

The relationship between CSR and profit: Research based on case studies in the medical industry during COVID-19

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Abstract. During COVID-19, with the economic downturn and the challenges to people's health, corporate social responsibility (CSR) in the medical industry has become a popular topic. The issue of how to make profits while being socially responsible is a worthwhile topic to explore and investigate. In order to find out the relationship between the CSR actions and profits of medical companies, using mainly qualitative research, this research conducted three case studies of Chinese medical corporations and an experimental design based on them. In the study, it appears that well-behaved CSR actions have a positive correlation with the profitability of medical companies. CSR actions that better benefit humanity could have a positive impact on companies' profitability by increasing consumer preference, while companies that do not take up social responsibility properly will have their brand equity damaged, resulting in lost profits.

Keywords: Business management; Corporate social responsibility; Covid-19; Case study.

1. Introduction

Since the outbreak of COVID-19, various industries have been shocked. With the myriad benefits of corporate social responsibility (CSR) to the whole of society, there is a greater necessity for CSR in the medical industry (Manuel & Herron, 2020). However, CSR activities require high prices, so how to manage them to sustain the companies deserves consideration. Therefore, this research will explore the relationship between CSR and the profits of medical companies during COVID-19. Guided by this idea, this paper will use case studies and experimental design mainly to study medical companies in China.

2. Literature review

CSR refers to corporate actions which go beyond business interests and legal requirements to promote social welfare (McWilliams, et.al., 2006). It has been studied by numerous organizations extensively due to its complexity and importance.

2.1 The motivations of CSR

CSR is generally considered to be essential for business. In addition to ethics-based motivations (Werther & Chandler, 2005; Edelman, 2020), companies will also engage in CSR activities to gain benefits. As enlightened egoists, companies have to act now to gain public support and ensure their long-term viability if they want to have a sustainable business environment in the future (Carroll & Buchholtz, 2018). CSR is also used as a business strategy (Werther and Chandler, 2005) and a tool to positively influence companies' financial performance (Manuel & Herron, 2020).

2.2 CSR and profitability

To better motivate enterprises, the relationship between CSR and profits has also been widely discussed (Fontana, 2017). In addition to the information found in a company's financial reports, consumer brand preference can also be used as an indicator when measuring companies' profits (Lim & Lee, 2015).

Plentiful studies have demonstrated that CSR increase profits by reducing market risk (Gao & Bansal, 2013), gaining advantages in the supply chain (Fontana, 2017), improving employees'

satisfaction and productivity and other aspects. Meanwhile, many factors may affect the profitability of companies about CSR. Werther and Chandler (2005) indicated that companies failing to be socially responsible or violating social expectations would damage brand equity, and the expenses of CSR activities are an additional cost for enterprises.

2.3 CSR in the medical industry during COVID-19

For the medical industry, which is closely related to human health, CSR functions as the core of the business strategy. The case study by Nagraj et al. (2018) stated that the majority of CSR events in the Vietnamese medical sector exist in the form of traditional charity, which has a not far-reaching impact. Meanwhile, Tuan (2012) demonstrated that patients may choose a hospital based on the brand impact of CSR. However, for the particular period of the epidemic, the relationship in this area has been slightly less explored. Therefore, it will examine the relationship between CSR and the profits of the Chinese medical industry during COVID-19.

3. Methodology

3.1 Research philosophy

It is difficult for CSR to find specific indicators and the relevant studies mentioned in the literature review are mostly textual descriptions and carry out a qualitative analysis of CSR. Hence, this paper will conduct a qualitative study, and used the deductive method under social constructionism to prove that CSR has a positive impact on its profitability and explain the relationship better.

3.2 Research design

As a well-applied method in social science research, case studies can be a good way to study this particular topic. Therefore, this research conducted three case studies in the Chinese medical industry with reference to Vietnam and collected financial reports and related news. Based on case studies and literature, to further investigate whether CSR is a variable that affects consumer brand preferences and thus companies' profits (Bhalla & Overton, 2019), this essay learned from Dülmer (2007) and used the factor survey method, provided respondents with information successively to observe the impact of CSR on customer preference as a dependent variable.

The questionnaire is a well-established medium between the researchers and the interviewees (Brace, 2018), therefore this study designed nine questions to complement the understanding of customer awareness and attitudes. Through the pilot study and feedback, it was found that the initial questions were almost exclusively open-ended, which made it hard to analyse the results effectively. Hence, this study optimised the questionnaire by setting the questions to single and multiple-choice (Brace, 2018). In order to ensure the privacy of the respondents, the full anonymous collection of data was only permitted after they accepted a mandatory front page including an introduction and a confidentiality agreement.

4. Case study

This study selected three typical Chinese medical companies as cases, focusing on their CSR-related actions during COVID-19, as well as measuring profitability by processing data from financial statements.

