Research on the Impact of Fulfilling Social Responsibility on Enterprise Performance—Taking Liuyao Group as an Example

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Abstract: To exist and develop in society, enterprises should not only have economic responsibilities but also undertake social responsibilities. This paper takes Liuyao Group as the case object, and analyzes the impact of its fulfillment of social responsibility on financial performance by analyzing its social responsibility. The research results show that the fulfillment of social responsibility can improve Liuyao Group's operating income, sales net profit rate and the proportion of operating cash flow in operating income, but has no effect on current ratio and quick ratio.

Keywords: social responsibility; corporate performance; Liuyao Group

1. Introduction

General Secretary Xi pointed out at the entrepreneur symposium in 2020 that enterprises have not only economic and legal responsibilities, but also social responsibilities. To exist and develop in enterprises should not only pursue profit improvement but also pay attention to their responsibilities to the environment, consumers, employees, etc., pursue commercial value that combines righteousness profit, and advance to a sustainable development model. In addition, how corporate social will affect financial performance has become an issue of great concern to companies and scholars. Scholars have begun to explore how to maximize corporate social responsibility without affecting financial performance. After collecting and sorting out the existing research, it can be found that scholars do not have an accurate conclusion on the relationship between corporate social responsibility and financial performance.

2. Literature Review and Case Selection

2.1 Literature Review

Existing scholars have reached inconsistent conclusions on the impact of social responsibility on corporate performance. Some scholars believe that corporate social responsibility can improve performance, some scholars believe that fulfilling social responsibility will have a negative impact on corporate performance, and most of the research is mainly focused on empirical research. Naseem al., 2019) examined the channels through which CSR affects firm performance. Khan et. al., 2019) investigated the relationship between CSR (corporate social responsibility) practices and corporate performance. The contribution of the research (Rafid et al., 2019) is to find empirical evidence on (a) the impact of financial performance ROA on firm value (b) the impact of CR financial performance on firm value (c) the impact of CSR on the relationship between ROA and firm value (d) The impact of on the relationship between CR and firm value. The samples are manufacturing companies listed on the Indonesia Stock Exchange (IDX) from 2013 to 2015. Maldonado-Erazo et al., 2020) The thesis is studying Corporate Social Responsibility and Performance of Small and Medium Enterprises: Reports. In order to achieve the proposed goals, a bibliometric analysis was performed and 277 articles on the topic were identified. Wang, 2020) aims to objectively analyze the relationship between corporate social responsibility and corporate performance in different periods of the enterprise. Velte, 2021) A quantitative meta-analysis of corporate governance-related determinants and corporate (non)financial consequences of corporate social responsibility (CSR). Kludacz-Alessandri et al., aimed to analyze whether financial performance affects corporate social responsibility adoption by companies in the energy sector. Based on the perspective of government regulation theory (Zheng et
2021), a theoretical model is constructed to demonstrate the role of environmental regulation (intellectual property protection and social responsibility regulation) in improving the innovation performance of small and medium-sized enterprises (SMEs).[11]

This paper takes Liuyao Group as a case to explore whether its fulfillment of social responsibilities can improve corporate performance and how it affects corporate performance, in order to provide reference for other companies.[12]

2.2 Case introduction

Liuyao Group (hereinafter referred to as Liuyao) is a comprehensive pharmaceutical company, mainly engaged in the sales of medical equipment, protective equipment for medical personnel, and health food. It has gradually formed a comprehensive pharmaceutical and health industry group with innovative businesses such as pharmaceutical wholesale, pharmaceutical retail, and pharmaceutical industry as its main business, and supply value-added services in the value chain, pharmaceutical Internet services, and terminal health services. Listed on the market in 2014, it ranks 16th in the national pharmaceutical wholesale enterprises. Liuyao adheres to the values of harmony, gratitude, progress, and cooperation, actively undertakes social responsibilities, and repays society. Liuyao has won the title of Advanced Private Enterprise in the Targeted Poverty Alleviation Action of "Thousands of Enterprises Helping Tens of Thousands of Villages" and an Advanced Unit of Targeted Poverty Alleviation in Liuzhou City's "Hundreds of Enterprises Helping Hundreds of Villages".

3. Case Analysis

3.1 Liuyao Group's fulfillment of social responsibilities

Since Liuyao’s social responsibility report has been disclosed since 2017, the article sorts out the social responsibility content of Liuyao Group from 2017 to 2022, as shown in Table 1 below.

