A CONCEPTUAL FRAMEWORK OF THE IMPACT OF TOTAL QUALITY MANAGEMENT AND CORPORATE SOCIAL RESPONSIBILITY ON BUSINESS PERFORMANCE IN THE CONTEXT OF DEVELOPING ECONOMY

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Abstract - The purpose of this study is to develop a conceptual framework of the relationship between TQM, CSR and business performance in a developing economy like Pakistan. This study proposes an integrated conceptual framework of TQM, CSR and business performance. The reason for TQM and CSR integration is that companies face pressure not only from its customer to deliver high quality product and services, but also from other stakeholder like employees, society and the natural environment as well. Therefore, companies generate profit for its shareholder by producing high quality product and services in the manner that emphasize human dignity, satisfy its employees, and do not harm people and the natural environment. This study, based on stakeholder theory which stresses to satisfy all stakeholders, foresees how stakeholder orientation affects the relationship between TQM, CSR and business performance. The proposed framework of this study will provide important insight for Pakistan industry which will result in to get benefit from TQM and CSR implementation. Moreover, this study will provide better understanding that how TQM and CSR impact on business performance and will significantly help Pakistani industry to gain competitive advantages in the global marketplace.

I. INTRODUCTION

In today’s globalized business world, competition has potential challenges to provide good quality of products or services. Companies need to become more active for better quality in order to obtain a sustainable competitive advantage (Benavides-Velasco et al., 2014). Furthermore, corporate scandals in modern businesses (e.g., Enron, WorldCom) have arisen. Critical consideration the responsibilities of companies (Adnan Khurshid et al., 2014). Companies confront pressure to not only improve product/services quality but also to behave socially responsible way towards their stakeholders. The stakeholders, such as internal stakeholders, including customer, shareholder, employees, creditors, suppliers as well as external stakeholders including community, society, environment, non-governmental organizations (NGOs), public authorities, trade unions, and international organizations, are showing interest in environmental and social (Maignan and Ferrell, 2004) and concern about quality issues (Frolova and Lapina, 2015).

Therefore, Total Quality Management (TQM) and Corporate Social Responsibility (CSR), both are broadly recognized management philosophies (Benavides-Velasco et al., 2014). TQM focuses on the continuous process improvement in organizations bringing more value and productivity by satisfying customer demands (Wang et al., 2012). Whereas, CSR also represents a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (Commission of the European Communities, 2001).

Apparently, to get benefits of adopting TQM and CSR practices, many of the previous studies investigated that TQM has influenced on organizational performance (Allen and Kilmann, 2001; Harrington and Keating, 2006; Oakland, 2011; Paras and Adams, 2012; Wang et al., 2012; Sadikoglu and Olcay 2014). Similarly, a massive body of literature has emerged linking between CSR and organizational performance (Kotler and Lee 2005; Ioannou and Serafiem, 2010; Kansal and Singh 2012; Yam, 2013). Having said all this, it is worth mentioning that TQM and CSR practices are being studied individually or an isolated way and scholars suggested to examine the both strategies simultaneously (Benavides-Velasco et al., 2014; Garcia-Bernal and Ramirez-Alesón, 2015). A critical gap in knowledge therefore exists that how the integration of TQM and CSR practices would affect organizational performance?

This study is therefore important in three ways. First, in the theoretical way, this study fills the gap in existing literature by developing an integrated conceptual framework that addresses issues related to TQM and CSR effect on organizational effectiveness. There is a need to develop a conceptual framework that addresses issues related to developing economy and develop the relationship between TQM/CSR and firm performance with conclusive results. Second, in the practical way the proposed integrated model of TQM and CSR in this study encourages the
management of the companies on how to align social and business goals, such as from just giving charity to “intelligent giving” that makes positive change and will improve corporate image and reputation or can obtain sustainable competitive advantages. Third, existing research regarding the relationship between TQM/CSR and firm performance have focused exclusively on Western developed economies and scholars have little attention on the strategic value of TQM/CSR in developing economies (like Pakistan) (Gambiet et al., 2015; Kim et al., 2017; Rettab et al., 2009). The limited body of research has focused on TQM/CSR in developing economies and one cannot generalize the above findings from Western developed economies to developing economies without further research. The research about the relationship between TQM and CSR on business performance in the developing economies like in Pakistani industries’ context is necessary because of the severe differences in business systems and perception among firms in Pakistani economy in contrast to those that are in the West. The structured of this study as follows: first, we discussed the theories which underpin the conceptual framework with literature review of TQM, CSR and business performance that will lead to the discussions of their relationships. Next, the propositions and conceptual model are developed and finally, concluding remarks with future research agenda is presented.

