'frustrators' and 'delayers'. Kasurinen's (2002) detailed analysis of potential barriers provides an important insight into employees' reaction to change efforts, which "potentially lead to frustration and confusion and result in delays in implementing management accounting system change within the organisation" (Munir et al., 2013, p. 200).

The previous section discussed the theoretical frameworks adopted for the present study to explore the factors influencing the diffusion of CSR in the context of developing countries, which was followed by the critical review of the literature on the empirical management accounting studies that examine the diffusion of management innovation guided by the diffusion of innovations theory (Rogers, 1995, 2003) and Abrahamson's (1991) framework. From the above review it can be concluded that diffusion of innovations can be influenced by a number of contextual and organisational factors. The review further reveals that the factors that have a strong influence on organisations operating in one context may have no or minimal effect on organisations operating in another context or country (i.e., profit organisations versus not-for profit organisations or organisations operating in developed countries versus developing countries) due to the different conditions they experience (Lapsley & Wright, 2004; Dhaliwal et al., 2012).

Although change in management accounting system appears to be an important element to improve organisational efficiency and effectiveness and many management accounting changes are regarded as the direct or indirect consequences of diffusion of innovations, each employee group views change differently (Ax & Bjornenak, 2005; Munir et al., 2013; Malmi, 1999; Kasurinen, 2002). For instance, "for top level managers change is often an opportunity, whereas for many employees and middle managers change is neither sought after nor welcomed" (Kasurinen, 2002, p. 326). In order to overcome the resistance to change and for successful implementation of organisational change, an appropriate organisational culture is considered important (Linnenluecke & Griffiths, 2010; Kasurinen, 2002). This is because "organisational culture is often cited as the primary reason for the failure of implementing organisational change programs" (Linnenluecke & Griffiths, 2010, p. 359). Existing literature suggest that organisational culture is one of the important factors that influences the adoption of CSR in the context of developing countries (Jamali, 2014; Visser, 2008; Dhaliwal et al., 2012; Maignan & Ralston, 2002). Therefore, the next section reviews the literature concerning the second research objective of the present study, which is to examine the role of organisational culture on adoption of CSR.

2.4 Role of organisational culture on adoption of CSR

2.4.1 Organisational culture

Culture is defined broadly by researchers in various disciplines. Hofstede (2001, p. 9) defines culture as "the collective programming of the mind that distinguishes the members of one group or category of people from another". According to Hofstede (2001) culture can be categorised in four basic ways: values, symbols, heroes and rituals. Value is described as the core element of culture, that is preferences for certain states of affairs. Symbols are words, gestures, pictures and objects that carry particular meaning for members of a culture. Heroes are linked to culture's role models, while rituals are collective activities that are technically unnecessary but socially necessary for a culture. Together, symbols, heroes and rituals constitute practices (Hofstede et al., 1990). *Power distance*, *individualism versus collectivism*, *masculinity versus femininity* and *uncertainty avoidance* are well known dimensions of national culture developed by Hofstede based on his study of IBM staff across 40 countries. Later, Hofstede added a fifth dimension, *long-term versus short-term orientation*.

Organisational culture, which is regarded as quite distinct from national culture, first emerged in the 1970s and 1980s and became both popular and controversial in management research and practice (Hofstede, 2001; Schneider et al., 2013; Denison, 1996; Linnenluecke & Griffiths, 2010). Cameron and Quinn (2011, p. 18) refer to organisational culture as "… socially constructed attribute of organizations that serves as the social glue binding an organization together", while Hofstede (2001, p. 391) describes organisational culture as "… the collective programming of the mind that distinguishes the members of one organization from another". Denison (1990, p. 2) defines organisational culture as:

> the underlying values, beliefs, and principles that serve as a foundation for an organization's management system as well as the set of management practices and behaviors that both exemplify and reinforce those basic principles.

According to Schneider et al. (2013, p. 361), organisational culture is "the basic assumptions about the world and the values that guide life in organizations", while Schein (1992, p. 12), defines organisational culture as:

> a pattern of shared basic assumptions that the group learned as it solved its problems of external adaptation and internal integration, that has worked well enough to be considered valid and, therefore, to be taught to new members as the correct way to perceive, think, and feel in relation to those problems.

Although there seems no agreement on a definition of organisational culture, most researchers agree on the fact that organisational culture is a powerful underlying factor in management practices, which both integrates and distinguishes organisations' members. A review of the literature suggests that organisational culture can be a critical lever or a key for managers to formulate and implement their organisational strategies, which can have significant impact on organisational performance (Barney, 1986; Cameron & Quinn, 2011). Kotter and Heskett (1992) argue that organisational culture is related to enhancing organisational performance in three ways: by aligning employees for goal attainment, increasing employee motivation and providing required structure and controls. Barney (1986) argues that organisational culture helps build relationships with employees, customers, suppliers and other stakeholders. Organisational culture also provides appropriate guidelines for managers to improve their organisational effectiveness (Cameron & Quinn, 2011; Barney, 1986).

Cameron and Quinn (2011) provide as examples, the top performing organisations in the past three decades, such as Southwest Airlines and Walmart (according to *Money* magazine's list of the best performing stocks between 1972 and 2002) and some other successful organisations, namely, Apple and Pixar, where the researchers claim that the most powerful factor for the success of these organisations is purely their organisational culture. According to Cameron and Quinn (2011), it is hard to find a single successful organisation that does not have a distinctive organisational culture. Organisational culture sometimes can be created by the owner (Walt Disney), can emerge within the organisation over time (*Coca-Cola*), or is developed by the management team, such as Google, which shows the powerful role of organisational culture in achieving organisational effectiveness (Denison, 1990; Cameron & Quinn, 2011).

Researchers from various disciplines have examined organisational culture and its influence on person–organisational culture fit (O'Reilly et al., 1991), employee retention (Sheridan, 1992), technology and growth (Chatman & Jehn, 1994), auditor independence decision making (Windsor & Ashkanasy, 1996), health care industry (Vandenberghe, 1999), employee outcome (McKinnon et al., 2003), activity-based management and strategy (Baird et al., 2004; 2007), TQM (Baird et al., 2011) and leadership (Sarros et al., 2005). Although Wood (1991) stressed the role of organisational culture in CSR research over two decades ago, very few studies (e.g., Melo, 2012; Maon et al., 2010; Surroca et al., 2010; Jones et al., 2007) have examined the role of organisational culture. Further, little is known about the role of organisational culture on adoption of CSR in the context of developing countries.

A review of the literature suggests that cultural norms and values are some of the important factors influencing the adoption of CSR in the context of developing countries (Jamali, 2014; Visser, 2008; Dhaliwal et al., 2012; Maignan & Ralston, 2002). Maignan and Ralston (2002) argue that the concept of CSR and the way it is practised varies across countries because of differences in culture. Jamali (2014) argues that organisations adopt the philanthropic nature of CSR in developing countries where charity is seen as part of the local culture. One such example is China, where the Confucian cultural tradition is seen as the driver of CSR according to Yin and Zhang (2012). Amaeshi et al. (2006) also find that CSR of African organisations is highly influenced by sociocultural factors. It follows that the business (organisational) culture of a country can have a significant impact on adoption of CSR (Dhaliwal et al., 2012).

However, there is considerable debate on the issue of measuring organisational culture (Denison, 1996; Ashkanasy et al., 2000; O'Reilly et al., 1991; Schneider et al., 2013). Although there are several survey measurements to measure organisational culture (e.g., Jung et al., 2009; Ashkanasy et al., 2000), O'Reilly et al.'s (1991) Organisational Cultural Profile (OCP) is widely accepted and used by researchers in various disciplines (e.g., Baird et al., 2007; McKinnon et al., 2003; Su et al., 2009; Windsor & Ashkanasy, 1996) because of its greater degree of robustness, reliability and validity (Jung et al., 2009; Vandenberghe, 1999). Therefore, this study applies O'Reilly et al.'s (1991) OCP framework, which is described in the next section.

2.4.2 Organisational cultural profile (OCP)

O'Reilly et al. (1991) developed the OCP framework after an extensive review of organisational values and culture, which includes 54 value statements. OCP can capture individual as well as organisational values and can be used "… to assess person-culture fit and test for the relationship between fit and work-related outcomes" (O'Reilly et al., 1991, p. 494). O'Reilly et al.'s (1991) OCP consists of seven dimensions of organisational culture: innovation, stability, respect for people, outcome orientation, attention to detail, team orientation and aggressiveness.

O'Reilly et al.'s (1991) OCP is regarded as one of the most suitable instruments to measure organisational culture (Sarros et al., 2005). Ashkanasy et al. (2000) argue that OCP is one of the few such instruments to provide comprehensive details regarding its reliability and validity. This instrument has been widely used by researchers to study the relationship between organisational culture and other variables. For instance, Chatman and Jehn (1994) replicate OCP in the service sector industry, while Vandenberghe (1999) examines it in the context of the health care industry in Belgium. Sheridan (1992) applies OCP to investigate employee retention, while Judge and Cable (1997) use it for personality and organisation attraction. In the Australian context, OCP is found largely applied by researchers investigating organisational culture (see, Subramaniam & Ashkanasy, 2001; McKinnon et al., 2003; Baird et al., 2004; 2007; 2011; Su et al., 2009) and also adapted (Windsor & Ashkanasy, 1996). It has also been adapted by Windsor and Ashkanasy's (1996) with the adapted version consisting of six cultural dimensions: respect for people, outcome orientation, team orientation, innovation, attention to detail and stability, and 26 value statements (see, Table 2.3).

Table 2.3 Organisational culture and representing items

Cultural factors	Representing items[11]
Respect for People	Fairness Respect for individual rights Tolerance Socially responsible
Outcome Orientation	Competitive Achievement oriented High expectations Results oriented Analytical
Team Orientation	People oriented Team oriented Collaborative
Innovation	Action orientation Experimental No rules Opportunities Innovative Risk taking
Attention to Detail	Careful Attention to detail Precise Rule oriented
Stability	Security Stability

(Adapted from Windsor & Ashkanasy, 1996, p. 88)

The 'Respect for people' factor of OCP includes the values of being tolerant, respect for individual rights, fairness and being socially responsible, which refers to the extent to which organisations focus on these value statements (Windsor & Ashkanasy, 1996). 'Outcome orientation' comprises results, action and achievement oriented values, which are preferred by individuals or managers in the organisation (O'Reilly et al., 1991). Baird et al. (2011, p. 792) posit "business units that are more outcome oriented will be expected to focus on improving product/service quality as a means of enhancing their competitive advantage".

'Team orientation' includes the value statements of being people and team oriented, and collaborative (O'Reilly et al., 1991). Individuals or managers, who prefer a 'team oriented' culture like to work as a team to achieve organisational goals and solve problems (Su et al., 2009; Chatman & Jehn, 1994). According to Cohen and Bailey (1997, p. 239-40), "… one of the most common skills required by new work practices is the ability to work as a team",

[11] Note, two of 26 value statements ('being aggressive' and 'predictability') did not load on Windsor and Ashkanasy's (1996) factors.

which can be used not only to design, produce and deliver products or services, but also to formulate and implement strategies for organisations.

The ‘Innovation’ factor of OCP relates to being innovative and a willingness to experiment, taking advantage of opportunities, and risk taking behaviours (O’Reilly et al., 1991). McKinnon et al. (2003, p. 29) stress the importance of innovation by stating “… organisational culture that emphasizes innovation will engender positive response by employees in both Anglo-American and non-Anglo-American societal contexts”. Managers of innovative culture are more likely to experiment with new practices to enhance organisational performance even if such practices are untested and risky (Baird et al., 2011; Subramaniam & Ashkanasy, 2001). ‘Stability’ values are security of employment and stability (Windsor & Ashkanasy, 1996; O’Reilly et al., 1991). McKinnon et al. (2003) argue that stability is more likely to be related to national culture (Hofstede, 1991), such as individualism versus collectivism and long-term versus short-term culture (Hofstede, 1991).

Subramaniam and Ashkanasy (2001) apply the first two dimensions of the adapted version of OCP, namely ‘innovation’ and ‘attention to detail’ in their study that examines the impact of managers’ perceptions on the relationship between budgetary participation and managerial job-related outcomes, while McKinnon et al. (2003) examine the association between organisational cultural values and employee responses in the context of the manufacturing industries of Taiwan. Baird et al. (2004) use the mixed dimensions of organisational culture in their study of adoption of activity management practices, where the researchers have used two dimensions (innovation and outcome orientation) from O’Reilly et al.’s (1991) OCP and one (tight versus loose control) from Hofstede et al.’s (1990) practices-based measures of organisational culture. In another study, Baird et al. (2007) use the adapted version of OCP (Windsor & Ashkanasy, 1996) to describe the culture of Australian organisations as well as to examine the relation between organisational culture and strategy, where the researchers also test whether the culture of service and manufacturing industries varies or not. On the other hand, Sarros et al. (2005) apply the OCP adapted by Cable and Judge (1997) to study the relation between culture and leadership. Despite OCP being used widely by researchers from different disciplines, little research has examined the impact of organisational culture (particularly OCP) on CSR studies (Surroca et al., 2010).

The previous section highlighted the role of organisational culture on adoption of CSR, reviewed the relevant literature and discussed the theoretical framework (O’Reilly et al.’s (1991) OCP) developed for the present study. The next section discusses the third research objective of this study, which is to examine the mediating role of MCS on association between CSR and organisational performance.

2.5 MEDIATING ROLE OF MCS ON ASSOCIATION BETWEEN CSR AND ORGANISATIONAL PERFORMANCE

Even after extensive investigation over a lengthy period and by a large number of researchers, the issue of CSR remains controversial from a theoretical (discussed in Section 2.2.5) as well as an empirical (see, Section 2.2.6) perspective (Tang et al., 2012; Crane et al., 2008; McWilliams & Siegel, 2000). According to McWilliams and Siegel (2000), the controversial results of CSR and financial performance are due to inconsistent empirical analysis. McWilliams and Siegel's (2000) argument is focused on investment on R&D, which is regarded as an important determinant of profitability. McWilliams and Siegel (2000) find specification error in Waddock and Graves's (1997) result, which showed a positive association between CSP and CFP because they did not include firm level investment in R&D. In their empirical study of CSR and financial performance, McWilliams and Siegel (2000) test their hypothesis with two models, which exclude and include R&D intensity. Their results indicate that "… CSR and R & D are highly correlated, and that, when R & D intensity is included in the equation, CSP is shown to have a neutral effect on profitability" (McWilliams & Siegel, 2000, p. 608).

The reason for inconclusive findings in relation to the relationship between CSR and organisations' financial performance is not only because of measurement problems and inconsistent empirical analysis, but also because of the insufficient scope of the dataset (Peloza, 2009; Lee, 2008; McWilliams & Siegel, 2000) and the omission of important variables (McWilliams & Siegel, 2000; Surroca et al., 2010; Galbreath & Shum, 2012). A large number of empirical studies has been conducted in the context of North America measuring CSP based on *Fortune* and the Kinder, Lydenberg, Domini (KLD) database/ratings (Galbreath & Shum, 2012; Bird et al., 2012; Lee et al., 2009; Margolis et al., 2009). These studies have examined the association between CSR and organisations' financial performance, such as share price or return on equity, which can be impacted by a number of other variables (Peloza, 2009). Peloza (2009) argues that these mediating variables appear to have causal effect, which can lead to improved financial performance. For example, waste reduction and energy conservation can have a significant impact on organisations' cost savings, which can help enhance financial performance by reducing direct costs. Peloza (2009, p. 1519) concludes "… there is less concern with the relationship between CSR and financial performance and more interest in how to measure the impact of CSP on financial performance".

Another reason for the prior inconclusive findings is that most prior studies have examined the relationship between CSR and organisational performance by using traditional financial measures ignoring other important non-financial measures such as customer satisfaction, employee motivation, product quality, productivity and market share (Galbreath & Shum, 2012; Peloza, 2009; Luo & Bhattacharya, 2006; Kaplan & Norton, 1992; Husted & Allen, 2007). These financial performance measures are criticised by researchers (Kaplan & Norton, 1992; Fitzgerald, 2007; Johnson & Kaplan, 1987; Atkinson et al., 2012) for a number of reasons. First, financial measures are regarded as too aggregated and backward looking, representing the results of past activities or actions (Cohen et al., 2012; Kaplan & Norton, 1992; Johnson & Kaplan, 1987). According to Cohen et al. (2012, p. 67) "… the historical focus of financial reporting provides an incomplete picture of a firm's current status to auditors, investors, and creditors and has limited relevance for evaluating future prospects". Second, financial measures primarily focus on financial profits and profitability, thus undermining other important aspects of performance, such as environmental and social performance (Schaltegger & Burritt, 2010; Peloza, 2009). According to Fitzgerald (2007), financial performance measures also ignore one of the major responsibilities of managers, that is, to satisfy their important stakeholders, such as customers, employees, investors, suppliers and the community, while rewarding short-term behaviours of managers by focusing on short-term results.

Measuring an organisation's performance from a non-financial perspective is critical and vital to the success or failure of an organisation (Kaplan & Norton, 1992). In particular, non-financial performance measures, such as customer satisfaction, employee motivation, product quality, productivity and market share can have a significant impact on organisations' financial performance (Kaplan & Norton, 1992; Surroca et al., 2010; Epstein & Roy, 2001; Langfield-Smith et al., 2012; Galbreath & Shum, 2012; Peloza, 2009; Luo & Bhattacharya, 2006). Prior research suggests that non-financial performance measures are drivers of future financial performance (Atkinson et al., 2012; Ittner & Larcker, 2001). According to Cohen et al. (2012, p. 66), most executives "… believe that non-financial measures are more valuable than traditional financial measures in assessing long-term value".

With the advent of the BSC and other contemporary performance measurement systems, approaches to measuring organisational performance have dramatically changed over the last two decades (Langfield-Smith et al., 2012; Kaplan & Norton, 1992). A combination of financial and non-financial performance measures has become important to evaluate the overall performance of organisations in recent times rather than relying on traditional financial measures, especially in terms of measuring the performance effect of CSR (Galbreath & Shum, 2012; Peloza, 2009; Luo & Bhattacharya, 2006; Branco & Rodrigues, 2006; Surroca et al., 2010).

Fombrun et al. (2000) argue that the association between CSR and organisational performance may not be identified directly as it affects the bottom line in several indirect ways. It follows that the performance effect of CSR can be indirect rather than direct (Galbreath & Shum, 2012). As a result, non-financial measures, as the mediating variables, can have significant effect on the relationship between CSR and organisations' performance. A number of prior studies have examined the mediating effect of these important variables, such as customer satisfaction (Luo & Bhattacharya, 2006), intangible resources (Surroca et al., 2010) and reputation (Galbreath & Shum, 2012). In their study, Luo and Bhattacharya (2006) find that customer satisfaction plays a significant role between CSR and organisations' market value. Surroca et al.'s (2010) study finds that the link between CSR and performance is mediated by intangible resources. Similarly, Galbreath and Shum (2012) extend Luo and Bhattacharya's (2006) study by adding reputation as an additional mediating variable in an Australian context. All these studies have found that a mediating variable plays an important role in the association between CSR and performance. However, little is known about the mediating effect of MCS in the association between CSR and organisational performance, more specifically, how the use of MCS helps organisations implement CSR strategies. The next section provides a detailed discussion on MCS, which is followed by a review of the prior empirical MCS studies that have applied the Simons' (1995, 2000) LOC framework.

2.5.1 Management control systems

MCS[12] are described in various ways in the literature. Anthony (1965, p. 17) defined management control as "the process by which managers assure that resources are obtained and used effectively and efficiently in the accomplishment of the organization's objectives". Simons (1995, p. 5) defines MCS as "… the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities". According to Malmi and Brown (2008, p. 290), MCS are

> those systems, rules, practices, values and other activities management put in place in order to direct employee behaviour should be called management controls. If these are complete systems, as opposed to a simple rule … then they should be called MCSs.

[12] According to Chenhall (2003, p. 129), "the terms management accounting (MA), management accounting systems (MAS), management control systems (MCS), and organizational controls (OC) are sometimes used interchangeably".

The purpose of MCS is to "exert control over the attainment of organisational goals" (Mundy, 2010, p. 499), and "provide information useful in decision making, planning, and evaluation" (Widener, 2007, p. 757). MCS refer to a wider concept that includes formal as well as informal control systems (Chenhall, 2003; Ouchi, 1979; Langfield-Smith, 1997). Formal controls are visible and include rules, operating procedures, budgeting, performance appraisal and reward criteria, while informal controls are less explicit and comprise unwritten policies of the organisation, such as social and self-controls (Langfield-Smith, 1997; Norris & O'Dwyer, 2004; Ouchi, 1979). Although various theoretical frameworks or typologies of MCS have been developed in the literature, the present study draws on Simons' (1995, 2000) LOC framework, which is widely used in prior MCS studies (e.g., Abernethy & Brownell, 1999; Chong & Mahama, 2014; Kober et al., 2007; Bisbe & Otley, 2004; Henri, 2006; Widener, 2007; Su et al., 2015). The framework is discussed in the next section.

2.5.2 Levers of control (LOC) framework

Simons'(1995, 2000) LOC framework is a useful analytical tool used by senior managers as positive and negative forces to manage the organisational tension between encouraging innovation and learning and exerting control for predictable goal achievement (Simons, 1995; Mundy, 2010; Henri, 2006). The framework includes four control systems: beliefs, boundary, diagnostic and interactive. These are described in the next paragraphs.

A beliefs system is defined by Simons (1995, p. 34) as "the explicit set of organizational definitions that senior managers communicate formally and reinforce systematically to provide basic values, purpose, and direction for the organisation". According to Simons (1995), the main purpose of a beliefs system is to inspire and guide organisational search and discovery. Managers use the beliefs systems to motivate and inspire employees to search for new ways of creating value (Simons, 1995). Beliefs systems are important especially when organisational change occurs, or in terms of adopting new values and priorities (Simons, 1995; Mundy, 2010). As Simons (1995, p. 37) suggests:

> As the opportunity space of a business expands, the creation and communication of a formal beliefs system become more important. Managers attempt to define the values and direction of the organization by (1) asserting uniqueness, (2) providing prestige to group membership, and (3) using formal beliefs as symbols of what the organization represents.

The second lever of control is boundary systems, which "delineate the acceptable domain of activity for organizational participants" (Simons, 1995, p. 39). Unlike beliefs systems, boundary systems establish clear limits between employees' actions that are acceptable or off-limits. A boundary system aims to stop employees engaging in high-risk behaviours (Widener, 2007). According to Simons (1995, p. 42),

> The most basic boundary systems are those that impose codes of business conduct. The standards encompassed in these codes have three sources: (1) society's laws, (2) the organization's beliefs systems, and (3) codes of behavior promulgated by industry and professional associations.

A second type of boundary is described as a strategic boundary, which is used by managers to communicate to employees acceptable and unacceptable activities (Simons, 1995). Boundary systems restrict opportunity-seeking behaviour of employees so that they do not waste organisational resources and management attention (Simons, 1995; Mundy, 2010).

Beliefs and boundary systems are "… the formal, information-based routines and procedures that managers use to maintain or alter patterns in organizational activities" (Simons, 1995, p. 57). According to Simons (1995, p. 58),

> Beliefs and boundaries are essential to organizational life. As opportunities expand and the pressure for performance increase, a clear beliefs system and enforceable boundary system become increasingly important. In addition to providing momentum and commitment, a strong beliefs system and clear boundaries assure managers that subordinates are not engaging in activities that could jeopardize the integrity of the business and are not dissipating organizational resources through projects or actions that do not build on competitive strengths. This assurance allows managers to concentrate on positioning their firms to meet the competitive challenges of the marketplace.

While beliefs systems are communicated through mission or vision statements, boundary systems are communicated through the code of conduct of the organisation (Simons, 1995; Mundy, 2010; Widener, 2007). According to Simons (1995, p. 57) "beliefs systems create norms and serve as cultural ideals. The rules embodied in boundary systems both create and are created by the culture of an organization". From this perspective it can be argued that beliefs and boundary systems represents the explicit norms, values and symbols that are compatible with notions of organisational culture.

The third lever of control is diagnostic control systems, which are used by senior managers to monitor and compare actual performance against pre-established standards or targets (Simons, 1995; Abernethy & Brownell, 1999). A diagnostic control system is defined as "… the formal information systems that managers use to monitor organizational outcomes and correct deviations from pre-set standards of performance" (Simons, 1995, p. 59). The diagnostic systems contain the organisations' critical performance variable (or critical success factor), which provides focus, direction and motivation to managers to meet organisational objectives. While the critical performance variable may include a number of factors, such as pricing, new product development, customer service and so on, Simons (1995, p. 64) suggests that "… customer satisfaction and quality are often cited as critical performance variables". Once critical performance variables are identified, measures can be developed and maintained accordingly by the use of diagnostic control systems (Simons, 1995). One example of diagnostic control system measures is the BSC developed by Kaplan and Norton (1992).

In order to achieve the desired organisational goals, managers can use four measures of the BSC simultaneously, which include financial, customer, internal business process and learning and growth (Kaplan & Norton, 1992). Formal goals or targets are necessary for diagnostic control, as Simons (1995, pp. 72-73) states:

> Goal-setting provides benchmarks for identifying problems. Negative variances trigger remedial action and provide guidelines about how to analyze the causes of problems. Goal-setting also forces managers to review goals at periodic intervals, thus ensuring that opportunity-seeking behavior is in line with broader organizational objectives. Furthermore, goal-setting facilitates the coordination of action plans at various levels of the organization by forcing participants to determine if adequate resources are available to meet specific goals, and if the goals contribute to the overall strategy of the business. The diagnostic goal-setting process is a primary mechanism for cascading goals from the top of the organization to the bottom and for coordinating the resources necessary to implement desired strategies.

Diagnostic control systems are traditional feedback systems, in which outcomes are monitored and feedback information is used to take corrective action for deviations from pre-set standards of performance (Simons, 1995; Henri, 2006). According to Simons (1995), organisations cannot function without diagnostic control systems as these systems are essential to ensuring that everything is 'on track'.

The interactive control system is defined as "… formal information systems managers use to involve themselves regularly and personally in the decision activities of subordinates" (Simons, 1995, p. 95). Interactive control systems are formal information systems, which senior managers use to stimulate learning and the bottom-up emergence of new initiatives and strategies (Simons, 1995). The interactive use of MCS involves active face to face dialogue and debate between senior managers and subordinates on a regular basis (Bisbe & Otley, 2004). Simons (1995) suggests that interactive control is not a unique type of control system, as many other types of controls can be used interactively by the senior managers that facilitate the formal processes of debate. According to Simons (1990, p. 136), a MCS becomes interactive when senior managers:

> use the planning and control procedures to actively monitor and intervene in ongoing decision activities of subordinates. Since this intervention provides an opportunity for top management to debate and challenge underlying data, assumptions and action plans, interactive management controls demand regular attention from operating subordinates at all levels of the company.

Senior managers use the interactive control systems to signal organisational priorities and focus the attention of the entire organisation on specific areas (Simons, 1995; Mundy, 2010; Bisbe & Otley, 2004). Unlike diagnostic control systems, which require the least amount of management attention, interactive control systems demand frequent attention by senior managers to focus on strategic uncertainties and to stimulate creativity and innovation (Marginson et al., 2014; Bisbe & Otley, 2004; Simons, 1995). Therefore, interactive controls are seen as time consuming and costly (Simons, 1995; Widener, 2007). However, the use of four control components has a positive effect on organisational performance, despite the cost of using controls (Widener, 2007).

In order to establish the relevance of the present study, the next section reviews the relevant literature on Simons' (1995, 2000) LOC framework. In particular, this section provides a detailed review of the previous studies that have applied the LOC framework in an empirical context followed by the CSR or sustainability studies.

2.5.3 A review of prior studies applying the LOC framework in the empirical context

Simons' (1995) LOC framework comprises four levers: beliefs, boundary, interactive and diagnostic, which work together to benefit the organisation (Widener, 2007). While some studies have used all four levers (see, Widener, 2007; Mundy, 2010; Tuomela, 2005), others have used two (i.e., interactive and diagnostic control systems) (see, Abernethy & Brownell, 1999; Henri, 2006; Kober et al., 2007; Naranjo-Gil & Hartmann, 2007; Marginson et al., 2014; Chong & Mahama, 2014; Su et al., 2015), and some other studies have used one (i.e., interactive control system) (see, Bisbe & Otley, 2004).

There is no clear justification in the literature as to why some studies have used all four levers while others have used only one or two. Mundy (2010, p. 516) considers the LOC framework as a complete package of MCS in her case study, arguing that it is important to study the framework in its entirety "… in order to gain a comprehensive understanding of the interface between managers and MCS in their attempts to guide, direct, and control organisational activities". However, other researchers have only used interactive and diagnostic control systems of the LOC framework in their studies. One possible reason, as explained by Ahrens and Chapman (2004, p. 278), might be that "the concepts of belief systems and boundary systems remained very general in Simons' (1995) framework". According to Berry et al. (2009, p. 6),

> Survey research has tended to focus on Simons' interactive and diagnostic levers and the use of specific controls including budgets, performance measures, and the interactive use of broader MCS …

A number of other arguments are presented by researchers (Bisbe & Otley, 2004; Henri, 2006; Su et al., 2015) in favour of using one or two levers of the LOC framework. For instance, Bisbe and Otley (2004, p. 727) justify the use of one lever of the LOC framework (i.e., interactive control system) in product development as "the study is concerned about the depth rather than breadth". In his study, Henri (2006) examines the interactive and diagnostic control systems of Simons' (1995) LOC framework, which is referred to as one component of MCS (i.e., the performance measurement systems or PMS). Another justification is provided by Su et al. (2015), who focus on the role of the interactive and diagnostic control systems as:

> While belief and boundary systems are used to 'frame the strategic domain', the interactive and diagnostic approaches allow a comparison of different controls in terms of the way they are used rather than their technical design characteristics.

From the above discussion it can be concluded that the LOC framework can be used in its entirety using all four levers (Mundy, 2010; Widener, 2007) or as one component of MCS (i.e., the use of interactive and diagnostic control systems), which is referred to as the PMS (Henri, 2006). According to Bisbe and Otley (2004, p. 711), beliefs and boundary systems are used to "frame the strategic domain", while interactive and diagnostic systems are used to "elaborate and implement strategy". The focus of the present study is to examine the mediating role of MCS in terms of strategy implementation (i.e., the association between strategic CSR and organisational performance) rather than strategy formulation (or strategic domain). Therefore, considering the purpose of the current study, the use of interactive and diagnostic control systems of the LOC framework (Simons, 1995; 2000) are deemed suitable, which is also consistent with prior studies (e.g., Abernethy & Brownell, 1999; Bisbey & Otley, 2004; Kober et al., 2007; Henri, 2006; Chong & Mahama, 2014; Marginson et al., 2014; Su et al., 2015). A review of the literature suggests that in terms of MCS studies Simons' (1995, 2000) LOC framework has received special attention (Bisbe & Malagueno, 2015). In their recent review article, Chenhall and Moers (2015, p. 3) highlight the popularity of the LOC framework and the reason behind it as:

> the diagnostic-interactive classification has had the most pervasive effect on the research agenda that has considered how MCS are used. This growth in popularity is probably due to the growing interest in the 1990s of links between MCS and how managers can be encouraged to develop plans and practices to help ensure an organization's strategy provides a balance between innovation and efficiency.

In recent times, a number of studies (e.g., Henri, 2006; Widener, 2007; Kober et al., 2007; Naranjo-Gil & Hartmann, 2007; Mundy, 2010; Chong & Mahama, 2014, Marginson et al., 2014; Su et al., 2015) has used Simons' (1995, 2000) LOC framework in the empirical context. In order to provide insights into the role of MCS, a review of these studies is provided next.

Henri (2006) examines the association between the use of MCS (i.e., focusing on the use of interactive and diagnostic use of controls) and organisational capabilities from a resource-based view perspective using survey data collected from manufacturing organisations operating in Canada. The findings of Henri (2006) suggest that the interactive use of MCS contributes positively to the organisational capabilities of market orientation, entrepreneurship, innovativeness and organisational learning, while the diagnostic use of MCS exert negative pressure on these capabilities. The author further reveals that the balanced use of the interactive and diagnostic control systems creates dynamic tension, which contributes to organisational performance (Henri, 2006).

Using all four levers (i.e., belief, boundary, diagnostic and interactive) of the LOC framework, Widener (2007) examines the association between strategic uncertainties, risks and control systems, which in turn further affects attention and learning, and ultimately organisational performance. Using data collected from 122 respondents (CFOs), Widener (2007) finds that the control systems are associated with benefit (i.e., organisational learning), which also involve cost (i.e., consumption of managerial attention). She further reports that control systems have a positive effect on organisational performance. According to Widener (2007, p. 783) "although there is a cost of control, overall, the four control components have a positive impact on performance".

In their longitudinal case study covering a five year time period, Kober et al. (2007) examine the interrelationship between MCS and strategy in a public sector pathology service provider based in Western Australia. By using interviews, document analysis and questionnaires, the authors find that an interactive use of MCS helps to facilitate change in strategy, and MCS change to match a change in strategy. In other words, the authors find a two-way relationship between MCS and strategy. According to Kober et al. (2007, p. 448) "the MCS both shapes, and is shaped by, strategy".

Naranjo-Gil and Hartmann (2007) examine the mediating role of the use of MCS in association between top management team composition and organisational strategic change using survey data collected from 103 Spanish public hospitals. The authors find that the interactive use of MCS is not related to strategic change for organisations moving towards defender positions, but positively related to those organisations moving towards prospector positions, which is in line with Bisbe and Otley (2004), who examine whether the interactive use of MCS positively affects product innovation.

Adopting Simons' (1995) LOC framework in its entirety, and using a qualitative case study method, Mundy (2010) explores how organisations attempt to balance controlling and enabling uses of MCS, and how this facilitates the creation of dynamic tensions in the European headquarters of a large multinational financial services organisation. She finds that the interactive lever of control plays a significant role in achieving a balance between controlling and enabling uses of MCS. According to Mundy (2010, p. 499) "the findings from this study offer an elaboration of how dynamic tensions are created through managers' attempts to balance controlling and enabling uses of MCS". The balanced use of MCS creates a dynamic tension, which can positively affect organisational performance.

Drawing on Simons' (1995, 2000) LOC framework (in particular, the use of interactive and diagnostic control systems) Chong and Mahama (2014) investigate the impact of style of budget use on team effectiveness using an online survey to collect data from the biotech industry in the US. Their results suggest that the extent of interactive use of budgets has a direct positive effect on team effectiveness. However, the authors could not find support for the predicted positive association between diagnostic use of budgets and team effectiveness.

A similar study was conducted by Abernethy and Brownell (1999) to examine the role of budgeting when organisations undergo strategic change by using Simons' (1990) interactive and diagnostic classification of MCS. Collecting data from CEOs in 63 hospitals, Abernethy and Brownell (1999) find that the interactive use of budgets helps enhance the performance of hospitals facing strategic change. Another study that uses the interactive and diagnostic use of MCS is that of Marginson et al. (2014), who examined the psychological consequences of diagnostic and interactive use of financial and non-financial performance measures.

In their recent study, Su et al. (2015) examine the moderating effect of organisational life cycle stages on the association between the use of MCS (in particular, the use of interactive and diagnostic control systems) and organisational performance. Collecting survey data from 343 general managers in Australian manufacturing organisations, the authors find that the use of diagnostic controls is positively associated with financial performance in the revival stage, while in the maturity stage, a negative relationship is identified. Further, Su et al. (2015) report that the use of interactive controls is positively associated with organisational performance in both the growth and revival stage. The findings of Su et al. (2015) highlight the important role of interactive and diagnostic role of MCS in terms of enhancing organisational performance.

Although the studies reviewed above provide a great deal of insight into the role of MCS, little is known about how MCS support CSR strategy implementation in the empirical context (Ditillo & Lisi, 2014; Berry et al., 2009; Morsing & Oswald, 2009; Crutzen & Herzig, 2013; Pondeville et al., 2013; Arjalies & Mundy, 2013; Gond et al., 2012). In particular, in their review of literature on MCS, Crutzen and Herzig (2013, p. 175) report "… we did not identify any empirical study on management control, strategy and sustainability which has used Simons' work". Despite the call for research in the field, only a limited number of qualitative case studies have investigated the role of MCS in CSR and socially responsible decision making in recent times (Norris & O'Dwyer, 2004; Durden, 2008; Morsing & Oswald, 2009; Reccaboni & Leone, 2010; Albelda, 2011; Arjalies & Mundy, 2013; Rodrigue et al., 2013; Kerr et al., 2015; Ditillo & Lisi, 2014). Some notable exceptions include studies conducted by Henri and Journeault (2010), Pondeville et al. (2013) and Lisi (2015). However, considering the essential role of MCS in terms of integrating social, environmental and economic dimensions into organisations' business strategies, research in the field is emerging (Cresti, 2009; Berry et al., 2009; Lueng & Radlach, 2016). A brief review of prior MCS studies on CSR is provided next.

2.5.4 Prior MCS studies on CSR/sustainability

Norris and O'Dwyer (2004) explore the perceived influence of formal and informal control systems on socially responsive decision making using a case study method in a large UK based organisation. In particular, Norris and O'Dwyer (2004, p. 174) seek to understand "… the motives and internal processes that drive a specific group of managers to take socially responsive decisions". The authors find that informal controls, such as social and self-controls dominated the formal controls, which rewarded managers for traditional financial performance measures such as profit and turnover.

Durden (2008) investigates the measurement and monitoring of social responsibility within the MCS of a small privately owned New Zealand based manufacturing organisation using a qualitative case study method. The author found that the case organisation did not measure or monitor social responsibility nor did it have clearly defined social responsibility goals, although the organisation attempted to operate in a socially responsible manner. According to Durden (2008, p. 685) "… social responsibility was perceived predominately as an external image factor and associated more closely with the business owner rather than an internal factor significantly influencing actual business operations".

Morsing and Oswald (2009) explore how top managers can adopt an appropriate MCS to communicate to employees and other stakeholders when sustainability is a primary strategic objective of the organisation. More specifically, "… to what extent it is possible to influence sustainability at the operational level by contemporary management control systems as it proposes to integrate the perspective of organizational culture" (Morsing & Oswald, 2009, p. 83). By adopting a single case study method based on Novo Nordisk A/S, a multinational organisation with headquarters located in Denmark, the authors found that the case organisation was a prime example of an organisation including sustainability as an integrated part of its strategy. However, Morsing and Oswald (2009) question to what extent sustainability practices are measured by concurrent MCS, and to what extent organisational culture plays a role in terms of implementing sustainability. According to Morsing and Oswald (2009, p. 96) "… there are a number of issues that limit our ability to conclude that Novo Nordisk's management control systems are as effective as theory suggests them to be in ensuring the company's commitment to sustainability".

Riccaboni and Leone (2010) explore the role of MCS in order to translate sustainable strategies into action and how they should be modified when a strategic change in a sustainable direction occurs, relying upon a case study of a multinational organisation Procter and Gamble (P&G). The findings of Riccaboni and Leone (2010) suggest that organisations should broaden their MCS to facilitate the achievement of social and environmental goals. To achieve the goal of integrating sustainability into organisational practice, both formal and informal controls are necessary. According to Riccaboni and Leone (2010, p. 130),

> integration with the traditional planning and monitoring systems, combination of both formal and informal controls, coordination across business units and decentralized structures are key factors for successful implementation of sustainability-oriented strategies.

Albelda (2011) explores the role of MCS as facilitator of environmental management using a qualitative research method in six Spanish factories. Albelda (2011) finds that the incorporation of environmental issues into the MCS increases internal visibility and control, which in turn can enhance environmental and economic performance. Adopting Simons' (1995) LOC framework and collecting data from France's largest listed companies, Arjalies and Mundy (2013) seek to understand how organisations use MCS to manage CSR strategy. Arjalies and Mundy (2013, p. 284) find that "the use of MCS has the potential to contribute to society's broader sustainability agenda through processes that enable innovation, communication, reporting, and the identification of threats and opportunities".