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| shareholder | 1. Accurately disclose company information to investors;  
2. Standardize the corporate governance structure, strictly implement the rules of procedure of the Third Meeting and the decision-making mechanism of the management team;  
3. In 2018, the main business income of pharmaceutical wholesale enterprises ranked 2nd and 1st;  
4. Human Resource Optimization Project;  
5. Maintain effective communication with investors through telephone, email, “Shanghai e-interaction” and other channels. |
| client | 1. Enhance channel value and innovate service model;  
2. Set up a supply chain management center to improve service efficiency by focusing on customers;  
3. Sign hospital supply chain extension projects, Internet medical service projects, set up DTP pharmacies, and Chinese medicine decoction and distribution services with medical institutions in the region;  
4. Enter hospital medical device consumables SPD, smart pharmacy, B2B-B2C medical e-commerce business;  
5. Establish and improve the "GPO" in response to industry policies. In 2019, Liuyao Co., Ltd. made every effort to build the "Liuyao Cloud Business" e-commerce platform, the new "Drug Administration Law" quality control system, and held the Guangxi Pharmaceutical Industry Development Summit Forum. In 2019, Nanning The city's "prescription sharing drug purchase" application was launched, and Guizhong Pharmacy was used as a pilot pharmacy access platform. |
| government | 1. A-level tax-paying enterprises, actively participate in the unified procurement of drugs, strictly implement the requirements of the two-inverse system, actively provide advice and suggestions on medical reform policies, the development of traditional Chinese medicine, and ethnic medicine, and assign special personnel to be responsible for the transmission and reply of government documents and information, and keep in touch with government departments. Communication;  
2. "4+7 purchase with quantity", pilot payment by disease type, etc. |
| staff | 1. Sign labor contracts with employees in accordance with the law, and offer advice and suggestions through employee new villages and symposiums;  
2. Holidays, medical examinations, transportation arrangements for commuting to and from get off work, construction of basketball courts and libraries, etc., to help employees in need;  
3. Promote the employee stock ownership plan, improve the incentive mechanism, actively promote the promotion of employee ranks, and tailor the training platform according to different echelons of employees;  
4. Guided by ISO 45001 certification, improve the safety assurance system and carry out safety education and training;  
5. In 2019, the company also implemented a restricted stock incentive plan, and completed the first grant in June 2019;  
6. Based on the requirements of OHSA18001, regular inspections and assessments of occupational health and safety risks In 2020, company leaders and trade unions regularly went to the grassroots level to
coordinate and solve the practical difficulties they encountered;
6. In 2020, the company will fully launch the E-HR human resource management information system;

| Society | 1. Cooperate with Guangxi Medical University, Guangxi University of Traditional Chinese Medicine and other part-time talent recruitment and training mechanisms to increase employment, and assist in the placement of disabled people, laid-off people, veterans, etc.
2. Explore ways of industrial poverty alleviation Actively participate in poverty alleviation and promote the development of traditional Chinese medicine and ethnic medicine industry in Nandan County;
3. Set up scholarships, donate education settings, etc. to help education work in difficult boots and poor areas (donate to support education);
4. Donate medicines, funds and other public welfare donations to poverty-stricken areas, and carry out community services such as lectures on common disease prevention, public welfare diagnosis and treatment, and free health checkups;
5. In 2019, the 2020 graduate recruitment fair of the medical colleges and universities in the joint area.
6. In 2020, the Chamber of Commerce joined hands with member units to organize training on "chronic disease steward" and supply chain quality management.
7. Undertook the important task of supplying materials for epidemic prevention and control in Guangxi during the epidemic.
8. From "ten thousand enterprises help ten thousand villages" to "ten thousand enterprises prosper ten thousand villages"

| Environment | 1. Organize tree planting activities, advocate low-carbon travel, promote green working environment, and green office;
2. Newly built a wastewater treatment station with a daily treatment capacity of more than 200 cubic meters per day;
3. In 2019, Xianzhu Traditional Chinese Medicine Technology invested in the construction of auxiliary sewage treatment projects in terms of environmental protection. In 2020, the sewage treatment system of the company's decoction pieces production project will be officially put into use, with a daily processing capacity of 300 cubic meters;
4. The company further improved environmental management risk management and control, from developing green production, developing green services, promoting green office, etc.

Source: Juchao Information

3.2 Analysis of the path of Liuyao Group's fulfillment of social responsibility affecting financial performance

3.2.1 Customers
Customers are the guarantee for the development of the enterprise, fulfilling the social responsibilities of customers. Providing customers with satisfactory goods and services, and caring about whether the rights and interests of customers are implemented can enhance customers' trust in the company, improve customer loyalty and satisfaction with the company, thereby retaining customers and driving the company's income.