II. LITERATURE REVIEW

2.1 Total Quality Management

The quality efforts for the organization can be traced back to the 1920s. However, initially, the organizations were emphasizing on improving the technical process and controlling the quality. Later on, the concepts like Statistical Quality Control (SQC), Quality Assurance (QA), (Deming, 1986; Feigenbaum, 1991) and Total Quality Management (TQM) mainly driven by the Japanese firm (Zink, 2007) at that time and later on the organization around the globe implemented in their organization. Moreover, organizations have recognized the strategic importance of the TQM. The organization’s business excellence now a day can be recognized through TQM (EFQM, 2010). TQM is a quality improvement approach for organizations with a purpose of improving better quality product and services.

A growth of TQM started when many organizations introduced many quality initiatives for example, Six Sigma, quality function deployment, and quality circle. Furthermore, ISO 9000 certification standards also become one of the major standards to measure the quality standards in the organization. Moreover, the environmental awareness and belonging to the earth and quality excellence (Dahlgaard and Dahlgaard, 2010), has given birth for ISO 14000 standards, Six Sigma, Malcolm Baldrige National Quality Award (MBNQA) and European Foundation for Quality Management (Bou-Llusar et al., 2009).

There are different definitions for TQM, such as the internationa stanized organization (ISO) defined that “TQM is a management approach of an organization, centered on quality, based on the participation of all its members and aiming at long-term success through customer satisfaction, as well as benefits for all members of the organization and for society”. Kaynak (2003) asserted that “TQM is a holistic management philosophy that strives for continuous improvement in all functions of an organization, and it can be achieved”. Broader the definition, TQM is a multidimensional concept but the focal point of TQM is “continuous improvement processes”. TQM have two approaches like external that focuses on customer orientation in order to get useful and update market orientation and as an internal approach by continuous improvement and delivers high quality products and services on operation, TQM is an instrument to get operational excellence (Ardestani and Amirzadeh, 2014). TQM contains several activities, for example management leadership, role of the quality department, training, employee relations, quality data and reporting, supplier quality management, product/service design, (Saraph, et al., 1989; Powell, 1995), process management, strategic planning, customer focus (Kaynak, 2003), information technology and analysis, people management (Parast and Adams, 2012; Das et al., 2008).

However, TQM practices are categorized into two characteristics: Soft and Hard. The soft characterization are mainly consisting of human resource management aspects like employee engagement, training and development, teamwork, compensation, employee recognition, communication, employee empowerment and commitment of the management (Wilkinson, 1992). However, the hard characteristics contains operation management aspect like production processes, techniques, just in time, supplier relations (Arumugam et al., 2008). Many studies have proved the hard aspects of TQM regarding effectiveness in developing superior products and services, which are meeting the customers’ requirement as well. However, the soft aspects of TQM enable employees for the effective and efficient utilization of their capabilities in order to achieve organizational objectives (Idris, 2011, Tan et al., 2014).

This study investigates both soft and hard practices of TQM. Therefore, this research adopts the TQM dimension of the EFQM Excellence Model (EFQM, 2010), which is measured to establish a valid representation of TQM (Benavides-Velasco et al., 2014). Furthermore, previous literature emphasized more research by using the EFQM model, whether it influences on organizational objectives (Garcia-
Bernal and Ramírez-Alesón, 2015). These five enablers in the EFQM model include: leadership, employees, strategy, partnership and resources and finally processes, products and services are discussed below.

2.1.1 Leadership
Leadership is the most significant component of TQM, as defined by EFQM “good business leader is the top man who directed and was in control of all aspects of his business”. According by Ehigie and Akpan (2004) leadership is “the capacity of a leader to affect the attitude and actions on others” in order to accomplish the organizational objectives (Robbinsons, 2003). In the other words, it offers supervision and direction for the whole organization to implement any quality improvement program (Idris, 2011).