Drawing on Simons' (1990, 1995, 2000) LOC framework, Rodrigue et al. (2013) conduct a case study within a large multinational organisation operating in the natural resources sector to explore how managers perceive stakeholders' influence on internal EPI selection. The authors identify perceived stakeholder influences over the case organisations' EPI selection in four ways through: (i) environmental strategy; (ii) direct pressure on EPI selection; (iii) a joint effort; and (iv) environmental performance benchmarking. In a recent study, Ditillo and Lisi (2014) explore how the integration of sustainability control systems (SCS) with the more traditional MCS is affected by managerial sustainability orientation using a multiple case study approach. The authors find that the sustainability orientation of management explains the observed variation in SCS's integration. According to Ditillo and Lisi (2014, p. 36),

> When integrated with already existing and enforced control processes, SCSs seem to be more promptly endorsed and to actually play those decision-making and decision-influencing roles ascribed to MCSs. On the contrary, when SCSs remain disconnected from the company's overall MCSs, their role appears mainly limited to that of façade, buffering mechanisms without any substantial impact on organizational everyday workings.

Using survey data collected from Canadian manufacturing organisations, Henri and Journeault (2010) examine to what extent eco-control [13] influences environmental and economic performance. More specifically, the authors investigate the mediating effect of environmental performance on association between eco-control and economic performance, as well as the direct effect of eco-control on economic performance. Henri and Journeault (2010) find that eco-control does not have a direct effect on economic performance, while they find a mediating effect of environmental performance on eco-control and economic performance relationship in different contexts.

Pondeville et al. (2013) examine the role of contextual and strategic factors associated with the development of environmental management control systems (EMCS) using survey data collected from 256 Belgian manufacturing organisations. The authors find a link between strategy and EMCS. Pondeville et al.'s (2015) results further suggest that more proactive organisations develop EMCS. According to Pondeville et al. (2015, p. 317) "market, community, and organizational stakeholders motivate environmental proactivity, as well as the development different EMCS".

In the environmental context, Lisi (2015) examines the mediating role of environmental performance measures (EPM) on the link between organisations' environmental motivations and corporate performance using survey data collected from a sample of 91 Italian organisations. The findings of Lisi (2015) suggest that the use of EPM for decision making and control partially mediate the association between business motivations and environmental

[13] According to Henri and Journeault (2010, p. 64) "eco-control is composed of three important practices, namely uses of performance measures, budgeting and incentives".

performance. Further, Lisi (2015) also finds that EPM use positively affects economic performance indirectly through environmental performance.

Although the above reviewed studies (e.g., Norris & O'Dwyer, 2004; Durden, 2008; Morsing & Oswald, 2009; Reccaboni & Leone, 2010; Albelda, 2011; Arjalies & Mundy, 2013; Rodrigue et al., 2013; Ditillo & Lisi, 2014) provide significant insights into the role of MCS in CSR strategy implementation, most of these studies are based on qualitative case study methods, which do not measure the statistical relationships between the variables of study (i.e., MCS and CSR), thereby leaving an empirical gap in the literature. Although some quantitative studies exist that examine the role of MCS (e.g., Henri & Journeault, 2010; Pondeville et al., 2013; Lisi, 2015), these studies are more focused on only one aspect of CSR (i.e., environmental dimension). For instance, Henri and Journeault (2010) examine the direct relationship between eco-control and economic performance, and the mediating effect of environmental performance on eco-control and the economic performance relationship. Similarly, Lisi (2015) examines the link between organisations' environmental motivations and performance, while Pondeville et al. (2013) examine the association between contextual and strategic factors and the development of environmental MCS. Therefore, this study aims to address this limitation in the existing literature by examining the association between variables, that is, the mediating effect of MCS in association between CSR, which includes social, environmental and economic dimensions, and organisational performance using Simons' (1995, 2000) LOC framework.

2.6 CHAPTER SUMMARY

This chapter has provided a comprehensive review of the relevant literature on the concepts and variables of this study including prior CSR studies conducted in the context of developing countries. More specifically, the chapter has established the relevance of the present study, identified the research gap, and critically analysed the conceptual as well as empirical studies related to this thesis. The review was mainly focused on the three research objectives of the present study. In the first part, the concept and practice of CSR was discussed, followed by the factors influencing the diffusion of CSR. The second part concentrated on the role of organisational culture on adoption of CSR, while the third part focused on evaluating prior empirical MCS studies in order to provide an insight into the role of MCS on the association between CSR and organisational performance. A more detailed investigation of all three research objectives is provided in the following chapters. In particular, diffusion of CSR in the context of developing countries is investigated in chapter three (paper one), while the role of organisational culture on adoption of CSR is examined in chapter four (paper two). Finally, the association between CSR and organisational performance is examined with the mediating effect of MCS on the CSR and performance relationship in chapter five (paper three).

CHAPTER THREE: PAPER ONE

DIFFUSION OF CORPORATE SOCIAL RESPONSIBILITY IN THE AIRLINE INDUSTRY*

ABSTRACT

Purpose – The purpose of this study is to explore how and why corporate social responsibility (CSR) is diffused within the organisation and investigate the factors that influence the diffusion of CSR in the context of a developing country.

Design/methodology/approach – Drawing on the diffusion of innovations theory, data were collected from a Nepalese airline company through semi-structured interviews supported by relevant documentary scrutiny.

Findings – The findings of this study indicate that the airline company's CSR practices are aimed at enhancing organisational performance. The adoption of CSR is also seen as a proactive strategy to avoid any future risk associated with the company's environmental impact. The findings reveal that organisations' strategy, cultural values and beliefs and top management support are important predictors of the adoption of CSR.

Practical implications – The empirical findings of this study provide valuable insights into how CSR can enhance organisations' performance if CSR is used in a strategic way. The study also highlights the important role of cultural values and beliefs in the secondary stage of adoption (or internal diffusion), as successful implementation of CSR is highly unlikely to happen without focusing on appropriate culture within the organisation.

Originality/value – This study extends research on diffusion of innovations literature by focusing on both the initial and post-adoption process (primary and secondary stage of diffusion) of CSR within a single airline company operating in a developing country, Nepal.

Keywords: Corporate social responsibility; Airline; Developing country; Diffusion of innovations

Paper type – Case study

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*1. This research paper is currently under review (revised and resubmitted) at *International Journal of Operations and Production Management.*

2. Contribution of the first co-author (Bedanand Upadhaya) on this paper is above 90%.

3. The earlier versions of this paper have been presented at the following conferences:

26th International Congress on Social & Environmental Accounting Research, Scotland, UK

2014 Corporate Responsibility Research Conference, Leeds, UK

3.1 INTRODUCTION

Corporate social responsibility (CSR) has become an area of growing interest for business organisations and researchers in recent times (Linnenluecke & Griffiths, 2010; Carroll & Shabana, 2010). CSR is also promoted by various governments, non-government organisations (NGOs) and civil society. Apart from these constituents, transnational organisations, such as the United Nations (UN), the International Labour Organization (ILO), the International Organisation for Standardization (ISO), the Organisation for Economic Co-operation and Development (OECD) and The World Bank not only endorse CSR, but have also established guidelines to promote it (see, Lee, 2008). A recent survey report (KPMG, 2011) reveals that the number of organisations adopting[14] CSR is growing around the globe. All of these suggest that the concept and practice of CSR have become widespread (Linnenluecke & Griffiths, 2010; Lee, 2008; Aguinis & Glavas, 2012; Carroll & Shabana, 2010).

Various reasons are provided in the literature for this heightened interest in the adoption of CSR. For example, organisations adopt CSR because of institutional pressures (Campbell, 2007); stakeholder demands (Rodrigue et al., 2013; Aguilera et al., 2007; Jackson & Apostolakou, 2010); and to appear legitimate (Matten & Moon, 2008). In addition, an increasing number of organisations are adopting CSR practices to address the environmental and social impacts of their business activities (Porter & Kramer, 2006; Jackson & Apostolakou, 2010; KPMG, 2011). These impacts range from land degradation, losses to biodiversity, climate change, air and water pollution that threaten human health, to the exploitation of labour and human rights abuses (Werther & William, 2011). Failing to address these issues may damage organisational reputation, result in financial loss and even consumer boycotts (Porter & Kramer, 2006; Matten & Moon, 2008). Although all these factors explain the primary drivers behind the adoption of CSR, “there is still little insight into how the adoption of CSR can be achieved inside organizations” (Linnenluecke & Griffiths, 2010, p. 357) and what factors influence internal diffusion (Gallivan, 2001). Therefore, using an in-depth case study approach in a single case organisation (an airline company), the present study explores the following two research questions:

i) Why and how was CSR diffused within the case organisation operating in a developing country?

ii) What factors influenced the diffusion of CSR within the case organisation?

[14] Adoption is the process by which an organisation identifies and uses a management system or technology (Rogers & Shoemaker, 1971), while diffusion refers to the process by which innovations, such as CSR, are accepted and used by organisations (Rogers, 2003).

To address these research questions, the study builds on the diffusion of innovations theory proposed by Rogers (2003). The literature, however, provides several instances of inefficient management innovations that were accepted or efficient innovations that were rejected by organisations. Hence, to mitigate these biases in the diffusion of innovations theory this study also draws upon the theoretical foundations proposed by Abrahamson (1991) to explain CSR diffusion. Building on these theoretical constructs, the case study was undertaken in a private airline company operating in a developing country, Nepal.

Developing countries in general and the airline industry in particular have a number of distinctive features that provide a unique research setting to explore the diffusion of CSR. In particular, while developing countries are seen as attractive destinations for foreign investors due to their strong economic growth and the emergence of a large middle class (Peng et al., 2008; Dobbs et al., 2015), researchers have also questioned the role of business in terms of tackling the critical social and environmental issues facing these countries, such as poverty, inequality, human rights violations, corruption and climate change (Belel et al., 2013; Visser, 2008; Porter & Kramer, 2006).

While the airline industry plays an important role in terms of providing a transportation service, promoting trade, facilitating tourism and improving economic growth in the context of developing countries (ATAG, 2016; Cowper-Smith & de Grosbois, 2011), the environmental impact of airlines, such as carbon emissions, noise and waste are often viewed in a negative way (PwC, 2011; Lynes & Andrachuk, 2008). Although much of the prior CSR literature focuses on other industries (i.e., mining, chemical, forest, and energy), relatively little is known about the diffusion of CSR in the airline industry in the context of both developed and developing countries (Vidal et al., 2010; Rodrigue et al., 2013; Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008). Thus, the selection of an airline company in the context of a developing country provides an interesting research setting in order to develop our limited understanding of why organisations adopt CSR and what factors influence its (internal) diffusion.

3.2 BACKGROUND LITERATURE

CSR is defined as "… actions that appear to further some social good, beyond the interests of the firm and that which is required by law" (McWilliams & Siegel, 2001, p. 117). From this perspective CSR is a voluntary action on the part of organisations, which entails a wide range of activities, such as working conditions, human rights, environmental protection, community engagement, charitable contributions and development of organic or green products

(Hoejmose et al., 2013; McWilliams & Siegel, 2001). Carroll (1979, p. 500) defines CSR as "The social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time". Among these four core responsibilities of Carroll's (1979, 1991) CSR pyramid, the economic responsibility is seen as the most important, because of its focus on increasing economic profit and remaining competitive in the market. Although some CSR activities help generate benefits for organisations, many other CSR activities are not perceived as fulfilling this purpose (McWilliams et al., 2006; McWilliams & Siegel, 2001). There is considerable debate about whether CSR contributes to organisational performance or destroys shareholders' money (Orlitzky et al., 2003; McWilliams & Siegel, 2000; Crane et al., 2008; Margolis & Walsh, 2003).

Researchers hold two distinct views on CSR. The first perspective emphasises that CSR should not be practised at the cost of shareholders (Friedman, 1970). From the shareholder perspective, Friedman (1970) argues that CSR destroys shareholder profit, and distracts managers from their assigned roles and responsibilities. On the other hand, advocates of CSR, who take a stakeholder perspective, argue that organisations should take responsibility for their actions and invest in socially and environmentally responsible behaviour even though it may reduce their immediate cash flow or profit (Mackey et al., 2007). According to this perspective, organisational performance should not be viewed on a narrow dimension with short-term profit because of its undermining effects to other important non-owner stakeholders, such as customers, employees, suppliers, investors and the community.

These disparate views have stimulated numerous empirical studies in the last four decades (Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al. 2003). Researchers have attempted to identify the direct link between CSR and corporate financial performance. Some studies found a positive relationship between the two (Waddock & Graves, 1997), while others reported a negative relationship (Brammer et al., 2006), and still others found no relationship (McWilliams & Siegel, 2000). Despite extensive research, CSR still remains controversial from a theoretical as well as empirical perspectives (Crane et al., 2008).

These conflicting empirical findings raise fundamental questions concerning the motives of organisations to practise CSR. In particular, how and why do CSR practices diffuse in organisations? Does CSR destroy shareholder value? And if CSR enhances organisations' efficiency and effectiveness, why are there not more organisations practising CSR (Tsui, 2013)? In reality the number of organisations practising CSR is increasing globally (KPMG, 2011).

Various internal and external factors that can influence the adoption of CSR are mentioned in the literature (Aguinis & Glavas, 2012; Bansal & Roth, 2000; Campbell, 2007). While globalisation is considered one of the important factors that influences the diffusion of innovations, the diffusion of CSR is largely context specific (Vidal et al., 2010). A review of the literature suggests that the diffusion of CSR practices is driven by a number of factors, including institutional pressure (Campbell, 2007); cost–benefit analysis (McWilliams & Siegel, 2001); competitive advantage (Porter & Kramer, 2006; McWilliams et al., 2006); normative reasons or instrumental pressure (Aguinis & Glavas, 2012; Bansal & Roth, 2000); and risk management, reputation enhancement and stakeholder demands (Aguilera et al., 2007; Jackson & Apostolakou, 2010; Porter & Kramer, 2006).

More specifically, organisations adopt CSR practices as a result of social and institutional pressures (Aguilera et al., 2007) and to appear legitimate (Matten & Moon, 2008). Matten and Moon (2008) affirm that 'new institutionalism' (DiMaggio & Powell, 1983) provides a theoretical perspective for understanding the process of CSR adoption among organisations. According to DiMaggio and Powell (1983), the mechanism through which organisations adopt systems and procedures in order to be considered legitimate is called "institutional isomorphism". The three mechanisms (pressures) are coercive, mimetic and normative. It is argued that because of these three mechanisms (institutional pressures) organisations adopt CSR practices (Matten & Moon, 2008). Institutional pressures, such as public and private regulation, and forces operating outside the organisation, play an important role in terms of influencing organisations to adopt CSR (Campbell, 2007). Moreover, many organisations also adopt CSR to appear modern or innovative to their customers and employees (Abrahamson, 1991; Aguilera et al., 2007).

Organisations are facing immense pressure from their stakeholders, which include customers, employees, suppliers, investors and community, to practise CSR (Jackson & Apostolakou, 2010, Aguilera et al., 2007; Porter & Kramer, 2006). Jackson and Apostolakou (2010) argue that organisations practise CSR in response to increased demand from stakeholders, which is compounded by negative external factors, such as environmental pollution, human rights abuses and exploitation of labour (Werther & William, 2011). In the current business environment, the demand for CSR is further escalated by pressure from NGOs, consumer watchdogs, activist groups and the media (Chapple & Moon, 2005). By ignoring this pressure, organisations may face penalties, consumer boycotts or, in the worst case, cessation of their licence. One example of such a strategic response to stakeholder (consumer and activist) pressure involved Nike, which faced a severe consumer boycott because the media (*New York*

Times and other print media) reported the poor working conditions in its South-East Asian factories in the 1990s (Matten & Moon, 2008; Porter & Kramer, 2006). Several other contextual and organisational factors such as industry, economic conditions, regulatory environment, organisational size, structure, organisational culture and key individuals (top management) within the organisation are also mentioned in the literature as having an influence on the adoption of CSR (Aguinis & Glavas, 2012; McWilliams et al., 2006; Peloza, 2009).

Although various factors that influence the adoption of CSR are mentioned in the literature, few studies have examined the factors that influence the diffusion of CSR in the empirical context. For instance, Corbett and Kirsch (2001) investigated the international diffusion of ISO 14000 using both qualitative and quantitative data. The researchers found that "… the forces behind ISO 14000 are not exclusively environmental" (Corbett & Kirsch, 2001, p. 339). In their study, Vidal et al. (2010) examined the diffusion of CSR in the context of the forest industry operating in Brazil, Canada and the US. Using a qualitative research method, the researchers found that three major factors influence the diffusion of CSR to forest companies: "(1) external contextual characteristics, (2) connectors, and (3) experts and expert organizations" (Vidal et al., 2010, p. 563). In a more recent study, Rodrigue et al. (2013) found that pressure from various stakeholders had a great impact on company's choice of internal environmental performance indicators. While these studies provide significant insight for understanding the diffusion of CSR, there exist limited understanding and explanation of the factors that influence the diffusion of CSR, especially in the context of developing countries (e.g., Chapple & Moon, 2005; Visser, 2008).

Moreover, the factors that appear to have a strong influence on the adoption of CSR in organisations operating in developed countries may have a small, negative or no influence on organisations operating in developing countries due to their unique institutional setting and the different socioeconomic and environmental conditions within which they operate (Dhaliwal et al., 2012; Munir et al., 2013; Maignan & Ralston, 2002; McWilliams et al., 2006). Although the institutional context plays an important role in terms of CSR adoption in both developed and developing countries (Campbell, 2007; Visser, 2008; Belal et al., 2013; Matten & Moon, 2008), the institutional environment and forces may be different in the context of developing countries (Munir et al., 2013). For example, the governments of developed countries can enforce and encourage organisations to adopt CSR. Examples of countries that have promoted CSR practices include the UK, Denmark and Australia, all of which have developed public policy frameworks to address unemployment problems and expand public–private partnerships (Moon & Vogel, 2008). In contrast, developing country governments may not be able to exert such pressure on organisations to behave responsibly due to weak judicial infrastructure, limited enforcement of regulation and legislation, political instability, poor governance and lack of accountability (Visser, 2008; Belal et al., 2013).

Few studies have explored the factors influencing the diffusion of CSR in the context of developing countries. For instance, in an OECD commissioned study, Baskin (2006) examined the CSR practices of 127 large organisations operating in 21 emerging or developing economies from Asia, Africa, Latin America, and Central and Eastern Europe. The author found that there are a number of key drivers, such as regulatory pressure, foreign ownership and corporate governance codes that influence the adoption of CSR. In a more recent study, Moon and Shen (2010) investigated the development of CSR practices in the context of China. The authors found that the initial focus of CSR research was ethical (right thing to do), which is gradually changing. The present focus of CSR in China is shifting towards more specific issues such as social, environmental and stakeholder agendas. In particular, "the environmental focus is becoming of growing significance in CSR in China" (Moon & Shen, 2010, p. 624). With this changing focus, the adoption of CSR in China is growing, which according to Moon and Shen (2010), may be fuelled by a number of factors including global pressure, greater importance given to it by the Chinese government and business leaders, the new corporate law and guidelines for listed companies to reveal CSR related information.

From the above discussion, it can be concluded that there is a considerable debate on whether CSR contributes to the bottom line or destroys shareholder profit (Orlitzky et al., 2003; Crane et al., 2008; Margolis & Walsh, 2003). This debate has stimulated numerous empirical studies in the last 40 years that examine the link between CSR and organisations' financial performance, however, the results are mixed (i.e., positive, negative and neutral) and inconclusive (Margolis et al., 2009; Peloza, 2009). Despite the theoretical controversy and conflicting empirical findings, the number of organisations adopting, practising and reporting CSR is increasing globally (KPMG, 2011). This raises a fundamental question as to what factors motivate or drive organisations to adopt and practise CSR.

Various factors are mentioned in the literature as influencing the adoption of CSR, such as institutional pressure, regulatory requirements, stakeholder demands, risk management and legitimacy (Aguilera et al., 2007; Jackson & Apostolakou, 2010; Porter & Kramer, 2006). However, few studies (e.g., Corbett & Kirsch, 2001; Vidal et al., 2010; Rodrigue et al., 2013) have examine the factors that influence CSR adoption in the empirical context. Although these studies have made a significant contribution to our understanding of adoption of CSR in the context of developed and developing countries, most studies focus on the initial or primary adoption of CSR and ignore the secondary stage of adoption or implementation, which is also called 'internal diffusion' (Gallivan, 2001). Therefore, this study aims to explore how CSR is diffused within the organisation and what factors influence the internal diffusion of CSR in the context of a developing country, drawing on the diffusion of innovations theory (Rogers, 2003) and Abrahamson's (1991) framework, which are described in the next section.

3.3 THEORETICAL FRAMEWORK

In the diffusion of innovations literature, the term "innovation" is defined as an idea, practice, or object that is perceived as new by an individual or other unit of adoption" (Rogers, 2003, p. 12), while Firth (1996, p. 630) defines innovation as "… the adoption of an old idea in a new context". In this study, CSR is perceived as a new management practice and innovation, which is still in an emerging stage in the context of developing countries despite being popular and growing in developed countries (Rogers, 2003; Firth, 1996; KPMG, 2011; Matten & Moon, 2008). Diffusion is described as "… the process in which an innovation is communicated through certain channels over time among the members of a social system" (Rogers, 2003, p. 5).

Lapsley and Wright (2004, p. 356) argue "Diffusion is not an automatic consequence of innovation and its ease of progress is subject to favourable factors existing within its environment". More specifically, the secondary stage of adoption, known as the implementation phase, is more complex because the initial adoption of innovation by top management does not guarantee the effective implementation of innovation within the organisation (Perera et al., 2003). It means the adoption of innovation does not depend solely on the desire or situation of adopters; rather it is the attributes of innovation (namely, relative advantage, compatibility, complexity, trialability and observability) that influence the diffusion and rejection of innovation (Rogers, 2003).

The degree of relative advantage is often seen by the adopting units or organisations in terms of financial benefits and social prestige. Potential perceived benefits of CSR, if used in a strategic way, can include legitimacy, reputation enhancement and competitive advantage (Arjalies & Mundy, 2013; Porter & Kramer, 2006; Burke & Logsdon, 1996). While compatibility is referred to as whether an innovation can be compatible or incompatible with the cultural values and beliefs possessed by the adopting organisation, perceived complexity of innovation is often viewed as one of the major barriers to innovation adoption (Rogers, 2003). According to Rogers (2003, p. 258) trialability is the "degree to which an innovation may be experimented with on a limited basis", whereas observability refers to how "the results of an innovation are visible to others".

The above five attributes are believed to be useful for exploring why and how CSR is diffused within organisations (Rogers, 2003). However, the diffusion of innovations theory is subject to certain theoretical biases. For example, the theory is based on the assumption that an innovation diffuses because it is beneficial to adopters, and the adopters always make rational decisions (Abrahamson, 1991). Prior literature provides several examples of inefficient innovations that were adopted or efficient innovations that were rejected by organisations (Abrahamson, 1991). In order to overcome these biases, Abrahamson (1991) develops a framework with four different perspectives on the diffusion of innovations: efficient choice, forced selection, fashion and fad perspectives (see, Figure 3.1).

According to Abrahamson (1991), the efficient choice perspective – when organisations can adopt efficient innovations or reject inefficient ones – is believed to be influenced by economically rational motivations rather than by any other factor. Abrahamson's (1991) alternative perspectives of forced selection, fashion and fad "… are based on the assumptions that the force for adoption of an innovation may lie outside rather than inside an organisation" (Perera et al., 2003, p. 144). These additional perspectives will provide insights into the role of supply-side factors, such as academic institutions, mass media, consulting firms and NGOs.

The forced selection perspective occurs when external organisations such as regulatory bodies like the government or other powerful organisations force the organisation to adopt or reject an innovation. In this perspective, the motives of adopters do not play any role; rather, the supplier decides whether the organisations should adopt or reject the innovation. Abrahamson (1991) argues that the fashion perspective arises when organisations imitate other organisations because of uncertainty in their goals, efficiency and future environment.

The fourth perspective is the fad perspective. According to Abrahamson (1991) organisations imitate other organisations to appear legitimate. In the case of uncertainty, less reputable organisations imitate highly reputable organisations, whereby there remains the chance of adopters imitating inefficient innovation and rejecting efficient innovation. Although diffusion of innovations theory is mainly used to explain inter-organisation diffusion, the focus of this study is intra-organisation diffusion and the factors influencing the adoption of innovation.

Combined with Rogers' (2003) five attributes of diffusion of innovations theory, Abrahamson's (1991) framework is considered more comprehensive, and includes demand as well as supply-side perspectives. Researchers, who have studied the diffusion of management innovations (Bjornenak, 1997; Malmi, 1999) emphasised the need for the supply-side perspective to gain a better understanding of diffusion. This is because the demand perspective does not fully explain why some organisations adopt management innovations, while others do not (Bjornenak, 1997). According to Perera et al. (2003), multiple theories and literatures help explain the diffusion of innovations.

Figure 3.1 Abrahamson's (1991) framework

Imitation Focus Dimension

		Imitation processes do not impel the diffusion or rejection	**Imitation processes impel the diffusion or rejection**
Outside Influence Dimension	Organisations within a group determine the diffusion and rejection within this group	Efficient Choice Perspective	Fad Perspective
	Organisations outside a group determine the diffusion and rejection within this group	Forced Selection Perspective	Fashion Perspective

Source: Abrahamson (1991, p. 591)

3.4 RESEARCH METHODOLOGY

This study employs a qualitative research method by using a case study within a case organisation (CO hereafter), an airline company operating in Nepal. This is because "a case study is an empirical inquiry that investigates a contemporary phenomenon in-depth and within its real-life context" (Yin, 2009, p. 18). Yin (2009) notes that the case study method is not only the preferred method for examining contemporary events but it is also suitable for investigating 'how' and 'why' research questions. As the purpose of this study is to enhance our limited understanding of internal diffusion within a single CO, a qualitative approach is deemed appropriate, as this method allows an in-depth exploration of how CSR practices diffuse within the organisation and what factors influence the diffusion of CSR in the context of a developing country.

3.4.1 Research context

The reason for selecting a developing country in general and Nepal in particular is because of their unique economic, social and environmental characteristics. First, developing countries represent 85.1% of the world's population and account for 48.9% of the world's GDP (IMF, 2012). Developing countries are growing faster compared to their developed counterparts and are seen as strong growth engines and attractive investment destinations for foreign investors due to the emergence of a large middle class (Peng et al., 2008; Dobbs et al., 2015). While

Nepal occupies a strategic spot between two large developing and emerging economies – India and China – the country is still suffering from ongoing political instability as a result of the decade-long Maoist civil war, a lack of appropriate infrastructure and a poor transportation network (*The Economist*, 2014; The World Bank, 2016). Although the civil war ended in 2006, Nepal is still facing considerable uncertainty and an unstable political transition. If these conditions are improved, Nepal could be an attractive destination for foreign investors (*The Economist*, 2014; The World Bank, 2016).

Second, apart from the developing countries' economic strength, these countries are also characterised by social issues, such as a lower level of human development, lower per capita income, and more inequality and poverty (Belal et al., 2013; Visser, 2008; UNDP, 2015; The World Bank, 2016). According to the UNDP's *Human Development Report 2015*, Nepal is classified as a low human development or developing country, and is ranked 145th on the global Human Development Index (HDI)[15] with a score of 0.548 (UNDP, 2015). Poverty is widespread in Nepal and nearly a quarter of the population is still living under US$1 per day (The World Bank, 2016). Anecdotal evidence also suggests that social issues such as poverty, education, health and safety, human rights, child labour, and poor working conditions are prevalent in Nepal.

Third, from an environmental perspective, a recent report by UNDP (2015) suggests that by 2050 developing countries are more likely to experience the effects of climate change, such as extreme weather conditions and natural disasters, compared to their developed counterparts. Owing to its fragile geographical structure, significant altitudinal variation (100m in the *Terai* (plains) region to 8800m in the Himalayas), degrading environment and active tectonic process, Nepal is particularly vulnerable to natural disasters and climate change (The World Bank, 2016; Karki & Gurung, 2012). According to Karki and Gurung (2012) climate change is expected to have a significant effect on Nepal's natural resources, biodiversity, environment and human health. Evidence suggests that, in coming years, temperatures will continue to rise in Nepal, which may cause more avalanches, the shrinking of glaciers and glacial lake outburst floods (Karki & Gurung, 2012). One of several examples of natural disasters in Nepal is the recent devastating earthquake (25 April 2015) in which more than 8,000 people lost their lives, 18,000 people were injured, and more than 10% of the country's homes were destroyed or damaged (CNN, 2015). From the above discussion, it can be

[15] "HDI is a composite index focusing on three basic dimensions of human development: to lead a long and healthy life, measured by life expectancy at birth; the ability to acquire knowledge, measured by mean years of schooling and expected years of schooling; and the ability to achieve a decent standard of living, measured by gross national income per capita" (UNDP, 2015, p. 3).

concluded that Nepal, which is a good example of a developing country in terms of economic, social and environmental characteristics, provides a typical research context to explore the diffusion of CSR and investigate the factors that influence diffusion within the organisation.

3.4.2 Case context

The rationale behind choosing an airline company is two-fold. First, the airline industry is seen as a driver of economic and social progress (ATAG, 2016). Airline companies have one of the largest groups of stakeholders compared to other industries and are also visible to a large number of people (PwC, 2011). In the global context, 54% of international tourists travel by air, the industry supports 62.7 million jobs worldwide and contributes 3.5% to global GDP (ATAG, 2016). Global air travel passenger volume has grown 5–6% annually in the period from 1970 to 2000; such remarkable growth has been enjoyed by very few industries over such a lengthy period of time (Cowper-Smith & de Grosbois, 2011; Gossling & Peeters, 2007).

However, the airline industry creates a number of environmental impacts, such as carbon emissions, noise pollution and waste generation (Cowper-Smith & de Grosbois, 2011). Lynes and Andrachuk (2008) suggest that the environmental impact of airlines is often viewed in a negative way, as the contribution of the airline industry to climate change cannot be ignored. Recent figures show that airline operations produce nearly 2% of total human carbon emissions of over 36 billion tonnes, and this figure is expected to rise more than three-fold in the period to 2050 (Stern, 2007; ATAG, 2016). Apart from carbon emissions, airlines also produce nitrogen oxides and other non-carbon substances, such as noise and waste that affect local air quality and the climate (Cowper-Smith & de Grosbois, 2011).

Considering their environmental impact, some airlines are working towards improving their CSR because of its increased importance in the airline industry, while others are still in the initial phases. According to a recent report published by PwC (2011, p. 9), “Airlines that deal strategically with the environmental impact of their business will have a major advantage when resources get scarcer, climate change impacts more severe and regulations become stricter”. Further, airlines are subject to greater exposure than other organisations due to the international standards and expectations set by the International Air Transport Association (IATA) and the International Civil Aviation Organization (ICAO). For example, the IATA has developed an environmental assessment program, which is an evaluation system designed to independently assess and improve the environmental management of the airlines (IATA, 2017). Recently, the ICAO has also adopted a new aircraft carbon dioxide (CO_2) emissions standard which aims to help reduce the impact of aviation greenhouse gas emissions (ICAO, 2017). All of these highlight the importance of CSR in the airline industry. However, academic literature concerning CSR studies in the airline industry, compared to other industries in the context of both developed and developing countries, is limited (Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008).

Second, the role of the airline industry is vital, especially in the context of a developing country like Nepal, where other means of transportation are not available, and air transport is the only means of public transport, particularly in the hill and mountain areas (The World Bank, 2013; World Travel and Tourism Council, 2015). In Nepal, most of the all-weather roads are in the *Terai* region and access to those roads is restricted to only 43% of the total population, while nearly half of the rest of the population live in the hills and mountain areas, where the only mode of transport is air travel (The World Bank, 2013; CBS, 2013). Aviation is therefore regarded as the second major mode of transport after roads. Owing to difficult geographical conditions and limited road access, air transportation in Nepal is very important, promoting trade and facilitating tourism in the hill and mountain areas of Nepal.

Tourism is one of the largest industries in Nepal, providing employment to more than half a million people and contributing about 4.3% to GDP (CBS, 2014a; World Travel and Tourism Council, 2015). Although Nepal first opened its borders to foreign tourists in 1950, it was only in 1972 that the Government of Nepal recognised tourism as one of the major contributors to the national economy. The growing tourism industry remains one of the major contributors of foreign exchange earnings in Nepal, which is regarded as a popular tourist destination, particularly for trekking, mountaineering, rafting and jungle safaris. According to *The New York Times* (2014), Nepal is a 'must visit country', with eight of the world's 10 highest mountains, including Mount Everest, the highest mountain in the world.

However, there are several challenges faced by Nepal's aviation industry. These include airports in poor condition, which are seasonal and have short take-off and landing (STOL), and difficult weather conditions such as high wind, clouds and rain. One of the other overarching problems of the aviation sector in Nepal is the issue of safety. Since the 1950s, there have been more than 32 fatal air crashes in Nepal that have killed more than 700 people (Aviation Safety Network, 2010). Owing to these accidents, the cost of insurance and other operating costs have increased manifold. As a result, the sustainability of the airline companies has become a major challenge in Nepal's domestic market, especially for those airline companies that provide services to remote areas.

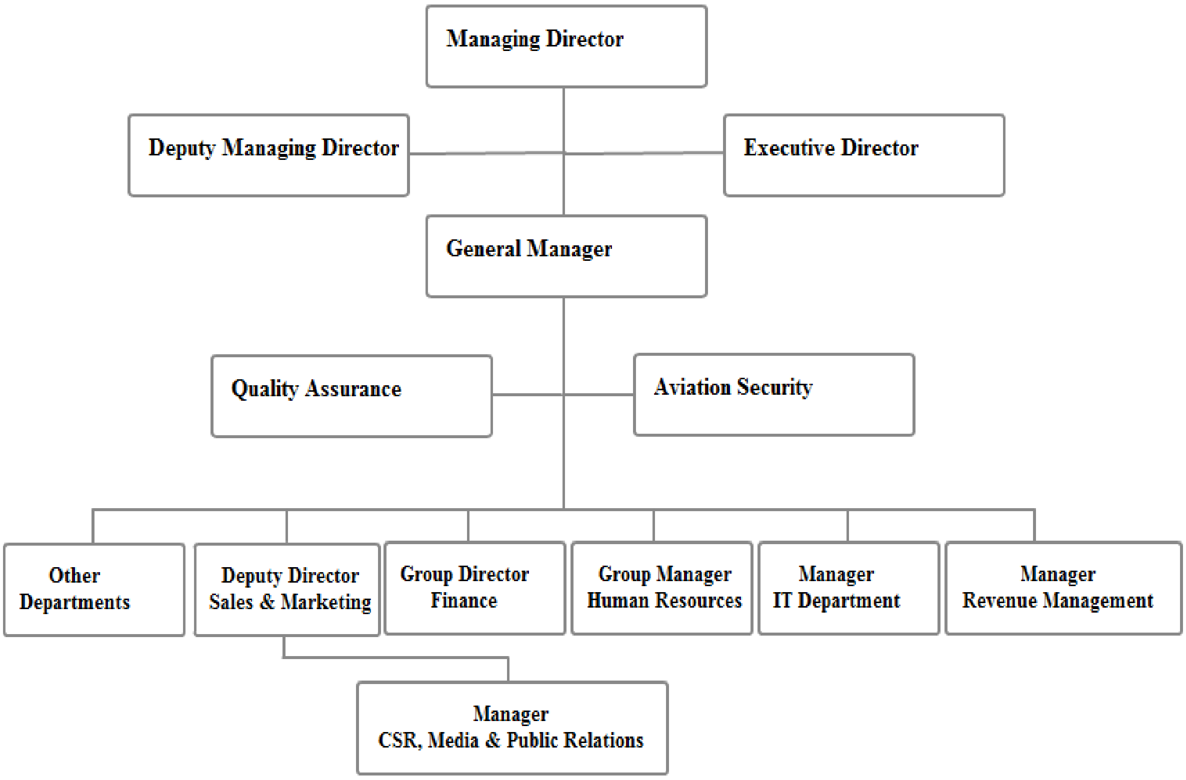
After the Nepalese government adopted its liberal sky policy in 1992, many private airline companies began operating in the domestic market, however, several private airline companies did not survive more than five years (*The Kathmandu Post*, 2012). The failure of those airlines is often linked to several factors, including the poor condition of airports, difficult weather conditions, high operating costs, lower profit margin and fatal air crashes. Although there are 13 airlines currently operating in Nepal's domestic market, most of the private airlines provide their service to only trunk sectors; only the government-owned airline and a handful of others provide services to the remote hill and mountain areas. The CO is one of only a few airlines that promotes social inclusion (ATAG, 2016) by providing services to remote areas of Nepal and connecting people in those areas with other parts of the country. The following section provides some brief information on the background of the CO.

3.4.3 Background of the case organisation

The CO is a privately owned airline company with two separate airline divisions. The CO has the largest fleet in Nepal with 14 aircraft operating in the domestic market. At present, the CO operates its scheduled and charter flights to almost all airports in Nepal. The CO employs over 850 people and serves more than 1.5 million passengers each year. The CO has a Board of Directors and a management team of 14 members, headed by the managing director (see, Figure 3.2). In conjunction with a small team and the various department heads including the Board of Directors, the CSR manager looks after all the CSR activities of the CO.

With a vision of serving the best interests of its customers, employees and shareholders, the CO has become the premier airline company in Nepal in terms of customer service both in-flight and on the ground, with an extensive network connection and volume of passengers carried. In comparison to the other 13 airlines currently operating in Nepal, the CO is the leading airline in terms of providing its service to the remote areas of Nepal and its involvement in CSR practices. The CO is well known for its community engagements, partnerships with NGOs, its commitment to the environment and serving the remote hill and mountain areas of Nepal. The CO was awarded 'Best Managed Company for the Year 2013'. With the motto of 'flying is not the only thing we do' the CO is also engaged in a diverse range of CSR activities. Most of these are aimed at enhancing its reputation, retaining good employees, customer satisfaction and increasing market share.

Figure 3.2 Case organisation hierarchy



3.4.4 Data collection

The field study was conducted between December 2013 and January 2014 at the head office of the CO in Kathmandu, Nepal. Access to the CO was granted by the top management on the basis that the results of the research study would not identify the organisation. Data were collected from multiple sources. These included semi-structured interviews, document analysis (internal and publicly available documents) and informal discussions with the CO's staff members. First, 13 semi-structured interviews were conducted in person with senior and middle-level managers of the CO from various departments including accounting, finance, sales, marketing and human resources (see, Table 3.1). An introduction letter stating the purpose of the study and assuring the confidentiality of the responses was initially sent to all potential interview participants requesting their participation as consistent with *Human Research Ethics Committee* guidelines. The key criteria for interviewee selection included their direct involvement in the organisation's CSR practices and their willingness to participate in the study. In order to avoid self-selection bias, the researcher selected the head or acting head of the departments assuming that they were the most knowledgeable and could provide valuable corporate information with respect to CSR diffusion. However, managers from a number of departments, such as operations (captains and pilots), engineering (engineers), quality assurance (QA managers), and information and technology (IT managers) were not included in the interview as they were not directly involved in the organisation's CSR practices.

In addition to interviews with participants within the CO, a further five interviews were conducted with external stakeholders (see, Table 3.2), including consultants, an academic institution, NGOs and a multinational company. These additional interview participants were selected on the basis of the direct relevance of their roles to supply-side factors (Abrahamson, 1991) in the diffusion of CSR practices. These interviews were conducted in order to explore the role of supply-side factors as well as to obtain a broader view of external stakeholders in relation to the diffusion of CSR in the context of Nepal. First, three participants from a consulting firm, academic institution, and NGO were identified with the assistance of the Federation of Nepalese Chamber of Commerce and Industry (FNCCI), Tribhuvan University and a local newspaper. The fourth participant, from a multinational company, was identified though the first author's personal contact with a senior-level employee of that multinational company. The reason for selecting a multinational company was because of its highly active and influential involvement in CSR practices in Nepal. All of the stakeholders were considered well-informed on the issues and challenges related to CSR practices in Nepal. The participants were knowledgeable individuals, who had long been actively working in the field of CSR in Nepal and some of them had also published CSR related articles in national and international newspapers and journals. It was believed that their views would be useful to verify the evidence collected from the CO. Therefore, these additional interviews were deemed to be important to explore the diffusion of CSR in the context of Nepal. While these additional interviewees' perspectives were integrated in the case findings, this study primarily draws on the empirical evidence obtained from the CO.