Liuyao Group insists on channel services to make customers worry-free. On the one hand, the company realizes the whole traceability management of the business through the construction of the supplier service platform. On the other hand, by serving business activities such as customer bidding, terminal customer access, and marketing promotion, and at the same time reducing customer channel costs with professional services, it makes customers worry-free. The intelligent service of Liuyao Group makes customers feel at ease. The company takes customer needs as the starting point, gives full play to its advantages in information technology and professional medical device management, and extends services upstream and downstream to help customers reduce costs and increase efficiency. The security service of Liuyao Group reassures customers. Security service is the guarantee of the fundamental interests of customers. The company attaches great importance to the security of services. On the one hand, it strengthens quality control and compliance management, and on the other hand, it pays attention to customer information security and privacy security protection. The company gives full play to its advantages in platform and channel resources, and joins hands with customers to accelerate the introduction of innovative drugs. The company carries out special disease drug sales and health services through DTP pharmacies to meet the diversified, personalized drug needs and health consumption needs of patients, so that high-quality drugs and health value-added services can help patients. Actively fulfilling its social responsibilities to customers, Liuyao Group has gained a loyal customer base, and customer satisfaction has always been high.

3.2.2 Shareholders
Shareholders are the owners of the enterprise. On the one hand, they care about the performance of the enterprise, and on the other hand, they care about the governance of the enterprise. The effective governance capability of an enterprise can provide effective external support for the long-term
development of the enterprise and promote performance improvement. By reading the social responsibility report, shareholders can know information other than the financial status disclosed in the annual report, thereby deepening shareholders' understanding and recognition of the company, and enhancing shareholders' confidence in the company's development. Therefore, enterprises can attract shareholders' investment, reduce capital costs, expand production scale, invest in research and development, and update technologies to reduce costs and increase efficiency, and improve corporate performance. In addition, shareholders recognize the prospects of the enterprise and continue to invest funds in the enterprise, which can broaden the financing channels of the enterprise and facilitate the financing of the enterprise. The amount of funds owned by the enterprise is the basis for the sustainable development and growth of the enterprise, which can bring long-term benefits to the enterprise.

Liuyao Group pays attention to the management of investor relations, communicates with investors through multiple channels on issues such as market concerns, industry trends, and company business development, and answers investors' doubts. This deepens investors' understanding of the company and the industry and forms a value recognition. The company’s securities investment department assigns special personnel to be responsible for receiving calls, letters, and visits from investors, promptly responding to questions raised by investors on platforms such as Shanghai Stock Exchange e-Interaction, and feeding back to the company’s board of directors investors’ opinions and suggestions on the company’s production, operation and strategic development. At the same time, the company also actively participates in activities such as investor exchanges, investor education, and investor visits to listed companies organized by securities regulatory agencies, industry associations, credit approval media, and securities firms, to establish sound, continuous, and effective communication with investors. Actively fulfilling its responsibilities to shareholders, Liuyao Group has received continuous investment and attention from shareholders.

3.2.3 Government

Business operations are inseparable from the constraints and guidance of the government, and the government is also a promoter of social responsibility. If the enterprise actively cooperates in fulfilling tax obligations and supporting government-related work, it will be able to win the trust of the government, obtain various honors issued by the government, and win more policy support. There may be government subsidies that directly affect corporate performance, and more indirect ones. For example, honors issued by the government are the blessing of corporate brand image, and policy preference brings more convenience and discounts to enterprises.

Liuyao Group actively participates in various activities organized by the government, maintains good interaction with the government, and gives full play to its professional advantages in the industry and its influential position in the industry. At the same time, Liuyao Group actively guides industry enterprises and associations to support policy implementation, spread positive energy to the society, and offer advice to the government on policy formulation and implementation. The company strictly abides by the relevant national laws and regulations on taxation and pays taxes in full. It has been rated as a Class A taxpayer and a contract-abiding and credit-worthy publicity enterprise for many times. During the epidemic period, the company, as a designated storage and supply enterprise for epidemic materials in the autonomous region, received support and assistance from relevant government departments in terms of tax reduction and deferred payment, social security reduction and exemption, labor subsidies, and preferential financing interest rates. This effectively guarantees the continuous and stable operation of enterprises under the pressure of the epidemic.

3.2.4 Employees

Employees are the driving force of enterprise development, they can create value for the enterprise and promote the development of the enterprise. Enterprises provide employees with sufficient protection, suitable career promotion plans and other related benefits, so that enterprises will attract more excellent human resources to serve the enterprise and obtain higher employee loyalty, creating more benefits for the enterprise. These are all conducive to the long-term development of corporate performance.