2.1.2 Employee
For the implementation of quality initiatives, “Employees” are another important enabler of TQM “they have always been vital to the organization, because they provide inspiration, creativity, vision and motivation that keep an organization alive” (EFQM, 2010). According by Oakland (2011), organizations improve employees’ capabilities by training, empowerment, teamwork, and participation in improvement activities through TQM implementation.

2.1.3 Strategy
“Strategy” is another related element of TQM. London (2002) suggested that a clear company’s strategic plan is necessary for TQM implementation. For example, placement of the effective strategic plan, which continually reviewed and improved and appropriate communication in all over organization could get sustainable results of their stakeholders and organizational performance (Oakland, 2011). These strategic plans based on organization’ mission and objectives so that the company strategy should be focused on its stakeholders and understand their expectations and needs.

2.1.4 Partnership and Recourses
According by EFQM (2010), the partnership is “a working relationship between two or more parties creating added value for the customer”. The reason is that the excellent organizations have partnership with suppliers and external parties and manage internal resources to support their strategy and policies which would enhance the operational processes. In the other words, Harrington and Keating (2006) stated that TQM standards required for management to manage external partnerships and internal resources with their partners and suppliers to get a sustainable advantage, and technology, information and knowledge (Benavides-Velasco et al., 2014) to support company strategy and effective decision making (EFQM, 2010).

2.1.5 Processes, products and services
The Process is a series of activities designed by an organization to produce products and services which add value for its customers and other stakeholders. Excellent organization creates optimum value for its customers by developing products and services (EFQM, 2010). According by Prajogo and Sohal (2006) organizations continuously have to find ways for process improvement in order to be productive, lean innovative.

2.2 Corporate Social Responsibility
Over the past six decades, CSR concepts have been embedded in the literature to address business and their involvement in a wide variety of social issues. Academically, CSR can be taken back to Bowen’s (1953) where CSR was defined as “an obligation to pursue those policies to make those decisions, or to follow those lines of action that are desirable in terms of the objectives and values of our society” (Bowen, 1953, p. 6). Even though the concept of CSR has roots in the early 1950s, over the decades the subject has been generally defined construct in multidimensional terms and its definition has evolved.

According to Friedman (1970) corporation has only one responsibility is making profit in a legal way and managers’ have only the responsibility “to conduct the business in accordance with their [the owners] desires to make as much money as possible conforming to the basic rule of society” (p.13). On the other hand, Freeman (1994) contended that managers do not only have a responsibility just to shareholder, but all stakeholders; as organization’s success depend on the capability to manage its relationships with their stakeholders like shareholders, but also customers, employees, and even communities or societies (Adnan Khurshid et al., 2014). Companies survive not only as an economic entity but also have other social responsibilities to various stakeholders. The firm’s operation negatively affected if any of the stakeholder groups take out their support to the firm (Clarkson, 1995).

There are numerous definitions of CSR, each valuable in their own right, defined to fit the organization in question. Generally, CSR may be understood 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” (Carroll, 1991, pp. 283; 1979, pp. 500). Corporate Social Performance (CSP) concept developed by Wood (1991), CSP model that captured CSR concerns, defining CSP as “A business organization’s configuration of principles of social responsibility, the process of social responsiveness, and policies,
programs, and observable outcomes as they relate to the firm’s societal relationships (Wood, 1991; p.693). The CSP concept acknowledges that business is an influential social institution with responsibilities to use that influence wisely on behalf of multiple stakeholders involved. The concept of CSR has wider recognition and acceptance in corporate practices, as well as in the academic literature. Despite that the CSR has multi-dimensional characteristics, CSR generally refers to the business principles guiding managerial decision making, emphasizing obligation and accountability to society (Carroll & Buchholtz, 2014). Broadly speaking, the construct of CSR as we know it today has two main characteristics. First, it describes the relationship between business and the larger society and stakeholders. Second, it refers to a company’s voluntary activities in the area of environmental and social issues (Andersen and Sjoett-Larsen, 2009; Carroll and Buchholtz, 2014). However, broad the definition used, CSR is all about business performance in a wide range of social and environmental areas (Carroll, 2008).