Table 3.1 Details of interview participants from the case organisation

Interview participants	Interview codes	Number of interviewees
Directors including Group Executive Director	Director 1, 2	2
Department Heads	DH 1, 2, 3, 4, 5	5
Managers including Senior and Deputy	Manager 1, 2, 3, 4, 5	5
Senior Officer	Sr. Officer 1	1
Total number of interviewees		13
Total duration of interviews: 7 hours, 30 minutes		

Note: In the body of the paper, Department Heads are presented as Department Head 1, 2, 3, etc.

Before initiating each interview, an interview guide was prepared to cover all the topics under investigation based on the review of relevant literature and theoretical framework applied in the study (Rogers, 2003; Abrahamson, 1991). Interview questions were prepared with reference to the extensive literature review on CSR, management innovations and diffusion of innovations (Burke & Logsdon, 1996; Malmi, 1999; Rogers, 1995; 2003; Bjornenak, 1997; Abrahamson, 1991; Perera et al., 2003; Lapsley & Wright, 2004; Bansal, 2005; Porter & Kramer, 2006; McWilliams et al., 2006; Margolis & Walsh, 2003; Orlitzky et al., 2003), five attributes of diffusion of innovations (i.e., relative advantage, compatibility, complexity, trialability and observability) theory (Rogers, 2003) and four perspectives (efficient choice, forced selection, fashion and fad) suggested by Abrahamson (1991).

All interview participants were informed that the interview would be audio recorded (subject to the participants' permission) to enhance the accuracy of the data. Prior to commencing each interview, the researcher spent some time establishing a rapport with the interview participants and reiterated that they would not be identified in the publication of the research in order to obtain an in-depth understanding of the topic under investigation. A list of broad, open-ended questions were asked in a naturalistic manner, although the sequence of questions varied from interview to interview (Patton, 2002).

All interviews were digitally recorded except one, because the interviewee did not give consent to record the interview. Instead, extensive notes were taken during this interview and the final version was approved by email. Four interviews were conducted in the local (Nepali) language, as the participants felt more able to express their views in their native language. The transcripts of those interviews were translated into English and verified. The other evidential sources of data included internal and publicly available documents. Internal documents included the CO's internal and confidential reports. The first author researcher obtained extracts from the CO's internal reports and other relevant documents. Publicly available documents included the CO's CSR reports, annual report, information available on its website and newsletters published in English and Nepali. The researcher also accessed the archival records of a local NGO based in Kathmandu, where CSR related news, articles and blogs published in the local (English and Nepali) newspapers over the previous five years were available. These documents were used to yield some form of methodological triangulation (Yin, 2009). This is because combining multiple sources of evidence reduces the risk of response bias, helping to verify the consistency of the findings from different sources and minimising threats to validity and reliability (Silverman, 2005; Yin, 2009).

Table 3.2 Interview participants from outside the case organisation

Interview participant	Participant representing
External Participant 1	Multinational Organisation
External Participant 2	Consulting Firm
External Participant 3	NGO
External Participant 4	Academic Institution
External Participant 5	NGO
Total number of interviewees: 5	
Total duration of interviews: 3 hours, 47 minutes	

3.4.5 Data analysis

The data were collated, coded and analysed using NVivo 10 qualitative data analysis software. The transcribed interviews and handwritten notes from one non-recorded interview were analysed using an iterative process suggested by Miles and Huberman (1994) and Strauss and Corbin (1998). First, all the interview transcripts and notes were analysed in close readings by the interviewer researcher (the first author) reflecting on audio recordings, while special attention was paid to contradictions within interviews (Patton, 2002). Second, the analysis was followed by three-stage coding: open, axial and selective coding (Strauss & Corbin, 1998). Open coding involved highlighting the key words/phrases in all the transcripts including the document analysis, where 24 codes[16] emerged based on common responses (see, Appendix 3.1).

In the second stage, axial coding was conducted to capture core themes or categories from the open codes. These codes were compared with the initial list of codes derived from the literature and theoretical framework of the study. The codes that were not anticipated, such as strategy and culture were retained while overlapping open codes were revised. Finally, selective coding was used to identify and group initially developed individual categories/themes under more general overarching themes; six themes emerged (see, Appendix 3.1), and these are discussed in detail in the following section.

3.5 CASE FINDINGS

3.5.1 CSR practices of the case organisation

Since its beginnings in the late 1990s, the main focus of the CO has been to provide airline services to the isolated population of the remote hill and mountain areas of Nepal, where no other means of transport had previously been available. During natural disasters, the CO has provided its service free to support victims of the affected areas by transporting necessary

[16] NVivo reports coding of data as ‘nodes’ and ‘sub-nodes’. Appendix 3.1 presents the NVivo tree coding structure.

goods as well as medicine and medical teams. The CO is promoting tourism by providing scheduled and chartered flights to tourist destinations, including mountainous regions. With their motto of "flying is not the only thing we do" the CO is engaged in a diverse range of philanthropic CSR activities. The typical CSR practices of the case airlines are aimed at supporting communities by funding the education, sports and health sectors, and offering employee volunteer programs. For example, in collaboration with NGOs, the CO has built a school in a remote area of the *Mugu* district so that hundreds of children can continue their studies in that region. The CO also conducts health camps in partnership with a wide range of health organisations. The airline offers an employee volunteers program for community-related works and also provides financial support to the sports sector. Overall, most of the CSR activities of the CO are conducted in partnership with NGOs, including Save the Children, The United Mission to Nepal, Care Nepal, Habitat for Humanity, Maiti Nepal (to stop trafficking of women) and other NGOs. The reason behind these diverse CSR activities is given by Department Head 2:

> What we do is, we try to touch each area like child education, health, and women empowerment. So we try to see that we touch each and every aspect of social responsibility and we try to see that there is diversity in the selection process.

Although several private domestic airline companies began operating in Nepal after the liberalisation of the aviation industry in 1992, there is still huge demand for air transport services, especially in remote regions (Civil Aviation Authority of Nepal, 2012). By providing its services to the hill and mountain areas of Nepal, the CO is promoting social inclusion by connecting people from different places and cultures. The CO also contributes to domestic tourism by providing regular flights to Nepalese tourist destinations. Most participants believe that tourism in Nepal has significantly improved people's lives, and as Gossling and Peeters (2007) advocate, the increase in tourism can be viewed as an indicator of economic growth and prosperity.

However, while tourism is seen as being beneficial from an economic and social point of view for the host nation, it also creates negative social, environmental and ecological impacts (Cowper-Smith & de Grosbois, 2011). Examples of environmental impacts include the huge amount of garbage produced in the Everest region. According to Nepal (2000, p. 666), "… an average trekking group of 15 generates 15 kg of non-biodegradable, non-burnable garbage in 10 trekking days". This means tonnes of disposable and non-biodegradable garbage every year. Owing to a lack of government policy and monitoring system, the garbage produced by thousands of trekkers and visitors, who are often accompanied by thousands of support staff and porters, poses a threat to the local environment (Nepal, 2000).

In an attempt to clean up the area, the CO instigated the “Lukla Cleaning Campaign”[17] (Lukla is the gateway to the Mount Everest region). While conducting this campaign, on several occasions the CO operated its 16 charter flights for free in order to collect waste products from Lukla that were left behind by trekkers. Most of the participants explained that the motivation behind the Lukla Cleaning Campaign was two-fold. First, the CO earns a major share of its revenue from its flights to Lukla Airport from foreign-national mountaineers and trekkers who visit the Everest region. Second, the CO is focused on enhancing its reputation, which will help attract more customers in the future.

Tree planting, also called the ‘Green Project’, is another example of the CO’s environment-related CSR. The CO has already planted more than 150,000 trees in a community forest in the Far Western region of Nepal. The CO presents this environmental initiative under the banner 'a greener way to fly’, to create awareness of its tree planting CSR activities. Department Head 2 admitted that the purpose of the tree planting is to minimise the impacts of carbon emissions:

> … as an airline we do understand that there is a huge carbon [emission] and we are a major culprit to blame [for] that [emission]. But we are the only domestic airline as of now, which is doing it [tree planting] from the longest sector [flights] with the basic motive of one person, one tree.

Airlines are known to produce negative environmental impacts, such as emissions, noise, water usage and waste (Lynes & Andrachuk, 2008). To minimise these impacts, the CO has adopted a number of strategies, such as tree planting and cleaning campaigns. The CO is trying to build an environmentally friendly image for its customers. Making customers more aware of the company’s environmentally friendly practices and corporate sustainability can help enhance customers’ loyalty and in return this gives ‘greener’ airlines a competitive advantage (Porter & Kramer, 2006; PwC, 2011).

Some participants pointed out that the CO has adopted CSR to minimise its environmental impact and the purpose of establishing the tree plantation was to offset the CO’s carbon emissions, while the cleaning campaign mainly occurred in the mountain areas that are popular destinations for foreign tourists. The CO has also conducted two initial studies into adopting clean energy. All of these activities show that improving its environmental performance is important to the airline. Director 1 noted that the initiative taken towards the environment was to attract more passengers:

[17] Lukla Airport is located at an altitude of 2,843 metres, is one of the most dangerous airports in the world (*The Australian*, 2013) and busiest airports in Nepal (Civil Aviation Authority of Nepal, 2012) and is a major hub for thousands of tourists, mountaineers and trekkers who visit the Everest region each year.

> I think many people are aware of these things [environmentally friendly practices of the CO]. This kind of awareness is [an] increasing trend. People know about our activities. So, they prefer to fly with us due to such awareness … I take it in a positive way.

3.5.2 Perceived benefits of CSR

In response to an interview question regarding the contribution of the CO's CSR activities towards the CO's growth, most of the participants presented different views. Senior Officer 1 shared her experience:

> I cannot say that this is the percentage that we have earned from the CSR, but directly or indirectly [there is] a good influence of CSR to increase our sales growth. It's a small organisation and we have to have [a] good relation [with our stakeholders] to grow the business.

This statement shows that sales growth is one of the factors that has facilitated CSR diffusion within the CO. This view was also supported by Department Head 5:

> If I must say as a person who is looking after the revenue and financial aspects of this airline, it [the growth of the airline] has to have some of the impact of CSR activities.

Many participants agreed that CSR has helped enhance the CO's performance and reputation in the domestic market. One participant suggested that the CO has both foreign and domestic customers and many of them prefer to travel with the CO because of its CSR activities. Some of the participants insisted that foreign customers consider the CO's CSR activities before they make their choice for air travel. Department Head 2 shared her experience:

> I also look after the corporate sector. I'm meeting ambassadors, expats at a higher level and most people really appreciate the activities that [the CO] is doing … [because] … we're concerned about the country, concerned about the underprivileged children of Nepal, the women, who are not getting equal chances and the little part that we're playing and contributing is making a difference and people are acknowledging it wherever I meet, encounter. So I think that's the biggest return that we can get through the CSR.

Apart from the appreciation of customers, some participants expressed their views on the other benefits of CSR activities for being a socially responsible airline. Department Head 5 noted:

> Measurement of these benefits is like the overall impression that the customers, the passengers of our airline [have] that we are a socially responsible airline, that we care about what is going on and we care about our society that we live in. And, I think that [this] is the perceived benefit of these types of activities.

The above statement clearly indicates that some of the participants believe in the perceived benefit (relative advantage) of CSR. Other participants agreed that the CO's CSR activities impacted the organisation either in a direct or indirect way. One participant expressed the view that CSR activities have some impacts on the working environment. Department Head 3 presented his view from a human resource (HR) perspective, as the CO's CSR activities have helped it become the employer of choice in Nepal:

> There are a lot of benefits from [an] HR point of view … we always want to be the number one company as far as the employer of choice … and … that [CSR] has helped us a lot in achieving our department's goal that is to become the employer of choice in Nepal.

Director 2 also believes that CSR has helped to improve the CO's reputation:

> All the major CSR activities that we do receive media mileage and then somehow [are] transformed into elevating the brand and the reputation of the company [the CO]. So, that transforms into a conversation in a certain degree of positive response from the public as well as customer society and they do have some reflection on the views of the government as well as other segments of the society. CSR activities that we have been doing for the last 15 years, it does have a positive impact on building up the reputation of the company.

The above statements confirm that reputation enhancement is another motivating factor behind the CO's CSR activities. One participant who looks after the airline's financial portfolio stated that CSR activities have helped the CO to increase its goodwill. In other words, CSR helps improve financial performance. Most of the participants believe that CSR has also helped enhance the CO's reputation to become the employer of choice, and improved its environmental and social performance.

3.5.3 Cultural values and beliefs

Apart from the perceived benefits, CSR also seems to be compatible with the CO's values. The company's mission statement suggests that the CO is focused on the best interests of its customers, employees and shareholders. The adoption of CSR is designed to achieve this goal. The CO's CSR practices seem to be compatible with its values and the need for innovation to achieve the desired outcome, which is to increase revenue and create long-term value for shareholders. Manager 4 justified the compatibility of CSR to the company's goals:

> The more we do CSR activities, the more our market will grow, and the more tourists will fly with us because of increased awareness of CSR … and our profit will certainly grow with it, there is no doubt [about] it.

Many of the participants mentioned that employees are so enthusiastic that they like to participate in the organisation's volunteer programs, such as donating blood, tree planting and others. Some participants demonstrated their level of satisfaction with their employer during the interviews. Manager 1 said:

> I am very happy. I feel very lucky to be a member of [the CO]. All employees feel proud to be … part of the organisation that did great work for [the] community. They [the employees] are pleased to know that their airline has done this and that for the community. It is a matter of fulfilment and pride.

Some participants referred to the cultural values and religious beliefs behind the notion of giving back to society, which may be the reason for employee support for the CO's CSR. Manager 1 explained:

> We do these things [CSR] with a feeling of social responsibility, and giving back to the society from where we are making our money … According to the Buddhist religion, we should donate or contribute a certain portion of our earnings for … social activities.

During informal conversations with the CO's employees, the interviewer researcher noticed that the notion of 'giving back to society' was strongly associated with the employees' personal, religious and cultural values. Most of the employees felt proud to be associated with the CO because of its greater involvement in CSR activities.

Adhikari (2012) postulates that although the term CSR is seen as a Western concept, the social responsibility of business is not a new phenomenon in Nepal. For over 100 years, Nepalese businesses have been contributing to wider society by donating their resources to community welfare activities and building schools, *Dharmasalas* (public accommodation) and temples (Adhikari, 2012). Therefore, the long-standing history of corporate philanthropy or CSR in Nepal provides evidence to support the statement that CSR diffusion is greatly associated with cultural values, norms and existing religious beliefs.

3.5.4 Top management support

The CO is a family owned airline company, with two shareholders and a Board of Directors, and a management team of 14, headed by the managing director (see, Figure 3.2). Some participants stated that the Board of Directors and shareholders are very positive towards the CO's CSR activities. If this had not been the case, it may not have been possible to continue CSR practices over such a long time. The contribution of the Board of Directors and shareholders was appreciated by many participants. One participant explains the role of shareholders and the Board of Directors as:

> Being a private limited company, we have a very small shareholder base and so it's a largely family owned company, if you look at the shareholding structure of the company. If you look at the philosophy of the company, it's well-reflected on the shareholder's tasks about how the business would be done. So, if you look at the general opinion of the shareholders and the board members, they are quite happy with what the company is doing (Director 2).

Department Head 4 comments that due to the small size and number of shareholders and directors, the decision making process is very easy and quick. He states:

> In a way we are lucky because our organisation is owned by two [shareholders]. So the decision making is very quick.

Analysis of the documentary evidence obtained from the CO reveals that the CO is conscious about work health and safety issues. The CO has a 'Safety Management System' framework in place, which encompasses 'safety is everyone's responsibility', 'personal standards and integrity', 'team work and communication', 'safety reporting' and 'just culture'. The framework is intended to integrate the organisation's system, procedures and initiatives to enhance its safety standards, value and reputation. There is a training and development program in the corporate office of the CO, which provides annual refresher classes for around 200 staff. The CO also provides four free round trip tickets each year to its entire staff.

The above statements indicate that the top management support is another reason for CSR diffusion. However, there were mixed views regarding the understanding of CSR and its implementation within the CO. Although most of the participants agreed that CSR contributes to enhanced reputation and performance, a few managers were still not clear on whether it is CSR or other factors that have helped the CO to grow in the past 15 years. One participant insisted that other factors, such as safety, service and employee commitment, were equally important in achieving organisational growth:

> Just doing a CSR is not enough for an airline to create a brand image for us. We have to equally focus on the safety and the service [which] fall under a complete different category. Safety is important for us and service is the main issue in this industry (Manager 2).

3.5.5 Rationale behind CSR

The airline industry has a diverse responsibility towards its large group of stakeholders, where CSR can be used as a strategy to meet the broader needs of the various stakeholder groups, including customers and employees. Although the CO's initial CSR practices were mainly non-strategic in nature, latterly, especially after 2010, the CO has been adopting strategic CSR practices, such as offering employee volunteer programs, sponsoring popular sports events, cleaning campaigns and tree planting. These CSR practices are, according to some participants, meant to create value in one way or another. It seems that the CO's strategic CSR practices are influenced by economically rational factors. For instance, Director 1, who emphasised the importance of strategic CSR, believes that current investment in CSR will benefit the CO in the future:

> We may think where to invest our share of earnings so that we can get some sort of return on it. It's not like … we are not getting any benefit. Honestly speaking, as I mentioned earlier, we are getting approximately X% return from our CSR activities that may increase in the future. It will not go down anyway.

Another participant from the HR department believes that the CO's CSR practices have helped it become the employer of choice in Nepal. Further, the economic rationale behind the CO's CSR practices was justified by Department Head 5 as:

> If we collect all the assets of [the CO], and if we sell [them], maybe we will get a large amount of money from the goodwill. This is because of the activities that we are involved in CSR [that] has helped us raise the brand image of [the CO].

3.5.6 Influence of supply-side factors

Most of the participants confirmed that the CO started CSR at the beginning of its operation in the 1990s with the aim of giving back something from its earnings to society. When participants were asked whether the CO's CSR practices are influenced by other large multinational organisations or by their competitors, Department Head 5 replied:

> … those CSR practices that we have been practicing, to my belief, it is home-grown. It is our domestic. It is unique to [the CO] and we have not been influenced by these large multinational that you have mentioned.

Department Head 1 echoed this sentiment:

> … we do it in our own ways. I mean we appreciate that others are doing it as well. But, we have our own set of guidelines and we follow it in our own very way.

In the context of the CO's CSR practices, most of the participants agreed on the fact that there was no influence of any kind from the government, regulatory bodies and other associations. Another participant revealed that the CO wants to keep certain ministries and departments or people in the government happy, although it was stressed that there is no direct pressure. Director 2 responded to the question about the influence of the government:

> In our CSR activities so far, the government [is] unlinked … but we'll be pleased to have them accommodated in our future projects. So, we look at that aspect positively and thank you for reminding me of this aspect.

The government can act as a catalyst, convenor or equal participant for organisations' CSR practices in various ways. According to Moon and Vogel (2008), there are many examples where governments have encouraged organisations in the adoption of CSR (e.g., Denmark and Australia), facilitated CSR by providing guidance to organisations (e.g., Japan) and worked as public–private partnerships for CSR (e.g., the UK). However, most of the participants indicated that there was no such government sector involvement in the CO's CSR activities. However, External Participant 2 from the consulting firm revealed that the government is about to bring some provision of CSR for organisations operating in Nepal through Article Number 36 in the *Industrial Enterprise Act*, which is still in its draft phase:

> In Article 36, it states that companies that have [a] certain amount of [turnover] – it does not put the actual amount, it just makes the provision that those companies which has operational turnover more than a certain amount or an annual profit greater than a certain amount, they have to allocate a certain percentage of their funds for CSR and community development related activities.

According to most participants, academic institutions and business schools operating in Nepal also seem to be unlinked to the CO's CSR. However, an external participant suggested that academic institutions in Nepal play an important role in promoting CSR at an organisational level. This external participant accepts that although academic institutions do not currently have any direct involvement in organisations' CSR activities, most employees, managers and even higher level staff of Nepalese organisations have been through university, where they have acquired knowledge of CSR. Academic institutions also have an influence through academic writings, including CSR related newspaper and journal articles.

Although most of the participants agreed that the media has no direct influence on the CO's CSR activities, some of the participants appreciated the supportive role the media played in communicating the CO's CSR activities to the general public and their customers through television, radio and newspapers. NGOs, on the other hand, were acknowledged as partners in the CO's CSR activities. One participant explained that the CO needs to identify the reason for CSR activities, their relevance to the organisation, their cost, and sometimes NGOs' technical expertise and support are needed to implement CSR activities. The participant further argued that the CO cannot do all these things by itself with its limited resources. Director 1 commented on the role of NGOs:

> We are in the airlines business. We have to run the business, operate the flights and serve the passengers as the staff or employees. We need to focus on how to grow the company's business so that we can get the bonuses, increments and promotions. Apart from these, we are doing our CSR activity, which is great …

External Participant 3 from an NGO operating in Nepal pointed out the need for partnership between NGOs and organisations to achieve organisational goals as well as to improve people's lives through implementing strategic CSR practices. The participant noted that CSR is still not common because of a lack of education, especially in the context of Nepal:

> CSR is about partnership … [and]… understanding how to work together … it requires a lot more education. It's not only the corporate sector but civil society and government really have to be educated about the potential for partnership.

When the CO participants were asked about whether their CSR practices were influenced by the practices of other large multinational organisations, most did not think so. One participant indicated that the large multinationals have huge budgets for CSR activities, which are centred only in the big cities. That is why the visibility of their CSR activities is very high. By contrast, the CO's CSR activities are diverse and focused not only in the big cities, but also in remote areas. The CO earns a huge share of its revenue from its flights to the remote hill and mountain areas. One participant emphasised the fact that the CO is more focused on what it can do in Nepal to reach more customers by creating new airports and markets. Department Head 4 commented:

> … [the CSR activities of] … multinational companies [are] all centred [on] the big cities. This is not [the case] in this business because we have the advantage of going there [doing CSR activities in remote areas] because we fly there. That is one advantage with the airline.

Department Head 2, who had worked for a multinational company in Nepal, shared her experience:

> I think we are at par or I think we're even doing more than the other multinationals. I come from DHL. I've worked there as a National Sales Manager, and yes we were doing a bit of CSR … but I think what [the CO] is doing as a private firm, being a non-multinational company is way above others.

With reference to the other airlines, Department Head 2 stated that many organisations talk about CSR and responsible tourism, but fail to do anything about it:

> We are in a sector which is providing service to the tourism industry, and we're talking about responsible tourism, though people only talk about it. We've actually done it and proven. So, I think it does give us that edge … and (the) mileage.

Manager 3 claimed that the CO led the way in CSR in comparison to the other 13 domestic airlines operating Nepal:

> we believe we are doing quite well and we are in equal position to the other organisations in our capacity. In comparison to other airlines, I am sure that we are the number one in CSR activities, especially among the domestic airlines. We feel proud to be in this position.

3.6 DISCUSSION AND CONCLUSION

The aim of this study was to develop an empirical and theoretical understanding of the diffusion of CSR within the context of a developing country drawing on the theoretical perspectives of the diffusion of innovations (Rogers, 2003; Abrahamson, 1991). This study provides a detailed insight into CSR diffusion through in-depth interviews with senior and middle-level managers and internal and publicly available documents of an airline company operating in Nepal.

The findings indicate that the CO is engaged in a diverse range of CSR activities ranging from supporting communities by funding the education, sports and health sectors, to offering employees volunteer programs, through to tree planting and cleaning campaigns in partnership with a number of NGOs, such as Save the Children, the United Mission to Nepal, Habitat for Humanity and others. It may be partly because the airline industry has a responsibility towards a large group of stakeholders (PwC, 2011) that CSR is used by the CO as a strategy to meet the broader needs of various stakeholder groups, including customers and employees (Burke & Logsdon, 1996). Some of the CO's CSR activities, such as tree planting, cleaning campaigns and sponsoring popular sports seem to be influenced by economically rational motivations (Abrahamson, 1991). These activities are meant to create value for the CO's shareholders as well as other important stakeholders. It follows that economic performance is of the highest priority for the CO, which is in line with the economic responsibility of Carroll's (1979, 1991) CSR pyramid. These findings are consistent with prior literature that suggests an appropriate strategic integration of CSR can be a source of innovation and competitive advantage for organisations (Porter & Kramer, 2006; McWilliams et al., 2006; Burke & Logsdon, 1996).

Although the airline industry is a significant driver of social and economic progress in developing countries, it also creates a number of environmental impacts, such as carbon emissions, noise and waste generation (Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008; Nepal, 2000). To mitigate these negative impacts, the CO has adopted CSR as one of its innovative practices. The adoption of CSR can also be seen as a proactive strategy to avoid any future compliance cost or any future risk associated with environmental impact (Jackson & Apostolakou, 2010; Burke & Logsdon, 1996). Therefore, the perceived benefit of CSR is an important factor for the internal diffusion of CSR within the CO (Rogers, 2003), as sustainability is an issue for the airline business in Nepal where several private airlines have not been able to survive for more than five years (*The Kathmandu Post*, 2012).

The findings also indicate that top management support is one of the dominant factors for operationalising CSR within the CO, and most of the participants appreciated the support provided by the top management in terms of implementing CSR. Senior managers believe that their CSR activities have helped the CO retain good employees, enhance reputation and increase market share. However, among the participants of the study there were different views as to whether CSR helps enhance organisational performance or if it is just an additional cost to the CO. An analysis of the documentary evidence obtained from the CO reveals a number of measures in place for work health and safety and employee training programs. However, the training programs seem to have had little impact, and do not provide sufficient evidence to support the diffusion of CSR within the organisations.

Although human resistance is regarded as part of the diffusion process, this study found no evidence of factors that hindered, delayed or prevented the diffusion of CSR within the CO, which may be the result of religious beliefs and cultural values held by the adopting actors. The long-standing practice of corporate philanthropy in Nepal provides evidence to support the statement that cultural values, norms and existing religious beliefs can have a profound influence on the Nepalese people (Adhikari, 2012), which in turn helps facilitate CSR diffusion. Some of the participants indicated that many people in Nepal still believe in giving some of their earnings back to society. With regard to the CO's employee volunteer programs, it was found that employees are highly committed to participating in such schemes. The employees' involvement in the CO's various CSR activities also provides further evidence to support the fact that cultural values and beliefs are significant factors influencing the diffusion of CSR within the CO (Linnenluecke & Griffiths, 2010; Arjalies & Mundy, 2013; Adhikari, 2012).

In contrast to prior studies (e.g., Rodrigue et al., 2013; Lapsley & Wright, 2004; Baskin, 2006; Moon & Shen, 2010), the findings of this study suggest that there is little government influence or influence from other regulatory bodies, stakeholders or competition to engage in CSR. In fact, most of the participants indicated that the CO has not faced any pressure from the government in terms of practising CSR. Moreover, this study could not find any evidence of the influence of any other supply-side factors, including consulting firms, academic institutions and the mass media in promoting CSR in the CO. This finding contradicts that of Perera et al. (2003) in the Australian context, where the researchers found the influence of the fashion perspective in management innovation. Most of the CO's CSR activities are local in nature and developed, adapted and extended in the local context, unlike the large multinational organisations' city-centred CSR practices. Compared to other domestic competitor airlines operating in Nepal, the CO is a leader in practising CSR. The findings of this study, which contradict not only the studies conducted in the developed country context (e.g., Rodrigue et al., 2013; Lapsley & Wright, 2004; Perera et al., 2003), but also the developing country context (e.g., Baskin, 2006; Moon & Shen, 2010), question the existing assumption in the literature that external forces such as institutional or stakeholder pressure and supply-side factors are primary drivers in the adoption of CSR (Linnenluecke & Griffiths, 2010). Rather, the findings of this study reveal that organisations' strategy, cultural values and beliefs and top management support are important predictors of the adoption of CSR.

This study makes a significant contribution in a number of ways. First, the present study contributes to the extant literature by identifying a number of factors, such as the perceived strategic benefit of CSR, cultural values and beliefs and top management support that influence the diffusion of CSR. The findings add to those of prior studies (e.g., Rodrigue et al., 2013; Lapsley & Wright, 2004; Perera et al., 2003; Baskin, 2006; Moon & Shen, 2010), which mainly consider government regulations, standards and supply-side factors that influence the adoption of CSR. Second, this study contributes to the literature by addressing the call for research on CSR in the airline industry, which is relatively less explored in both the developed and developing country context (Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008). Third, this study extends research on diffusion of innovations literature by focusing on both the initial and post-adoption process (primary and secondary stage of diffusion) of CSR within a single airline company operating in a developing country, Nepal.

The empirical findings of this study provide valuable insights into how CSR can enhance organisations' performance if it is used in a strategic way (Porter & Kramer, 2006; McWilliams et al., 2006; Burke & Logsdon, 1996). The study also highlights the important role of cultural values and beliefs in the secondary (implementation) stage of adoption or internal diffusion (Perera et al., 2003; Gallivan, 2001). This is because successful (internal) diffusion of CSR is highly unlikely to happen without focusing on appropriate cultural values within the organisation (Linnenluecke & Griffiths, 2010).

Although this study provides an in-depth analysis of the primary and secondary stages of CSR diffusion, the findings should be considered in light of the following limitations. Since this study employed a qualitative case study approach and the findings are based on semi-structured interviews conducted in a single airline company operating in a developing country using relevant internal and publicly available documents, the findings may not be generaliseable to the wider population or another industry group or country (Miles & Huberman, 1994; Strauss & Corbin, 1998; Yin, 2009). Future research involving multiple case studies with a larger sample size or a longitudinal case study to explore the issues further to extend the evidence presented in this study is recommended.

Moreover, the number of interviews conducted was limited to 13 senior and middle-level managers within the CO and five external stakeholders from an academic institution, consulting firm, multinational company and NGOs. Other stakeholders, such as shareholders, customers, suppliers, the media and regulatory bodies could not be interviewed owing to the limited time available in which to conduct this overseas field study. Additional research might include these stakeholders in order to enhance and deepen the understanding of the diffusion of CSR. As the findings of this study suggest, future research can further examine the empirical association between organisations' strategy, culture and adoption of CSR using the cross-sectional survey method and by accessing a larger sample size (i.e., listed and non-listed companies) so that the findings can be generalised to the wider population, industry or country context.

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APPENDIX 3.1: NVIVO TREE CODING STRUCTURE

1. CSR activities
    - 1.1 Philanthropic
        - 1.1.1 Society
        - 1.1.2 Education
        - 1.1.3 Health
        - 1.1.4 Sports
        - 1.1.5 Volunteer program
    - 1.2 Customer focused
        - 1.2.1 'Green' way/project
        - 1.2.2 Environment
        - 1.2.3 Creating awareness
2. Perceived Benefit
    - 2.1 Growth (sales/revenue)
    - 2.2 Reputation
    - 2.3 Customer
    - 2.4 Employees
    - 2.5 Building relationship
3. Cultural Values
    - 3.1 Giving back to society
        - 3.1.1 Donation/charity
    - 3.2 Values/norms/rituals
    - 3.3 Fulfilment/pride
    - 3.4 Religion

4 Top Management
- 4.1 Shareholders/Board of Directors
- 4.2 Decision making
- 4.3 Resistance/rejection
- 4.4 Training

5. Rationale of CSR
    - 5.1 Strategy/plan
    - 5.2 Budget
    - 5.3 Cost benefit
    - 5.4 Risk
    - 5.5 Performance
        - 5.5.1 Social
        - 5.5.2 Environmental
        - 5.5.3 Economic
    - 5.6 Long-term benefit
6. Supply-side Factors
    - 6.1 Imitation
    - 6.2 Influence
        - 6.2.1 Government
        - 6.2.2 NGOs
        - 6.2.3 Media
        - 6.2.4 Multinationals
        - 6.2.5 Academic Institutions/universities
    - 6.3 Competitors

CHAPTER FOUR: PAPER TWO

DIFFERENTIATION STRATEGY AND CORPORATE SOCIAL RESPONSIBILITY: THE MEDIATING ROLE OF ORGANISATIONAL CULTURE**

ABSTRACT

Although there is abundant literature on strategy and corporate social responsibility (CSR), relatively little is known about the association between these two in the empirical context. This study investigates whether adoption of CSR is associated with differentiation strategy, and if so, whether the association is mediated by organisational culture (in particular, innovation and respect for people dimensions), drawing on O'Reilly et al.'s (1991) organisational cultural profile (OCP) framework. Data were collected from 132 companies in Nepal and analysed using Partial Least Squares Structural Equation Modelling (PLS-SEM). The results of the study suggest that adoption of CSR is directly linked to differentiation strategy, while further analyses reveal that the link is fully mediated by the innovation and respect for people dimensions of organisational culture. Overall, the findings highlight the important role of organisational culture on adoption of CSR, which is often cited as a decisive factor for the success or failure of implementing new management practices including CSR.

Keywords: Corporate social responsibility, Organisational culture, Differentiation strategy, Endogeneity, Partial least square

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4.1 INTRODUCTION

Organisations are under increasing pressure from their stakeholders (customers, investors, suppliers, employees, activist groups, media, NGOs, and government agencies) to consider the social and environmental impacts of their commercial and industrial activities (Linnenluecke & Griffiths, 2010; Torugsa et al., 2013; Benn et al., 2014; McWilliams & Siegel, 2000; Porter & Kramer, 2006; Brammer et al., 2006). Widespread concern for human rights, poverty, fair trade, resource scarcity, vulnerable ecosystems, and climate change are fuelled by numerous industrial accidents (e.g., the BP oil spill in 2010 and the Bhopal disaster of 1984) and a growing list of corporate scandals, such as the Enron bankruptcy and James Hardie asbestos cover-up (Benn et al., 2014; McWilliams & Siegel, 2000; Porter & Kramer, 2006; Werther & William, 2011). By ignoring stakeholder pressure, organisations may face penalties and consumer boycotts or, in the worst cases, have their licence to operate cancelled (Van de Ven & Jeurissen, 2005; Werther & William, 2011).

In response to pressure from stakeholders, many organisations are attempting to balance their obligations in relation to social responsibility and environmental sustainability with financial returns and maintaining a competitive advantage (Orlitzky et al., 2011), and corporate social responsibility (CSR) is an important means by which to achieve this purpose. CSR is seen as a strategic tool through which organisations differentiate their products, enhance reputations, increase employee morale, enable access to new markets, and gain a competitive advantage (Carroll, 1979; 1991; Schaltegger & Burritt, 2010; Hoejmose et al., 2013; McWilliams et al., 2006; McWilliams & Siegel, 2001). However, CSR also costs shareholders' money and distracts managers from their roles and responsibilities (Friedman, 1970).

These conflicting views have led to a large number of empirical studies in the past (Margolis et al., 2009; Orlitzky et al., 2003). However, a majority of studies have examined the outcome or consequences of CSR (i.e., the CSR–performance relationship) (see, Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003), or have mostly focused on the ethical aspects of CSR (see, Carroll, 1979; 1991; Crane et al., 2008; Wood, 1991) without considering the strategic implications of CSR. Researchers (e.g., Van de Ven & Jeurissen, 2005; McWilliams et al., 2006) emphasise that CSR can be an integral part of organisations' business strategy, and the appropriate alignment between strategy and CSR can help organisations enhance long-term value and improve relationships with multiple groups of stakeholders (McWilliams & Siegel, 2001; 2011; Mackey et al., 2007; Porter & Kramer, 2006; Jones, 1995). This reveals an important missing link between business strategy as a key predictor of CSR and the propensity of organisations to adopt and engage with CSR.

Although several typologies of business strategy have been developed in the literature, the present study draws on Porter's (1980, 1985) generic strategies. Porter (1980, 1985) identifies two successful generic strategies a firm can choose to achieve sustainable competitive advantage: cost leadership and differentiation (with or without focus). Organisations implementing the cost leadership strategy focus on becoming the low-cost producer by exploiting all sources of cost advantage, while differentiation strategy is achieved through multiple means, such as by offering high quality and innovative products or services (Porter, 1980; 1985; Van de Ven & Jeurissen, 2005) and engaging in fair trading practices, supporting local communities, and promoting diversity in the workplace (McWilliams & Siegel, 2001).

McWilliams and Siegel (2001) suggest that adoption of CSR can be a popular means of product differentiation, which, in turn, can help achieve early mover and competitive advantage (McWilliams et al., 2006; Van de Ven & Jeurissen, 2005; Porter & Kramer, 2006; Burke & Logsdon, 1996). On the other hand, cost leadership, which is often viewed as the opposite of differentiation strategy, will be less likely to adopt CSR due to cost pressure and a different strategic focus (Van de Ven & Jeurissen, 2005; McWilliams et al., 2006). Despite researchers (e.g., McWilliams & Siegel, 2001; Van de Ven & Jeurissen, 2005) having established a theoretical link between CSR and business strategy (differentiation strategy in particular), relatively little is known about this association in the empirical context (Hoejmose et al., 2013). Considering the relevance of differentiation strategy on CSR adoption, the first objective of this study is to examine the association between differentiation strategy and the adoption of CSR.

Second, an appropriate organisational culture is considered essential in terms of integrating CSR into organisations' differentiation strategies (McWilliams et al., 2006). This is because adoption of CSR requires organisations to reconsider core assumptions in order to undergo significant cultural change and transformation when integrating CSR in differentiation strategy (Linnenluecke & Griffiths, 2010; McWilliams et al., 2006; McWilliams & Siegel, 2001). Without adopting an appropriate strategy and organisational culture, CSR may be just an additional cost or waste of resources (Ramchander et al., 2012; Van de Ven & Jeurissen, 2005). Organisational culture is "… often cited as the primary reason for the failure of implementing organizational change programs" (Linnenluecke & Griffiths, 2010, p. 359).

Prior literature suggests that managers' values and attitudes are determined by organisational culture, which influences their behaviours and decision making (Subramaniam & Ashkanasy; 2001). Researchers from various disciplines have examined organisational culture and its influence on organisational outcomes (e.g., O'Reilly et al., 1991; Windsor & Ashkanasy, 1996; McKinnon et al., 2003; Baird et al., 2004, 2007). However, little attention has been paid to the role of organisational culture and its influence on the association between business strategy and adoption of CSR. This study attempts to fill this empirical gap by specifically examining the mediating role of organisational culture (in particular, innovation and respect for people dimensions) on the association between differentiation strategy and CSR using O'Reilly et al.'s (1991) organisational cultural profile (OCP) framework in the context of a developing country, Nepal.

This paper is structured as follows. The next section provides the research context, which is followed by theoretical background and hypotheses development in section 4.3. Research method is discussed in section 4.4 and results are reported in section 4.5. Finally, a discussion and conclusion are presented in section 4.6.

4.2 RESEARCH CONTEXT

The rationale behind focusing on developing countries in general and Nepal in particular is three-fold. First, developing countries represent 85.1% of the world's population and account for 48.9% of the world's GDP (IMF, 2012, p. 179). Developing countries are growing faster compared to their developed counterparts and, in recent times, have been seen as strong growth engines and attractive investment destinations for foreign investors due to the emergence of a large middle class (see, Peng et al., 2008; Dobbs et al., 2015).