Liuyao Group insists on talent structure and protection of rights and interests, and the company strictly abides by laws and regulations such as the Labor Law and Social Insurance Law. The company pays attention to improving the office environment, enriching living facilities, providing employees with a good environment and conditions for work and leisure life, and enhancing employees' sense of belonging and happiness. The company attaches great importance to the health and safety of employees, gives them sufficient humanistic care, and pays attention to helping employees in need, so that employees can fully feel the warmth of home and create a harmonious, friendly and safe internal
environment. With the goal of building a harmonious and efficient communication culture and interactive human resources management, the company establishes good communication with employees through information construction and diversified communication channels. Through the implementation of human resource system optimization projects, the company reformed the salary system and performance appraisal methods, and established a multi-latitude, refined, strategic goal-oriented performance appraisal mechanism. Actively fulfilling the responsibilities to employees, the employees of Liuyao Group are relatively stable and continue to create profits for Liuyao Group.

3.2.5 Social aspects

The enterprise survives in the society, and the resources of the enterprise come from the society and give back to the society. A company's social responsibility can help the company establish a good image, form a good reputation capital, win public recognition, attract potential customers or promote consumer purchases, and enhance performance.

In order to do a good job in the prevention and control of the new crown pneumonia epidemic and effectively protect the lives and health of the people, Liuyao Group actively communicates with upstream manufacturers to organize the supply of anti-epidemic medicines and equipment. The company uses its own advantages to ensure the supply of medicines and equipment. The company actively participates in social public welfare undertakings, supports public welfare and charity projects, helps needy groups, and assists in poverty alleviation. At the same time, through the Red Cross, social charity funds, and educational institutions, it helps poor patients and poor students, and supports medical care, education, and new rural construction. In addition, Liuyao Group also enters the community to carry out health services such as education for patients with common diseases, geriatric diseases, and chronic diseases, public welfare diagnosis and treatment, and free health checkups. The company provides professional medication, drug delivery and health consultation for community residents to meet the health needs of residents, especially those with chronic diseases and the elderly. Liuyao won the title of advanced private enterprise in the national "Ten Thousand Enterprises Helping Ten Thousand Villages" targeted poverty alleviation campaign for its outstanding performance in the targeted poverty alleviation campaign of "Ten Thousand Enterprises Helping Ten Thousand Villages" and was commended at the meeting.

3.2.6 Environmental aspects

![Figure 1 Liuyao social responsibility affects corporate performance path map](image-url)
Nowadays, the concept of environmental protection has been deeply rooted in the hearts of the people, and energy conservation and emission reduction, green and low carbon have become the main theme of sustainable development. Enterprises undertake environmental social responsibilities and strive to optimize the environment, which can help enterprises gain more recognition from shareholders, consumers, partners, governments, employees, etc., reduce risks and increase corporate benefits.

Liuyao Group strictly complies with national and local laws and regulations, implements environmental protection responsibilities, and minimizes the impact of project construction and industrial production on the environment. The company strictly implements the environmental management system standard (ISO14001) certification requirements, and further improves environmental management risk control. The sewage treatment system of the company's decoction pieces production project was officially put into use, with a daily processing capacity of 300 cubic meters, and passed the inspection and acceptance of relevant departments, and obtained a sewage discharge permit. The second phase of the production plant of Chinese herbal medicine has completed the design of the sewage discharge renovation plan, and the company has improved the air pollutant discharge and treatment plan.(See Figure 1).

4. Financial Performance Analysis of Liuyao Group after Fulfilling Social Responsibility

4.1 Net sales margin and gross sales margin

Net sales margin and gross sales margin can measure the ability of a company to obtain profits. The higher the indicator value, the more feedback the company can give to shareholders. The two indicators of Liuyao Group are as follows.

![Figure 2 2015-2022 Net sales margin and gross sales margin of Liuyao Group](image)

From Figure 2, it can be seen that since the disclosure of the social responsibility report in 2017, the sales net profit margin and sales gross profit margin of Liuyao Group have increased year by year. There are two reasons for the decline in 2020-2022. First, public hospitals are affected by the medical insurance DRGs (Pay by Disease) policy. Public hospitals in Guangxi, especially mid-to-high-end hospitals, have further strengthened the control of the proportion of hospital drugs, lowering the control target from 30% to below 25%. Second, the implementation of the fourth batch of varieties in the national centralized procurement and the second batch of Guangxi GPO (pharmaceutical group procurement) have resulted in a greater impact on the sales of similar competing products that have not entered the centralized procurement. The above two factors have had a certain impact on the company's development of the wholesale business of public hospitals, and have had a negative impact on revenue growth. It can be seen that actively taking social responsibility will improve the profitability of enterprises.

