

The purpose of corporate social responsibility



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Corporate social responsibility (CSR) covers the responsibilities corporations have to the societies within which they are based and operate. More specifically, CSR involves a business identifying its stakeholder groups and incorporating their needs and values within the strategic and day-to-day decision-making process. Therefore, a business' ' society' within which it operates, which defines the number of stakeholders to which the organization has a ' responsibility,' may be broad or narrow depending on the industry in which the firm operates and its perspective.

There is still having other definitions for CSR. Such as, based on South China Morning Post, 2002, the notion of companies looking beyond profits to their role in society is generally termed corporate social responsibility (CSR). It refers to a company linking itself with ethical values, transparency, employee relations, compliance with legal requirements and overall respect for the communities in which they operate. It goes beyond the occasional community service action, however, as CSR is a corporate philosophy that drives strategic decision-making, partner selection, hiring practices and, ultimately, brand development. Beside, according to Archie B. Carroll, 1979, the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time.

On the other hand, the Institute of Directors, UK, 2002, stated that CSR is about businesses and other organizations going beyond the legal obligations to manage the impact they have on the environment and society. In particular, this could include how organizations interact with their

employees, suppliers, customers and the communities in which they operate, as well as the extent they attempt to protect the environment.

CSR is a means of analyzing the inter-dependent relationships that exist between businesses and economic systems, and the communities within which they are based. CSR is a means of discussing the extent of any obligations a business has to its immediate society and also a way of proposing policy ideas on how those obligations can be met as well as a tool by which the benefits to a business for meeting those obligations can be identified.

Today, companies permanently need to implement solutions aimed at generating competitive advantage that allow them to survive and be successful in ever changing and demanding markets. Therefore, to focus on customers is a common denominator for organizations, aiming to meet their needs and satisfy their expectations.

Society has become one of the players as one of the actors that highly influence corporate behavior. Communities have expressed more mistrust of corporations' because of various scandals. This has put business ethics in the spot light influencing companies to be good corporate citizens, respecting the law but also to create good social values and principles. Today, the level of demand goes beyond the direct impact of the organizations business to also incorporate how corporations can contribute to societal and environmental causes. For corporations, these activities are manifested through the concept of Corporate Social Responsibility (CSR). However, from

a corporate perspective, it is difficult to measure if these changes can have a positive impact on a firm.

To analyse the companies' financial performance, the profitability ratios such as profit margin, asset turnover, return on assets, return on common stockholders' equity, earnings per share and price-earnings ratio had been used.

Net profit margin is a widely used ratio in the assessment of company performance and in comparisons with other companies. A higher margin generally suggests good performance. For the AirAsia Berhad, in year 2007, net profit margin is 20.02% but it decreased to -13.35% in year 2008 and increased to 29.13% in year 2009. ChangHuat Corporation Berhad is having net profit margin 1.81%, -11.09% in year 2008 and -3.63% in year 2009.

On the other hand, the return on capital employed is a fundamental measure of the profitability of a company. It is a popular indicator of management efficiency because it contrasts the net profit generated by the company with the total value of fixed and current assets which are presumed to be under management control. Therefore, the ROCE demonstrates how well the management has utilized total assets. The ratio for the year 2007 is 10.44% but decreased to -21.90% in year 2008 and increased to 34.82%. For the ChangHuat Corporation Berhad, the ratio for the year 2007 is 2.15%, -16.39% in year 2008 and -3.38% in year 2009.

Besides, the return on equity is a measure of how well a company used reinvested earnings to generate additional earnings, equal to a fiscal year's after-tax income divided by book value, expressed as a percentage. It is

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used as a general indication of the company's efficiency. In other words, how much profit it is able to generate given the resources provided by its stockholders. Investors usually look for companies with returns on equity that are high and growing. The ratio for the year 2007 is 20.28%, -30.93% in year 2008 and 19.32% in year 2009. But for the ChangHuat Corporation Berhad, it is having 1.16% in year 2007, -18.13% in year 2008, and -6.30% in year 2009.

The inventory turnover is a measure of how much sales are generated by the capital asset base of a company. Although the ratio can act as a good guide to company performance, it can also be misleading. If the inventory turnover increases, either the total value of sales is increasing, or the capital asset base is decreasing, or both. If it is because sales are increasing, this might signify improved performance. The ratio of inventory turnover period for the AirAsia Berhad is -57.41days for the year 2007, -31.88days for the year 2008 and -24.88days for the year 2009. On the other hand, ChangHuat Corporation Berhad is -76.33days in year 2007, -66.59days in year 2008 and -29.76days in year 2009.

Furthermore, earnings per share (EPS) indicates the amount of profit after tax, interest and dividends to preference shares has been earned for each ordinary share. AirAsia Berhad is earned RM 0.181 per share in year 2007, RM -0.211 per share in year 2008 and RM 0.206 in year 2009; ChangHuat Corporation Berhad is earned RM 0.0212 per share in year 2007, RM -0.2812 in year 2008 and RM -0.1183 in year 2009.

Price earnings ratio is calculated using the current share price and current earnings. It is a measure of market confidence in the shares of a company. However, the market price also takes into account anticipated changes in the earnings arising from their assessment of a marco events such as political factors, economic factors and the market conditions. It is also influenced by company-related events. The ratio for the AirAsia Berhad is 8.84 in year 2007 and 6.70 in year 2009 but for the ChangHuat Corporation Berhad, it is only have 3.07 in 2007.

Comparing these two companies, the financial performance of AirAsia Berhad is much better than ChangHuat Corporation Berhad. The net profit margin for AirAsia Berhad is more than 20% (but the year 2008 is having negative) but ChangHuat Corporation Berhad only have less than 10% and also having negative percentage in year 2008 and 2009.

In conclusion, having more corporate social responsibility will lead company to have better performance.