Situated on the southern slope of the Himalayas with a population of 28.51 million, Nepal occupies a strategic spot between two giant emerging economies, China to the north and India to the south (*The Economist*, 2014; The World Bank, 2016). Although Nepal was never colonised, the country suffered a century-long dictatorship, absolute monarchy, and a decade-long Maoist-led civil war (Adhikari et al., 2013; The World Bank, 2016). During the civil war, the nation suffered severe loss in terms of economic growth, development, and prosperity. Although the civil war ended in 2006, Nepal is still facing considerable uncertainty and undergoing an unstable political transition. As a result, frequent strikes, lockouts, and electrical power shortages are very common, and have a severe negative impact on the business community (Adhikari, 2012). If the ongoing political instability improves and appropriate infrastructure (i.e., sufficient electrical power supply and improved transportation network) developed, Nepal has the potential to be an attractive destination for investors and tourists (*The Economist*, 2014; The World Bank, 2016).

Second, developing countries are usually characterised by a lower level of human development and lower industrialisation, and they have less developed economies, lower per capita income, and more inequality and poverty (Visser, 2008; UNDP, 2015; The World Bank, 2016; Adhikari et al., 2013). A recent report by UNDP (2015) suggests that by 2050 developing countries, in comparison to developed countries, are more likely to experience the effects of climate change, such as extreme weather conditions and natural disasters. Based on the country classification made by the UNDP's *Human Development Report 2015*, Nepal is a low human development or developing country, and is ranked 145th in the global Human Development Index (HDI) with a score of 0.548 and a per capita gross national income of US$2311 (UNDP, 2015). The UNDP (2015) report also highlights the issue of gender gap/equality or lower participation of women in the workforce. Poverty is widespread in Nepal and nearly a quarter of the population is still living under US$1.25 per day (The World Bank, 2016; Adhikari et al., 2013). Anecdotal evidence also suggests that social issues, such as poverty, education, health and safety, human rights, child labour, and the poor working conditions of employees are prevalent in Nepal.

Apart from social issues, climate change has become a topic of discussion in Nepal as it is expected to have a significant effect on natural resources, biodiversity, the environment, and human health (Karki & Gurung, 2012). Geographically, the landscape of Nepal can be divided into three main ecological regions: the mountains (the Himalayas), the hills, and the plains (*Terai*) area. Owing to its fragile geographical structure, sharp altitudinal variation (100m in *Terai* to 8800m in the Himalayas), degrading environment, and active tectonic process, Nepal is particularly vulnerable to natural disasters and climate change (The World Bank, 2016; Karki & Gurung, 2012). Moreover, it is predicted that there will be a continuous rise in temperature in Nepal in the coming years, which may have great impact on avalanches, the shrinking of glaciers, and glacial lake outburst floods (Karki & Gurung, 2012). In the past, various natural disasters, such as floods, landslides, drought, avalanches, and earthquakes have caused the loss of thousands of lives and millions of dollars of property damage in Nepal. The devastating earthquake that occurred on April 25, 2015 took the lives of more than 8000 people, injured nearly 18,000 people, and more than 10% of the country's homes were destroyed or damaged (CNN, 2015). From the above discussion, it can be concluded that social and environmental issues have a considerable impact on Nepalese business and society.

Third, the purpose, practices, and priorities of CSR in developing countries are quite different from those in developed countries due to different political systems, regulatory frameworks, socioeconomic priorities, stakeholder demands, and cultural context (Visser, 2008; McWilliams et al., 2006; Maignan & Ralston, 2002; Lindgreen et al., 2009). However, despite these differences between developed and developing countries, relatively little attention has been paid by researchers to the CSR practices of developing countries (Visser, 2008). Researchers (e.g., Visser, 2008; Lindgreen et al., 2009), have raised questions regarding the Western model of CSR and its applicability in the global context, especially in the context of developing countries.

After reviewing Carroll's (1991) CSR pyramid, a popular and suitable model in the developed countries context, Visser (2008) found that CSR is most commonly associated with philanthropy in the context of developing countries. In another study commissioned by the Organisation for Economic Co-operation and Development (OECD), Baksin (2006) examined the CSR practices and behaviour of 127 large organisations operating in 21 developing countries and compared their findings to organisations operating in the OECD countries. Baskin (2006) concludes that CSR in developing countries is less embedded in corporate strategies and less politically rooted than in OECD countries. From these studies it can be concluded that the CSR practices of developing countries are more focused on philanthropic activities. However, some studies (e.g., Lindgreen et al., 2009) have found that CSR is used to enhance organisational performance in the context of developing countries.

While all these studies discussed above provide significant insight into the CSR practices of developing countries, it is still unclear from the literature how cultural values are reflected in the adoption of CSR practices, especially in the developing countries context (Lindgreen et al., 2009; Visser, 2008). Although a few studies have been conducted that examine the role of organisational culture, most of the studies are conducted in the context of developed countries, with very limited research undertaken in the context of developing countries (O'Reilly et al., 1991; Windsor & Ashkanasy, 1996; McKinnon et al., 2003; Baird et al., 2004; 2007; Su et al., 2009; Visser, 2008). Organisational culture is shaped by various factors, such as business strategies, interpersonal relationships, and other contextual factors (Sarros et al., 2005; Gray et al., 2003). It is therefore likely that the developed countries' managers' perceptions of organisational culture may be quite different from those of the developing countries' managers as organisational culture is context - (nation) - specific, which may affect the generalizability of the findings obtained from studies conducted in developed countries (Sarros et al., 2005; Gray et al., 2003; Baird et al., 2007; McKinnon et al., 2003).

In Nepal, although the term 'corporate social responsibility' is seen as a Western concept, the social responsibility of business is not a new phenomenon (Adhikari, 2012). For over 100 years, Nepalese businesses have been contributing to the wider society by donating their resources to community welfare activities and for building schools, *Dharmasalas* (public accommodation), and temples (Adhikari, 2012). Therefore, the long-standing history of corporate philanthropy or CSR in Nepal provides a unique research context in which to explore whether the adoption of CSR in Nepal is influenced by cultural values, and if so whether these values are reflected in a different way from the Western context.

4.3 THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

4.3.1 Association between differentiation strategy and CSR

There remains considerable theoretical debate on the extent of the adoption of CSR[18] in the organisational context (see, McWilliams et al., 2006; Crane et al., 2008; McWilliams & Siegel, 2001). Adopting the agency theory perspective, Friedman (1970) argues that the only social responsibility of business is to increase profit, and social issues are beyond the scope of businesses and their managers. Friedman's (1970) argument is based on the assumption that CSR destroys shareholder profit, and distracts managers from their assigned roles and responsibilities. According to this perspective, CSR practice is a misuse of organisations' resources, which can be better used to maximise shareholder profit. Therefore, managers should not adopt CSR at the cost of shareholders' interests.

In contrast, researchers adopting the stakeholder theory perspective argue that organisations should take responsibility for their social and environmental impact and invest in CSR even though it may reduce their immediate cash flow or profit (Mackey et al., 2007; Freeman, 1984). According to this perspective, organisational performance should not be viewed on a narrow dimension or for short-term profit because of the undermining effects to other important non-financial stakeholders, such as customers, employees, creditors, suppliers, investors, and the community, which may affect the long-term success and survival of organisations (Werther & William, 2011; McWilliams et al., 2006).

The tension between maximising shareholder value and addressing social and environmental issues simultaneously stresses the need for formulating and implementing CSR in a strategic way so that organisations can balance the needs of both shareholders and other important stakeholders (Margolis & Walsh, 2003; Porter & Kramer, 2006; Schaltegger & Burritt, 2010). In order to define the strategic implications of CSR, researchers have used resource-based view (RBV) theory (Barney, 1991), conceptually (Hart, 1995) and empirically (Russo & Fouts, 1997; Surroca et al., 2010; Torugsa et al., 2013). RBV assumes that "firm resources may be heterogenous and immobile" (Barney, 1991, p. 105). If these resources are valuable,

[18] Although various concepts and definitions of CSR exist in the literature, this study uses the definition of CSR proposed by McWilliams and Siegel (2001, p. 117) as "actions that appear to further some social good, beyond the interest of the firm and that which is required by law", with a particular focus on social, environmental, and economic responsibilities (WCED, 1987; Bansal, 2005; Orlitzky et al., 2011; Carroll, 1979; 1991).

rare, immobile, and non-substitutable, they can be a source of competitive advantage (Barney, 1991).

RBV offers important insights into how the strategic adoption of CSR can contribute to the bottom line by maintaining relationships with stakeholders. By using the theoretical framework of the RBV, McWilliams and Siegel (2001, p. 125) present their model of profit maximising CSR, where the authors suggest "… there is a level of CSR investment that maximizes profit, while also satisfying stakeholder demand for CSR". Consistent with RBV theory, prior studies emphasise that CSR can help organisations build strategic resources (Russo & Fouts, 1997; McWilliams & Siegel, 2001). One way to do this is by demonstrating organisations' commitment to the social, environmental, and economic dimensions of CSR (Bansal, 2005; WCED, 1987; Orlitzky et al., 2011).

The social dimensions of CSR encompass a wide range of activities, such as poverty alleviation, health care, contribution to charities, infrastructure development, health, the safety and wellbeing of employees, and consideration of the interests of other stakeholders in decision making (Bansal, 2005; Torugsa et al., 2013). The environmental dimension includes measures aimed at limiting organisations' negative impact on the natural environment (i.e., land, water, and air), such as pollution control, recycling of waste materials, controls on emissions and toxic discharges, adopting environmental management systems, and promoting sustainable development (Bansal, 2005; Henri & Journeault, 2010; Torugsa et al., 2013). The economic dimension is related to increasing profit and remaining competitive in the market, and is considered of prime importance to organisations (McWilliams & Siegel, 2001). Adoption of the economic dimensions of CSR is not only related to achieving financial performance, but also to enhancing organisations' non-financial performance measures, such as customer satisfaction, employee motivation, product quality and safety, and supply chain management (Torugsa et al., 2013). Although CSR activities can help organisations achieve social, environmental, and economic benefits, these benefits depend on the extent to which CSR activities are aligned with business (in particular, differentiation) strategy (Porter & Kramer, 2006; McWilliams et al., 2006; McWilliams & Siegel, 2001).

In order to examine the association between organisations' strategy and CSR, this study draws on Porter's (1980, 1985) generic strategies (differentiation strategy, in particular). This is because prior literature suggests that differentiation strategy has several implications for CSR (e.g., Van de Ven & Jeurissen, 2005; McWilliams & Siegel, 2001; McWilliams et al., 2006; Hoejmose et al., 2013). Organisations can achieve differentiation in multiple ways, for example, by introducing new or innovative products or services to the market (Porter, 1980;

1985; Dess & Devis, 1984; Luo & Zhao, 2004; Zahra & Covin, 1993) or by using social and environmental attributes for product or process innovation (McWilliams & Siegel, 2001). It follows that CSR can be an integral part of organisations' differentiation strategy as customers value CSR attributes (McWilliams & Siegel, 2001; McWilliams et al., 2006). Examples include product innovation, in which customers value products that contain social and environmental attributes, and process innovation, where customers value the goods that are produced in a socially responsible manner (McWilliams & Siegel, 2001). Accordingly, many organisations differentiate their products by offering unique social and environmental attributes, such as engaging in fair trading practices, prohibiting child labour (Epstein & Roy, 2003; Bansal, 2005), supporting local communities, promoting diversity in the workplace (McWilliams & Siegel, 2001), minimising negative impacts on the environment, and disposing of waste responsibly (Bansal, 2005). However, in order for organisations to make CSR differentiation successful, the role of advertising is important, whether by disclosing CSR related information in their annual reports or through other sources, as it will help raise consumer awareness about their CSR practices (McWilliams & Siegel, 2001).

Second, organisations also adopt CSR as their differentiation strategy to improve their reputation and brand image, which, in turn, can help boost consumer loyalty, attract premium prices, and improve relationships with their diverse stakeholders (McWilliams & Siegel, 2001; 2011; McWilliams et al., 2006; Russo & Fouts, 1997; Burke & Logsdon, 1996; Porter & Kramer, 2006). Moreover, organisations that follow a differentiation strategy are more likely to adopt CSR to avoid fines and penalties, negative media attention, consumer boycotts, or any future compliance costs associated with environmental impacts (Van de Ven & Jeurissen, 2005; Burke & Logsdon, 1996; Hoejmose et al., 2013; Werther & William, 2011). Overall, an appropriate strategic integration of CSR can be "… a source of opportunity, innovation, and competitive advantage" (Porter & Kramer, 2006, p. 80).

The theoretically established link between differentiation strategy and CSR (Van de Ven & Jeurissen, 2005; McWilliams & Siegel, 2001) is also supported by limited empirical evidence. For instance, Hoejmose et al. (2013) examine the relationship between differentiation strategy and socially responsible supply chain management (SR-SCM) in their UK based sample, and find that organisations following differentiation strategies are more actively engaged with SR-SCM. Therefore, this study predicts a positive association between differentiation strategy and the adoption of CSR. This leads to the first hypothesis:

H1. Differentiation strategy is positively associated with the adoption of CSR.

4.3.2 Organisational culture

Organisational culture is defined as "a social control system … based on shared norms and values that set expectations about appropriate attitudes and behavior for members of the group" (O'Reilly & Chatman, 1996, p. 160). Despite being least visible, these norms and values are seen as powerful informal control systems that influence the attitudes and behaviours of employees (Schein, 1985; O'Reilly & Chatman, 1996; Hogan & Coote, 2014). Chatman and Jehn (1994) suggest that every organisation should have some core values, and when members of organisations share these values, an organisational culture is said to exist. The shared norms and values direct the members of the organisation to adopt the attitude and behaviour that is consistent with its culture (O'Reilly & Chatman, 1996; Schein, 1985).

Although cultural theorists have defined organisational culture in various ways (see, Linnenluecke & Griffiths, 2010), there are some common themes, such as beliefs, norms, and values, which are considered important for understanding organisational culture (McKinnon et al., 2003; O'Reilly & Chatman, 1996; Linnenluecke & Griffiths, 2010). Therefore, a majority of past research studies has focused on values to measure organisational culture (e.g., O'Reilly et al., 1991; Hofstede et al., 1990). As a result, a number of survey instruments have been developed over the past few decades to measure organisational culture (see, Jung et al., 2009; Ashkanasy et al., 2000).

Organisational cultural profile

From a number of existing instruments, this study adopts O'Reilly et al.'s (1991) Organisational Cultural Profile instrument (OCP) for a number of reasons. First, the OCP is based on the Q-sort methodology and provides a quantitative assessment of organisational culture, which is empirically validated (Chatman & Jehn, 1994), and therefore, is regarded as one of the most suitable instruments to measure organisations' culture; it is also extensively used in organisational research (Sarros et al., 2005). A number of tests have been conducted to establish the reliability and validity (predictive, convergent, and discriminant) of the OCP (see, Chatman & Jehn, 1994). After reviewing 18 culture measures published between 1975 and 1992, Ashkanasy et al. (2000) conclude that the OCP is one of the few instruments that provides details on its reliability and validity.

In a recent study, Jung et al. (2009) review the existing instruments used to measure organisational culture from the oldest (e.g., the Critical Incident Technique and Wallach's Organizational Culture Index) to the most recently developed (e.g., Organizational and Team Culture Indicator and the Cultural Assessment Survey). Although Jung et al. (2009, p. 1087) identify 48 instruments with psychometric assessment out of a total of 70, the authors conclude "… there is no ideal instrument for cultural exploration". Rather, the 'fit for purpose' depends on the particular application for which the instrument will be used and the context within which it will be applied (Jung et al., 2009).

Second, as a result of the OCP's greater robustness (Jung et al., 2009), and details on its reliability and validity (Ashkanasy et al., 2000; Chatman & Jehn, 1994), and the fact that it has a more appropriate set of culture dimensions for measuring respondents' attitudes and subjective opinions, the OCP has been used extensively by researchers in empirical studies in a wider context (e.g., in the USA by Sheridan, 1992 and Chatman and Jehn, 1994; in Australia by Sarros et al., 2005, Baird et al., 2004, 2007, and Su et al., 2009; in Taiwan by McKinnon et al., 2003; and in Turkey by Erdogan et al., 2006). The cultural values and dimensions of the OCP are also similar to Hofstede et al.'s (1990) practice dimensions, which were generated from an international sample of organisations (Chatman & Jehn, 1994).

Third, although a few CSR studies have examined organisational culture in the past, these studies have clearly acknowledged the limitations of the instruments they have used to measure organisational culture (e.g., Surroca et al., 2010). The OCP is especially recommended for CSR research not only because of its methodological strength (Surroca et al., 2010), but also because of its relevance to CSR (Turban & Greening, 1996). Therefore, the use of O'Reilly et al.'s (1991) OCP instrument is considered appropriate to achieve the aims of the present study.

A common approach found in the majority of past studies on organisational culture is to conceptualise and operationalise culture in terms of sub-dimensions (see, O'Reilly et al., 1991; Hofstede et al., 1990). Therefore, this study examines the specific dimensions of organisational culture based on O'Reilly et al.'s (1991) OCP instrument as adapted by Windsor and Ashkanasy (1996). While O'Reilly et al.'s (1991) original OCP instrument has seven cultural dimensions – innovation, stability, respect for people, outcome orientation, attention to detail, team orientation, and aggressiveness – the adapted version of the OCP (Windsor & Ashkanasy, 1996) comprises 26 value statements with six cultural dimensions. Although each cultural dimension can be seen as a unique and independent entity because of their different foci, these dimensions are also grouped in broader specific categories in the literature, such as internal focus (Erdogan et al., 2006) and external organisational focus that emphasise the completion of work tasks (see, Sheriden, 1992). While some studies on organisational culture use all dimensions of the OCP (e.g., Sheriden, 1992; Chatman & Jehn, 1994; McKinnon et al., 2003; Su et al., 2009), a number of other studies examine the influence of the specific dimensions or a particular category of the OCP. For instance, Erdogan et al. (2006) examine cultural dimensions with an internal focus (i.e., respect for people, aggressiveness, and team orientation); Baird et al. (2004) examine two dimensions (i.e., innovation and outcome orientation); and Subramaniam and Ashkanasy (2001) examine the innovation and attention to detail dimensions of the OCP. It follows that the OCP can be used in its entirety using all dimensions or as its specific category or dimensions.

While it is possible that all cultural dimensions can exist in a single organisation, some values are likely to be more dominant than others (Linnenluecke & Griffiths, 2010; Erdogan et al., 2006; Sheridan, 1992). Although cultural dimensions may vary in their relevance to examine the association between strategy and the adoption of CSR, theoretically it is expected that the specific dimension[19] of culture that organisations emphasise can have a potential influence on this association. Prior literature suggest that the innovation and respect for people dimensions have relatively strong implications for CSR (Surroca et al., 2010; Turban & Greening, 1996).

Adoption of CSR requires fundamental change in terms of business decision making that includes developing and implementing innovative solutions, promoting ethical values and respect for people, stakeholders, society and the environment (Surroca et al., 2010; Turban & Greening, 1997). McWilliam and Siegel (2001) suggest that CSR related product and process innovations, such as incorporating responsible product or service attributes and use of environment friendly practices are valued by consumers. Respect for people culture promotes equal opportunity, work place diversity, improvements in work and safety conditions and involves employees in decision making process (Erdogan et al., 2006; Linnenluecke & Griffiths, 2010). Therefore, considering the relevance of innovation and respect for people culture on CSR adoption, hypotheses are developed with respect to these two dimensions. Given that the OCP can be used in its entirety using all cultural dimensions (Sheriden, 1992; Chatman & Jehn, 1994; McKinnon et al., 2003) or specific dimensions (Baird et al., 2004; Subramaniam & Ashkanasy, 2001), or a particular category of the OCP (Erdogan et al., 2006), the selection of the innovation and respect for people dimensions as the mediating variables to examine their influence on the strategy–CSR adoption relationship seems justified.

[19] This study acknowledges that one or more dimensions of the OCP can be emphasised in an organisation.

The innovation dimension of the OCP includes the core values of being innovative, action oriented, not being constrained by many rules, a willingness to experiment, risk taking and being quick to take advantage of opportunities (O'Reilly et al., 1991). Managers in innovation culture-oriented organisations are more likely to experiment with new initiatives/practices to enhance organisational performance even if such practices are untested and risky (Baird et al., 2004; Subramaniam & Ashkanasy, 2001). Sheriden (1992) relates the innovation dimension of the OCP to the completion of work tasks, where organisations emphasise achieving their objectives to derive a sense of accomplishment.

McWilliams and Siegel (2001) suggest that organisations that follow differentiation strategies are likely to integrate social and environmental attributes in their products (product innovation) and produce them in a socially responsible manner (process innovation). This implies that innovation is the key to organisations that aim to achieve differentiation (Hogan & Coote, 2014; McWilliams & Siegel, 2001). Differentiation strategy involves the creation and development of new products or services, including products with social and environmental attributes, thus providing better services to customers than competitors (McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006; Dess & Devis, 1984; Luo & Zhao, 2004; Zahra & Covin, 1993). Organisations implementing these strategies are more likely to emphasise innovation in their culture (Biard et al., 2007; Subramaniam & Ashkanasy, 2001) thus encouraging employees to adopt the change without resistance. Successful implementation of innovative products or services is highly unlikely to happen without focusing on innovation, flexibility, learning, and change (Linnenluecke & Griffiths, 2010). Consistent with these arguments, empirical evidence suggests that organisational culture needs to be aligned with the strategic orientation of organisations (i.e., Baird et al., 2007). It follows that successful implementation of strategy will be dependent on appropriate organisational culture, where the role of innovation culture seems evident in order to facilitate products or service differentiation.

The adoption of CSR is seen as a multifaceted concept, which requires organisational change, adaptation on different organisational levels, and continuous improvement (Linnenluecke & Griffiths, 2010). Linnenluecke and Griffiths (2010) argue that organisations that encourage the innovation dimensions of organisational culture will place a greater emphasis on innovation in pursuit of CSR adoption. The relationship between the innovation dimension of organisational culture and the adoption of new initiatives has been empirically supported (i.e., Baird et al., 2004). Therefore, this study expects a positive association between innovation culture and the adoption of CSR.

Without an emphasis on appropriate innovation culture, there remains a risk of failure either in terms of implementing business strategies or adopting new initiatives such as CSR because the fundamental culture of organisations remains unchanged (Linnenluecke & Griffiths, 2010). Conversely, in the presence of innovation culture, managers are likely to respond positively to the adoption of new practices (Su et al., 2009). It is therefore expected that organisations whose values are aligned with the innovation dimension of organisation culture are more likely to adopt CSR practices, especially when their organisations follow differentiation strategy. Based on the above arguments, the following hypothesis is developed:

H2a: The innovation dimension of organisational culture is likely to mediate the association between differentiation strategy and the adoption of CSR.

The respect for people dimension of the OCP includes the core values of fairness, tolerance, respect for individual rights, and being socially responsible (O'Reilly et al., 1991; Windsor & Ashkanasy, 1996). If employees are treated fairly and with respect and dignity, and recognised as valued members of the organisation, they are more likely to work hard and be loyal to their organisation (Su et al., 2009). By the same token, any negative experience faced by employees, whether it be in decision making, treatment, or conduct by the organisation or its agents that violates the established moral code and values of organisations, will be perceived by those employees as unfair, and negative consequences may arise (Erdogan et al., 2006). Therefore, the respect for people dimension of the OCP is an important mediator in the differentiation strategy–CSR adoption relationship, which has not yet been examined in the empirical context.

McWilliams and Siegel (2001) posit that organisations that adopt a differentiation strategy can differentiate their products or services in multiple ways, including through product and process innovation (environmental attributes), supporting local communities, and promoting diversity in the workplace (social attributes). While organic (green) or recycled products can be seen as a part of differentiation strategy in the context of developed countries, the strategic priorities of organisations operating in developing countries may include investment in education, health, infrastructure development, and community service (McWilliams & Siegel, 2001; Valente & Crane, 2010; Visser, 2008). The theoretical contention is supported by a recent study conducted by Valente and Crane (2010) in the context of the developing countries of Africa, Latin America, and Asia. Social issues, such as improving workplace diversity, working conditions and health, and the safety and wellbeing of employees are also found to be relevant even in the context of developed countries (Bansal, 2005; Torugsa et al., 2013). It follows then that organisations can achieve differentiation through both social and environmental means.

As noted earlier, successful implementation of strategy will be dependent on appropriate organisational culture (Linnenluecke & Griffiths, 2010). Following this argument, the importance of the respect for people dimension of the OCP seems to be particularly relevant in that it can help organisations achieve differentiation. Organisations with the respect for people culture orientation that value fairness, tolerance, respect for individual rights, and social responsibility are likely to place greater emphasis on equal opportunity, workplace diversity, work–life balance, and improved working conditions (Erdogan et al., 2006; Linnenluecke & Griffiths, 2010). Moreover, organisations emphasising the respect for people culture can involve their employees in the decision-making process and recognise their contribution to organisational goal achievement (Hogan & Coote, 2014). Showing respect for employees can enhance their motivation and loyalty (Su et al., 2009; Hogan & Coote, 2014), which can help enhance strategy implementation. Based on these arguments, this study expects to find a positive relationship between differentiation strategy and the respect for people dimension of the OCP.

Prior studies suggest that culture can influence the adoption of CSR (Linnenluecke & Griffiths, 2010; Visser, 2008). In particular, the respect for people dimension of culture, which values fairness, tolerance, respect for individual rights, and being socially responsible can be expected to follow fair work practices both within and outside the organisation and engage in fair trading and ethical business practices. It can be argued that managers who respect their team members or employees will also value their other stakeholders, such as customers, suppliers, investors, and the general public. Carroll (1979, 1991) states that one of the organisation's four responsibilities is ethical responsibility, which reflects the standards or norms that are regarded as fair by the community, regardless of whether it is required by law. Organisations whose values align with the respect for people dimension of the OCP can facilitate employees' learning and development, and capacity building, which in turn can have implications for the adoption of CSR (Erdogan et al., 2006; Linnenluecke & Griffiths, 2010) since CSR is seen as a voluntary action of organisations (McWilliams & Siegel, 2001). Accordingly, the following hypothesis is proposed:

H2b: The respect for people dimension of organisational culture is likely to mediate the association between differentiation strategy and the adoption of CSR.

4.4 RESEARCH METHOD

4.4.1 Questionnaire and measurement of constructs

A questionnaire was developed based on the extant literature on business strategy, organisational culture, and CSR. To establish the validity and reliability of the constructs, most of the variables studied were measured by instruments that have previously been developed, used, and validated. In some cases, some minor wording was changed to accommodate the objective of this study. To ensure validity, the questionnaire was first pilot tested on six academic scholars with relevant expertise and five PhD students prior to forwarding it to the participating organisations. The feedback received from the pilot test was appropriately incorporated, measures were revised accordingly and the final version developed.

The questionnaire has four sections. The first section asks for descriptive data about the respondents and their companies, including gender, academic qualification, years of experience in the industry and in the current position, nature/type of the company (local or domestic/multinational), industry type (manufacturing/service), institutional ownership (listed/non-listed large company), and number of employees. The second section asks the respondents the reasons for using CSR in their organisations while the third asks about the organisational culture. The fourth section asks respondents about the strategy of their organisations. The measurements of constructs are described in the subsequent paragraphs.

Differentiation strategy was operationalised and measured by using four items (Dess & Devis, 1984; Luo & Zhao, 2004; Zahra & Covin, 1993). Respondents were asked to indicate on a five-point Likert type scale ranging from 1 ‘not at all’ to 5 ‘to a great extent’ the extent to which each of the four items described the differentiation strategy of their organisation. Higher score values on the constructs indicated that the participating organisation adopted a stronger differentiation strategy. All four items were taken (in some cases adapted) from the prior literature: (i) new product development or existing product adaptation; (ii) introducing new products/service to the market; (iii) building strong brand identification; (iv) the number of new products/services offered.

To measure organisational culture this study used an adapted version of O’Reilly et al.’s (1991) OCP instrument (Windsor & Ashkanasy, 1996; O’Reilly et al., 1991). This instrument was chosen because it has been widely used and validated in previous studies (e.g., Baird et al., 2007; McKinnon et al., 2003; Su et al., 2009; Windsor & Ashkanasy, 1996). Although the instrument includes six organisational culture dimensions, this study uses two organisational cultural dimensions, namely innovation and respect for people. The innovation dimension includes six items: (i) being action oriented; (ii) a willingness to experiment; (iii) not being constrained by many rules; (iv) being quick to take advantage of opportunities; (v) being innovative; (vi) risk taking. Respect for people includes four items: (i) fairness; (ii) respect for the rights of the individual; (iii) tolerance; (iv) being socially responsible.

Respondents were asked to indicate the extent to which each item was valued in their organisations using a five-point Likert type scale to specify their disagreement ‘not valued at all’ to agreement ‘valued to a great extent’ ranging from 1 to 5 points respectively. The higher scores of each dimension indicate that the cultural dimension is valued to a greater extent, while lower scores demonstrate that it is valued to a lesser extent in the participating organisations.

Adoption of CSR was specified as a second-order construct and was operationalised via three first-order constructs, which include social, environmental, and economic dimensions. These three dimensions were measured by using 28 items based on the extant literature (Bansal, 2005; Carroll, 1979; 1991; Crane et al., 2008; Elkington, 1999; Galbreath & Shum, 2012; Henri & Journeault, 2010; Epstein & Roy, 2003; McWilliams & Siegel, 2001; McWilliams et al., 2006; Porter & Kramer, 2006; Torugsa et al., 2013; Wood, 1991). All 28 items were taken (in some cases adapted) from the prior literature, which represents the adoption of CSR in the participating organisations. Out of 28 items, nine items represent social dimensions, 11 items represent environmental dimensions, and eight items represent economic dimensions of CSR (see, Appendix 4.1). Respondents were asked to indicate on a five-point Likert type scale the extent to which each of 28 statements was the main reason for using CSR practices in their organisations ranging from 1 ‘not at all’ to 5 ‘to a great extent’. A higher score value on constructs indicates the higher extent of CSR adoption.

There are four control variables proposed in this study, which are size, type of company, industry, and institutional ownership. The prior literature suggests that these control variables can have significant potential impact on organisations’ CSR practices (Bansal, 2005; McWilliams & Siegel, 2000; Torugsa et al., 2013; Brammer et al., 2006). Control variables were measured by using single indicators. For example, organisational size was measured by number of employees employed by the organisation. Type of organisation was measured by asking the respondents whether their company was local/domestic in nature or a multinational company, industry type was measured by whether the company belongs to the manufacturing or service industry, and institutional ownership (listed or non-listed company) was measured by whether the company was listed on the Nepal Stock Exchange or was a non-listed company at the time of data collection.

4.4.2 Data collection, sample and response rate

The survey was administered using Dillman's (2000) Tailored Design Method. Online and postal surveys were used to collect data from the top management level (i.e., Chief Executive Officers (CEOs) or General Managers (GMs), or the senior managers) of the companies listed on the Nepal Stock Exchange as well as non-listed large companies, which included multinationals and privately owned large companies. Non-listed large companies were included in the study in order to increase the sample size. A sample of 302 potential participating organisations was selected from two different sources: first, all 232 companies[20] listed on the Nepal Stock Exchange were included; second, the sample also consists of 70 non-listed companies,[21] including multinationals and privately owned companies with 50 or more employees. Non-listed small companies were excluded from the sample because these companies were less likely to be involved in CSR activities compared to medium sized and large companies.

A total of 302 potential participating organisations was identified for the final sample. Top level managers were selected as respondents because they were expected to have holistic knowledge about their organisation's business strategy, culture, and CSR. In total 302 surveys were sent to the CEOs or senior managers of the selected companies. An introduction letter stating the purpose of the study and confidentiality of response was also attached with the survey questionnaire as consistent with *Human Research Ethics Sub-Committee* guidelines. The data collection period ranged from January to April 2015. After reminders and follow-up calls (emails and telephone), about 132 usable responses were received with a response rate of 43.70% (see, Table 4.1, Panel A). This response rate is high when compared to prior CSR studies, such as Galbreath and Shum (2012) (10%), Maignan and Ferrell (2001) (13.84%), and Saeidi et al. (2015) (16.4%).

[20] According to the Nepal Stock Exchange (2014), there are 232 listed companies, which include 29 commercial banks, 93 development banks, 54 finance companies, 22 insurance companies, 18 manufacturing companies, four hotels, six hydropower companies, four trading companies, one telecom company, and one film development company.

[21] 70 such companies were identified in Nepal through the websites of the Federation of Nepalese Chamber of Commerce and Industry (FNCCI), company associations, the government of Nepal and an Internet search.

Table 4.1 Response rate, respondents' companies profile and demographic statistics

Panel A: Response rate			
Type of company surveyed	**Sample**	**Response**	**%**
Listed company	232	90	38.79
Non-listed large company	70	42	60.00
Total	302	132	43.70
Panel B: Respondents' companies profile (n = 132)			
Company type		**Frequency**	**%**
Local / domestic		120	90.9
Multinationals		12	9.1
Institutional ownership			
Listed		90	68.2
Non-listed		42	31.8
Industry sector			
Manufacturing		22	16.7
Service		110	83.3
Size (number of employees)			
Up to 50		29	22
50 to 200		50	37.9
201 to 500		29	22.0
501 to 1000		15	11.4
Over 1000		9	6.8
Panel C: Respondents' demographic statistics (n = 132)			
Gender		**Frequency**	**%**
Male		117	88.6
Female		15	11.4
Highest level of academic qualification			
Bachelor's / undergraduate degree		16	12.1
Master's degree		93	70.5
CA / CPA		10	7.6
PhD		4	3.0
Others		9	6.8
Tenure			
Industry experience (in years)			
Less than five years in the industry		32	24.2
Five years or more in the industry		100	75.8
Experience in current position (in years)			
Less than five years in current position		99	75.0
Five years or more in current position		33	25.0

4.4.3 Descriptive statistics

Table 4.1, Panel B provides descriptive information regarding the profile of companies (i.e., company type, institutional ownership, industry sector and number of employees), while Panel C shows respondents' demographic information (i.e., gender, level of education, industry experience and length of time in current position). A demographic analysis of respondents revealed that the majority of respondents (88.6%, *n* = 117) were male, while female respondents were only 11.4% (*n* = 15). Most of the companies responding to the survey were listed companies (68.2%) and from the service sector (83.3%). Many of the companies had 50 to 200 employees (38%) and only 7% of companies had more than 1,000 employees. Table 4.2 presents the descriptive statistics of the main constructs of this study, which include minimum and maximum values, mean scores and the standard deviation. The findings suggest that most of the respondents value the social dimension (3.48) of CSR more when compared to environmental and economic dimensions, whereas very important aspects of CSR that include environmental and economic dimensions are less significant, which was expected in the context of a developing country like Nepal.

Table 4.2 Descriptive statistics of variables studied (*n* = 132)

Variables	Minimum	Maximum	Mean	SD
Differentiation	1.25	5.00	3.75	0.80
Innovation	1.60	5.00	3.72	0.73
Respect for people	2.00	5.00	3.92	0.68
Social	1.00	5.00	3.67	0.76
Environmental	1.00	5.00	2.83	1.10
Economic	1.00	5.00	2.78	1.00
Instrument	2.00	5.00	3.79	0.72

4.4.4 Non-response bias

Potential non-response bias was assessed by comparing early respondents to late respondents for all variables studied. The results are shown in Table 4.3. A comparison of means on all the measured variables was undertaken and the *t*-tests revealed no statistically significant differences at the 5% level. Non-response bias was also assessed by comparing online responses to postal responses. With the exception of differentiation strategy and economic dimension, there were no significant differences between online and postal respondents. Online respondents indicated a significantly higher differentiation strategy (mean 3.98 vs 3.44) and lower economic dimension (mean 2.54 vs 3.07) than did postal respondents ($p < 0.05$). These results indicate that non-response bias was unlikely to be a problem (see, Table 4.3).

Table 4.3 Non-response bias

Construct	Early (n = 54)	Late (n = 78)	Online (n = 73)	Postal (n = 59)
Differentiation strategy	3.76	3.72	3.98**	3.44**
Innovation	3.74	3.71	3.76	3.67
Respect for people	4.01	3.85	3.99	3.82
Social	3.44	3.50	3.36	3.62
Environmental	2.66	2.95	2.74	2.93
Economic	2.69	2.83	2.54**	3.07**

** Means are significantly different at p value <0.05 (2 - tailed)

4.4.5 Common method bias

Common method bias was assessed by using Harman’s single-factor test, which is one of the most widely used statistical technique to address the issue of common method variance (Podsakoff et al., 2003). All the survey questions (to form the constructs) were used to run the test and the first factor explained 26% of total variance. The results show that common method bias is not a critical issue for this study (Podsakoff & Organ, 1986).

4.4.6 Issue of endogeneity

Endogeneity is regarded as a relevant issue in the field of CSR studies (Garcia-Castro et al., 2010), which can undermine causal inference (Chenhall & Moers, 2007; Larcker & Rusticus, 2010). Although this study controls for several important factors that influence adoption of CSR, there is a possibility that adoption of CSR is likely to be correlated with other unobserved organisational level (omitted) variables, such as the quality of top management, decision-making style, moral or ethical values, attitudes, or any other difficult to observe variables (Garcia-Castro et al., 2010; Jones, 1995). Garcia-Castro et al. (2010) argue that it is not possible to take into account all the variables that influence a manager’s decision to adopt CSR. In addition, the proposed direction of causality in this study is that an organisation’s strategy influences its organisational culture, which in turn influences adoption of CSR. However, it is possible to have a reverse link as organisational culture can be influential to business strategy formation (Johnson & Scholes, 1997). Therefore, this study recognises that there may be potential issues of endogeneity.

In order to mitigate the issue of reverse causality and potential omitted variable bias and address the issue of endogeneity, this study employed the instrumental variable (IV) method (Larcker & Rusticus, 2010; Chenhall & Moers, 2007). A valid instrumental variable should be correlated with the explanatory variable but uncorrelated with the error term (Baum, 2006; Chenhall & Moers, 2007). This implies that the instrumental variable cannot have a direct effect on adoption of CSR. Rather its effect on the adoption of CSR is only through differentiation strategy, innovation, and respect for people dimensions of organisational culture. Based on previous studies and data availability an instrument variable called marketing was identified that includes three items: (i) intensity to advertising; (ii) utilisation and development of sales force; and (iii) reputation (item dropped due to collinearity). Prior studies suggest that organisations that pursue differentiation strategy often use marketing activities, such as advertising, reputation building, and developing the sales force (Hoejmose et al., 2013; McWilliams & Siegel, 2001; Miller, 1986). Therefore, the marketing variable instrument is likely to be a relevant instrument for this study.

In order to confirm the validity of the selected instrumental variable, this study uses the over-identification test (Sargan's test) and the weak identification test (*F* Statistic) as suggested by Baum (2006) and Larcker and Rusticus (2010). The results of the tests reveal that Sargan's test (0.26, p value = 0.61), Shea's Partial R^2 (0.688), and the F statistic (134.06) from the first stage regression is significant at 1% level (p value = 0.00). Based on the results the instrument is appropriate to perform Hausman's test (see, Hausman, 1978). The small value of the Hausman test (3.42) is not significant at 5% level (p value = 0.067) and, therefore, it can be concluded that endogeneity is not a problem for the sample of this study (Baum, 2006; Larcker & Rusticus, 2010).

4.5 RESULTS

This study employs a Partial Least Squares Structural Equation Modelling (PLS-SEM) approach (Lohmoller, 1989; Wold, 1982) to analyse the survey data obtained from 132 companies. PLS-SEM approach was considered suitable for this study because it can deal with multiple predictors and criterion variables simultaneously and is not sensitive to small sample sizes (Chin, 1998a; Hair et al., 2014; Klarner et al., 2013). Moreover, PLS-SEM does not require a normal distributional assumption (Chin, 1998b) and is regarded as particularly useful in testing mediation relationships (see, Klarner et al., 2013), which is the case in this study. The SmartPLS3 Software (Ringle et al., 2015) is used to simultaneously estimate the measurement and structural model, which are described in the following section.