The mainstream of definitions integrates the three dimensions in include economic, social and environmental aspects into the definition, that is usually called the triple bottom line. Elkington (1997) developed the concept of Triple Bottom Line. The focal point is his concept on three concerns, namely, social responsibility (People), environmental responsibility (Planet) and economic responsibility (Profit). This means that, socially responsible company considered as organization for economic prosperity, social equity and environment protection. The Triple bottom line concept has been accepted globally in the corporate world and gaining solid foundation for CSR (Rahman, 2011). This study adopts Elkington (1997) dimensions of CSR model, which has been operationalized by many researchers (Lantos, 2002; Panapanaan et al., 2003). Freeman’s viewpoint is also related with Triple bottom line, which his firms would make profit but will not harm the people and natural environment where they operate (Adnan Khurshid et al., 2014). The Triple bottom line of CSR model includes economic, social and environmental dimensions as following.

1. Social responsibility – organizations are socially responsible to pay back a certain portion of their profit what they earned for the well-being of the social system or society.
2. Economic responsibility – organizations should strive for their own growth and contribute to the economic prosperity of the country.
3. Environmental responsibility – the corporate sector of the economy is responsible for the protection and sustainability of the ecosystem (natural environment).

2.3 Organizational Performance
Organizational performance is the most important variable for researchers when the need to measure competitive advantage of a firm (Sila, 2007). However, measurement organizational performance itself is complex and it can be viewed from different angles such as financial or accounting viewpoint (Mueller, 1996), marketing outcome viewpoint like customer satisfaction (Jaworski & Kohli, 1993) and other such as, market share, employee satisfaction (Kaplan & Norton, 2001). However, most of the researcher agreed that accounting viewpoint that measures profit a firm as the primary field of measurement (Helfiat et al., 2007). This is because the ultimate objective of the firm is to generate profit. For example, sales growth, return on assets and equity and return on investment are the common indicators for accounting performance measure. On the other hand, market performance measurements do provide a different view to measure how firm success in market in competition with competitor such as market share, customer retention or satisfaction etc. (Homburg and Pflesser, 2000).

Previous studies invested that TQM and CSR having effect on organizational performance. In TQM context, researchers found that TQM practices influence operational performance (Sadikoglu and Zehir, 2010), innovation performance (Prajogo and Hong, 2008), Employee performance (Jitpaiboon and Rao, 2007), customer satisfaction (Das et al., 2008; Fuentes et al., 2006) and financial and market performance (Agus and Sagir, 2001; Nicolau and Seller, 2010; Bondy et al., 2012; Yunis et al., 2013). In CSR context, researcher also found many performance measures having influenced by CSR practices like financial performance such as return on assets or equity, return on sales, risk, market share/growth, Tobin’s q (Sun et al., 2010; Dam and Scholten, 2008; Mishra and Suar, 2010) and non-financial measure like employee commitment, job performance (Kim et al., 2010), customer satisfaction and purchase intention (Luo and Bhattacharya, 2006) and reputation (Rettab et al., 2009).

Based on above discussion, on organizational performance, this study adopted both types of organizational performance measures e.g., financial and non-financial performance. Financial performance measure includes profitability and growth/share, while non-financial performance includes operational performance, customer satisfaction, and corporate reputation.

2.4 TQM & CSR related issues in Pakistan
In Pakistan, quality management practices are in initial stage. Previous researches concluded that TQM & CSR concept has not been yet incorporated in the strategic and long-term plans of the companies. There are many reasons behind this leg behind as
most of developing economies have some characteristics including:

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<th>TQM related issues</th>
<th>CSR related issues</th>
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<td>Lack of resources</td>
<td>Lack of awareness</td>
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<td>Emphasis on short term goals</td>
<td>Shareholder focus on short term goals</td>
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<td>Resistance to change</td>
<td>Cultural / Religiosity</td>
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<td>Lack of commitment from the top management</td>
<td>Government institutions role</td>
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<td>Lack of objectives and strategies</td>
<td>Lack of stakeholder orientation</td>
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<td>Lack of evaluation procedures and benchmark indicators</td>
<td>Role of academia</td>
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<td>Shortage of skilled labour force and raw materials</td>
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<td>Underutilization of available production capacity</td>
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<td>High scrap</td>
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In addition, some researches highlighted the effectiveness of TQM practices in Pakistani industries like textile industries (Shafiq et al., 2017; Fatima and Ahmed, 2006), manufacturing industries (Ashraf, 2016; Usman Awan et al., 2009; UlHasan et al., 2012) services industries (Irfan et al., 2012; Kureshi et al., 2010). However, these studies did not provide adequate information about the nature and level of TQM implementation in Pakistani industries. For example, they do not indicated the level of usage of TQM frameworks, like the EFQM excellence model, by the Pakistani companies. In addition, these studies do not specified how well TQM practices, like top management, planning, human resource involvement, customer satisfaction, process improvement are implemented in the companies that will enhance business performance.

Other important features which has not yet been explored adequately in the context of the Pakistani industry that related with social responsibilities (e.g. satisfaction of society and protection of natural environment) are seen as important stakeholders (Wu et al., 2015; Idris, 2011). There are many aspects of the companies’ operations that have direct or indirect impact on society and natural environment. For example, employee’s health and safety, toxic and hazardous chemical drainage system, and emission and waste reduction. Therefore, how well Pakistani companies are satisfying the requirements of society needs and protect natural environment need to be investigated.

III. CONCEPTUAL FRAMEWORK AND PROPOSITION DEVELOPMENT

Based on above discussion, the following conceptual framework is proposed in this study that operationalized both distinct areas (TQM and CSR) into one single comprehensive framework which applied to the broader issues of responsibility rather than just quality.

Figure: Proposed conceptual framework of this study

3.1 The relationship between TQM and business performance

TQM factors which would lead to improve various organizational performances on stakeholder’s perspective are still debatable. Benavides-Velasco et al., (2014), for example, concluded that leadership, employees, strategy, partnership and resources, processes, products and services have a significant and positive association with customer and employees satisfaction. They argued that TQM has no direct effect on the satisfaction of society’s needs because the level of satisfaction of society concerning their actions are more related to the CSR actions. Leadership or competent leader is an important critical factor for TQM implementation more effective (Das et al., 2008). It is found that top management support is positively related to financial performance like market share, market outcomes and competitive advantages (Powell, 1995; Brahe et al., 2000; Wilson and Collier, 2000), and non-financial performance like employee performance, operational productivity, and customer satisfaction (Osuagwu,
The reason in that without top management support and commitment companies could not implement TQM practices. Employees of the firm are also an important factor in TQM execution. Previous studies found a positive relationship between employee training, empowerment, teamwork and customer satisfaction and as well as organizational performance (Amin et al., 2017; Allen and Kilmann, 2001; Chandler and McEvoy, 2000). Through effective training, employees will be loyal with firm or motivated if involve them in decision making which will encourage them to produce quality products and services for their customers. Thus, customer’s satisfaction will improve and customer’s complaints will reduce (Sakiloglu and Olcay, 2014).

“Strategy is another important enabler of TQM having impact on the effectiveness of quality implementation initiatives (Harrington and Keating, 2006). Literature recognized that firm strategy play an important role on firm performance (Idris, 2012). An effective strategic plan has an impact on organizational performance like sales growth, earnings’ growth, return on assets, return on equity, return on sales, and return on capital (Miller and Cardinal, 1994). Organization plan and manage the partnership and resources with its partners and suppliers in order to support firm strategy (EFQM, 2010). For successful TQM implementation, partnership plays a critical role, such as by maintaining a good relationship with suppliers would result in delivering good quality products and services on time (Sakiloglu and Olcay, 2014). Furthermore, to get competitive advantage, companies involve their recourse like though progressive human resource management (HRM) practices (Delaney and Huselid, 1996). Dubey and Gunasekaran (2015) found that significant relationship between HRM practices such as communication, continuous improvement, and cross functional employee cooperation with organizational effectiveness variables such as productivity, quality and sales.