4.2 Operating income

This indicator refers to the income that the daily and main business of the enterprise brings to the enterprise. The higher the index, it means that the products of the enterprise are recognized in the
market, the sales are considerable, and the profitability of the enterprise is improved.

Figure 3 Operating income of Liuyao Group from 2015 to 2022

As can be seen from Figure 3, after the disclosure of the social responsibility report in 2017, Liuyao Group’s operating income has risen rapidly, from less than 6 billion at the beginning to more than 19 billion in 2022, an increase of 2 times. This shows that after the disclosure of the social responsibility report, the company's responsibilities to the society are visualized and understood by stakeholders, which strengthens the society's recognition of the company. In turn, it will drive the recognition of the company's products, promote the increase in sales of the company's products, and enhance the company's ability to survive.

4.3 Proportion of operating cash flow in operating income

Operating cash flow reflects the cash inflow brought by the main business of the enterprise to the enterprise, and the ratio of net operating cash flow to operating income represents the proportion of cash flow obtained by the enterprise in operating activities. Business activities are the main body of the company's economic activities and have the characteristics of regeneration.

Figure 4 The ratio of operating cash flow to operating income of Liuyao Group

It can be seen from Figure 4 that the ratio of operating cash flow to operating income of Liuyao Group is generally on the rise, and the ratio of operating cash to operating income after the disclosure
of the social responsibility report is higher than that before the disclosure. The proportion of operating cash flow to operating income in 2017 was negative, indicating that Liuyao Group's operating cash flow was negative in 2017. This is because most of the company's downstream customers are medical institutions. Although such customers have good credit status and can guarantee payment, the payment cycle is long, which affects the company's cash flow. At the same time, the entire industry is affected by policies such as the "two-invoice system" and medical insurance fee control, and the payment collection cycle at the hospital end is lengthened. In addition to distribution, pharmaceutical distribution companies also have to undertake the function of financing upstream and downstream, which is limited by capital flow. However, since 2017, the ratio of net cash flow from operating activities of Liuyao Group to operating income has been positive, and the proportion of cash flow from operating activities to total cash flow has gradually increased. It shows that the more stable the financial situation of Liuyao Group, the more guaranteed the ability to pay.

4.4 Current ratio and quick ratio

The current ratio is used to measure the ability of the company's current assets to be converted into cash to cover liabilities before the short-term debts mature. Usually, the higher the ratio, the stronger the cashability of corporate assets and the stronger the short-term solvency. The quick ratio indicates the ratio of quick assets to current liabilities, and is used to measure the ability of a company's current assets to repay due debts at any time. Compared with the current ratio, it can more accurately and reliably evaluate the liquidity and solvency of corporate assets.

![Figure 5 Current Ratio and Quick Ratio of Liuyao Group](image)

It can be seen from Figure 5 that the current ratio and quick ratio of Liuyao Group have been decreasing since the disclosure of the social responsibility report, which means that the short-term debt repayment ability of Liuyao Group has declined, which is relatively unfavorable for its operation. Liuyao Group's current ratio and quick ratio decreased year by year because the increase in its inventory and the expansion of its wholesale business directly affected the increase in the company's accounts receivable.

5. Summary

Being in the society, an enterprise actively assumes social responsibility, which reflects the "responsibility" of an enterprise. In this paper, by studying the influence of Liuyao Group's social responsibility on its performance, it is concluded that Liuyao Group produces high-quality products through innovative service models and assumes responsibility to customers; actively responds to policies, pays taxes according to law, and assumes responsibility to the government; Carry out a number of public welfare activities, help the poor and assume social responsibilities; protect the rights and interests of employees, guide employees to develop upwards, and assume responsibilities to employees. By disclosing the social responsibility report and conveying the social responsibility of
Liuyao to stakeholders, it can deepen the recognition of Liuyao Group by all stakeholders and make them choose Liuyao. In turn, it promoted the improvement of Liuyao Group's operating income, gross sales margin, and net sales margin, but taking social responsibility did not improve its short-term solvency. Since the research in this paper is a single case study, and there are factors such as insufficient data mining and in-depth analysis, whether corporate fulfillment of social responsibility can bring about performance improvement requires further research.

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