4.5.1 Evaluation of measurement model

Reliability and convergent validity

For all the constructs and their corresponding indicators a reflective measurement approach was selected as the preferred measurement model following MacKenzie et al. (2005). This assesses for reliability (internal consistency reliability) and validity (convergent and discriminant validity) (Klarner et al., 2013). To assess the reliability and validity of the measurement scales, this study performed confirmatory factor analysis (Henseler et al., 2009). Composite reliability (CR) was used to examine the internal consistency reliability.

Table 4.4 shows the CR values all above 0.70 and below 0.95, which can be regarded as satisfactory (Nunnally & Bernstein, 1994), Cronbach's (1951) alpha scores all (except instrumental variable: 0.50) exceed the 0.70 threshold (Nunnally, 1978) and therefore confirm the construct reliability (see, Table 4.4).

To evaluate the convergent validity (Chin, 1998a), the outer loadings of the reflective indicators and average variance extracted (AVE) were used. Table 4.4 shows that outer loadings of all items are above 0.6. Some items with weak outer loadings (<0.6) were removed to establish the reliability of each construct (Chin, 1998a; Hulland, 1999). In addition, the AVE (Fornell & Larcker, 1981) of each construct is higher than 0.50, except one (SOC: 0.475) (see, Table 4.4), which demonstrates adequate convergent validity (Hair et al., 2014).

Discriminant validity

The discriminant validity of the measurement model was tested by using the Fornell-Larcker criterion approach, which is considered appropriate for evaluating the reflective constructs (Fornell & Larcker, 1981). The results (see, Table 4.5) show that the square roots of the AVEs (bold-faced in the diagonal) are all greater than their respective off-diagonal elements, which establish discriminant validity. Overall, the above analysis demonstrates that the construct measures are reliable and valid.

Table 4.4 Reliability and convergent validity

Latent variables and indicators	Mean	SD	Loading
Differentiation Strategy (DS)			
(Cronbach's alpha: 0.810 CR: 0.876 AVE: 0.639)			
DS1	3.90	0.85	0.712
DS2	3.72	1.00	0.832
DS3	3.95	1.07	0.798
DS4	3.45	1.08	0.848
Innovation (IN)			
(Cronbach's alpha: 0.821 CR: 0.874 AVE: 0.582)			
IN1	4.06	0.82	0.712
IN2	3.52	1.02	0.707
IN4	3.58	0.94	0.796
IN5	3.86	1.01	0.841
IN6	3.58	0.96	0.752
Respect for People (RP)			
(Cronbach's alpha: 0.771 CR: 0.854 AVE: 0.596)			
RP1	4.02	0.93	0.809
RP2	4.05	0.87	0.856
RP3	3.54	0.93	0.706
RP4	4.06	0.84	0.706
Social (SOC)			
(Cronbach's alpha: 0.719 CR: 0.817 AVE: 0.475)			
SOC1	3.16	1.36	0.622
SOC3	3.77	1.06	0.765
SOC4	3.61	1.14	0.793
SOC5	3.90	1.02	0.610
SOC6	3.90	0.96	0.633
Environmental (ENV)			
(Cronbach's alpha: 0.931 CR: 0.945 AVE: 0.712)			
ENV2	2.61	1.29	0.876
ENV3	2.67	1.29	0.869
ENV4	2.92	1.36	0.869
ENV5	3.20	1.23	0.840
ENV6	2.93	1.27	0.824
ENV7	2.72	1.27	0.908
ENV11	2.75	1.41	0.708
Economic (ECO)			
(Cronbach's alpha: 0.886 CR: 0.913 AVE: 0.638)			
ECO1	3.27	1.22	0.778
ECO2	3.38	1.20	0.748
ECO3	2.94	1.27	0.866
ECO4	2.23	1.22	0.759
ECO7	2.67	1.32	0.870
ECO8	2.17	1.27	0.760
Instrument (IV)			
(Cronbach's alpha: 0.500 CR: 0.800 AVE: 0.666)			
IV1	3.67	1.05	0.837
IV2	3.38	1.10	0.794

DS = Differentiation Strategy; IN = Innovation; RP = Respect for People; SOC = Social; ENV = Environmental; ECO = Economic, IV = Instrument Variable (n = 132)

Table 4.5 Correlations between latent variables and square roots of AVE

	1	**2**	**3**	**4**	**5**	**6**	**7**
1. DS	**0.800**						
2. IN	0.445	**0.763**					
3. RP	0.352	0.598	**0.772**				
4. SOC	0.209	0.411	0.404	**0.689**			
5. ENV	0.215	0.317	0.328	0.612	**0.844**		
6. ECO	0.023	0.395	0.269	0.603	0.641	**0.799**	
7. IV	0.727	0.397	0.238	0.214	0.317	0.143	**0.816**

Note: Bold-faced elements on the diagonal represent the square root of each construct's AVE. The off-diagonal elements represent the correlations between latent variables. DS = Differentiation Strategy; IN = Innovation; RP = Respect for People; SOC = Social; ENV = Environmental; ECO = Economic; IV = Instrument Variable

4.5.2 Assessment of the second-order constructs (Hierarchical component models)

The study applies hierarchical component models (Lohmoller, 1989) or higher (or second) order constructs, which include higher-order components and lower-order components. The hierarchical component models (HCM) represent multidimensional constructs and the use of HCM helps reduce the number of relationships in the structural model, easing the model complexity and making the PLS path model more parsimonious (Becker et al., 2012; Hair et al., 2014). Each of the second-order constructs is measured by reflective indicators and restricted to two layers. The R^2 values of all LOCs are above 60%, which explains the variance of hierarchical constructs in its indicators (see, Table 4.6). All the path coefficients are significant ($p < 0.01$). The Cronbach's alpha, CR, and AVE of CSR adoption are 0.931, 0.940 and 0.471 respectively.

Table 4.6 Second-order construct and its association with first-order components

CSR Adoption Alpha:.931 CR:.940 AVE:.471		
Social	**Environmental**	**Economic**
R^2 =.625	R^2 =.839	R^2 =.747
β =.790	β =.916	β =.864
p <0.01	p <0.01	p <0.01
t = 26.183	t = 66.983	t = 31.140

4.5.3 Evaluation of structural model

The PLS-SEM method is used to test the hypotheses developed in this study (Lohmoller, 1989; Wold, 1982). By using SmartPLS3 Software (Ringle et al., 2015), this study performed a PLS bootstrapping procedure and selected 132 bootstrap cases, 5,000 bootstrap samples, and a no sign changes option to assess the statistical significance of each path coefficient (Chin, 1998b; Henseler et al., 2009). To estimate the significance of the path coefficients, both empirical t values and p values are used. In addition to examining the significance of relationships, this study also examines the relevance of significant relationships because the primary objective of PLS-SEM is not only to identify the significant path coefficients, but also significant and relevant effects in the structural model (Hair et al., 2014). This study uses both coefficient of determination (R^2 value) of all endogenous constructs for predictive accuracy (Chin, 1998b), and Q^2 value (Geisser, 1974; Stone, 1974) for predictive relevance jointly to evaluate the structural model. Stone-Geisser's Q^2 value is obtained by running the blindfolding procedure with an omitting distance of seven (Chin, 1998b; Henseler et al., 2009). The R^2 and Q^2 values of endogenous constructs of model 1 and 2 are provided in Tables 4.7 and 4.8. Finally, R^2, Q^2, effect size (f^2) and q^2 effect size are used to evaluate the full structural model (see, Table 4.8 and Figure 4.2).

A step-by-step analysis of the structural model has been completed to provide a detailed picture of the results and examine the relationship between the constructs, in particular, whether differentiation strategy is positively associated with the adoption of CSR (H1) and whether the association (relationship) between differentiation strategy and adoption of CSR is mediated by the organisational culture, specifically the innovation dimension (H2a) and respect for people dimension (H2b). First, the association between differentiation strategy and adoption of CSR was examined (Figure 4.1). Second, the organisational culture (innovation and respect for people dimensions) was introduced as the mediating variable to test hypotheses 2a and 2b (see, Figure 4.2). Finally, the full PLS path model was assessed. All four control variables (i.e., size, industry, company type, and institutional ownership) are included in the research model assessments. The results are provided in Tables 4.7 and 4.8 and Figure 4.1 and 4.2.

Figure 4.1 Structural model without mediating variable (Model 1)

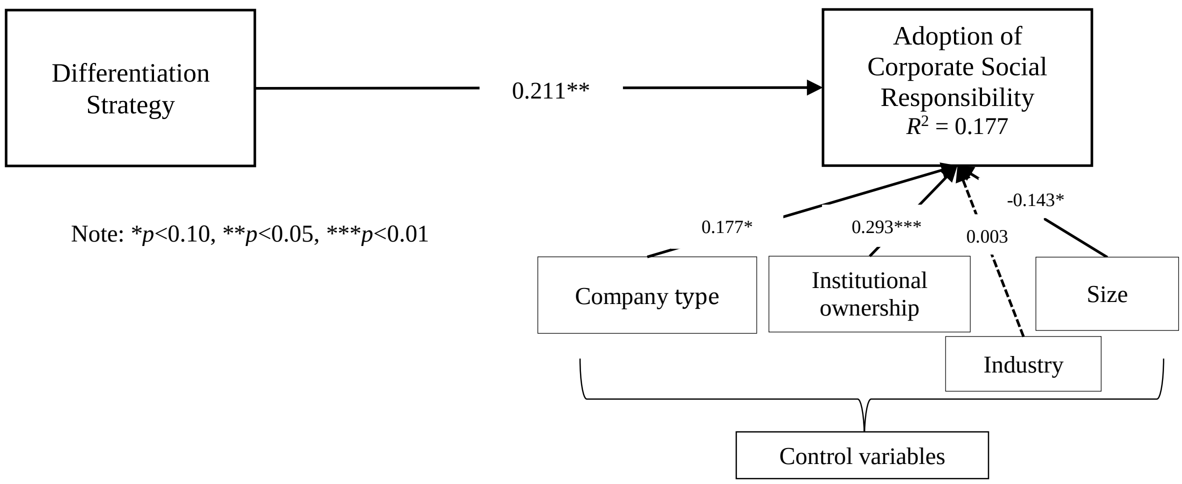
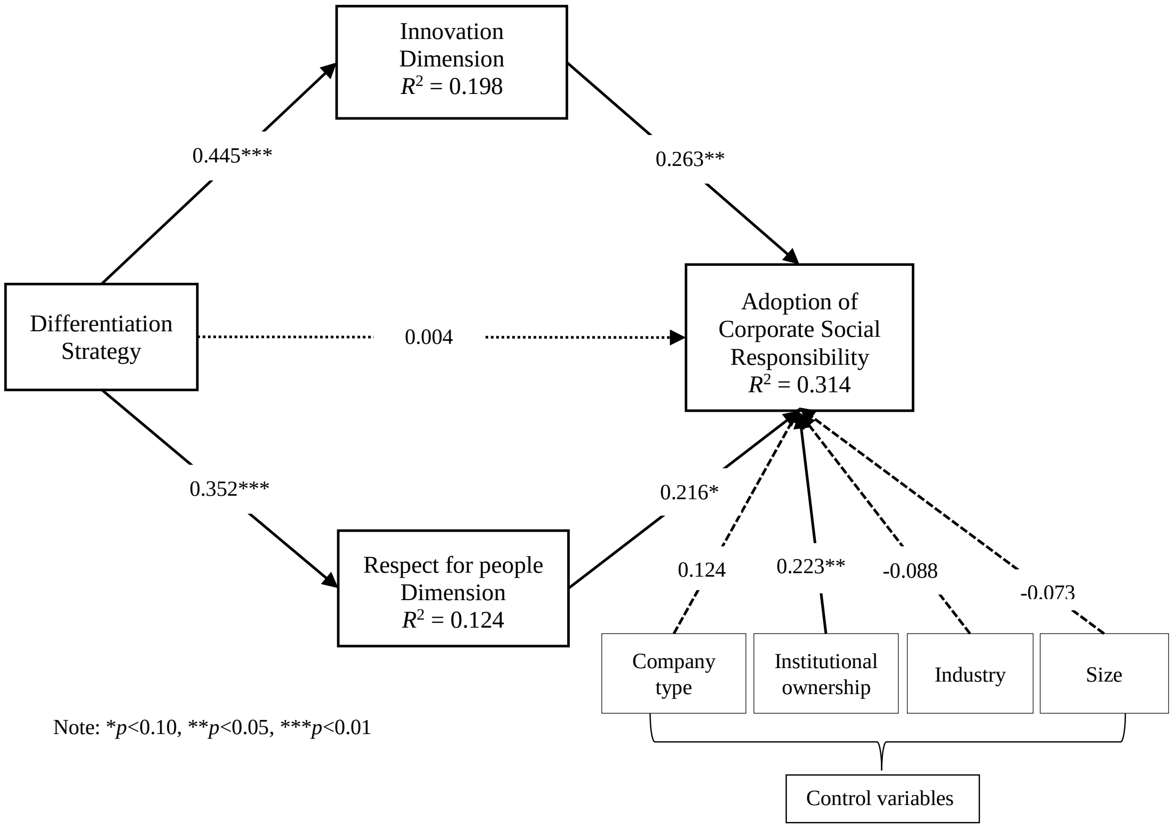


Table 4.7 and Figure 4.1 show the results of the structural model 1 estimation and evaluation of relationships between differentiation strategy and adoption of CSR without the presence of organisational culture (innovation and respect for people dimensions) as the mediating variables. The direct effect of differentiation strategy on CSR adoption (Hypothesis 1, Figure 4.1) is tested, where mediating variables are absent, based on the significance of path coefficients by using SmartPLS3. The results (see, Table 4.7) show that differentiation strategy is positively associated with adoption of CSR (coefficient: 0.211; $t = 2.388$, $p = 0.018$). Therefore, hypothesis 1, which predicts that differentiation strategy is positively associated with adoption of CSR is empirically supported.

After testing the direct effect of differentiation strategy on CSR adoption, organisational culture (innovation and respect for people dimensions) as mediating variables are introduced and hypotheses 2a and 2b (see, Table 4.8 and Figure 4.2) are tested. The results show that differentiation strategy has a significant effect on the innovation dimension of organisational culture (coefficient: 0.445, $t = 5.21$, $p < 0.01$), which in turn is positively associated with adoption of CSR (coefficient: 0.263, $t = 2.59$, $p < 0.01$). In the same way, differentiation strategy has a significant effect on the respect for people dimension of organisational culture (coefficient: 0.352, $t = 4.25$, $p < 0.01$), which in turn is positively associated with adoption of CSR (coefficient: 0.216, $t = 1.72$, $p < 0.10$).

However, the empirical results suggest that the relationship between differentiation strategy and adoption of CSR is not significant (coefficient: 0.004, $t = 0.045$, $p > 0.05$). The previously significant relationship (without mediator, see, Figure 1) between differentiation strategy and adoption of CSR (coefficient: 0.211; $t = 2.388$, $p = 0.018$) becomes non-significant in the presence of the mediator (see, Figure 4.2). The direct effect of differentiation strategy on adoption of CSR (without mediators) decreases significantly (from 0.211, $p < 0.05$, see, Figure 4.1) to a low and non-significant level of 0.004 ($p > 0.05$) when the mediating variables of innovation and respect for people dimensions of organisational culture were added (see, Figure 4.2). According to Baron and Kenny (1986, p. 1177), "Perfect mediation holds if the independent variable has no effect when the mediator is controlled". Therefore, the innovation and respect for people dimensions of organisational culture fully mediate the relationship between differentiation strategy and adoption of CSR (Baron & Kenny, 1986), which provides empirical evidence to support hypotheses 2a and 2b.

Figure 4.2 Structural model with both mediating variables (Model 2)



To assess the significance of indirect effects of the mediating variables, a Sobel (1982) test was performed. The results of the Sobel test (2.32, $p < 0.05$, two tailed for innovation and 1.58, $p > 0.10$, two tailed for respect for people) suggest that the mediating effects of the innovation dimension on the relationship between differentiation strategy and adoption of CSR is significant, while respect for people is not significant. The results suggest that there is no direct effect of differentiation strategy on adoption of CSR, rather the effect is indirect via the innovation dimension of organisational culture. Although four control variables – size, industry; company type; and institutional ownership are included in this study – only institutional ownership has a significant path to adoption of CSR (see, Table 4.8 and Figure 4.2).

Finally, the full structural model is evaluated and the detailed results are presented in Table 4.8 and Figure 4.2. The value of the coefficient of determination (R^2) explains 31.4% of the variance of adoption of CSR, which can be regarded as satisfactory predictive validity (Hair et al., 2014). In addition, this study calculates Q^2 values (Geisser, 1974; Stone, 1974) by a blindfolding approach (with an omitting distance of seven) to assess the predictive relevance (Henseler et al., 2009; Wold, 1982). Table 4.8 shows that the Q^2 values are well above the required threshold of zero, which demonstrates sufficient predictive relevance (Chin, 1998b; Henseler et al., 2009). The effect size (f^2) and q^2 effect size for each direct path in the structural model are also calculated and results are reported in Table 4.8.

Table 4.7 Structural model assessment of Model 1 (PLS Path Model without mediator)

Endogenous constructs	R^2		Q^2
Adoption of CSR	0.177		0.080
Relation	**Path coefficient**	***t* values**	***p* values**
Differentiation Strategy → Adoption of CSR	0.211	2.388	0.018
Company type → Adoption of CSR	0.177	1.795	0.068
Industry → Adoption of CSR	0.003	0.030	0.976
Size → Adoption of CSR	- 0.143	1.825	0.065
Ownership → Adoption of CSR	0.293	2.837	0.004

Table 4.8 Full structural model assessment (Model 2)

Endogenous constructs	R^2		Q^2		
Adoption of CSR	0.314		0.143		
Innovation	0.198		0.098		
Respect for people	0.124		0.069		
Relation	**Path coefficient**	***t* values**	***p* values**	f^2	q^2
Differentiation Strategy → Adoption of CSR	0.004	0.045	0.964	-0.026	-0.009
Differentiation Strategy → Innovation	0.445	5.218	0.000		
Innovation → Adoption of CSR	0.263	2.590	0.010	0.054	0.016
Differentiation Strategy → Respect for People	0.352	4.251	0.000		
Respect for People → Adoption of CSR	0.216	1.716	0.086	0.044	0.020
Company type → Adoption of CSR	0.124	1.423	0.155		
Industry → Adoption of CSR	-0.088	0.848	0.396		
Size →Adoption of CSR	-0.073	0.971	0.332		
Ownership → Adoption of CSR	0.223	2.397	0.017		

4.5.4 Additional analysis

This study further examines the association between differentiation strategy and each dimension (social, environmental, and economic dimensions) of CSR. The empirical results show that differentiation strategy is positively associated with the social (coefficient: 0.362, t = 2.022, $p < 0.05$) and environmental dimensions (coefficient: 0.237, t = 2.681, $p < 0.01$) of CSR; however, there is no significant relationship between differentiation strategy and the economic dimension of CSR (coefficient: 0.089, t = 0.981, $p > 0.10$).

After testing the direct relationship between differentiation strategy and each dimension (social, environmental, and economic dimensions) of CSR, both dimensions of organisational culture (innovation and respect for people) are introduced to examine their mediating effect on the association between differentiation strategy and each dimension of CSR. Regarding the social dimension of CSR, the results show that differentiation strategy has a significant positive effect on innovation (coefficient: 0.453, t = 5.464, $p < 0.01$), which in turn is positively related to the social dimension (coefficient: 0.249, t = 2.180, $p < 0.05$). Similarly, differentiation strategy has a significant effect on respect for people (coefficient: 0.363, t = 4.523, $p < 0.01$), which in turn is positively associated with the social dimension (coefficient: 0.281, t = 2.568, $p < 0.05$). However, the previous positive and significant relationship between differentiation and social dimension (without mediators) decreases and becomes non-significant (coefficient: 0.076, t = 0.652, $p = 0.515$) in the presence of mediators. Therefore, both the innovation and respect for people dimensions of organisational culture fully mediate the relationship between differentiation strategy and the social dimensions of CSR (Baron & Kenny, 1986). The Sobel test result (2.03, $p < 0.05$, two tailed for innovation and 2.23, $p < 0.05$, two tailed for respect for people) confirms the mediating effect of the innovation and respect for people dimensions of organisational culture on the association between differentiation strategy and the adoption of the social dimension of CSR.

However, regarding environmental dimensions, this study could not find a significant mediating effect of both the innovation and respect for people dimensions of organisational culture on the association between differentiation strategy and the adoption of environmental dimensions of CSR. The results show that differentiation is positively associated with innovation (coefficient: 0.452, t = 5.398, $p < 0.01$), which in turn does not have a significant effect on the environmental dimension of CSR (coefficient: 0.109, t = 0.953, $p > 0.10$). Although the result shows that respect for people is positively associated with differentiation (coefficient: 0.362, t = 4.475, $p < 0.01$) and the environment dimension of CSR (coefficient: 0.222, t = 1.739, $p < 0.1$), the Sobel test result (1.62, $p > 0.10$) does not support the mediating effect of the respect for people dimension of organisational culture on the association between differentiation strategy and the adoption of the environmental dimension of CSR. Further, there is no significant effect of differentiation strategy on the adoption of the economic dimensions of CSR (coefficient: 0.089, t = 0.981, $p > 0.10$).

Moreover, the previous analysis shows that institutional ownership has a significant effect on the adoption of CSR (see, Table 4.8, Figure 4.2). Therefore, the main analysis (Model 2) is further extended to the listed companies (n = 90) and examined the direct effect of differentiation strategy on the adoption of CSR and the mediating effect of the innovation and respect for people dimensions of organisational culture on the differentiation–CSR adoption relationship. First, the direct effect of differentiation strategy on the adoption of CSR is tested. The result shows that differentiation strategy is positively associated with the adoption of

CSR (coefficient: 0.234, t = 2.023, $p < 0.05$), which supports hypothesis 1. After testing the direct relationship, the mediating effect of both the innovation and respect for people dimensions of organisational culture on the relationship between differentiation strategy and the adoption of CSR was examined.

The result shows that differentiation strategy has a significant positive effect on innovation (coefficient: 0.457, t = 5.115, $p < 0.01$), which in turn is positively, but not significantly, related to the adoption of CSR (coefficient: 0.152, t = 1.183, $p > 0.10$). Therefore, hypothesis 2a is not supported. On the other hand, differentiation strategy has a significant positive effect on respect for people (coefficient: 0.343, t = 3.463, $p < 0.01$), which in turn is positively associated with adoption of CSR (coefficient: 0.324, t = 2.099, $p < 0.05$). However, the previous positive and significant relationship between differentiation and social dimension (without mediators) becomes non-significant (coefficient: 0.053, t = 0.438, $p > 0.10$) in the presence of mediators. Therefore, the respect for people dimension positively mediates the association between differentiation strategy and the adoption of CSR, which supports hypothesis 2b. The Sobel test result (1.82, two tailed, $p < 0.10$) shows that the mediating effect is significant. The result indicates that the listed companies emphasise cultural values, such as fairness, respect for individual rights, tolerance, and being socially responsible. However, the explanatory power of the adoption of CSR for the listed companies (R^2 of 0.225) remains comparatively lower than the main model (R^2 of 0.314).

4.6 DISCUSSION AND CONCLUSION

The aim of this study was to investigate whether differentiation strategy affects the adoption of CSR, and if so, whether the effect is mediated by the innovation and respect for people dimensions of organisational culture. Based on survey data obtained from a sample of 132 companies operating in Nepal, the study found that differentiation strategy is positively associated with the adoption of CSR. The empirical result confirms the previous theoretically established link between differentiation strategy and the adoption of CSR (Van de Ven & Jeurissen, 2005; McWilliams & Siegel, 2001; 2011) and the limited empirical evidence obtained from the developed country context (Hoejmose et al., 2013). However, the results are contrary to Baskin (2006), who concludes that CSR is less embedded in organisations' business strategies in the context of developing countries. Further analysis reveals that differentiation strategy is also positively associated with social and environmental dimensions, but not with the economic dimension of CSR; this is not surprising in the context of a developing country like Nepal.

After including the organisational cultural dimensions of innovation and respect for people in the model (see, Figure 4.2), the results show that the association between differentiation strategy and the adoption of CSR is indirect and fully mediated by the innovation dimension of organisational culture. Consistent with expectations, the empirical result indicates that the organisational culture dimension of innovation plays an important role in the association between differentiation strategy and the adoption of CSR. In particular, the findings suggest that organisations with an innovative culture that emphasise risk taking and action oriented behaviour are more likely to adopt CSR. The findings are in line with prior studies, such as Baird et al.'s (2004) empirical study in an Australian context, in which the authors find that organisations with an innovative culture are more likely to adopt new management practices.

As this study finds that institutional ownership has an impact on the adoption of CSR, suggesting that organisations listed on the Nepal Stock Exchange are more likely to adopt and practise CSR compared to their non-listed counterparts, an additional analysis was performed with the sample of listed companies. The results show that the respect for people dimension has a significant mediating effect on the association between differentiation strategy and the adoption of CSR, which could not hold true with the aggregate sample of this study. This suggests that the listed companies that emphasise values such as fairness, tolerance, and individual rights tend to place greater emphasis on equal opportunity, workplace diversity, and improved working conditions (Erdogan et al., 2006; Linnenluecke & Griffiths, 2010). The results lend support to the study of McKinnon et al. (2003) who found respect for people was strongly associated with the outcome variable in their Taiwanese sample.

Overall, the findings of the study suggest that organisations that place a greater emphasis on the innovation and respect for people dimensions of organisational culture are more likely to effectively integrate CSR into their business strategy. The findings provide an insight into the important role of organisational culture in general and the innovation and respect for people dimensions in particular. An appropriate organisational culture is considered vital in terms of the strategic integration of CSR (McWilliams et al., 2006; Linnenluecke & Griffiths, 2010). For instance, organisations pursuing differentiation strategy are likely to be involved in the creation and development of high quality or innovative products or services, and products with social and environmental attributes (McWilliams & Siegel, 2001; Zahra & Covin, 1993; Luo & Zhao, 2004), but are highly unlikely to be successful without focusing on innovative culture (Linnenluecke & Griffiths, 2010). Similarly, successful implementation of strategy will largely depend upon employees. If employees are treated fairly and with respect, they are more likely to be loyal to their organisations and work hard (Su et al., 2009), whereas any negative experience faced by employees in terms of treatment or conduct that violates moral codes and values may have adverse consequences (Erdogan et al., 2006). This further highlights the important role of the innovation and respect for people dimensions of organisational culture.

This study makes a number of contributions to the limited, albeit developing, stream of research on CSR, strategy, and organisational culture by investigating the relationship between these constructs. First, by investigating the direct relationship between differentiation strategy and CSR, this study extends the growing body of literature on strategy and CSR (Burke & Logsdon, 1996; Porter & Kramer, 2006; Van de Ven & Jeurissen, 2005; Hoejmose et al., 2013). Second, while prior studies have examined the direct association between strategy and CSR (i.e., Hoejmose et al., 2013) and organisational culture dimensions and other outcome variables (i.e., Chatman & Jehn, 1994; Su et al., 2009; McKinnon et al., 2003; Baird et al., 2004; 2007), by examining the mediating effect of two important dimensions of organisational culture (i.e., innovation and respect for people) on the association between differentiation strategy and CSR, this study assimilates the two streams of research and provides a better understanding of the relationships in the context of a developing country, in this case, Nepal.

More specifically, prior studies have emphasised the role of innovative culture in the extant literature. The importance of innovation, creativity, and entrepreneurship is prevalent in recent times due to the radical change in organisational environments because of technological advancement, globalisation, product and service innovation, and increased competition (McKinnon et al., 2003; Sarros et al., 2005). However, little attention has been paid by researchers to the important role of the respect for people dimension of organisational culture. The findings suggest that the respect for people dimension is equally essential as innovative culture in order to achieve successful integration of CSR into organisations' strategy. Therefore, this study contributes to the literature by highlighting the important role of the respect for people culture in the strategic integration of CSR (Turban & Greening, 1996).

Finally, this study makes a significant contribution by addressing the call for research on CSR in different contexts, as prior empirical research on CSR has focused almost exclusively on the North American and European (Western) contexts (Saeidi et al., 2015; Maignan & Ferrell, 2001), and relatively little is known about CSR practices in developing countries (Visser, 2008). More specifically, it is still unclear in the literature whether CSR is only related to philanthropy or whether it is adopted in a strategic way, and how cultural values influence the propensity of CSR adoption in the context of developing countries (Visser, 2008; Lindgreen et al., 2009; Baskin, 2006). By investigating less explored country and cultural contexts, in this case Nepal, this study provides a holistic and practical understanding of the mediating role of organisational culture in the association between differentiation strategy and the adoption of CSR.

The findings of this study have some implications for practitioners, especially in the context of developing countries. The findings emphasise the strong need for integrating the economic dimension of CSR into organisations' business strategy focusing on the innovation and respect for people dimensions of organisational culture. This is because failing to integrate social, environmental, and economic dimensions of CSR into their business strategy, means CSR may be just an additional cost or waste of resources (Ramchander et al., 2012; Van de Ven & Jeurissen, 2005). Similarly, without focusing on an appropriate culture, successful implementation of strategy may not be possible (Linnenluecke & Griffiths, 2010). Therefore, this study provides managers with valuable insights into the important role of organisational culture (in particular, the innovation and respect for people dimensions) on (re)aligning CSR into their business strategy, which in turn may help organisations create value for shareholders as well as stakeholders (McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006).

This study is not free from limitations. First, although it has examined the role of the innovation and respect for people dimensions of organisational culture on the association between differentiation strategy and the adoption of CSR in the context of a developing country, the mediating effect of the other four dimensions of organisational culture remains unexplored. Future studies could examine the role of other dimensions of organisational culture, such as outcome orientation, team orientation, attention to detail, and stability, or they could examine the integral overall effect of organisational culture that includes six dimensions in a similar research context. Second, this study is cross-sectional in nature and suffers from the inherent limitation of the survey research method, which could be addressed by future longitudinal case studies. Although this study applied the instrumental variable method to address the issue of omitted variables, there may be other unobserved or difficult to observe variables, which could influence adoption of CSR. For example, a profitability control variable may provide an important insight into the organisational resources needed for CSR adoption. Future research could include these variables, which may have significant effect on the adoption of CSR. Future studies could also examine the role of other contextual factors as well as macro-level factors that influence the adoption of CSR within organisations. Finally, despite taking several steps (i.e., for sample selection, pilot testing of the survey questionnaire, and internal consistency reliability and convergent validity tests) to ensure the reliability of the data and to overcome bias (non-response and common method bias), the results of this study are based only on 132 survey responses. Therefore, caution should be taken in generalising the findings of this study to other country or cultural contexts.

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APPENDIX 4.1: CONSTRUCTS AND THEIR REPRESENTING ITEMS

Social dimension

Comply with the law, regulation and standards

Improve relationship with stakeholders[a]

Seek long-term partnership with customers and suppliers

Engage in fair trading practices

Improve employee, customer and community health and safety

Improve employee morale

Sponsor local community initiatives[a]

Make donations/contributions to charity[a]

Prohibit child labour/violation of human rights[a]

Environmental dimension

Minimise negative impact on the environment[a]

Recycle waste materials

Reduce waste by streamlining processes

Dispose waste responsibly

Increase energy efficiency

Reduce material, production and process cost

Filter and control emissions and discharge

Promote sustainable development[a]

Environmental trainings for employees[a]

For external (or website) reporting purposes[a]

Use of ISO certifications on quality / environmental aspects

Economic dimension

Competitive return on investment (ROI)

Achieve financial goals (increase profit)

Reduce cost of inputs for the same level of outputs

Sell waste product for revenue

Work with government to protect company's interests[a]

Direct economic value generated and distributed[a]

Lower operating costs

Income from material scrap or recycled waste

[a] Items with weak outer loadings (<0.6) were removed

CHAPTER FIVE: PAPER THREE

THE ROLE OF MANAGEMENT CONTROL SYSTEMS ON THE ASSOCIATION BETWEEN CORPORATE SOCIAL RESPONSIBILITY AND ORGANISATIONAL PERFORMANCE***

ABSTRACT

This study examines the association between corporate social responsibility (CSR) and organisational performance and whether the association is mediated by the interactive and diagnostic use of management control systems (MCS) in the context of a developing country. Drawing on the resource-based view of the firm (Barney, 1991) and Simons' (1995, 2000) levers of control framework, hypotheses were tested by using the survey data collected from 120 companies operating in Nepal. The study finds that CSR is positively associated with organisational performance. Further analyses reveal that the use of interactive controls partially mediates the relationship between CSR and organisational performance, while the use of diagnostic controls does not have significant mediating effect on the relationship. The mediating role of interactive use of MCS highlights the need for regular management attention to CSR and suggests that face to face dialogue and debate between senior managers and other employees may encourage the bottom-up emergence of new strategies that stimulate creativity and innovation. While the use of interactive controls may be seen as time consuming and costly, the findings suggest that they play an important role in enhancing organisational performance. This study makes a substantial contribution to the body of knowledge in the area of CSR and MCS and specifically provides insights into the importance of integrating CSR into core business strategy to enhance organisational performance.

Keywords: Corporate social responsibility, Management control systems, Levers of control, Resource-based view, Developing country

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***1. This research paper is currently under review (revise and resubmit) at *Journal of Business Ethics*

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3. The earlier version of this paper has been presented at the 8th Asia-Pacific Interdisciplinary Research in Accounting Conference, Melbourne, Australia

5.1 INTRODUCTION

There is little argument that the sole responsibility of organisations is to create value for shareholders, however, there is considerable debate as to whether CSR that includes social, environmental and economic initiatives of organisations helps increase the value (Bansal, 2005; Torugsa et al., 2013; Elkington, 1999; Cresti, 2009; Huang & Watson, 2015; Malik, 2015; Margolis & Wash, 2003; Orlitzky et al., 2003; Crane et al., 2008; Milne, 1996; Benn et al., 2014; Gadenne et al., 2012). Some researchers strongly advocate CSR as an alternative paradigm for profit maximisation, a strategic tool through which organisations can enhance long-term value, achieve sustainable competitive advantage and improve relationships with multiple groups of stakeholders (Arjalies & Mundy, 2013; Gond et al., 2012; Porter & Kramer, 2006; McWilliams & Siegel, 2001; 2011; Carroll & Shabana, 2010; Mackey et al., 2007; Jones, 1995). This is because the traditional concept of profit maximisation or creating value for shareholders has been questioned by the environmental and social impacts of organisations in recent times (Milne, 1996; Benn et al., 2014; Cresti, 2009; Gadenne et al., 2012). In contrast, others view CSR as an additional cost and argue that organisations should not adopt CSR at the cost of shareholders (Friedman, 1970; Karnani, 2011).

These conflicting views on CSR have triggered a large number of empirical studies examining the link between CSR and organisational performance in the last 40 years. However, the results of prior studies are mixed and inconclusive (see, Margolis et al., 2009; Peloza, 2009; Margolis & Wash, 2003; Orlitzky et al., 2003). While some studies have found a positive relationship between CSR and organisations' financial performance (Waddock & Graves, 1997; Choi et al., 2010), others have found negative results (Brammer et al., 2006), and several other studies (e.g., Surroca et al., 2010; McWilliams & Siegel, 2000) have reported a non-significant or neutral relationship (see, Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). These conflicting empirical findings, which according to McWilliams and Siegel (2000, 2011) warrant further research in the field.

A review of the literature suggests that the conflicting findings of prior studies examining the relationship between CSR and performance may be due to the omission of important mediating variables (McWilliams & Siegel, 2000; Surroca et al., 2010; Choi et al., 2010; Galbreath & Shum, 2012). In their recent study, Surroca et al. (2010) did not find a direct relationship between CSR and financial performance, rather the link was mediated by intangible resources. It follows that valuable intangible resources can be a source of sustained competitive advantage (Barney, 1991). Some other studies have also examined the role of mediating variables, such as customer satisfaction, employee motivation, reputation and goodwill, on the association between CSR and financial performance (see, Aguinis & Glavas, 2012; Surroca et al., 2010; Galbreath & Shum, 2012). Although these studies provide insights into the important role of mediating variables that influence the relationship between CSR and performance, little is known about the underlying mechanisms through which CSR has an impact on organisational performance (Aguinis & Glavas, 2012; McWilliams & Siegel, 2011).

Management control systems (MCS) can play an important role in the association between CSR and organisational performance. This is because MCS are essential tools to integrate social, environmental and economic dimensions of CSR into organisations' strategy, which, in turn, can help organisations create value (Arjalies & Mundy, 2013; Gond et al., 2012; Crutzen & Herzig, 2013). Gond et al. (2012) argue that the strategy making function of MCS can help integrate CSR into the organisations' core business strategies as well as shape the implementation of such strategies. While implementing CSR strategies involves cost, the use of MCS help organisations translate CSR strategies into improved performance by tracking costs and minimising the risks involved (Henri & Journeault, 2010). As a result, CSR can have a performance effect through various channels, such as by reducing cost, minimising risk and enhancing operating efficiency and increasing sales (Dhaliwal et al., 2012). Therefore, the use of an appropriate MCS is considered essential for organisations to identify risk and opportunities related to CSR, facilitate decision making, and guide employees to achieve CSR objectives (Epstein & Roy, 2001; Arjalies & Mundy, 2013; Henri & Journeault, 2010; Gond et al., 2012). Without adequate and appropriate MCS, organisations may not be able to reap the benefit associated with CSR – the use of MCS provides managers with useful information to develop or alter CSR strategy, set CSR related targets and compare these against performance (Epstein & Roy, 2003).

While prior research has extensively examined the relationship between MCS and strategy (see, Langfield-Smith, 1997; Tucker et al., 2009), little is known about the role of MCS on CSR strategy in the empirical context (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013). This study aims to address this empirical gap by examining the mediating effect of MCS on the association between CSR and organisational performance, building on Simons' (1995, 2000) levers of control (LOC) framework (in particular the use of interactive and diagnostic controls), as the use of these controls has implications for organisational performance (Arjalies & Mundy, 2013; Su et al., 2015).

Further, most studies investigating the relationship between CSR and performance are focused on developed countries (Galbreath & Shum, 2012; Saeidi et al., 2015). The purpose and practice of CSR in developing countries may differ from those in developed countries in terms of socioeconomic and political circumstances, cultural context, regulatory environment and stakeholder demands (Matten & Moon, 2008; Visser, 2008; McWilliams et al., 2006; Maignan & Ralston, 2002). For example, the priority of CSR in developing countries may include poverty alleviation, health care, education, infrastructure development, electricity and drinking water, whereas CSR in developed countries is more likely to focus on issues such as fair trade, the green economy and climate change issues (Visser, 2008; Lockett et al., 2006). McWilliams et al. (2006) recommend further research in different country and cultural contexts to advance the knowledge base of CSR. Therefore, the research objective of this study is to examine the association between CSR and organisational performance, and the mediating role of MCS on CSR – performance relationship drawing on the resource-based view (RBV) theory (Barney, 1991) and Simons' (1995, 2000) LOC framework in the context of a developing country, Nepal.