4.1 Allmed Medical

Allmed Medical is a manufacturer of disposable medical products which become a key supply guarantee enterprise in Hubei Province. The company achieved the supply of protective wear by encouraging its staff to continue production during the holidays through moral and also monetary means. During the fight against COVID-19, Allmed Medical supplied two-thirds of N95 masks to Hubei Province free of charge.

4.2 Ali Health

Ali Health is a leading company in the pharmaceutical e-commerce and integrated medical business. The company uses digital infrastructure construction to complete the traceability of the emergency use of the COVID-19 vaccine. Alibaba Health also provides free online consultation services during the epidemic. A large number of epidemic prevention materials were donated. The average daily online consultation service has exceeded one hundred eighty thousand, and the number of annual active users of the Alibaba Medical Health Channel exceeds five hundred twenty million.

4.3 Hengrui Medicine

Hengrui Medicine is a large private company in the medical devices and pharmaceutical industry, which donated 5 million yuan in the early days of COVID-19. However, it is reported that the company's sales officers repeatedly paid bribes to hospital staff to prevent patients from buying other brands of cheaper drugs. Unusual travel expenses were even more than double the main business sales revenue. Hengrui Medicine is considered to have only made simple charitable donations, lacked further awareness of corporate social responsibility, and had a negative impact on society.

The financial data for 2021 from Hong Kong Exchanges and Clearing Limited (HKEx), Shanghai Stock Exchange (SHSE) and Shenzhen Stock Exchange (SZSE) were processed to calculate the net profit margin for each company, which provided a solid basis for the subsequent analysis.

5. Findings, analysis and discussion

5.1 CSR affects corporate profits

These companies' CSR-related actions led to different impacts. Allmed Medical gained a supply chain advantage through mass production and donation of anti-epidemic supplies (Fontana, 2017). Ali Health preferred to provide technical support, which fit the growing demand for telemedicine during the epidemic (Edelman, 2020). For Hengrui Medicine, its scandal damaged its consumer perceptions.

Using the natural logarithm to manipulate the financial data, Ali Health had the best profitability, with only it maintaining positive profit growth throughout the epidemic, while the other two companies both had negative growth for up to a quarter.

Despite the charitable donations, the Hengrui Medicine scandals have left an even worse impression on consumers, which could lead to a drop in profits through consumers' refusal (Tuan, 2012). Therefore, by comparing Ali Health and Hengrui Medicine, it can be tentatively concluded that CSR can have positive effects on profitability. Although Allmed Medical takes on social responsibility, the reduced profit may be caused by additional costs.

5.2 CSR influences consumers' brand preferences

It cannot be concluded with certainty because other factors influence profitability. Therefore, this study examined this relationship by changing a single independent variable and using consumer preferences as an indicator to assess the profits (Lim & Lee, 2015). Until 1 June 2021, 223 people had completed the questionnaire and experiment.

In the experiment, when only given information about the companies' main business, consumers would choose a brand based on its specialism. When it added information about the different performance of social responsibility, the consumer's choice changed significantly. Therefore, it can be argued that well-placed CSR practices can be favoured by consumers and businesses which violate social expectations will be unpopular with consumers, thus damaging brand equity (Werther & Chandler, 2005) and leading to a reduction in profits.

In addition, a comparison between Allmed Medical and Ali Health revealed that different types of CSR influence consumer preferences to different degrees. The free online medical services offered by Ali Health are more relevant to consumers' lives and meet people's needs than traditional donations,

leading to a greater extent of consumer preference.

In the questionnaire, although 35% of the respondents had not heard of CSR, people are continuing to concern about the social impact of businesses, especially in periods of the epidemic.

These provide ideas for CSR as a strategy (Werther & Chandler, 2005). CSR events such as Ali Health's online medical services and respondents' expectations in the questionnaire: more targeted poverty alleviation, job creation, and leading industry ethics, which have higher visibility in society than traditional charitable donations (Nagraj et al., 2018), are more likely to attract consumer attention thus increasing preference for the brand and consequently generating profits.

6. Conclusion

In conclusion, CSR actions may have a positive impact on profitability in the medical industry. Starting with case studies, this report has found a modest positive correlation between the CSR policies and net profit during COVID-19. Then, it used the experiment and questionnaire to identify consumers' perceptions and attitudes towards CSR in the medical sector. Based on the available evidence provided in this study, the most compelling current conclusion is that CSR affects corporate profits by influencing brand equity and customer brand preferences. If medical companies can develop CSR strategies that are more helpful to people, it seems that not only will they profit, but the world will be modified and better off.

6.1 Limitation

In this report, the analysis of the relationship between company net profit and CSR policies may be confounded by other factors such as company size. Moreover, the limited scope of the questionnaire and experiment conducted may affect the reliability of the research.

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