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branding BY-HEALTH: THE VALUE OF TRANSPARENCY

Professor Denghua Yuan and Professor William Wei wrote this case solely to provide material for class discussion. The authors do not intend to illustrate either effective or ineffective handling of a managerial situation. The authors may have disguised certain names and other identifying information to protect confidentiality.

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It was late January 2017, and excitement was brewing over the approach of the Lunar New Year. Many of Liang Ping Cai’s colleagues were with their families, preparing elaborate feasts, burning incense, and generally having a great time. Unfortunately, Cai was not yet able to join in the festivities. As the chief operating officer of BY-HEALTH Co., Ltd. (BY-HEALTH), he needed to prepare a comprehensive overview of the organization’s corporate social responsibility (CSR) activities over the previous year to present at the company shareholders’ meeting, which would be held the next week in Zhuhai, Guangdong, China (see Exhibit 1).

Until now, BY-HEALTH had committed to CSR initiatives in a systematic and sustainable way; its most expensive CSR initiative was its flagship project, a transparent factory in Zhuhai. Cai firmly believed that the long-term returns from this initiative would be enormous, and he saw it as the most important aspect to protect consumer value. Cai would also need to analyze all of BY-HEALTH’s CSR activities and further promote the transparent factory to successfully communicate the value of transparency to BY-HEALTH’s consumers and shareholders.

BY-HEALTH

BY-HEALTH was a large dietary supplement and health solution organization headquartered in Zhuhai, China. It had experienced explosive growth over the previous 22 years, and it had the advantage of being a first mover in the Chinese market. When it was founded in 1995, China had been an extremely closed market, and competition in the dietary supplement industry had been limited. However, by 2017 the Chinese market was notably different, with a seemingly endless stream of new entrants and revolutionary distribution methods. Consumers also questioned the quality of Chinese brands in general.

Cai believed that BY-HEALTH’s primary competitive advantage was evident in one of the company’s slogans, “诚信比聪明更重要,” (“Integrity is more important than intelligence”), which identified integrity as the foundation of the business. Since its inception, BY-HEALTH had maintained a strategy of providing scientifically backed health solutions and marketing its products in an approachable manner. The BY-HEALTH team believed that the company’s best advantage in an increasingly crowded market was to concentrate on being transparent to stakeholders and to create an industry benchmark in terms of community participation.

The desire to be transparent was physically manifested in BY-HEALTH’s flagship project, the transparent factory. Opened in 2012 in the Guangdong province in southern China, the transparent factory represented the pinnacle of open disclosure. Stakeholders and members of the general public were encouraged to observe and question the inner workings of BY-HEALTH. This program was immensely popular and gained BY-HEALTH a tremendous amount of positive publicity.

the HEALTH PRODUCT INDUSTRY IN CHINA

Herbal medicine had long been a mainstay of Chinese culture, and was widely accepted in modern society as a means of maintaining good health and remedying illness. Contemporary health foods began to enter the Chinese market in the 1980s under the regulation of the China Food and Drug Administration (CFDA).[[1]](#footnote-1) As of 2016, the CFDA had approved 16,537 health food products for distribution: 15,822 of these products were domestic; 751 were imported.[[2]](#footnote-2)

In 2013, the China Health Care Association estimated the health products industry to be worth ¥208 billion,[[3]](#footnote-3) an increase of 28.3 per cent since 2012. It was also estimated that Chinese exports in the health products sector had surged over 8.9 per cent and reached ¥270 million.[[4]](#footnote-4) In 2015, the aggregated value of China’s imports and exports in the pharmaceutical and health products sector was ¥102 billion, an increase of 4.73 per cent over the previous year. It was predicted that the market cap for pharmaceuticals would surpass ¥2.74 trillion by 2020.[[5]](#footnote-5)

The rise in market value suggested an approaching age of prosperity for the consumable health product industry. Economic growth meant that a greater number of domestic consumers could afford health products; however, noise in the marketplace made it increasingly difficult to distinguish facts from misinformation or to discern which products were most suited to meet a consumer’s particular needs. The development of e-commerce services also meant that consumers had more options than ever before.

The largest group of health product consumers was China’s growing senior population. As a result of the country’s One Child policy, the portion of adults over age 65 was growing by an average of 3 per cent per year (approximately 41 million people).[[6]](#footnote-6) Not only were seniors high-volume consumers of general-use health products, they also represented a growing market for niche products.