The rationale behind selecting Nepal as a research context is its social, environmental and economic characteristics. First, Nepal is classified as a low human development country, and is ranked 145th on the global Human Development Index (HDI[22]) with a score of 0.548 (UNDP, 2015). Poverty is widespread in Nepal and nearly a quarter of the population is still living under US$1 per day (The World Bank, 2016). Second, environmental issues, such as climate change has become a topic of discussion in Nepal as it is expected to have a significant effect on natural resources, biodiversity, environment and human health (Karki & Gurung, 2012). Owing to its fragile geographical structure, sharp altitudinal variation (100m in Terai to 8800m in the Himalayas), degrading environment, and active tectonic process, Nepal is particularly vulnerable to natural disasters and climate change (The World Bank, 2016; Karki & Gurung, 2012). Moreover, it is predicted that there will be a continuous rise in temperature in Nepal in the coming years, which may have great impact on avalanches, the shrinking of glaciers, and glacial lake outburst floods (Karki & Gurung, 2012). Third, while Nepal occupies a strategic spot between two large developing and emerging economies – India and China – the country is still suffering from ongoing political instability as a result of the decade-long Maoist civil war, a lack of appropriate infrastructure and a poor transportation network (*The Economist*, 2014; The World Bank, 2016). If these conditions improve, Nepal could be an attractive destination for foreign investors (*The Economist*, 2014; The World Bank, 2016). Although the term CSR is seen as a new and Western concept, the

[22] "HDI is a composite index focusing on three basic dimensions of human development: to lead a long and healthy life, measured by life expectancy at birth; the ability to acquire knowledge, measured by mean years of schooling and expected years of schooling; and the ability to achieve a decent standard of living, measured by gross national income per capita" (UNDP, 2015, p. 3).

social responsibility of business is not a new phenomenon in Nepal. For over 100 years, Nepalese businesses have been contributing to society by donating their resources to community welfare activities (Adhikari, 2012). Therefore, the long-standing history of corporate philanthropy in Nepal and its social, environmental and economic characteristics provide an interesting and important research setting to examine the association between CSR, MCS and organisational performance.

This study contributes to the CSR and MCS literature by providing empirical evidence from an under-researched developing country context. More specifically, the findings suggest that CSR can enhance organisational performance if social, environmental and economic dimensions of CSR are integrated into organisations' core business strategy. The empirical evidence confirms the positive association between CSR and organisational performance, which can help reduce the existing tension between shareholder and stakeholder perspectives of CSR. This study also contributes to the limited MCS literature and addresses the call for research on the role of MCS in CSR research (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013; Gond et al., 2012) by providing a new and fresh perspective on the mediating role of MCS in the association between CSR and organisational performance. Further, even if the use of interactive controls is seen as time consuming and costly (Simons, 1995; Widener, 2007), the findings of this study suggest that the use of such controls is an important means for enhancing the performance effect of CSR.

This paper is structured as follows. The next section reviews the relevant literature and develops the hypotheses. Research method is discussed in section 5.3, which is followed by the results in section 5.4. Finally, a discussion and conclusion are presented in section 5.5.

5.2 BACKGROUND LITERATURE, THEORETICAL FRAMEWORKS AND HYPOTHESES DEVELOPMENT

5.2.1 Corporate social responsibility

CSR is defined in various ways and described by several concepts in the literature, such as sustainable development, triple bottom line, business ethics, corporate sustainability, corporate citizenship, corporate social performance and corporate responsibility (WCED, 1987; Elkington, 1999; Carroll, 1979; 1999; Glavas & Mish, 2015; Huang & Watson, 2015; Arjalies & Mundy, 2013; Dhaliwal et al., 2012). According to Torugsa et al. (2013, p. 383), "CSR and sustainable development are two of many terms used to discuss the economic, social and environmental contributions and consequences of business practices". Bansal (2005) argues that the basic principle behind such concepts of sustainable development (or CSR) includes people, planet and profit or, in other words, social equity, environmental integrity and economic prosperity (WCED, 1987; Elkington, 1999; Glavas & Mish, 2015). The notion of triple bottom line is based on the principle that organisations should create value (economic benefit) while being socially responsible as well as environmentally sustainable (WCED, 1987; Elkington, 1999; Orlitzky et al., 2011). However, achieving these three goals simultaneously is often viewed as contradictory objectives (Bansal, 2005; Glavas & Mish, 2015; Schaltegger & Burritt, 2010; Margolis & Walsh, 2003; Milne, 1996; WCED, 1987).

Creating value is regarded as the primary goal of managers, which is based on agency theory and refers to maximising shareholder value (Friedman, 1970). Value creation is defined as the economic benefit, such as sales revenue, profits, cash flows, and growth that organisations expect to receive; it is the ultimate measure of strategic benefit from CSR (Burke & Logsdon, 1996; Malik, 2015). Value is created when the selling price of goods or services exceeds their costs and organisations can increase their value by increasing sales and profit and reducing risks (Malik, 2015; Bansal, 2005; McWilliams & Siegel, 2011). However, there is still considerable debate as to whether CSR helps increase shareholder value (Malik, 2015).

In contrast to the agency theory perspective, the stakeholder theory (Freeman, 1984) perspective suggests that organisations should not maximise their profit at the expense of the environment and society (Mackey et al., 2007). This is because "… an overemphasis on monetary measurement in relation to ecological impacts of an organisation can lead to an incomplete picture of opportunities and risks" (Schaltegger & Burritt, 2010, p. 376). Growing awareness of social and environmental issues has increased stakeholder demand for investment in responsible business practices and environmentally friendly product and processes, which has forced organisations to consider beyond the short-term and narrow dimensions of economic performance (Gadenne et al., 2012).

The basic tenet of stakeholder theory (Freeman, 1984), which is often applied in the CSR literature, rests on the principle of protecting the interests, rights and needs of non-shareholder stakeholders, such as customers, employees, investors, suppliers, regulators and the community who can affect, or are affected by, the achievement of organisational objectives (Freeman, 1984; Mackey et al., 2007; Gadenne et al., 2012). Meeting and satisfying stakeholders' needs will depend on the extent to which organisations recognise their social and environmental responsibility and demonstrate their commitment towards sustainability, accountability and transparency (Gadenne et al., 2012; Schaltegger & Burritt, 2010). By adopting and integrating practices, such as minimising ecological footprints, creating a formal social dialogue and recognising the interests of stakeholders in decision making, organisations can create value and ensure their long-term survival (Bansal, 2005; Torugsa et al., 2013; Carroll & Shabana, 2010). The tension between maximising shareholder value and addressing social and environmental issues simultaneously stresses the need for formulating and implementing CSR in a strategic way in order to link value creation with environmental and social initiatives so that organisations can balance the needs of both shareholders and other stakeholders (Margolis & Walsh, 2003; Epstein & Roy, 2001; Arjalies & Mundy, 2013; Porter & Kramer, 2006; Schaltegger & Burritt, 2010).

Strategic CSR is defined as "… any responsible activity that allows a firm to achieve sustainable competitive advantage, regardless of motive" (McWilliams & Siegel, 2011, p. 1481). CSR can be strategic when organisations integrate social and environmental dimensions voluntarily into their business strategies and operations (Branco & Rodrigues, 2006; Porter & Kramer, 2006; Arjalies & Mundy, 2013) and when CSR yields substantial benefit to organisations by supporting core business activities to achieve set objectives (Burke & Logsdon, 1996). Strategic CSR is especially designed to create value and meet the interests of organisations' shareholders as well as their diverse stakeholders (Carroll & Shabana, 2010; Mackey et al., 2007; McWilliams & Siegel, 2001). From this perspective, it can be argued that any activities that organisations integrate voluntarily into their strategies and operations (such as environmental protection, health and safety, environmental training for employees, human resource management, and interaction with stakeholders, for instance to improve relationships with customers, employees and the community), and the extent to which these activities are intended to create value, can be considered strategic CSR (Branco & Rodrigues, 2006; Porter & Kramer, 2006; Burke & Logsdon, 1996; Arjalies & Mundy, 2013; McWilliams & Siegel, 2011). A review of the literature suggests that CSR contributes to the bottom line and helps improve relationships with the stakeholders if CSR is used in a strategic way (Arjalies & Mundy, 2013; Porter & Kramer, 2006; Burke & Logsdon, 1996; Jones, 1995; Hillman & Keim, 2001).

5.2.2 Resource-based view

This study draws on RBV (Barney, 1991), considering its relevance in CSR studies. Prior studies suggest that RBV can be used to analyse how CSR can influence organisational performance (McWilliams et al., 2006; Russo & Fouts, 1997) for two main reasons. First, RBV strongly focuses on organisational performance as the key variable and, second it recognises the importance of intangibles, such as "… know-how, corporate culture and reputation" (Russo & Fouts, 1997, p. 535). The RBV helps explore the internal resources that can assist organisations in achieving sustainable competitive advantage (Glavas & Mish, 2015).

RBV assumes that "… firm resources may be heterogenous and immobile" (Barney, 1991, p. 105). In order to attain sustained competitive advantage organisations must acquire and manage the resources that are valuable, rare, difficult to imitate and non-substitutable (Barney, 1991). Organisational resources can include tangible assets, such as physical and financial assets, as well as intangible assets, such as reputation, culture and intellectual capital that can be used to implement value-creating strategies (Branco & Rodrigues, 2006; Bansal, 2005; Henri, 2006). Prior studies suggest that CSR can help organisations build strategic resources (Branco & Rodrigues, 2006; Russo & Fouts, 1997; McWilliams & Siegel, 2001). One way to do so is by demonstrating organisations' commitment to social, environmental and economic dimensions of CSR, and responsible management practices with their broad range of stakeholders (Bansal, 2005; WCED, 1987; Orlitzky et al., 2011).

Second, strategic adoption of CSR can help organisations in developing and acquiring some of the valuable resources that can help enhance their reputation and improve the relationship with their stakeholders (Hillman & Keim, 2001; Jones, 1995; Branco & Rodrigues, 2006; Russo & Fouts, 1997; McWilliams & Siegel, 2001), such as customers, investors, employees, suppliers, communities, media and the government. Enhanced reputation can be considered a strategic resource as it can attract a premium price, consumer loyalty and an improved relationship with diverse stakeholders, which can help acquire stakeholders' support and goodwill, avoid fines and penalties, and develop valuable intangible assets that can be a source of sustainable competitive advantage (Hillman & Keim, 2001; Russo & Fouts, 1997; McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006).

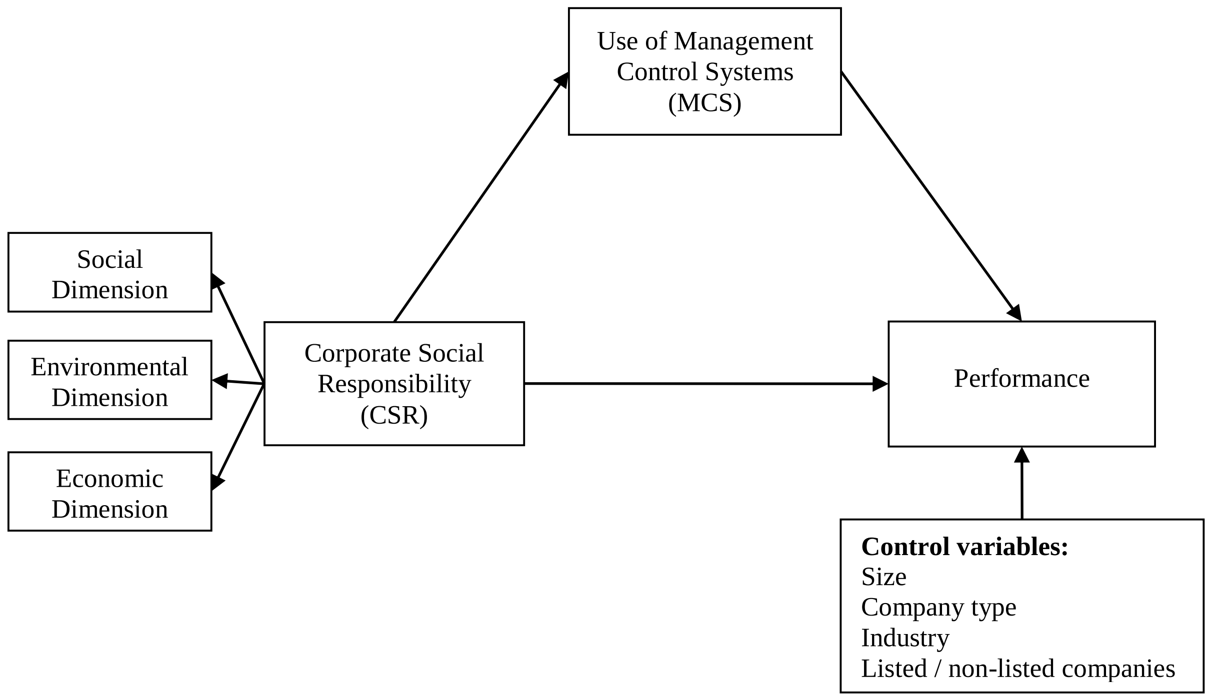
RBV theory offers important insights into how strategic adoption of CSR can influence organisations' performance as an outcome of CSR related resources and capabilities, such as continuous innovation, organisational learning and culture, reputation, lower employee turnover, cost saving and stakeholder integration (Russo & Fouts, 1997; Aragon-Correa & Sharma, 2003; McWilliams & Siegel, 2011). Previous studies have identified CSR as valuable, rare, difficult to imitate and non-substitutable resources, through which organisations can achieve sustainable competitive advantage (McWilliams & Siegel, 2001; 2011; Russo & Fouts, 1997). As a result, several researchers have applied the theoretical framework of RBV in their CSR studies conceptually and empirically (see, Hart, 1995; Russo & Fouts, 1997; Surroca et al., 2010; Branco & Rodrigues, 2006; McWilliams & Siegel, 2001; 2011; Torugsa et al., 2013).

5.2.3 Management control systems

MCS are defined as "… the formal, information-based routines and procedures managers use to maintain or alter patterns in organizational activities" (Simons, 1995, p. 5). MCS provide information to managers for planning, monitoring and reporting purposes and also help managers in decision making (Henri, 2006). Although various theoretical frameworks or typologies of MCS have been mentioned in the literature, this study adopts Simons' (1995; 2000) LOC framework. The LOC framework is a useful analytical tool used by senior managers as positive and negative forces to manage the organisational tension between encouraging innovation and learning, and exerting control for predictable goal achievement (Simons, 1995; Henri, 2006).

Although Simons' (1995; 2000) LOC contains four levers of controls (i.e., beliefs, boundary, diagnostic and interactive control systems), this study focuses on the use of diagnostic and interactive controls for two reasons. First, while beliefs and boundary systems are used to frame the strategic domain, the use of diagnostic controls helps organisations in achieving intended strategies, and the use of interactive controls provides input into the formation of strategy and helps organisations adapt to change in the competitive environment (Bisbe & Otley, 2004; Gond et al., 2012). Second, diagnostic and interactive controls are chosen because prior studies suggest that use of these two controls have implications for organisational performance (Su et al., 2015; Bisbe & Otley, 2004). A review of the literature suggests that MCS can be used diagnostically or interactively with strategies, which in turn can influence organisational performance (Su et al., 2015; Henri, 2006; Simons, 1995; Abernethy & Brownell, 1999). The use of interactive and diagnostic controls in this study is in line with prior MCS studies that have focused on the use of interactive and diagnostic controls (see, Abernethy & Brownell, 1999; Henri, 2006; Bisbe & Otley, 2004; Su et al., 2015). Therefore, this study examines the mediating effect of the interactive and diagnostic use of MCS on the association between CSR and organisational performance. The model of this study is presented in Figure 5.1.

Figure 5.1 Model of the study



5.2.4 Association between CSR and organisational performance

The association between CSR and organisational performance is seen as the most controversial research topic in the CSR literature (Malik, 2015; Crane et al., 2008; Margolis et al., 2009; Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). A large number of prior studies have examined the relationship between CSR and organisations' financial performance in the last 40 years, however, the results are mixed (Margolis et al., 2009; Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). Integrating 30 years of empirical research, Orlitzky et al. (2003) conducted a meta-analysis of 52 quantitative studies, finding an overall positive association between CSR and financial performance. Similar results were found in Peloza's (2009) review of 128 studies that examined the relationship between CSR and financial performance, which identified a 59% positive relationship, 27% mixed relationship and 14% negative relationship. In a more recent and comprehensive study, Margolis et al. (2009) conducted a meta-analysis of 251 studies examining the CSR and financial performance relationship in the last 40 years, finding that 59% reported a non-significant relationship, 28% found a positive relationship, and 2% revealed a negative relationship. While a positive association between CSR and financial performance seems a dominant theme in the literature (Margolis et al., 2009; Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003), the link between CSR and performance is not yet clearly established, which requires further research in the field (McWilliams & Siegel, 2000; Choi et al., 2010; Huang & Watson, 2015).

Galbreath and Shum (2012) argue that the performance effect of CSR is indirect rather than direct. For example, CSR can help build strategic resources through which organisations can achieve product differentiation, enhance their reputation and improve relationships with their important stakeholders, such as customers and employees (Hillman & Keim, 2001; Jones, 1995; Branco & Rodrigues, 2006; Russo & Fouts, 1997; McWilliams & Siegel, 2001, 2011).

Prior research suggests that customer satisfaction and employee motivation are drivers of future financial performance (Ittner & Larcker, 2001; Kaplan & Norton, 1992; Galbreath & Shum, 2012; Peloza, 2009; Luo & Bhattacharya, 2006). Customer satisfaction increases customer loyalty, reduces marketing cost through word of mouth advertising and improves brand image, which in turn enhance organisations' financial performance (Ittner & Larcker, 1998). Employees are seen as an integral part of organisations, and attracting and retaining skilled and talented employees can be a source of competitive advantage (Kaplan & Norton, 1996; Greening & Turban, 2000; Turban & Greening, 1997). This is because employees' knowledge, experience, creativity and capabilities are valuable and scarce intangible resources for organisations, which cannot be imitated by competitors (Branco & Rodrigues, 2006; Greening & Turban, 2000; Barney, 1991). Socially responsible practices, such as flexible working hours, safe and clean working environment, fair wages and training and development programs can enhance employee motivation and loyalty, which may in turn reduce staff absenteeism and turnover and increase productivity (Branco & Rodrigues, 2006). Motivated and satisfied employees can serve their customer better resulting in customer satisfaction, growth, retention and loyalty, which in turn potentially increases profitability through repeat sales (Branco & Rodrigues, 2006; Greening & Turban, 2000; Epstein & Roy, 2001).

Moreover, investment in CSR activities that includes local infrastructure development, building schools and donations to charities may appear unproductive in the short-term, but can have substantial effects on reputation, customer loyalty and community relations in the long run (Peloza, 2009). Compromising the environmental dimensions of CSR, such as safety, quality or pollution control may increase short-term profit, but such activities may invite the risk of future penalties, huge financial losses or lawsuits as well as damage to organisations' reputation (Benabou & Tirole, 2010; Peloza, 2009).

It follows that organisations committed to strategic CSR activities can receive long-term benefit in terms of increased brand image and goodwill, customer satisfaction, employee motivation and loyalty and differentiation, which can ultimately be translated to profitability (Arjalies & Mundy, 2013; Porter & Kramer, 2006; Greening & Turban, 2000; Turban &

Greening, 1997; Kaplan & Norton, 1996; Epstein & Roy, 2001; Torugsa et al., 2013; Gadenne et al., 2012). Further, strategic adoption of CSR can also help organisations acquire stakeholder support, avoid fines and penalties and develop valuable intangible assets (McWilliams & Siegel, 2001; 2011; Porter & Kramer, 2006; Russo & Fouts, 1997; Hillman & Keim, 2001). Based on the above arguments it can be concluded that the strategic adoption of CSR can have a positive effect on organisational performance. Accordingly, the following hypothesis is developed.

H1: CSR is positively associated with organisational performance.

5.2.5 The mediating role of MCS on association between CSR and performance

MCS can be used to translate CSR strategy into action, where use of MCS can help organisations identify emerging risk and opportunities associated with CSR, facilitate decision making, communication, learning and innovation, and guide employees to achieve CSR objectives (Arjalies & Mundy, 2013; Henri & Journeault, 2010; Gond et al., 2012). The role of MCS can be important in the association between CSR and organisational performance for a number of reasons. First, prior studies suggest that managers use MCS to manage CSR strategy, and the use of MCS also supports organisations' social and environmental initiatives (Arjalies & Mundy, 2013; Gond et al., 2012). Second, the use of MCS provides managers useful information in relation to developing or altering CSR strategy, setting CSR related targets and comparing targets against actual performance (Epstein & Roy, 2001; Epstein & Roy, 2003). Su et al. (2015, p. 42) argue that "… the way in which managers use controls influences organisational behaviour and decision-making, thereby influencing organisational performance". Therefore, it can be argued that without adequate and appropriate MCS, organisations may not be able to reap the desired benefit of CSR. The next section develops the hypotheses drawing on Simons' LOC framework (in particular, the use of interactive and diagnostic controls).

Use of interactive controls

Interactive control systems are described as forward looking and tend to have a more developmental role, which stimulates the search for new ways to strategically position organisations in a competitive market (Simons, 1995). A defining feature of the interactive use of controls is ongoing dialogue, communication and information sharing among top managers and between top management and lower levels of management (Widener, 2007; Abernethy & Brownell, 1999), which involves continual management attention and enables exchange of information in response to the threats, opportunities, strength and weaknesses associated with CSR (Arjalies & Mundy, 2013; Gond et al., 2012; Henri & Journeault, 2010).

According to Abernethy and Brownell (1999, p. 192), interactive use of controls "… provides a means of debating how to respond to changes in environmental and operating conditions". The use of interactive controls demands frequent attention by senior managers to focus on strategic uncertainties that can threaten the underlying assumptions of organisations' strategy, and to stimulate creativity and innovation (Bisbe & Otley, 2004; Simons, 1995). By the frequent attention of management on strategic uncertainties, interactive control systems provide a lever to identify the challenges to the strategic agenda and modify the existing strategy as the competitive market changes (Henri, 2006; Bisbe & Otley, 2004).

Henri (2006) labels the interactive use of MCS as a positive force that promotes opportunity-seeking behaviour and learning throughout the organisation. The use of interactive controls contributes to fostering the development of innovation, which may eventually enhance performance (Simons, 1995). Prior empirical studies suggest that the use of interactive controls are effective when organisations face various types of risk and uncertainty in terms of market, competition, technology and environment (Bisbe & Otley, 2004; Simons, 1995; Widener, 2007). In particular, in a study of 63 hospitals, Abernethy and Brownell (1999) find that the interactive use of budgets helps enhance the performance of hospitals facing strategic change.

In the context of CSR strategy, Arjalies and Mundy (2013) suggest that the interactive use of controls supports CSR strategy by incorporating the views of a wide range of stakeholders, such as investors, suppliers, community and NGOs in their decision making. By incorporating the views of external stakeholders on their current CSR practices, managers can modify their strategies, which may be different from the strategies proposed by internal stakeholder groups (Arjalies & Mundy, 2013; Gond et al., 2012). Kerr et al. (2015) in this context suggest that organisations use interactive control systems as intelligence systems to build relationships with their stakeholders.

The prior literature suggests that the use of interactive controls with strategies can help enhance organisational performance (Su et al., 2015; Henri, 2006; Simons, 1995; Abernethy & Brownell, 1999). It follows that the use of interactive controls with CSR strategy will help organisations achieve the same results or enhance organisational performance. Arjalies and Mundy (2013) suggest that the use of interactive controls is critical, especially when organisations have conflicting goals, such as achieving social, environmental and economic goals simultaneously (Bansal, 2005; Margolis & Walsh, 2003; Minle, 1996; Glavas & Mish, 2015). Based on the above discussion, we predict that the use of interactive control systems positively mediates the association between CSR and organisational performance.

Accordingly, the following hypothesis is developed.

H2: Interactive use of MCS positively mediates the relationship between CSR and organisations' performance.

Use of diagnostic controls

Diagnostic control systems are used by senior managers to monitor and compare actual performance against pre-established standards or targets (Simon, 1995; Abernethy & Brownell, 1999). The use of diagnostic controls is important in terms of successful execution of CSR objectives (Arjalies & Mundy, 2013). This is because it is difficult to measure the outcomes of CSR, which may be overlooked with actual business measures (Arjalies & Mundy, 2013; Gond et al., 2012). If CSR is not used in a strategic way, it may be a waste of resources or in some cases counterproductive (McWilliams & Siegel, 2001, 2011). Organisations can use diagnostic controls to identify whether outcomes are consistent with plans and detect deviations from plans (Abernethy & Brownell, 1999) in terms of implementing CSR strategies.

Top managers use diagnostic controls to link organisational strategies with critical performance variables and ensure coordination of resources and action plans (Simons, 1995). Diagnostic controls are tools of strategy implementation that require less management attention and top managers only become involved if there is a significant deviation between expected and actual results (Simons, 1995; Su et al., 2015). Kerr et al. (2015) report that the balanced scorecard (BSC) and triple bottom line reports can be used diagnostically, while Arjalies and Mundy (2013) suggest that performance measures can be used to monitor compliance with regulations and external standards, facilitate environmental decision making and address social and environmental issues. It follows that the use of diagnostic controls is important in terms of CSR strategy implementation.

By focusing on critical performance variables, top managers use diagnostic controls to align employees' behaviour to accomplish organisational goals, while at the same time, they also act as constraints on employees' behaviour (Henri, 2006; Simons, 1995). Henri (2006) labels diagnostic controls as a negative force because they focus on mistakes and negative variances against goals. Henri (2006) further suggests that the use of diagnostic controls limits the role of performance measurement to a measurement tool. So, the use of diagnostic controls is described as a constraining force to innovation and opportunity-seeking behaviours (Simons, 1995).

Further, diagnostic controls are used to monitor and reward achievement of specified goals by comparing performance against targets (Simons, 1995; Gond et al., 2012). The progress of CSR can be evaluated against short-term as well as long-term targets, which include financial as well as non-financial measures (Arjalies & Mundy, 2013). However, the incentives related to the use of diagnostic controls create a risk of dysfunctional behaviour from employees as they might respond inappropriately to achieve the desired outcomes (Simons, 1995). It seems relevant in terms of CSR strategy because measuring the immediate results of CSR is difficult (Arjalies & Mundy, 2013; Gond et al., 2012). For instance, managers can increase short-term profit by compromising on safety, quality and pollution control, which can have negative consequences in the future (Benabou & Tirole, 2010; Peloza, 2009). From this perspective it can be argued that although the use of diagnostic controls is important in terms of CSR strategies, they are expected to be negatively associated with organisational performance. Based on the above discussion, this study proposes the following hypothesis:

H3: Diagnostic use of MCS negatively mediates the association between CSR and organisations' performance.

5.3 RESEARCH METHOD

5.3.1 Questionnaire development

A questionnaire was developed based on extant literature on CSR (Arjalies & Mundy, 2013; Bansal, 2005; Carroll, 1979; 1991; Crane et al., 2008; Galbreath & Shum, 2012; Henri & Journeault, 2010; Epstein & Roy, 2003; McWilliams & Siegel, 2001; McWilliams et al., 2006; Porter & Kramer, 2006; Torugsa et al., 2013), MCS (Simons, 1995; 2000; Widener, 2007; Henri, 2006; Bisbe & Otley, 2004; Abernethy & Brownell, 1999; Su et al., 2015) and organisational performance (Su et al., 2015; Henri, 2006; Kaplan & Norton, 1992; 1996). To establish the validity and reliability of the constructs, most of the variables studied were measured by instruments that have previously been developed, used and validated. In some cases, some minor wording was changed to accommodate the objective of this study. To ensure validity, the questionnaire was first pilot tested prior to forwarding it to the participating organisations. The feedback received from the pilot test was appropriately incorporated, measures were revised accordingly and the final version was developed and used for data collection.

The questionnaire has four sections. The first section of the questionnaire contains the measurement of descriptive data of the respondents and their companies, which includes gender, academic qualification, years of experience in the industry and in the current position, type of company (local or domestic/multinationals), industry type (manufacturing/service), listed/non-listed (publicly listed companies/non-listed large companies) information and number of employees. The second section asks respondents to indicate the extent to which CSR is practised by their organisations. The third section asks respondents to indicate the extent of use of MCS in their organisations while the fourth section contains the questions related to organisational performance.

5.3.2 Measurements of constructs

Items used in the survey questionnaire to measure the variables of interest in this study were adopted from the extant literature on CSR, sustainable development and sustainability studies, RBV, MCS and organisational performance. CSR was specified as a second-order construct, which was operationalised via three first-order variables that include social, environmental and economic dimensions and measured by using 25 items based on the extant literature (Arjalies & Mundy, 2013; Henri & Journeault, 2010; Bansal, 2005; Epstein & Roy, 2003; Porter & Kramer, 2006; Carroll, 1979; 1991; Crane et al., 2008; Elkington, 1999; Galbreath & Shum, 2012; McWilliams & Siegel, 2001; McWilliams et al., 2006; Torugsa et al., 2013). Of 25 items, eight represent social dimensions, 10 represent environmental dimensions and seven represent economic dimensions of CSR. Respondents were asked to indicate on a five-point Likert type scale the extent to which each of 25 statements are practised in their organisations ranging from 1 ‘not at all’ to 5 ‘to a great extent’.

In order to measure the use of diagnostic and interactive control systems respondents were asked to indicate their level of agreement using a five-point Likert type scale ranging from 1 ‘strongly disagree’ to 5 ‘strongly agree’ on each of eight items. Use of diagnostic and interactive control systems included four items each, all of which were taken from the prior literature (Simons, 1995; 2000; Widener, 2007; Henri, 2006; Su et al., 2015; Bisbe & Otley, 2004). Finally, organisational performance was operationalised and measured with a subjective instrument using six items that included three financial measures (i.e., profit, sales volume, and return on investment) taken from Henri (2006) and three other items including non-financial measures (i.e., product/service quality, customer retention rate, and employee turnover rate) taken from Su et al. (2015). These six items capture financial, customer, internal business process and employee perspectives of organisational performance (Kaplan & Norton, 1996) compared to others in the same industry. Appendix 5.1 contains the list of all survey items.

There are four control variables proposed in this study, which are size, type of company, industry and listed/non-listed companies. Control variables are measured by using single indicators. For example, organisational size was measured by number of employees employed by the organisation. Type of organisation was measured by asking the respondents whether their company was local/domestic in nature or a multinational company, industry type was measured by whether the company belongs to the manufacturing or service industry, and listed/non-listed companies (publicly listed or non-listed companies) was measured by whether the company was listed on the Nepal Stock Exchange or a non-listed company at the time of data collection.

5.3.3 Data collection, sample and response rate

The survey was administered using Dillman's (2000) Tailored Design Method. Online and postal surveys were used to collect data from top management level (i.e., Chief Executive Officers (CEOs) or General Managers (GMs), or other senior managers) of 232 companies[23] listed on the Nepal Stock Exchange, as well as 70 non-listed large and medium companies,[24] which include multinationals and privately owned companies. Non-listed large companies were included in this study in order to increase the sample size. A total of 302 potential participating organisations were identified for the final sample. The top level managers were selected as respondents because they were expected to have holistic knowledge about their organisation's CSR practices, MCS and performance. In total, 302 surveys were sent to the CEOs, GMs or senior managers of the selected companies. A cover letter describing the purpose of the study and ensuring confidentiality of responses was accompanied by the survey questionnaire as consistent with *Human Research Ethics Sub-Committee* guidelines. The data collection period ranged from January to April 2015. After the reminders and follow-up calls (emails and telephone), 120 usable responses were received yielding a 39.73% response rate (see, Table 5.1), which was deemed suitable for hypothesis testing.

Table 5.1 Response rate

Type of company surveyed	Sample	Response	Per cent
Listed company	232	79	34.05
Non-listed large company	70	41	58.57
Total	302	120	39.74

[23] According to Nepal Stock Exchange (2014), there are 232 listed companies, which include 29 commercial banks, 93 development banks, 54 finance companies, 22 insurance companies, 18 manufacturing companies, four trading companies, four hotels, six hydropower companies, one telecom and one film development company.

[24] 70 non-listed large and medium companies include privately owned companies and multinationals operating in Nepal, and expected to have more than 50 employees, but not listed on the Nepal Stock Exchange at the time of data collection. These companies were identified in Nepal through the websites of the Federation of Nepalese Chamber of Commerce and Industry (FNCCI), company associations, the government of Nepal and an Internet search.

5.3.4 Non-response bias

Potential non-response bias was assessed by comparing early respondents to late respondents for all variables studied. The results are shown in Table 5.2. A comparison of means on all the measured variables was undertaken and the *t*-tests revealed no statistically significant differences at the 5% level. Non-response bias was also assessed by comparing online respondents to postal respondents. With the exception of diagnostic control systems and organisational performance, there was no significant difference between online and postal respondents. Online respondents had significantly higher diagnostic control systems (mean 3.99 vs 3.71) and lower organisational performance (mean 3.71 vs 3.97) than did postal respondents ($p < 0.05$). The results indicate that non-response bias was unlikely to be a problem (see, Table 5.2).

Table 5.2 Non-response bias

Construct	Early (n = 49)	Late (n = 71)	Online (n = 62)	Postal (n = 58)
Social	3.73	3.66	3.79	3.58
Environmental	3.02	3.12	3.06	3.11
Economic	3.04	3.02	2.93	3.13
Interactive	3.87	3.74	3.88	3.70
Diagnostic	3.89	3.83	3.99**	3.71**
Performance	3.86	3.83	3.97**	3.71**

** Means are significantly different at p value <0.05 (2 - tailed)

5.3.5 Common method bias

Common method bias was assessed by using Harman's single-factor test, which is one of the most widely used statistical techniques to address the issue of common method variance (Podsakoff et al., 2003). All the survey questions (to form the constructs) were used to run the test and the first factor explained 30.25% of total variance. The results show that common method bias is not a critical issue for this study (Podsakoff & Organ, 1986).

5.3.6 Issue of endogeneity

Endogeneity is regarded as a relevant issue in CSR studies (Garcia-Castro et al., 2010), which can undermine causal inference (Larcker & Rusticus, 2010). However, few studies have tried to deal with the issue of endogeneity in CSR research (Garcia-Castro et al., 2010). Although this study controls for several important factors that influence organisational performance, there is the possibility that organisational performance is likely to be correlated with other unobserved organisational level (omitted) variables, such as research and development, CEO's personal values, business strategy, quality of top management or any other variables (Garcia-Castro et al., 2010; Surroca et al., 2010; McWilliams & Siegel, 2000). Apart from the issue of omitted variables, the proposed direction of causality in this study is whether adoption of CSR enhances organisations' performance or organisations with better performance adopt CSR practices (Hillman & Keim, 2001; Waddock & Graves, 1997; Peloza, 2009; Surroca et al., 2010). This reverse causality is regarded as a classic endogeneity problem in the CSR literature (Huang & Watson, 2015). These biases can have important consequences in terms of the CSR and performance relationship (Garcia-Castro et al., 2010). Therefore, there may be potential for endogeneity bias in this study.

In order to mitigate the issue of reverse causality and potential omitted variable bias (or potential endogeneity bias), an instrumental variable method (Larcker & Rusticus, 2010) was employed. A valid instrumental variable is one that should be correlated with the explanatory variable but uncorrelated with the error term (Baum, 2006; Larcker & Rusticus, 2010). This implies that the instrumental variable cannot have a direct effect on organisations' performance. Rather its effect on organisations' performance would be only through CSR, interactive and diagnostic control systems. Based on previous studies and data availability, an instrument variable called regulation (standard and/or legal origin) has been identified that includes three items: (i) comply with the law, regulation and standards; (ii) use of ISO certifications on quality/environmental aspects (e.g., ISO 14000); and (iii) external (or website) reporting.

Prior studies suggest that adoption of CSR is not only motivated by enhancing organisational performance, but also largely influenced by institutional factors, such as rules, norms, laws and standards (Bansal, 2005; Arjalies & Mundy, 2013; Schaltegger & Burritt, 2010). Failure to comply with institutionalised norms and standards may threaten organisations' legitimacy and survival (Bansal, 2005; Matten & Moon, 2008). Therefore, the regulation variable is believed to be a relevant instrument for this study (Garcia-Castro et al., 2010; Larcker & Rusticus, 2010).

In order to determine the appropriateness of the selected instrument, this study uses the over-identification test (Sargan's test) and the weak identification test (*F* Statistic) before performing Hausman's test (Baum, 2006; Larcker & Rusticus, 2010). The results of the tests reveal that Sargan's test (0.474, p value = 0.491), Shea's Partial R^2 (0.729), and the F statistic (145.74) from the first stage regression is significant at the 1% level (p value = 0.000). Based on the results the instrument is appropriate to perform Hausman's test (see, Hausman, 1978). The small value of Hausman's test (.437) is not significant at the 5% level (p value = 0.510) and, therefore, it can be concluded that endogeneity is not a problem for this sample (Baum, 2006; Larcker & Rusticus, 2010).

5.3.7 Descriptive statistics

A demographic analysis of respondents revealed that the majority of respondents (90%, n = 108) were male, while female respondents were only 10% (n = 12). On average 95% of respondents had either undergraduate or postgraduate degrees while 5% had other types of qualifications. Most of the companies responding to the survey were listed companies (65.8%) and from the service sector (83.3%), which is consistent with prior studies (Upadhaya et al., 2014). A majority of the companies had fewer than 200 employees (59.20%) and only 7% of companies had more than 1,000 employees. Table 5.3 presents the descriptive statistics of the main constructs of this study, which include minimum and maximum values, mean scores and the standard deviation. The findings suggest that most of the respondents value the social dimension (3.76) of CSR more when compared to environmental and economic dimensions, whereas very important perspectives of CSR (i.e., environmental and economic dimensions) are found to be less significant, which was expected in the context of a developing country like Nepal.

Table 5.3 Descriptive statistics of variables studied (*n* = 120)

Variables	Minimum	Maximum	Mean	SD
Social	1.00	5.00	3.76	0.75
Environmental	1.00	5.00	3.08	0.96
Economic	1.00	5.00	3.06	0.91
Diagnostic	2.00	5.00	3.99	0.66
Interactive	2.00	5.00	3.88	0.69
Performance	1.00	5.00	3.96	0.72
Instrument	1.00	5.00	3.17	0.93

5.4 Results

This study employs a Partial Least Squares Structural Equation Modelling (PLS-SEM) approach (Lohmoller, 1989; Wold, 1982) to analyse the survey data obtained from 120 companies. A PLS-SEM approach was considered suitable for this study because it can deal with multiple predictors and criterion variables simultaneously and is not sensitive to small sample sizes (Chin, 1998a; Hair et al., 2014; Klarner et al., 2013). Moreover, PLS-SEM does not require a normal distributional assumption (Chin, 1998b) and is regarded as particularly useful in testing mediation relationships (Klarner et al., 2013), which is the case in this study. The SmartPLS3 Software (Ringle et al., 2015) was used to simultaneously estimate the measurement and structural model, described in the following section.

5.4.1 Evaluation of measurement model

Reliability and convergent validity

For all the constructs and their corresponding indicators the reflective measurement approach was selected as the preferred measurement model following MacKenzie et al. (2005). All constructs need to be assessed for their reliability (internal consistency reliability) and validity (convergent and discriminant validity) (Klarner et al., 2013). To assess the reliability and validity of the measurement scales, confirmatory factor analysis was performed following Henseler et al. (2009). Composite reliability (CR) was used to examine internal consistency reliability. Table 5.4 shows the CR values as all above 0.70, which can be regarded as satisfactory (Nunnally & Bernstein, 1994), Cronbach's (1951) alpha scores, except the instrumental variable (0.605), exceed the 0.70 threshold (Nunnally, 1978) and therefore confirm the construct reliability (see, Table 5.4).

To evaluate convergent validity (Chin, 1998a) the outer loadings of the reflective indicators and average variance extracted (AVE) were used. Table 5.4 shows that outer loadings of all items[25] are above 0.6. In addition, the AVE of each construct is higher than 0.50 (see Table 5.4), which demonstrates adequate convergent validity (Fornell & Larcker, 1981; Hair et al., 2014).

[25] Following Chin (1998a) and Hulland (1999), some items with weak outer loadings (< 0.6) were removed to establish the reliability of each construct.