Finally, to implement the company strategy, companies should design processes to how company’s plan execute. “Processes” guided to quality management to reduce variations in the process and improve the quality of the product (Sakiloglu and Zehir, 2010) higher in productivity, reduction in waste, improved operational reliability and innovation (Prajogo and Sohal, 2006). Moreover, an effective process management design minimized the negative impact on the environment which results in the reduction in cost and increase in profit (Wilson and Collier, 2000).

In summary, researchers found the positive relationship between TQM adoption and operational performance (García-Bernal and Ramírez-Alesón, 2015; Sakiloglu and Olcay, 2014; Yunis et al., 2013). A firm adopts TQM practices which would enhance operational performance, such as improvement in product quality, detect and remove the cause of operational problems (Flynn et al., 2005) by adopting the scientific methods for work organization and continues assessment of alternative solutions to identify problems. TQM allows firm to improve its production process, product design, and reduce complexity of the process which improve operational performance (Ahire and Dreyfus, 2000). Moreover, TQM practices improve customer satisfaction (Wang et al., 2012) by producing and delivering good quality of product and services satisfied customer’s present and future need and expectation which will lead customer satisfaction (Sakiloglu and Zehir, 2010). TQM involves direct relationship with customers such as sharing information though an effective communication channels (Sakiloglu and Zehir, 2010), involving employees in customers satisfaction like respond to their complaint (Sila, 2007). Furthermore, researchers found that TQM also improves firm’s value creation capabilities and improve competitiveness strength to achieve sustainable competitive advantage (Powell, 1995; El Shenawy et al., 2007; Yunis et al., 2013).

Based on above discussion this study suggests the following proposition.

P1: TQM practices (leadership, strategy, employees, partnership, processes) are positively related to business performance.

3.2 The relationship between CSR and business performance

The economic performance of a company has direct and indirect impacts on firm’s performance and all of its stakeholders – including its employees, local governments, non-profit organizations, customers, suppliers, and the communities in which the company operates (Bhattacharya, 2016). For example, a good economic performance develops business for the long term and to invest in development and the well-being of its employees, and employees of the company get good salaries, from which they purchase goods and services as well as pay taxes. These activities increase the local service industry, government programs and the community activities. This effect develops an important role if the company is one of the largest employers in the communities which will lead good economic performance. Literature indicates that CSR is increasingly an important tool to attract and retain a talented and diverse workforce (Amin et al., 2014).

Involvement of business within social activities is seen in areas of education, health, formal code of conduct (Galbreath, 2010). CSR towards community is seen in terms of philanthropic giving, charity and donation, public–private partnerships, community relationships, and participation in social and economic development issues. In the firm humanistic culture, when firms focus their social actions on
The impact of firms’ environmental performance may also have beneficial effects on the company itself (Wu et al., 2015). Usage of less material and reformation processes to create less waste which may lower the costs of operation. Moreover, the close review of operations, which is needed to enhance the environmental performance, may reveal other improvement points, such as operational performance and material loss (Goyal et al., 2013). Furthermore, responsible public image may also attract more customers (Rettab et al., 2009). These kinds of improvements as well as the investments behind them are often referred to as win-win – good for both the environment and profitability of the company and improve firm performance (You et al., 2013). The impact of firms’ positive environmental practices on market share, profitability, and return on investment is enhanced in environmentally conscious companies (Yam, 2013). However, based on above discussion this study also suggests the following proposition.

P2: CSR (economic, social, environmental) practices are positively related to organizational performance.

DISCUSSION AND CONCLUSION

The purpose of this study is to propose the relationship between TQM and CSR, which influence on business performance in developing economies context. The reason is that, TQM and CSR practices would be implemented simultaneously in organizations to develop a valuable firms strategy that provides a sustainable competitive advantage. This study contributes to the existing state of knowledge in the areas of TQM and CSR by capturing the critical factors in order to improve firms’ performance particularly in developing economy. For example TQM factors (i.e. leadership, strategy, employees, partnership &resources and processes, products &services), CSR factors (i.e. economic, social and environmental responsibilities) are incorporated and customized with developing country context (like Pakistan). In addition, based on proposed framework, companies could enhance continuous improvement through implementation of TQM and CSR practices to satisfy not only customers and shareholder but also other stakeholders such as community or society where they operate.

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