Table 5.4 Reliability and convergent validity

Latent variables and indicators	Mean	SD	Loading
Social (SOC)			
(Cronbach's alpha: 0.841 CR: 0.884 AVE: 0.563)			
SOC1	3.88	.90	.666
SOC2	3.76	1.01	.860
SOC3	3.66	1.04	.851
SOC4	3.66	1.05	.776
SOC5	3.86	.87	.710
SOC6	3.46	1.37	.603
Environmental (ENV)			
(Cronbach's alpha: 0.928 CR: 0.943 AVE: 0.676)			
ENV1	3.51	1.08	.606
ENV2	2.69	1.28	.854
ENV3	2.78	1.17	.911
ENV4	2.92	1.27	.874
ENV5	3.12	1.16	.873
ENV6	3.10	1.22	.846
ENV7	2.89	1.18	.881
ENV8	3.22	1.04	.680
Economic (ECO)			
(Cronbach's alpha: 0.888 CR: 0.913 AVE: 0.603)			
ECO1	3.41	1.06	.786
ECO2	3.42	1.13	.821
ECO3	3.16	1.12	.847
ECO4	2.43	1.16	.694
ECO5	3.16	1.08	.742
ECO6	3.02	1.18	.848
ECO7	2.42	1.19	.678
Interactive (INT)			
(Cronbach's alpha: 0.755 CR: 0.843 AVE: 0.573)			
INT1	3.58	.78	.699
INT2	3.98	.79	.741
INT3	3.85	.75	.799
INT4	3.76	.78	.784
Diagnostic (DGN)			
(Cronbach's alpha: 0.829 CR: 0.886 AVE: 0.662)			
DGN1	3.90	.78	.754
DGN2	3.83	.75	.885
DGN3	3.88	.71	.838
DGN4	3.81	.76	.771
Performance (PRF)			
(Cronbach's alpha: 0.827 CR: 0.874 AVE: 0.538)			
PRF1	3.90	.92	.769
PRF2	3.89	.83	.739
PRF3	3.81	.86	.797
PRF4	3.78	.95	.711
PRF5	3.92	.91	.750
PRF6	3.75	.92	.626
Instrument (IV)			
(Cronbach's alpha: 0.605 CR: 0.786 AVE: 0.554)			
IV1	3.56	1.17	.652
IV2	3.07	1.13	.712
IV3	2.93	1.34	.854

SOC = Social; ENV = Environmental; ECO = Economic; INT = Interactive Control Systems; DGN = Diagnostic Control Systems; PRF = Performance; IV = Instrument Variable (n = 120)

Discriminant Validity

The discriminant validity of the measurement model was tested by using the Fornell-Larcker criterion approach, which is regarded as appropriate for evaluating the reflective constructs (Fornell & Larcker, 1981). The results (see, Table 5.5) show that the square roots of the AVEs (bold-faced in the diagonal) are all greater than their respective off-diagonal elements, which establish discriminant validity. Overall, the above analysis demonstrates that the construct measures are reliable and valid.

Table 5.5 Correlations between latent variables and square roots of AVE

	1	**2**	**3**	**4**	**5**	**6**	**7**
1. SOC	**0.750**						
2. ENV	0.614	**0.822**					
3. ECO	0.680	0.755	**0.776**				
4. INT	0.394	0.292	0.286	**0.757**			
5. DGN	0.355	0.346	0.241	0.503	**0.814**		
6. PRF	0.506	0.355	0.440	0.484	0.334	**0.734**	
7. IV	0.612	0.690	0.652	0.127	0.222	0.263	**0.744**

Note: Bold-faced elements on the diagonal represent the square root of each construct's AVE. The off-diagonal elements represent the correlations between latent variables. SOC = Social; ENV = Environmental; ECO = Economic; INT = Interactive Control Systems; DGN = Diagnostic Control Systems; PRF = Performance; IV = Instrument Variable

5.4.2 Assessment of the second-order constructs (Hierarchical Component Models)

The study applies hierarchical component models (Lohmoller, 1989) or higher (or second) order constructs, which include higher-order components and lower-order components. The hierarchical component models (HCM) represent multidimensional constructs and the use of HCM helps reduce the number of relationships in the structural model, ease the model complexity and make the PLS path model more parsimonious (Becker et al., 2012; Hair et al., 2014). Each of the second-order constructs is measured by reflective indicators and restricted to two layers. The R^2 values of all lower-order components are above 60%, which explains the variance of hierarchical constructs in its indicators (see, Table 5.6). All the path coefficients are significant ($p < 0.01$). The Cronbach's alpha, CR and AVE of CSR are 0.949, 0.954 and 0.480 respectively.

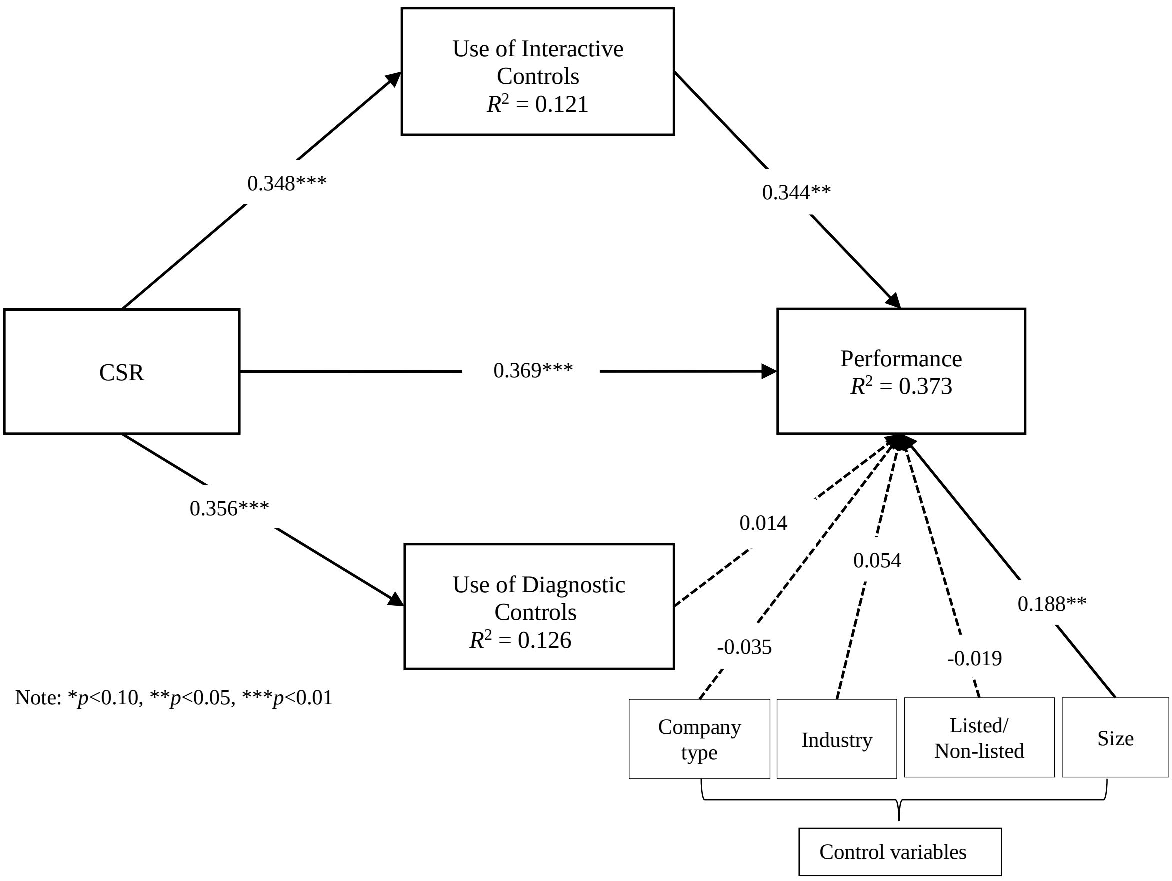
Table 5.6 Second-order construct and its association with first-order components

CSR Cronbach's Alpha:.949 CR:.954 AVE:.480		
Social	**Environmental**	**Economic**
R^2=.678	R^2=.843	R^2=.826
β=.824	β=.918	β=.909
p<0.01	p<0.01	p<0.01
t = 26.537	t = 53.923	t = 43.942

5.4.3 Evaluation of structural model

By using SmartPLS3 Software (Ringle et al., 2015), this study performed a PLS bootstrapping procedure method to test the proposed hypotheses and selected 120 bootstrap cases, 5,000 bootstrap samples, and no sign changes option to assess the statistical significance of each path coefficient (Chin, 1998b; Henseler et al., 2009). To estimate the significance of the path coefficients, this study uses both empirical *t* values[26] and *p* values. In addition to examining the significance of relationships, this study also examines the relevance of the significant relationship because the primary objective of PLS-SEM is not only to identify the significant path coefficients, but also significant and relevant effects in the structural model (Hair et al., 2014). This study uses both coefficient of determination (R^2 value) of all endogenous constructs for predictive accuracy (Chin, 1998b), and Q^2 value (Geisser, 1974; Stone, 1974) for predictive relevance jointly to evaluate the structural model. Stone-Geisser's Q^2 value is obtained by running the blindfolding procedure with an omitting distance of seven (Chin, 1998b; Henseler et al., 2009). The R^2 and Q^2 values of endogenous constructs are provided in Tables 7 and 8 respectively. Finally, R^2, Q^2, effect size (f^2) and q^2 effect size are used to evaluate the full structural model (see, Table 5.8 and Figure 5.2).

Figure 5.2 Full structural model with both mediating variables



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[26] According to Hair et al. (2014, p. 171), "Commonly used critical values for two-tailed tests are 1.65 (significance level = 10%), 1.96 (significance level = 5%), and 2.57 (significance level = 1%)".

A step-by-step analysis of the structural model has been completed to provide a detailed picture of the results and examine the relationship between the constructs, in particular, whether CSR is positively associated with the organisations' performance (H1) and whether the association (relationship) between CSR and performance is mediated by the interactive (H2) and diagnostic control systems (H3). First, the direct association between CSR and organisational performance (H1) was examined. Second, the interactive and diagnostic control systems as the mediating variables were introduced to test hypotheses 2 and 3. Finally, the full PLS path model was assessed. All four control variables (i.e., size, industry, company type and listed/non-listed companies) are included in the research model assessments. The results are provided in Tables 5.7 and 5.8 and Figure 5.2.

Table 5.7 shows the results of the structural model estimation (H1) and evaluation of relationships between CSR and performance without the presence of interactive and diagnostic control systems as the mediating variables. The direct effect of CSR on performance (H1) is tested, where mediating variables are absent, based on the significance of path coefficients by using SmartPLS3. The results (see, Table 5.7) show that CSR is positively associated with organisational performance (coefficient: 0.510; $t = 7.011$, $p < 0.01$). Therefore, H1, which predicts that CSR is positively associated with organisational performance, is empirically supported.

After testing the direct effect of CSR on performance, the interactive and diagnostic control systems as the mediating variables are introduced and hypotheses 2 and 3 are tested (see, Figure 5.2). Although this study did not propose any hypotheses for the direct effect of CSR on interactive and diagnostic control systems and the association between these variables and organisational performance in this study, the results in Table 5.8 suggest that CSR is positively associated with interactive control systems (coefficient: 0.348, $t = 3.674$, $p < 0.01$), which also has a significant effect on performance (coefficient: 0.344, $t = 3.305$, $p < 0.01$). However, diagnostic control systems do not have a significant effect on performance (coefficient: 0.014, $t = 0.108$, $p > 0.1$), although CSR is positively associated with diagnostic control systems (coefficient: 0.356, $t = 3.674$, $p < 0.01$). At the same time, the effect of CSR on performance (coefficient: 0.369; $t = 3.081$, $p < 0.01$) decreases significantly from a significant value of 0.510 (without mediator) to a smaller but still significant value of 0.369 (with both mediators) with a difference of 0.141. Therefore, the use of interactive controls partially mediates the association between CSR and performance (Baron & Kenny, 1986), which provides empirical evidence to support H2. However, the use of diagnostic controls does not have a significant effect on performance, therefore H3 is not supported.

To further assess the significance of indirect effects of the mediating variable (interactive control systems), Sobel (1982) test is performed. The results of the Sobel test (2.45, $p < 0.05$, two tailed) suggest that the mediating effects of interactive control systems on the association between CSR and performance is significant. Therefore, H2 is empirically supported. Although four control variables (i.e., size, industry, company type and listed/non-listed companies) were included in this study, only size has a significant effect on performance (see, Table 5.8 and Figure 5.2).

Finally, the full structural model is evaluated and the detailed results are presented in Table 5.8 and Figure 5.2. The value of the coefficient of determination (R^2) explains 37.3% of the variance of performance, which can be regarded as satisfactory predictive validity (Hair et al., 2014). In addition, this study calculates Q^2 values (Geisser, 1974; Stone, 1974) by a blindfolding approach (with an omitting distance of seven) to assess predictive relevance (Henseler et al., 2009; Wold, 1982). Table 5.8 shows that the Q^2 values are well above the required threshold of zero, which demonstrate sufficient predictive relevance (Chin, 1998b; Henseler et al., 2009). Finally, the effect size (f^2) and q^2 effect size for each direct path in the structural model are also calculated and results are reported in Table 5.8.

Table 5.7 Structural model assessment (PLS Path Model without mediators)

Endogenous constructs	R^2		Q^2
Performance	0.276		0.118

Relation	**Path coefficient**	***t* values**	***p* values**
CSR→Performance	0.510	7.011	0.000
Company type →Performance	-0.029	0.303	0.762
Industry →Performance	0.078	0.770	0.441
Size →Performance	0.204	2.348	0.019
Listed / Non-listed→Performance	-0.044	0.417	0.677

Table 5.8 Full structural model assessment (PLS Path Model with both mediators)

Endogenous constructs	R^2	Q^2
Performance	0.373	0.171
Interactive control systems	0.121	0.057
Diagnostic control systems	0.126	0.077

Relation	Path coefficient	*t* values	*p* values	f^2	q^2
CSR→ Performance	0.369	3.081	0.002	0.158	0.059
CSR→ Interactive control system	0.348	3.674	0.000		
Interactive control system → Performance	0.344	3.305	0.010	0.120	0.049
CSR → Diagnostic control systems	0.356	3.674	0.000		
Diagnostic control systems → Performance	0.014	0.108	0.914	0.000	0.000
Company type → Performance	-0.035	0.410	0.682		
Industry → Performance	0.054	0.490	0.624		
Size → Performance	0.188	2.195	0.028		
Listed / non-listed → Performance	-0.019	0.189	0.850		

5.5 DISCUSSION AND CONCLUSION

The first aim of this study was to examine the association between CSR and organisational performance drawing on the theoretical framework of RBV (Barney, 1991). Although a large number of studies have examined this association, the results are mixed (either positive, non-significant or negative) and conflicting (Margolis et al., 2009; Margolis & Walsh, 2003; Olitzky et al., 2003). Further, most prior studies are undertaken in the developed country context (Galbreath & Shum, 2012; Saeidi et al., 2015) and little is known about the association between CSR and organisational performance in the context of developing countries (Saeidi et al., 2015). Therefore, this study provides empirical evidence from an under-researched developing country context.

Analysing survey data collected from 120 companies operating in Nepal, this study finds that CSR, which includes social, environmental and economic dimensions, is positively associated with organisational performance. These results support the RBV theory that suggests that organisations can achieve sustainable competitive advantage by strategic adoption of CSR (Barney, 1991; Hart, 1995; Russo & Fouts, 1997; McWilliams & Siegel, 2001, 2011). This is consistent with the findings of previous studies (Torugsa et al., 2013; Margolis et al., 2009; Orlitzky et al., 2003; Margolis & Walsh, 2003; Waddock & Graves, 1997). This study also complements prior arguments that strategic adoption of CSR helps improve the bottom line and creates value for shareholders as well as stakeholders (Arjalies & Mundy, 2013; Porter & Kramer, 2006; Burke & Logsdon, 1996; Jones, 1995).

The second aim of the study was to examine the mediating effect of the use of interactive and diagnostic controls on the association between CSR and organisational performance using Simons' (1995, 2000) LOC framework. This is because the use of an appropriate MCS is considered essential for organisations to integrate CSR into core business strategy as well as for the implementation of such strategies (Arjalies & Mundy, 2013; Gond et al., 2012; Crizen & Herzig, 2013). As a result, CSR can help organisations translate CSR strategies into improved performance by tracking cost and minimising the risk involved (Henri & Journeault, 2010; Arjalies & Mundy, 2013; Gond et al., 2012; Widener, 2007). Without an adequate and appropriate use of MCS, organisations may not be able to reap the benefits associated with CSR. Despite being an important tool, little is known about the role of MCS on CSR strategy in the empirical context (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013).

Although CSR is positively and significantly associated with the use of diagnostic control systems, it is positively, but not significantly associated with performance, which is contradictory to our prediction. While the use of diagnostic controls does not have a significant mediating effect on association between CSR and organisational performance, the results of this study show that use of interactive controls partially mediates the association. The mediating role of interactive use of MCS implies that the use of such controls plays an important role in enhancing the performance effect of CSR. The findings of this study lend support to Simons' (1995, 2000) LOC framework and are consistent with prior studies (Abernethy & Brownell, 1999; Henri, 2006; Su et al., 2015). For example, in his study of Canadian manufacturing organisations, Henri (2006) finds that the interactive use of MCS contributes positively to the organisational capabilities of market orientation, entrepreneurship, innovativeness and organisational learning. In a study of 63 hospitals, Abernethy and Brownell (1999) find that the interactive use of budgets helps enhance the performance of hospitals facing strategic change, while Su et al. (2015) report that the use of interactive controls is positively associated with organisational performance.

The mediating role of interactive use of MCS on the association between CSR and organisational performance highlights the need for regular management attention and face to face dialogue and debate between senior managers and other employees to encourage the bottom-up emergence of new strategies and to stimulate creativity and innovation (Simons, 1995; Bisbe & Otley, 2004; Henri, 2006; Arjalies & Mundy, 2013). Moreover, organisations need to place greater emphasis on the use of interactive controls for ongoing dialogue, communication and information sharing among senior managers and lower levels of management (Widener, 2007; Abernethy & Brownell, 1999), which will enable exchange of information in response to threats and opportunities related to CSR (Arjalies & Mundy, 2013; Gond et al., 2012; Henri & Journeault, 2010).

This study contributes to the CSR literature by providing empirical evidence from a developing country context. The findings of this study confirm the positive association between CSR and organisational performance while most prior studies have found either a positive, negative or neutral relationship in the context of developed countries (see, Peloza, 2009; Margolis & Walsh, 2003; Olitzky et al., 2003; Galbreath & Shum, 2012). More specifically, the findings suggest that CSR can enhance organisational performance if social, environmental and economic dimensions of CSR are integrated into the organisations' business strategy, which is consistent with RBV theory (Russo & Fouts, 1997; Aragon-Correa & Sharma, 2003; Torugsa et al., 2013). While there is very little empirical evidence in the context of developing countries on how organisations implement CSR strategies and their association with performance (Saeidi et al., 2015), this study provides a holistic and practical understanding of these perspectives by investigating an under-researched developing country, Nepal.

Considering the improved organisational performance resulting from the strategic use of CSR, this study provides insights into the importance of integrating CSR into core business strategy to achieve sustainable competitive advantage (Torugsa et al., 2013; Arjalies & Mundy, 2013; Porter & Kramer, 2006; Burke & Logsdon, 1996). Unlike most prior studies, which mainly focus on the link between CSR and financial performance, this study maintains that managers should not excessively focus on short-term profit, which may have negative consequences in the long-term performance of organisations (Benabou & Tirole, 2010). Rather, managers should increase their focus on non-financial measures, such as customer satisfaction, employee motivation and loyalty (Kaplan & Norton, 1996; Galbreath & Shum, 2012) because these measures are seen as the drivers of future financial performance (Galbreath & Shum, 2012; Peloza, 2009; Luo & Bhattacharya, 2006; Ittner & Larcker, 2001; Epstein & Roy, 2001). Therefore, it can be argued that organisations need to reconsider rewarding the short-term behaviours of managers that undermine the responsibility to satisfy other important stakeholders, such as customers, employees, investors and the community (Peloza, 2009; Schaltegger & Burritt, 2010).

While prior research has examined the relationship between MCS and strategy (see, Tucker et al., 2009; Langfield-Smith, 1997), little is known about the role of MCS in CSR strategy in an empirical context (Berry et al., 2009; Crutzen & Herzig, 2013). Although a few researchers have studied the role of MCS in sustainability reporting (Kerr et al., 2015) and

CSR strategy (Arjalies & Mundy, 2013) using Simons' LOC framework in recent times, these studies do not provide statistical measurement of the variables of interest (i.e., MCS and CSR). Therefore, this study contributes to the literature by examining the role of MCS using Simons' (1995, 2000) LOC framework on the association between CSR and performance in an empirical context.

The mediating role of interactive use of MCS emphasises the need for regular management attention in the competitive market environment (Henri, 2006; Bisbe & Otley, 2004) in order to translate organisations' CSR strategy into improved performance, and to incorporate the view of diverse stakeholders in their decision making (Arjalies & Mundy, 2013). Even if the use of interactive controls consumes significant amounts of managements' time and attention, which may be seen as time consuming and costly (Simons, 1995; Widener, 2007), the findings suggest that the use of such controls is an important means for enhancing performance effect of CSR.

This study is not free from limitations. Data were collected using a questionnaire, which is potentially subject to measurement bias (common method bias and non-response bias) and reverse causality and reflects only the association between dependent and independent variables rather than causal relationships. Although the Herman's single-factor test was performed for common method bias, and potential non-response bias was assessed by early respondents to late respondents, the CSR practices of non-respondents still remain unknown, therefore, caution should be taken to interpret the findings of this study.

In addition, the model may be subject to omitted variable bias. Although the instrument variable method was applied to address the issue of omitted variable and reverse causality, the issue of endogeneity cannot be rule out in this study. While this study has tested the hypotheses based on RBV theory (Barney, 1991) that suggests organisations can achieve sustainable competitive advantage by strategic adoption of CSR (Hart, 1995; Russo & Fouts, 1997; Surroca et al., 2010; McWilliams & Siegel, 2001; 2011), the results suggest the positive link between CSR and performance, which should be interpreted as association, but not as causation. Future research can employ alternative research approaches, such as experimental studies or longitudinal case studies that can control for causality.

This study operationalised and measured organisational performance based on the subjective (self-reported) measures that are provided by top level management (CEOs, GMs or other senior managers), which may not accurately represent the actual results of the business practice. The sample of this study also includes companies that were not listed on the Nepal

Stock Exchange at the time of data collection, therefore, their actual performance data were not readily available from public sources. Future studies can use objective performance measures to gain an accurate picture of organisational performance. Further, this study relies on single respondents from each surveyed organisation, which may be subject to potential bias. Future studies can employ multiple respondents from the same surveyed organisation to avoid bias.

This study examines the mediating role of only interactive and diagnostic control systems of the LOC framework (Simons, 1995, 2000) on the association between CSR and organisational performance. Future studies could examine all four levers of controls – beliefs, boundary, interactive and diagnostic control systems – as well as the role of informal control systems, such as clan and cultural controls. Finally, the findings of this study are based on data collected from 120 companies operating in a single developing country, which may limit the generalisability of these results to a wider context. Despite these limitations, this study provides an important insight into the use of interactive and diagnostic controls in terms of integrating social, environmental and economic dimensions of CSR into organisations' core business strategies to enhance organisational performance.

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APPENDIX 5.1: CONSTRUCTS AND THEIR REPRESENTING ITEMS

Social dimension
Improve relationship with stakeholders
Seek long-term partnership with customers and suppliers
Engage in fair trading practices
Improve employee, customer and community health and safety
Improve employee morale
Sponsor local community initiatives / events[a]
Community engagement[a]
Prohibit child labour, and violation of human right

Environmental dimension
Minimise negative impact on the environment
Recycle waste materials
Reduce waste by streamlining processes
Dispose waste responsibly
Increase energy efficiency
Reduce material, production and process cost
Filters and controls on emissions and discharge
Promote sustainable development[a]
Environmental trainings for employees

Economic dimension
Competitive return on investment (ROI)
Achieve financial goals (increase profit)
Reduce cost of inputs for the same level of outputs
Sell waste product for revenue
Direct economic value generated and distributed
Improve company's reputation or goodwill[a]
Lower operating costs
Income from material scrap or recycled waste

Interactive control systems
Controls are often used as a means of developing action plans
There is a continuous interaction between top management and subordinates
Controls are used in regular face to face meetings between top management and subordinates to enable discussions
Controls are often used by senior managers personally to discuss the change

Diagnostic control systems
Controls are used to track progress towards goals
Controls are used to plan how operations are to be conducted in accordance with the strategic plan
Controls are used to review performance
Controls are used to compare outcomes to expectations and take appropriate actions

Organisational performance
Profit goals have been achieved
Sales goal have been achieved
Return on Investment (ROI) goals have been achieved
Our product (s) are of a higher quality than that of our competitors
We have a higher customer retention rate than our competitors
We have a lower employee turnover rate than our competitors
[a] Items deleted because of lower loading

CHAPTER SIX: CONCLUSION

CSR has become an integral part of business imperatives and management practices in recent times. According to recent reports, many organisations around the world practise and report CSR, and this trend is increasing (KPMG, 2011; Economist Intelligence Unit, 2010). Transnational organisations, such as the UN, ILO, ISO, OECD and the World Bank also strongly promote CSR. This demonstrates the importance of CSR, which is also becoming an area of growing research interest for academics (Sidhu, 2012; Carroll & Shabana, 2010).

However, there remains considerable debate in the literature on the notion of whether CSR generates benefits or is an additional cost to organisations (Carroll & Shabana, 2010; Wood, 2010; Crane et al., 2008; Margolis & Walsh, 2003). Apart from the theoretical controversy, empirical results of prior studies of the CSR–performance relationship are also mixed and inconclusive (see, Margolis et al., 2009; Peloza, 2009; Margolis & Wash, 2003; Orlitzky et al., 2003). While some studies have found a positive relationship between CSR and organisational performance, others have found negative results, and several other studies have reported a non-significant or no relationship (see, Peloza, 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003; Surroca et al., 2010).

There is still no consensus among researchers as to whether CSR is an additional cost to shareholders or CSR enhances organisational performance (Dhaliwal et al. 2012; Karnani, 2011; Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003). Even after extensive investigation over a lengthy period and by a large number of researchers, CSR remains a controversial research topic from theoretical as well as empirical perspectives (Tang et al., 2012; Crane et al., 2008; McWilliams & Siegel, 2000). Although a majority of studies have focused on the ethical aspects of CSR (see, Carroll, 1979; 1991; Crane et al., 2008; Wood, 1991) or examined the CSR–performance relationship (see, Margolis et al., 2009; Margolis & Walsh, 2003; Orlitzky et al., 2003), little is known about why and how CSR diffuses, the association between strategy and CSR and the role of MCS (formal and informal control systems).

In order to address the research gap in the existing literature, the present study investigated the determinants and consequences of CSR, and the mediating role of organisational culture and MCS on adoption and implementation of CSR in the context of a less researched country and context, a developing country, Nepal. More specifically, using the qualitative case study method, the study first investigated how and why CSR diffuses and what factors influenced the diffusion (primary and secondary stage) of CSR within the organisation operating in Nepal. Then, using the survey data collected from the companies (listed and non-listed) operating in Nepal, this study examined the association between business strategy (differentiation strategy, in particular) and adoption of CSR, and the mediating role of organisational culture (innovation and respect for people dimensions, in particular) on the association between strategy and CSR adoption. Finally, this study examined the most controversial research topic in the CSR literature: the association between CSR and organisational performance (Malik, 2015; Crane et al., 2008; Margolis et al., 2009), and the mediating role of MCS (use of interactive and diagnostic controls) on the CSR–performance relationship based on the survey data collected from Nepal.

The remainder of the chapter is structured as follows. First, Section 6.1 summarises the key findings of three empirical papers. Next, Section 6.2 highlights the contribution of this study to the extant literature and its implications for practitioners and policy makers. Finally, the limitations of the study are discussed and the directions for future research are outlined in Section 6.3.

6.1 SUMMARY OF KEY FINDINGS

The findings of this study provide important insights into the determinants and consequences of CSR, and the mediating role of organisational culture and MCS. First, the findings reveal that there are a number of factors influencing the diffusion of CSR within the CO. CSR is used as a proactive strategy by the CO to avoid any future compliance cost or future risk associated with its environmental impacts, and to meet the needs of multiple groups of stakeholders, such as customers, employees and the community within which it operates. It follows that the perceived benefit associated with CSR is one of the key factors facilitating the internal diffusion of CSR within the CO. Top management support was found to be another dominant factor for operationalising CSR within the CO. Senior managers believe that their CSR activities have helped the CO retain good employees, enhance its reputation and increase market share. The driving force behind the diffusion of CSR within the CO is its aspiration to enhance its reputation and deliver customer satisfaction. However, there was no evidence of factors that hindered, delayed or prevented the diffusion of CSR within the CO, although human resistance is described as a major barrier in the diffusion of innovations literature (Kasurinen, 2002; Munir et al., 2013). This may be due to the religious beliefs and cultural values of developing countries, where employees (adopting actors) are reluctant to complain (Munir et al., 2013; Adhikari, 2012). Employees' involvement in the CO's CSR practices (volunteer programs, in particular) further support the fact that religious beliefs and cultural values are other important factors influencing the diffusion of CSR within the CO (Linnenluecke & Griffiths, 2010; Arjalies & Mundy, 2013; Adhikari, 2012).

In contrast to prior studies (e.g., Lapsley & Wright, 2004; Perera et al., 2003; Rodrigue et al., 2013), there was also no evidence of the influence of any supply-side factors, such as consulting firms, academic institutions and the mass media in promoting CSR in the CO. It follows that the CSR practices of the CO are not influenced by any other powerful organisations or regulatory bodies. Although the CO has used the term 'CSR', which originated in the West, similar activities to CSR, but philanthropic in nature, have been carried out by the CO since its inception. The reason behind such philanthropic activities is based on the beliefs and customs of the local population. Many people in Nepal, including members of the CO, believe in giving back to society from part of their earnings. Most of the current CSR activities of the CO are local in nature and developed and adapted within the organisation. CSR practices in the CO are adopted by the top management, which enforces its implementation process in a top-down approach that Bjornenak (1997, p. 6) calls the 'trickle down' process. Overall, these findings provide important insights into the factors that influence the adoption of CSR.

Second, this study examined the empirical association between differentiation strategy and adoption of CSR, and the role of organisational culture (innovation and respect for people, in particular) on the association between the two using the survey data collected from Nepal. The results of the study suggest that there is a positive and significant association between differentiation strategy and adoption of CSR, supporting the previously theoretically established link between differentiation strategy and adoption of CSR (Van de Ven & Jeurissen, 2005; McWilliams & Siegel, 2001, 2011). The findings are consistent with the limited empirical studies (e.g., Hoejmose et al., 2013). Further analysis reveals that although the differentiation strategy is positively associated with the social and environmental dimensions of CSR, there is no significant relationship between the differentiation strategy and economic dimension of CSR.

After testing the direct link between differentiation strategy and each dimension of CSR, this study examines the mediating effect of innovation and respect for people dimensions of organisational culture. The findings reveal that the innovation and respect for people culture positively and significantly mediate the association between differentiation strategy and adoption of CSR. The findings of the study suggest that organisations that emphasise cultural values, such as innovation, risk taking and action oriented behaviour (innovation culture), and fairness, respect for individual rights, tolerance, and being socially responsible (respect for people culture) are more likely to adopt CSR and integrate it into their differentiation strategy. The findings of this study highlight the important role of organisational culture, and are in line with prior studies (Baird et al., 2004; McKinnon et al., 2003). In summary, these findings provide an important insight into the role of innovation and respect for people dimensions of organisational culture.

Third, this study examined the association between CSR and organisational performance, and the mediating role of interactive and diagnostic control systems using the survey data collected from Nepal. The finding of this study reveals that CSR is positively associated with organisational performance, which is consistent with the findings of prior studies (e.g., Margolis et al., 2009; Margolis & Walsh, 2003; Olitzky et al., 2003). Further analyses reveal that the use of interactive controls partially mediates the association between CSR and organisational performance, while the use of diagnostic controls does not have a significant mediating effect on the association. The significant partial mediating effect of the use of interactive control of MCS indicates that the use of such controls is an important measure to improve the performance effect of CSR. The findings are in line with prior studies (Marginson et al., 2014; Abernethy & Brownell, 1999; Arjalies & Mundy, 2013; Henri, 2006), which emphasise the need for regular management attention in the competitive market environment (Henri, 2006; Bisbe & Otley, 2004) in order to translate organisations' CSR strategy into improved performance. In conclusion, these findings uncover the important role of MCS on the CSR–performance relationship.

6.2 THEORETICAL CONTRIBUTIONS AND PRACTICAL IMPLICATIONS

The present study makes a significant and original contribution to the extant literature on CSR and management accounting in a number of ways. First, this study contributes to the diffusion of innovations literature in general, and diffusion of CSR literature in particular by identifying a number of factors, such as the perceived strategic benefit of CSR, top management support, and cultural values and beliefs that influence the diffusion of CSR. These findings offer a nuanced understanding of the factors that influence the propensity of CSR adoption. This study contributes to the literature by addressing the call for research on CSR in the airline industry, which is relatively less explored in both the developed and developing country context (Lee et al., 2013; Sheldon & Park, 2011; Cowper-Smith & de Grosbois, 2011; Lynes & Andrachuk, 2008). This study extends the research on diffusion of innovations theory by focusing on both the initial and post-adoption process (primary and secondary stage of diffusion) of CSR within a privately owned domestic airline company operating in a developing country, Nepal, a less researched industry (airline) and (developing) country context.

Second, by examining the direct association between differentiation strategy and CSR, this study adds to the literature on strategy and CSR (Burke & Logsdon, 1996; Porter & Kramer, 2006; Van de Ven & Jeurissen, 2005; Hoejmose et al., 2013). Further, the study highlights the important role of two important dimensions of organisational culture (i.e., innovation and respect for people) in order to achieve successful integration of CSR into organisations' business strategy. The importance of innovation, creativity and entrepreneurship is prevalent in recent times due to the radical change in organisational environments because of technological advancement, globalisation and increased competition (McKinnon et al., 2003; Sarros et al., 2005). Similarly, respect for people culture is equally important because successful implementation of strategy will largely depend upon employees. If employees are treated fairly and with respect, they are more likely to be loyal to their organisations and work hard (Su et al., 2009), whereas any negative experiences faced by employees may have adverse consequences (Erdogan et al., 2006). Therefore, this study contributes to the extant literature by offering important insights into the role of organisational culture in general, and the innovation and respect for people dimensions of organisational culture, in particular.

Third, this study contributes to the limited management accounting literature on CSR by providing a holistic and practical understanding on the association between CSR and organisational performance, and the mediating role of MCS on the CSR–performance relationship (a controversial research topic) from a developing country context. The findings of this study confirm the positive association between CSR and organisational performance while most prior studies have found mixed (positive, negative and neutral) results (see, Peloza, 2009; Margolis & Walsh, 2003; Olitzky et al., 2003; Galbreath & Shum, 2012). Further, even if the use of interactive controls consumes significant amounts of managements' time and attention, which may be seen as time consuming and costly (Simons, 1995; Widener, 2007), the findings of this study suggest that the use of such controls is an important means for enhancing the performance effect of CSR. In this way, this study offers important insights into the use of interactive control systems. This study contributes to the management accounting literature by addressing the call for empirical studies on the role of MCS on CSR research (Berry et al., 2009; Crutzen & Herzig, 2013; Arjalies & Mundy, 2013; Pondeville et al., 2013; Gond et al., 2012).

Finally, this study assimilates the three streams of research (i.e., CSR, organisational culture and MCS) and provides a better understanding of the relationships among these variables in the empirical context of a developing country, Nepal. In particular, by applying both qualitative and quantitative research methods, this study uncovered some important insights on the determinants and consequences of CSR, and the mediating role of organisational culture on adoption of CSR, and the important role of MCS on the CSR–performance relationship in the context of an under-researched country and context, a developing country, Nepal.

The empirical findings of this study have some implications for practitioners. First, managers are facing increased pressure to balance their obligations in terms of being socially responsible, environmentally sustainable and economically competitive, which are often viewed as contradictory objectives (WCED, 1987; Bansal, 2005; Glavas & Mish, 2015; Margolis & Walsh, 2003; Milne, 1996; Schaltegger & Burritt, 2010; Orlitzky et al., 2011). While adoption of CSR is seen as an alternative paradigm for profit maximisation, achieving sustainable competitive advantage and improving relationships with stakeholders (Arjalies & Mundy, 2013; Gond et al., 2012; Porter & Kramer, 2006; McWilliams & Siegel, 2001; 2011; Carroll & Shabana, 2010; Mackey et al., 2007; Jones, 1995), it also cost shareholders' money (Friedman, 1970; Dhaliwal et al., 2011; Karnani, 2011). Therefore, it is important for managers to know how they can achieve these contradictory objectives simultaneously.

The findings of this study emphasise the need for integrating the economic dimension of CSR into organisations' business strategy, focusing on the innovation and respect for people dimensions of organisational culture. Failing to integrate all three (i.e., social, environmental and economic) dimensions of CSR into their business strategy, organisations may not be able to reap the benefits of CSR. Rather, CSR can be an additional cost to organisations or waste of resources (Ramchander et al., 2012; Van de Ven & Jeurissen, 2005). Similarly, without focusing on an appropriate culture, successful implementation of strategy may not be possible (Linnenluecke & Griffiths, 2010; Kasurinen, 2002). Therefore, this study provides managers with valuable insights into the important role of organisational culture (in particular, the innovation and respect for people dimensions) on integrating CSR into organisations' business strategy. This is because successful adoption and implementation of CSR is highly unlikely to happen without focusing on appropriate culture within the organisation (Linnenluecke & Griffiths, 2010).

Moreover, the empirical findings of this study provide managers with valuable insights into how CSR can enhance organisations' performance if it is used in a strategic way (Porter & Kramer, 2006; McWilliams et al., 2006; Burke & Logsdon, 1996). More specifically, in order to translate organisations’ CSR strategy into improved performance, the findings of this study emphasise the important role of interactive use of MCS. The use of an appropriate MCS is considered essential for organisations to identify risk and opportunities related to CSR, develop or alter CSR strategy, set CSR related targets and compare these against performance (Epstein & Roy, 2003; Epstein & Roy, 2001; Arjalies & Mundy, 2013; Henri & Journeault, 2010; Lisi, 2015; Gond et al., 2012). In this way, CSR can have a performance effect through various channels, such as by reducing cost, minimising risk and enhancing operating efficiency (Dhaliwal et al., 2012). Therefore, the findings offer important insights into the role of MCS (in particular, interactive use of controls) on the CSR–performance relationship.

The findings of this study can be of interest to policy makers in developing countries in general, and Nepal in particular. First, developing countries are characterised by lower levels of human development, lower per capita income, and more equality and poverty (Belal et al., 2013; Visser, 2008; UNDP, 2015; The World Bank, 2016). UNDP (2015) classifies Nepal as a low human development country, where poverty is widespread and nearly a quarter of the population is still living under US$1 per day (The World Bank, 2016).

Second, developing countries are more likely to face the severe effects of climate change, such as extreme weather conditions and natural disasters in the future compared to their developed counterparts (UNDP, 2015). In particular, Nepal is more vulnerable to natural disasters and climate change due to its fragile geographical structure, sharp altitudinal variation, degrading environment, and active tectonic process (The World Bank, 2016; Karki & Gurung, 2012), which can have considerable impact on Nepalese business and society.

Third, although CSR is promoted by various stakeholder groups, such as development agencies, NGOs, trade unions, media and the government in both developed and developing countries to prevent or minimise organisations’ commercial and industrial impact on society and the environment (Visser, 2008; Jamali, 2014), stakeholders’ influence may be different in the context of developing countries. While the general public and civil society in developed countries are seen as powerful stakeholder group, “those living in poverty in remote areas are rarely considered to be stakeholders” (Belal et al., 2013, p. 85) in the context of developing countries. Overall, the social, environmental and stakeholder issues of developing countries are unique and quite different from those of developed countries.

Although the government can address these issues by taking several initiatives, such as by introducing new legislation, working as public–private partnerships for CSR or facilitating CSR by providing guidance to organisations (Moon & Vogel, 2008), the findings of the study reveal that there is no such involvement or attempt by the government side in the context of Nepal. Owing to the lack of government policy and involvement, this study may be important as it has raised several social and environmental issues and challenges that are prevalent in Nepal, which require considerable and urgent government attention and intervention.

6.3 LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

A number of limitations need to be considered in terms of interpreting the findings of this study. For instance, although paper one enhanced our limited understanding of the primary and secondary stages of CSR diffusion and the factors influencing the diffusion of CSR, the findings of the study are based on the views of 13 senior and middle-level managers of the case company, and five external stakeholders from a consulting firm, academic institution, multinational company and NGOs. In order to avoid interviewer bias, the interviews took place on office premises. However, owing to the limited time available for the overseas field study and budget constraints, only one interview was conducted with each participant and the present study could not include the views of a wide range of stakeholders, such as shareholders, customers, suppliers, media and regulatory bodies by conducting interviews with them. Their views may provide additional insight into the research topic under investigation. Future research can include a larger sample size involving a wider range of stakeholders. Another limitation of the single case study is the generalisation of the findings to the wider population and context. Future research can further explore the issue using multiple case studies or a longitudinal study involving a longer period of time or a cross-sectional survey method.

While paper two contributes to the literature by examining a less researched topic in the empirical context – the association between business strategy and adoption of CSR, and the mediating role of organisational culture on the association between the two – the study only examines one component of business strategy (differentiation strategy, in particular) and two dimensions of organisational culture (innovation and respect for people dimensions). The other components of business strategy (i.e., cost leadership) and other dimensions of organisational culture, such as outcome orientation, team orientation, attention to detail and stability can also influence the adoption of CSR. Future research studies can examine the influence of these variables on adoption of CSR.

Although paper three contributes to the literature by providing empirical evidence from a developing country context, the findings of the study, which confirms the positive association between CSR and organisational performance, should be interpreted as association only, not as causation. Although this study applied the instrument variable approach to address the issue of omitted variable and reverse causality, the issue of endogeneity cannot be ruled out. Future studies can apply an alternative research method, such as an experiment, to control for causality. Further, organisational performance was measured by using self-reported subjective measures, provided by the survey respondents (senior-level managers, such as CEOs, GMs or CFOs) that may not accurately represent their organisations' actual results. Future studies can use objective performance measures to gain an accurate picture of organisational performance.

Finally, despite taking several steps (i.e., for sample selection, pilot testing of the survey questionnaire, and internal consistency reliability and convergent validity tests) to ensure the reliability of the data and to overcome bias (non-response and common method bias), the results of this study are based on a small number of survey responses (i.e., 132 in paper two and 120 in paper three). However, these limitations create opportunities for future studies to further examine the less researched topic (i.e., role of MCS on CSR research) in the under-researched developing or emerging country context.

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APPENDIX A: COUNTRY PROFILE – NEPAL

Nepal is a land locked, multi-ethnic and multicultural country, situated on the southern slope of Himalayas with a total area of 147,181 square kilometres and population of 28.51 million (The World Bank, 2016; CBS, 2015). Nepal, a member state of the South Asian Association for Regional Cooperation (SAARC), is a developing country[27] neighbouring two large emerging economies: China and India. Geographically, the country is divided into five administrative development zones (CBS, 2013), while ecologically the landscape of the country is divided into three regions, the mountains (the Himalayas), hills and the plain (*Terai*) area (CBS, 2013, 2015). Nepal is also known as Land of Mount Everest and the birth place of Lord Buddha (CBS, 2015).

The history of Nepal goes back to 1769 when the then Gorkha King Prithvi Narayan Shah conquered the Kathmandu valley and established the Shah dynasty (Ministry of Foreign Affairs, 2016). Since then the country has been ruled by the Shah family until 2008. Kathmandu is the capital of the country, which is the largest metropolitan city (CBS, 2015). Although Nepal was never colonised, the country has a history of a century-long dictatorship by the Rana families (Adhikari et al., 2013). During the Ranas' dictatorship "there was no demarcation between the rulers' and the state's property and national savings were inherited by the prime minister and his family members" (Adhikari et al., 2013, p. 215). The dictatorship of Ranas lasted for 104 years (Ministry of Foreign Affairs, 2016; Adhikari et al., 2011). The Ranas were overthrown in a democracy movement of early 1950s, which is also seen as the birth of democracy in Nepal (Ministry of Foreign Affairs, 2016). Prior to emerging onto the world political map in 1950, Nepal was almost closed to the outside world (Adhikari et al., 2011).

Even after ending the dictatorship of Ranas, the country has been through several political, economic and social changes (Adhikari et al., 2011; Nepal et al., 2011). A multiparty democracy was established in 1990 after several nationwide street protests. With the advent of democracy, a new constitution was formulated in 1991 and gave executive power to the elected government and the long dynasty of king changed to the constitutional monarchy (Adhikari et al., 2011; Ministry of Foreign Affairs, 2016). Interim multiparty coalition government was formed, and the first parliamentary election was held in May 1991 (Ministry of Foreign Affairs, 2016). But, a few years later, in 1996, the Maoist insurgency began, which claimed more than 13,000 lives and displaced hundreds of thousands of people in a 10-year

[27] Based on the country classification made by the UNDP's *Human Development Report 2015*, Nepal is a low human development or developing country and is ranked 145th in the global HDI with a score of 0.548 and a per capita GNI of US$2311 (UNDP, 2015).

period (Nepal et al. 2011; Adhikari et al., 2011). In 2006, the conflict between the Government and the Maoist rebels ended with the signing of a peace accord, while the monarchy was abolished in 2008 declaring Nepal a republic (Nepal et al. 2011; Adhikari et al., 2011; Ministry of Foreign Affairs, 2016; Do & Iyer, 2010). Although the 10-year long conflict ended in 2006 and the country promulgated a new constitution in September 2015, Nepal is still facing considerable uncertainty and experiencing an unstable political transition (The World Bank, 2016; Do & Iyer, 2010; Adhikari et al., 2011). Over the last two decades, political instability has been a dominant feature in Nepal.

During the conflict, the nation suffered severe loss in terms of economic growth, development and prosperity. Apart from the existing land locked position and difficult geographical condition of Nepal, the ongoing political instability is seen as another major barrier to achieving the desired goal of economic development (Gautam & Davis, 2007). While agriculture remains the largest employment sector, which provides employment to 66% of the total population and contributes about 33% of the GDP of Nepal (CBS, 2014a; 2015; Ministry of Agricultural Development, 2016; The World Bank, 2016), remittance remains another contributing factor in the Nepalese economy, contributing around 29% to GDP (Ministry of Finance, 2016; Do & Iyer, 2010). The existing political uncertainties have led a large number of Nepalese people to migrate to other foreign countries in search of job opportunities (Do & Iyer 2010). This reduced unemployment pressure in the domestic job market and the remittances sent back home from abroad have supported the economy at large.

Although industrial development was started in 1956, the Government of Nepal initiated the major reforms and the policies of liberalisation and deregulation to promote economic growth especially after the restoration of democracy in 1990 (Adhikari & Gautam, 2010). The government initiated some major reforms to promote industrial development. However, manufacturing industries are still declining in Nepal, contributing 5.5% to GDP compared to 9% in the year 2000-2001 (CBS, 2014b; Ministry of Finance 2016). A recent report released by CBS (2014b) shows that the contribution of manufacturing industry to GDP is quite low compared to other countries of South-East Asia. According to the Ministry of Finance (2016), the average growth rate of manufacturing industry in the last 10 years is only 1.18%. According to Adhikari and Gautam (2010), manufacturing industries are still facing a number of problems, such as higher raw material cost, limited access to the international market, operational inefficiencies, poor quality control, lack of management control systems, lower investor confidence and government interventions.

In contrast, the picture of the services sector (especially financial services sector) in Nepal is different (see, Upadhaya et al., 2014). With the help of the IMF and the World Bank, the Government continued reforms in the financial services sectors, which include interest rate deregulation, the removal of statutory capital adequacy requirements, reduction in cash reserve requirements and foreign exchange liberalisation and other legislative changes (Upadhaya, 2012). Following the policy of liberalisation and deregulation, a large number of private and foreign commercial banks, insurance companies and other financial institutions entered the Nepalese market and competition in the sector has increased sharply. As a result, the financial services sector has become the largest, which represents 90% of the companies listed on the Nepal Stock Exchange (Upadhaya et al., 2014).

Tourism is another large industry in Nepal, which provides employment to more than half a million people and contributes about 4.3% to GDP (World Travel and Tourism Council, 2013). Although Nepal first opened its border to foreign tourists in 1950, it was only in 1972 that the Government of Nepal recognised tourism as one of the major contributors to the national economy. In 2012, more than 800,000 tourists visited Nepal which is 9% higher than the previous year (Ministry of Culture, Tourism and Civil Aviation, 2015). However, the number of tourist arrivals is in declining stage after 2012. The tourism industry still remains one of the major contributors of foreign exchange earnings in Nepal, which is regarded as a popular tourist destination especially for trekking, mountaineering, rafting, jungle safaris and pilgrimage[28]. According to *The New York Times* (2014), Nepal is a 'must visit country', which has eight of the world's 10 highest mountains including Mount Everest, the highest mountain in the world at 8,848 metres.

In conclusion, although Nepal occupies a strategic spot between two giant emerging economies (i.e., China to the north and India to the east, west and south), the country is still facing considerable uncertainty and undergoing an unstable political transition following a 10-year conflict (*The Economist*, 2014; The World Bank, 2016). As a result, frequent strikes (*bandha*), lockouts and lack of reliable and regular electrical power supply are not uncommon in Nepal (Adhikari et al., 2011). However, if the ongoing political instability improves and appropriate infrastructure (i.e., sufficient power supply and improved transportation network) developed, Nepal has the potential to be an attractive destination for investors and tourists (*The Economist*, 2014; The World Bank, 2016).

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[28] Nepal is also famous destination for pilgrimage due to its historical and sacred places, such as Lumbini (the birth place of Lord Buddha) and the Pashupatinath (a centre of faith for Hindus) temple (Ministry of Culture, Tourism and Civil Aviation, 2015).

APPENDIX B: ETHICS APPROVAL – CASE STUDY

BEDANAND UPADHAYA <upadhaya.bedanand@students.mq.edu.au>

Approved - 5201300795

Mrs Yanru Ouyang <yanru.ouyang@mq.edu.au> Wed, Dec 4, 2013 at 3:59 PM

To: Dr Rahat Munir <rahat.munir@mq.edu.au>
Cc: Dr Yvette Blount <yvette.blount@mq.edu.au>, Sophia Su <sophia.su@mq.edu.au>,
Mr Bedanand Upadhaya<bedanand.upadhaya@students.mq.edu.au>

Dear Mr Munir,

Re: 'The Diffusion of Corporate Social Responsibility and its effectiveness within a developing country.'

Reference No.: 5201300795

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business and Economics Human Research Ethics Sub Committee. Approval of the above application is granted, effective "4/12/2013". This email constitutes ethical approval only.

This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007). The National Statement is available at the following web site:

http://www.nhmrc.gov.au/_files_nhmrc/publications/attachments/e72.pdf. The following personnel are

authorised to conduct this research:

Dr Yvette Blount
Mr Bedanand Upadhaya
Mr Rahat Munir
Sophia Su

NB. STUDENTS: IT IS YOUR RESPONSIBILITY TO KEEP A COPY OF THIS APPROVAL EMAIL TO SUBMIT WITH YOUR THESIS.

Please note the following standard requirements of approval:

1.The approval of this project is conditional upon your continuing
compliance with the National Statement on Ethical Conduct in Human Research (2007).

2.Approval will be for a period of five (5) years subject to the provision of annual reports.

Progress Report 1 Due: 4th Dec. 2014
Progress Report 2 Due: 4th Dec. 2015
Progress Report 3 Due: 4th Dec. 2016
Progress Report 4 Due: 4th Dec. 2017
Final Report Due: 4th Dec. 2018

NB. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report for the project.
Progress reports and Final Reports are available at the following website:
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/

human_research_ethics/forms

3. If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4. All amendments to the project must be reviewed and approved by the Committee before implementation. Please complete and submit a Request for Amendment Form available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

5. Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that affect the
continued ethical acceptability of the project.

6.At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at the following websites:

http://www.mq.edu.au/policy/http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/ human_research_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project
it is your responsibility to provide the Macquarie University's Research Grants Management Assistant
with a copy of this email as soon as possible. Internal and External funding agencies will
not be informed that you have approval for your project and funds will not
be released until the Research Grants Management Assistant has received a copy of this email.

If you need to provide a hard copy letter of approval to an external organisation as evidence that
you have approval, please do not hesitate to contact the FBE Ethics Committee Secretariat,
via fbe-ethics@mq.edu.au or 9850 4826.

Please retain a copy of this email as this is your official notification of ethics approval.

Yours sincerely,
Parmod Chand
Chair, Faculty of Business and Economics Ethics Sub-Committee
Faculty of Business and Economics
Level 7, E4A Building Macquarie University NSW 2109 Australia
T: +61 2 9850 4826
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www.businessandeconomics.mq.edu.au

APPENDIX C: INTERVIEW QUESTIONS

Interview Guide

The Diffusion of Corporate Social Responsibility

Interview Introduction

Mr/Mrs (name of interviewee)

My name is Bedanand Upadhaya and I am a PhD student in the Department of Accounting and Corporate Governance at Macquarie University, Sydney, Australia. As part of my PhD research, I am undertaking a study on "The Diffusion of Corporate Social Responsibility and its Effectiveness within a Developing Country". The aim of this study is to investigate the diffusion of corporate social responsibility (CSR) practices within an organisation operating in a developing country (in this case Nepal). Thank you for agreeing to participate in this study. With your permission, the interview will be audio recorded and I will also take notes during the interview. I assure you that your response to the interview questions will remain highly confidential and will only be used for the purpose of this study.

Interview details:

Name of interviewee: ______________________________

Present position of interviewee: ______________________________

Day and date of interview: ______________________________

Start time of interview: ______________________________

Finish time of interview: ______________________________

Interview Questions

1. Can you please describe your organisation's corporate social responsibility (CSR) activities?
2. What is your organisation's strategy for CSR?
3. How are these CSR activities performed or administered by your organisation?
4. Does your organisation undertake cost benefit analysis before introducing new CSR activities?
5. Does your organisation undertake cost benefit analysis for existing CSR activities?
6. How do you evaluate the benefits of CSR activities?
7. To what extent do you think your organisation benefits from CSR activities?
8. What else can be done to make CSR activities in your organisation more effective?

CSR is popular and growing among organisations operating in developed / Western countries. However, it is regarded as a new practice for organisations operating in developing countries like Nepal.

9. To what extent do you think your organisation practices CSR compared to other large multinational companies in Nepal?

10. Do large multinational companies have any influence on your organisation's current CSR practices?

- If yes, please describe the nature of that influence.

11. In your opinion, do the government or the media influence your organisation to practice CSR?

12. Do you think that academic institutions / universities in Nepal or NGOs are involved in promoting CSR in your organisation?

Generally, an organisation's performance is described in terms of financial, social and environmental performance.

13. In your opinion, does CSR have any impact on your organisation's social and environmental performance?

- If yes, can you please describe it?

14. Your organisation's website shows that both the number of passengers and revenue of your organisation have increased over the past 15 years.

- To what extent do you think CSR activities undertaken within your organisation have contributed towards this growth?

15. Do you think the CSR activities of your organisation have any impact on customers and employees?

- If yes, in what ways?

- Do you think your customers are satisfied with your present CSR activities?

- Do you think your employees are satisfied with your present CSR activities?

16. Have you ever experienced any resistance from employees to practice CSR?

17. What resources do you have to train employees to implement CSR practices?

18. Are you aware of your competitor's CSR practices?

19. There are many other CSR activities that your organisation may not practice, but may be practiced by other organisations. Some of these may include energy consumption, waste reduction/recycling, work health and safety and other practices.

- Can you please confirm whether these CSR practices have been rejected by your organisation or have not been implemented yet?
- Can you give examples of any CSR activity that your organisation started but after a short while decided to abandon?

20. Does your organisation set aside any budget for undertaking CSR activities?

21. What is the role of your organisation's shareholders and the Board of Directors in promoting CSR activities?

22. Have you ever experienced any resistance from shareholders to practice CSR?

23. What is your organisation's strategy or plan for CSR in the next two to five years?

APPENDIX D: INFORMATION LETTER AND CONSENT FORM

MACQUARIE UNIVERSITY

Department of Accounting and Corporate Governance
Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109
AUSTRALIA
Phone: +61 2 9850 4765
Fax: +61 2 9850 8497
Email: rahat.munir@mq.edu.au

Chief Investigator / Supervisor's Name: **Rahat Munir**

Chief Investigator / Supervisor's Title: **Doctor**

Participant Information and Consent Form

Name of Project: The Diffusion of Corporate Social Responsibility and its Effectiveness within a Developing Country

You are invited to participate in a study of *The Diffusion of Corporate Social Responsibility and its Effectiveness within a Developing Country*. The purpose of the study is to investigate the diffusion of corporate social responsibility (CSR) practices within an organisation operating in a developing country (Nepal). In particular, the study examines: (i) how CSR practices diffuse within an organisation operating in a developing country; and (ii) what factors influence the acceptance or rejection of the diffusion of CSR.

The study is being conducted by Bedanand Upadhaya (email: bedanand.upadhaya@students.mq.edu.au; tel: +61 402 648 864) to meet the requirements of Doctor of Philosophy in Accounting and Corporate Governance under the supervision of Dr Rahat Munir (email: rahat.munir@mq.edu.au; tel: +61 2 9850 4765), Dr Yvette Blount (email: yvette.blount@mq.edu.au; Tel: +61 2 9850 8514) and Dr Sophia Su (email: sophia.su@mq.edu.au; Tel: +61 2 9850 8454) in the Department of Accounting and Corporate Governance at Macquarie University, Sydney, Australia.

If you decide to participate in this study, you will be interviewed about your organisation's CSR practices, its impact on the organisation's financial, social and environmental performance and factors that influence the acceptance or rejection of the diffusion of CSR. The interview guide, consent form and study details will be sent to you two weeks before the interview date. The interview will be take place from the third week of January 2014 and the duration of the interview will be about 50–60 minutes. The interview will be held at your company's head office. A follow-up interview may also be required to clarify any information provided in the first interview. The interview will be audio recorded with your permission and the interviewer will also take notes during the interview.

Any information or personal details gathered in the course of the study are confidential, except as required by law. No individual will be identified in any publication of the results. Only the chief investigator and the co-investigators of the project have access to the data. Further, interview data will be treated as strictly confidential and kept in a secure place. A summary of the results of the data can be made available to you on request from co-investigator Bedanand Upadhaya.

Participation in this study is entirely voluntary: you are not obliged to participate and if you decide to participate, you are free to withdraw at any time without having to give a reason and without consequence.

I, *(participant's name*:) have read *(or, where appropriate, have had read to me)* and understand the information above and any questions I have asked have been answered to my satisfaction. I agree to participate in this research, knowing that I can withdraw from further participation in the research at any time without consequence. I have been given a copy of this form to keep.

Participant's Name:____
(Block letters)
Participant's Signature:_____________________________

Date:____

Investigator's name: DR RAHAT MUNIR

Investigator's Signature:____________________________

Date:____

The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics (Telephone +61 2 9850 7854; email: ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

Further, if you require any clarification or have any concerns regarding the ethical aspects of this research, you may also contact Mr Sundar Prasad Dahal, Tinkune, Gairigaun, Shaktivinayak Marg, Kathmandu 35, Nepal (telephone: +977 1 446 5222; mobile: +977 98510 24827 / +977 98010 24827; email: sundar.dahal@gmail.com).

(PARTICIPANT'S COPY)

APPENDIX E: ETHICS APPROVAL – SUREY STUDIES

MACQUARIE UNIVERSITY

BEDANAND UPADHAYA <upadhaya.bedanand@students.mq.edu.au>

Approved - 5201401157

Mrs Yanru Ouyang <fbe-ethics@mq.edu.au> Mon, Dec 15, 2014 at 3:20 PM

To: Mr Rahat Munir <rahat.munir@mq.edu.au>
Cc: Dr Yvette Blount <yvette.blount@mq.edu.au>, Miss Sophia Su <sophia.su@mq.edu.au>,
Mr Bedanand Upadhaya <bedanand.upadhaya@students.mq.edu.au>

Dear Mr Munir,

Re: 'Association between Corporate Social Responsibility and Organisational Performance.'

Reference No.: 5201401157

Thank you for your recent correspondence. Your response has addressed the issues raised by the Faculty of Business and Economics Human Research Ethics Sub Committee. Approval of the above application is granted, effective "11/12/2014". This email constitutes ethical approval only. This research meets the requirements of the National Statement on Ethical Conduct in Human Research (2007). The National Statement is available at the following web site:

http://www.nhmrc.gov.au/_files_nhmrc/publications/attachments/e72.pdf.

The following personnel are authorised to conduct this research:

Dr Yvette Blount
Miss Sophia Su
Mr Bedanand Upadhaya
Mr Rahat Munir

NB. STUDENTS: IT IS YOUR RESPONSIBILITY TO KEEP A COPY OF THIS APPROVAL EMAIL TO SUBMIT WITH YOUR THESIS.

Please note the following standard requirements of approval:
1.The approval of this project is conditional upon your continuing compliance with the National Statement on Ethical Conduct in Human Research (2007).
2.Approval will be for a period of five (5) years subject to the provision of annual reports.

Progress Report 1 Due: 11th Dec 2015
Progress Report 2 Due: 11th Dec 2016
Progress Report 3 Due: 11th Dec 2017
Progress Report 4 Due: 11th Dec 2018
Final Report Due: 11th Dec 2019

NB. If you complete the work earlier than you had planned you must submit a Final Report as soon as the work is completed. If the project has been discontinued or not commenced for any reason, you are also required to submit a Final Report for the project.

Progress reports and Final Reports are available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/

human_research_ethics/forms

3.If the project has run for more than five (5) years you cannot renew approval for the project. You will need to complete and submit a Final Report and submit a new application for the project. (The five year limit on renewal of approvals allows the Committee to fully re-review research in an environment where legislation, guidelines and requirements are continually changing, for example, new child protection and privacy laws).

4.All amendments to the project must be reviewed and approved by the Committee before implementation. Please complete and submit a Request for Amendment Form available at the following website:

http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/forms

5.Please notify the Committee immediately in the event of any adverse effects on participants or of any unforeseen events that affect the continued ethical acceptability of the project.

6.At all times you are responsible for the ethical conduct of your research in accordance with the guidelines established by the University. This information is available at the following websites:

http://www.mq.edu.au/policy/
http://www.research.mq.edu.au/for/researchers/how_to_obtain_ethics_approval/human_research_ethics/policy

If you will be applying for or have applied for internal or external funding for the above project it is your responsibility to provide the Macquarie University's Research Grants Management Assistant with a copy of this email as soon as possible. Internal and External funding agencies will
not be informed that you have approval for your project and funds will not be released until the Research Grants Management Assistant has received a copy of this email.

If you need to provide a hard copy letter of approval to an external organisation as evidence that you have approval, please do not hesitate to contact the FBE Ethics Committee Secretariat, via fbe-ethics@mq.edu.au or 9850 4826.

Please retain a copy of this email as this is your official notification of ethics approval.

Yours sincerely,

Parmod Chand
Chair, Faculty of Business and Economics Ethics Sub-Committee
Faculty of Business and Economics
Level 7, E4A Building Macquarie University NSW 2109 Australia
T: +61 2 9850 4826
F: +61 2 9850 6140
www.businessandeconomics.mq.edu.au/

APPENDIX F: INFORMATION LETTER AND CONSENT FORM

Department of Accounting and Corporate Governance
Faculty of Business and Economics
MACQUARIE UNIVERSITY NSW 2109
AUSTRALIA

Participant Information and Consent Form

Dear Mr/Ms

You are invited to participate in a study on *Association between Corporate Social Responsibility (CSR) and Organisational Performance*. The purpose of the study is to examine the association between corporate social responsibility (CSR) and organisational performance within organisations operating in a developing country. In particular, the study examines (i) the role of organisational culture on adoption of CSR and (ii) the role of management control systems (MCS) on the effectiveness of CSR.[29]

I (Bedanand Upadhaya) am conducting this study to fulfil the requirements of Doctor of Philosophy (PhD) in Accounting and Corporate Governance under the supervision of Dr Rahat Munir (Email: rahat.munir@mq.edu.au; Tel: +61 2 9850 4765), Dr Yvette Blount (Email: yvette.blount@mq.edu.au; Tel: +61 2 9850 8514) and Dr Sophia Su (Email: sophia.su@mq.edu.au; Tel: +61 2 9850 8454) at Macquarie University, Sydney, Australia.

Participation in this study is entirely voluntary. If you decide to participate in this study, you are requested to complete the enclosed questionnaire. It will take about 15 to 20 minutes to complete the questionnaire. **Please return the completed questionnaire in the enclosed sealed envelope** to Mr Manoj Prasad Bhattarai, the Research Assistant assigned to administer this survey. His contact number is 9779851131777. Please be advised that any information or personal details gathered in this study will remain confidential and will not be used for any other purpose. The data will remain strictly confidential and will be kept in a secure place. Only the chief investigator and the co-investigators of the study will have access to the data. Since this study is only for academic purposes there will be no payment of money or other remuneration to the participants.

The findings of this study may be published in academic and professional journals and I assure you and your institution that the publications will not include any information identifying individual participants or the institution. If you would like to obtain a copy of the findings of the study please contact me at bedanand.upadhaya@students.mq.edu.au.

Thank you for your consideration.

Sincerely yours;

Bedanand Upadhaya
PhD Student
Macquarie University, Sydney, Australia
Email: bedanand.upadhaya@students.mq.edu.au

[29] The ethical aspects of this study have been approved by the Macquarie University Human Research Ethics Committee. If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Committee through the Director, Research Ethics (telephone (02) 98507854; email: ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.

APPENDIX G: SURVEY QUESTIONNAIRE[30]

CORPORATE SOCIAL RESPONSIBILITY SURVEY

Please indicate your (a) Gender: ☐ **Male** ☐ **Female**

(b) Highest educational qualification:

☐ **BA/B.Com** ☐ **MA/M.Com/MBA** ☐ **CA / CPA** ☐ **PhD** ☐ **Other**

Please indicate what industry your organisation belongs to: ☐ **Manufacturing** ☐ **Service Please indicate the type of your organisation:** ☐ **Domestic / Local** ☐ **Multinational**

Is your organisation listed on the Nepal Stock Exchange? ☐ **Yes** ☐ **No**

How many years have you worked in this industry? …………….years

How many years have you worked in your current position (job)? …………years

What is the total number of employees (approximately) in your organisation? ……………..

1	**Please indicate the extent to which the following statements are the main reasons for using Corporate Social Responsibility practices in your organisation. Please tick (√) one box only.**					
	Reasons	**Not at all**				**To a great extent**
1.1	To comply with the law, regulation and standards	☐ 1	☐2	☐3	☐4	☐5
1.2	To improve relationship with stakeholders, e.g., customers, society, NGOs and the government	☐ 1	☐2	☐3	☐4	☐5
1.3	To seek long-term partnership with customers and suppliers	☐ 1	☐2	☐3	☐4	☐5
1.4	To engage in fair trading practices with suppliers, distributors and contractors	☐ 1	☐2	☐3	☐4	☐5
1.5	To improve employee, customer and community health and safety	☐ 1	☐2	☐3	☐4	☐5
1.6	To improve employee morale	☐ 1	☐2	☐3	☐4	☐5
1.7	To minimise negative impact on the environment	☐ 1	☐2	☐3	☐4	☐5
1.8	To recycle waste materials	☐ 1	☐2	☐3	☐4	☐5
1.9	To reduce waste by streamlining processes	☐ 1	☐2	☐3	☐4	☐5
1.10	To dispose of waste responsibly	☐ 1	☐2	☐3	☐4	☐5
1.11	To increase energy efficiency	☐ 1	☐2	☐3	☐4	☐5
1.12	To reduce material, production and process cost	☐ 1	☐2	☐3	☐4	☐5
1.13	Filters and controls on emissions and discharge	☐ 1	☐2	☐3	☐4	☐5
1.14	To promote sustainable development	☐ 1	☐2	☐3	☐4	☐5
1.15	Competitive return on investment (ROI)	☐ 1	☐2	☐3	☐4	☐5
1.16	To achieve financial goals (increase profit)	☐ 1	☐2	☐3	☐4	☐5
1.17	To reduce cost of inputs for the same level of outputs	☐ 1	☐2	☐3	☐4	☐5
1.18	Environmental training for employees	☐ 1	☐2	☐3	☐4	☐5
1.19	To sponsor local community initiatives / events	☐ 1	☐2	☐3	☐4	☐5
1.20	To sell waste product for revenue	☐ 1	☐2	☐3	☐4	☐5
1.21	To work with government to protect the company's interests	☐ 1	☐2	☐3	☐4	☐5
1.22	To make donations / contributions to charity	☐ 1	☐2	☐3	☐4	☐5
1.23	Direct economic value generated and distributed	☐ 1	☐2	☐3	☐4	☐5
1.24	To improve the company's reputation or goodwill	☐ 1	☐2	☐3	☐4	☐5
1.25	For external (or for website) reporting purposes	☐ 1	☐2	☐3	☐4	☐5
1.26	To lower operating costs	☐ 1	☐2	☐3	☐4	☐5
1.27	Income from material scrap or recycled waste	☐ 1	☐2	☐3	☐4	☐5
1.28	Prohibit child labour, and violation of human right	☐ 1	☐2	☐3	☐4	☐5
1.29	Use of ISO certifications on quality / environmental aspects, e.g. ISO 14000	☐ 1	☐2	☐3	☐4	☐5

[30] **Note:** Questions 1, 2 and 3 used for paper two, and 4, 5 and 6 used for paper three.

2	Below is a list of 26 values that may be used to describe the nature of the work environment in organisations. For each item please indicate the extent to which it is valued in your organisation. Please note that there are no right or wrong answers. The best answer is the one that most closely reflects your true feelings or beliefs. Please tick (√) one box only.					
	Values	**Not at all**				**To a great extent**
2.1	Fairness	□ 1	□2	□3	□4	□5
2.2	Respect for the rights of the individual	□ 1	□2	□3	□4	□5
2.3	Tolerance	□ 1	□2	□3	□4	□5
2.4	Being socially responsible	□ 1	□2	□3	□4	□5
2.5	Being competitive	□ 1	□2	□3	□4	□5
2.6	Being achievement oriented	□ 1	□2	□3	□4	□5
2.7	Having high expectations for performance	□ 1	□2	□3	□4	□5
2.8	Being results oriented	□ 1	□2	□3	□4	□5
2.9	Being analytical	□ 1	□2	□3	□4	□5
2.10	Being people oriented	□ 1	□2	□3	□4	□5
2.11	Being team oriented	□ 1	□2	□3	□4	□5
2.12	Working in collaboration with others	□ 1	□2	□3	□4	□5
2.13	Being action oriented	□ 1	□2	□3	□4	□5
2.14	A willingness to experiment	□ 1	□2	□3	□4	□5
2.15	Not being constrained by many rules	□ 1	□2	□3	□4	□5
2.16	Being quick to take advantage of opportunities	□ 1	□2	□3	□4	□5
2.17	Being innovative	□ 1	□2	□3	□4	□5
2.18	Risk taking	□ 1	□2	□3	□4	□5
2.19	Being careful	□ 1	□2	□3	□4	□5
2.20	Paying attention to detail	□ 1	□2	□3	□4	□5
2.21	Being precise	□ 1	□2	□3	□4	□5
2.22	Being rule oriented	□ 1	□2	□3	□4	□5
2.23	Security of employment	□ 1	□2	□3	□4	□5
2.24	Stability	□ 1	□2	□3	□4	□5
2.25	Being aggressive	□ 1	□2	□3	□4	□5
2.26	Predictability	□ 1	□2	□3	□4	□5

3	Please indicate the extent to which the following statements describe the business strategy of your organisation. Please tick (√) one box only.					
	Our organisation places emphasis on:	**Not at all**				**To a great extent**
3.1	The efficiency of securing raw materials or components (e.g., bargaining down the purchase price)	□ 1	□2	□3	□4	□5
3.2	New product / service development or existing product / service adaptation to better serve customers	□ 1	□2	□3	□4	□5
3.3	Tight control of selling /general /administrative expenses	□ 1	□2	□3	□4	□5
3.4	Product / service capacity utilisation	□ 1	□2	□3	□4	□5
3.5	Introducing new products / service to the market	□ 1	□2	□3	□4	□5
3.6	Developing and utilising the sales force	□ 1	□2	□3	□4	□5
3.7	Price competition (offering competitive prices)	□ 1	□2	□3	□4	□5
3.8	The intensity of advertising and marketing	□ 1	□2	□3	□4	□5
3.9	Operating efficiency (e.g., efficiency in production or distribution)	□ 1	□2	□3	□4	□5
3.10	Building strong brand identification	□ 1	□2	□3	□4	□5
3.11	Finding ways to reduce costs (e.g., standardising the product or increasing economy of scale)	□ 1	□2	□3	□4	□5
3.12	The number of new product / service offered to the market	□ 1	□2	□3	□4	□5

4	Please indicate the extent to which the following benefits are received by your organisation as a result of your current Corporate Social Responsibility practices. Please tick (√) one box only.					
	Objectives	**Not effective**				**Very effective**
4.1	Comply with the law, regulation and standards	□ 1	□2	□3	□4	□5
4.2	Improved relationship with stakeholders, e.g., customers, society, NGOs and the government	□ 1	□2	□3	□4	□5
4.3	Long-term partnership with customers and suppliers	□ 1	□2	□3	□4	□5
4.4	Engaged in fair trading practices with suppliers, distributors and contractors	□ 1	□2	□3	□4	□5
4.5	Improved employee, customer and community health and safety	□ 1	□2	□3	□4	□5
4.6	Improved employee morale	□ 1	□2	□3	□4	□5
4.7	Minimised negative impact on the environment	□ 1	□2	□3	□4	□5
4.8	Recycling of waste materials	□ 1	□2	□3	□4	□5
4.9	Reduced waste by streamlining processes	□ 1	□2	□3	□4	□5
4.10	Disposed waste responsibly	□ 1	□2	□3	□4	□5
4.11	Increased energy efficiency	□ 1	□2	□3	□4	□5
4.12	Reduced material, production and process cost	□ 1	□2	□3	□4	□5
4.13	Filters and controls on emissions and discharge	□ 1	□2	□3	□4	□5
4.14	Promoted sustainable development	□ 1	□2	□3	□4	□5
4.15	Competitive return on investment (ROI)	□ 1	□2	□3	□4	□5
4.16	Achieved financial goals (increased profit)	□ 1	□2	□3	□4	□5
4.17	Reduced cost of inputs for the same level of outputs	□ 1	□2	□3	□4	□5
4.18	Environmental trainings for employee	□ 1	□2	□3	□4	□5
4.19	Sponsor local community initiatives / events	□ 1	□2	□3	□4	□5
4.20	Sold waste product for revenue	□ 1	□2	□3	□4	□5
4.21	Worked with government to protect the company's interests	□ 1	□2	□3	□4	□5
4.22	Improved community engagement	□ 1	□2	□3	□4	□5
4.23	Direct economic value generated and distributed	□ 1	□2	□3	□4	□5
4.24	Improved the company's reputation or goodwill	□ 1	□2	□3	□4	□5
4.25	External (or website) reporting	□ 1	□2	□3	□4	□5
4.26	Lowered operating costs	□ 1	□2	□3	□4	□5
4.27	Generated income from material scrap or recycled waste	□ 1	□2	□3	□4	□5
4.28	Prohibited child labour, and violation of human right	□ 1	□2	□3	□4	□5
4.29	Use of ISO certifications on quality / environmental aspects, e.g. ISO 14000	□ 1	□2	□3	□4	□5

5	Please indicate the extent to which you agree with each of the following statements relating to your organisation's overall performance compared to others in the same industry. Please tick (√) one box only.					
	Organisational performance	**Strongly disagree**				**Strongly agree**
5.1	Profit goals have been achieved	□ 1	□2	□3	□4	□5
5.2	Sales goals have been achieved	□ 1	□2	□3	□4	□5
5.3	Return on Investment (ROI) goals have been achieved	□ 1	□2	□3	□4	□5
5.4	Our product(s) / services are of a higher quality than those of our competitors	□ 1	□2	□3	□4	□5
5.5	We have a higher customer retention rate than our competitors	□ 1	□2	□3	□4	□5
5.6	We have a lower employee turnover rate than our competitors	□ 1	□2	□3	□4	□5

6	Please indicate to what extent you agree with the following statements. Please tick (√) one box only					
	Management control systems	**Strongly disagree**				**Strongly agree**
6.1	Our mission statement clearly communicates the organisation's core values to our workforce / employees	☐ 1	☐2	☐3	☐4	☐5
6.2	Top level managers communicate core values to our workforce / employees	☐ 1	☐2	☐3	☐4	☐5
6.3	Employees are well aware of the organisation's core values	☐ 1	☐2	☐3	☐4	☐5
6.4	Our mission statement inspires our workforce / employees	☐ 1	☐2	☐3	☐4	☐5
6.5	CSR activities are a top priority in our organisation	☐ 1	☐2	☐3	☐4	☐5
6.6	Our organisation relies on a code of business conduct to define appropriate behaviour for our workforce / employees	☐ 1	☐2	☐3	☐4	☐5
6.7	Our code of business conduct informs our workforce / employees about behaviours that are off-limits	☐ 1	☐2	☐3	☐4	☐5
6.8	Our organisation has a system that communicates to our workforce / employees about the risks that should be avoided	☐ 1	☐2	☐3	☐4	☐5
6.9	Our workforce is aware of the organisation's code of business conduct	☐ 1	☐2	☐3	☐4	☐5
6.10	Our organisation has a fixed budget for CSR activities that cannot be exceeded	☐ 1	☐2	☐3	☐4	☐5
6.11	Performance measures are used to track progress towards goals and monitor results	☐ 1	☐2	☐3	☐4	☐5
6.12	Controls are used to plan how operations are to be conducted in accordance with the strategic plan	☐ 1	☐2	☐3	☐4	☐5
6.13	Controls are used to review performance	☐ 1	☐2	☐3	☐4	☐5
6.14	Controls are used to compare outcomes to expectations and take appropriate actions, if required	☐ 1	☐2	☐3	☐4	☐5
6.15	CSR performance is tracked and evaluated against CSR plans / strategies	☐ 1	☐2	☐3	☐4	☐5
6.16	Controls are often used as a means of developing action plans	☐ 1	☐2	☐3	☐4	☐5
6.17	There is a continuous interaction between top management and junior managers	☐ 1	☐2	☐3	☐4	☐5
6.18	Controls are used in regular face to face meetings between top management and junior managers to enable discussions	☐ 1	☐2	☐3	☐4	☐5
6.19	Controls are often used by senior managers personally to discuss the change	☐ 1	☐2	☐3	☐4	☐5
6.20	Top management regularly pays attention to the organisation's CSR activities	☐ 1	☐2	☐3	☐4	☐5

Thank you for taking the time to complete this survey. Your assistance in providing this information is very much appreciated. If there is anything else you would like to tell me in relation to your experience with CSR, management control systems and organisational performance in your organisation please do so in the space provided below.

Mr Manoj Prasad Bhattarai (Mobile: +977-9851131777) will collect the completed survey from you in the enclosed self-addressed envelope. Please ensure that the completed survey is returned in the enclosed sealed envelope.

The ethical aspects of this study have been approved by the Macquarie University Ethics Review Committee (Human Research). If you have any complaints or reservations about any ethical aspect of your participation in this research, you may contact the Ethics Review Committee through its Secretary (telephone: +61298507854; email: ethics@mq.edu.au). Any complaint you make will be treated in confidence and investigated, and you will be informed of the outcome.