The vast majority of BY-HEALTH’s business was domestic. Being an early entrant into the market had allowed BY-HEALTH to establish itself firmly as a local industry leader and to define what the dietary supplement market would look like. This initial advantage became a challenge, however, as consumers became increasingly skeptical of Chinese-made consumer goods. Beginning in the early 2000s, numerous high-profile scandals affected a number of consumer-goods industries, including cosmetics, technology, and foodstuffs. It was common for manufacturers to source their products from multiple subcontractors. The resulting web of logistics made it difficult, if not impossible, to guarantee the quality of ingredients and the conditions under which they were produced. As a result, consumer confidence in Chinese brands began to plummet.

A TRANSPARENT FACTORY

Chinese-branded consumables faced an inherent credibility risk, as consumers were critical of corporate intentions—specifically, the degree to which organizations were willing to be deceitful or outright malicious in the pursuit of profit. Arguably, the most effective way to address criticism was through transparency. In this context, transparency could be understood as the “degree to which corporate decisions, policies, activities and impacts are acknowledged and made visible to relevant stakeholders.”[[7]](#footnote-7) Opaqueness surrounding the production process and a lack of readily available information regarding the source of ingredients resulted in concern about the stated quality of health products.

Having recognized this, in 2012 BY-HEALTH created its transparent factory in Zhuhai. The factory represented an ideological shift towards empowering consumers with as much information as possible regarding the company’s product lines. The factory was transparent in the sense that any stakeholder (consumer, investor, or vendor) could visit, inspect, and question any component of the facility at any time. This was more than a factory tour; it was an open and perpetual audit.

Beyond the transparent factory, BY-HEALTH pursued further company-wide transparency initiatives. Various aspects of the company’s operations had long been public knowledge because the organization was a publicly traded entity. Until 2012, this information had been difficult to access, and was often buried in year-end financial statements and large corporate documents. BY-HEALTH recognized the difficulty involved in accessing this information and created a dedicated communications team to make important information easily accessible on the company’s online communication channels. The company made similar communication efforts in all other areas, as well. As Cai put it, “[One of our] biggest challenges is how to be approachable to everyone. People won’t buy what they don’t understand.”

CORPORATE CITIZENSHIP MANAGEMENT FRAMEWORK (CCMF)

BY-HEALTH used the Corporate Citizenship Management Framework (CCMF)[[8]](#footnote-8) to evaluate and organize its current competence in CSR. The framework was developed as a tool for companies to assess their strengths pertaining to CSR and to identify potential areas for growth. It allowed companies to accomplish this by observing themselves from the inside out—looking at their stated values, how those values affected internal decision making and growth, and what the organizations did beyond delivering their products.

The four areas of review under the CCMF were the organization’s governance, the products and services it provided, its operations, and its contributions to the community.[[9]](#footnote-9)

Organizational Governance—Mission, Values, Principles, and Policies

The company’s actions and strategies were guided by its stated values, mission statements, principles, and policies; consequently, it was important to consider how these encouraged or dissuaded CSR actions. According to the CCMF, if CSR was not inherently integrated into the overarching design of the organization, then any further CSR development would be only minimally effective. BY-HEALTH intentionally integrated CSR into its organizational design. It had created both a dedicated department responsible for CSR initiatives and an environmental protection department. The BY-HEALTH mission statement was “[to make it easy] for healthy people to manage their health.” For more than a decade, BY-HEALTH had followed a three-step global quality strategy: sourcing raw materials globally; establishing exclusive raw-material supply bases globally; and, ultimately, building its own organic farms worldwide. So far, it was importing raw materials from 23 countries, it had established five exclusive raw-material supply bases in countries such as Brazil and Australia, and it was constructing its own organic farms.

Products and Services—Market Strategy

The social impact of the company’s products and delivery had to be reviewed to examine the long-term effects on communities. Where there were deficiencies, the company had to adjust its products and services to have a net positive effect. Several things BY-HEALTH did resulted in a positive effect on the community and, at the same time, helped to develop the company’s market penetration. It enlisted famous athletes Liu Xuan and Yao Ming to spearhead a campaign to raise awareness about the benefits of regular medical examinations and a balanced nutritional intake, and it worked with the Chinese Nutrition Society in 2011 to study the impact of health problems on villagers’ quality of life. This increased the accessibility of BY-HEALTH’s products in rural areas. BY-HEALTH also designed product packaging that was easy to understand, and it offered additional information on each product (for example, information on relevant studies and the source of ingredients) on the BY-HEALTH website.

Operations—Responsible Business Practices

The ethical implications of daily operations—and their effects on stakeholders—were evaluated by comparing the organization’s best practices to industry benchmarks and then reviewing how the organization would react if its actions were negatively affecting stakeholders. To meet and surpass industry benchmarks, BY-HEALTH initiated the following changes: it sourced only materials that consistently offered the highest degree of quality, regardless of logistics (76 per cent of BY-HEALTH’s supplies came from abroad); it implemented over 3,000 automated quality assurance tests throughout its value chain; and it provided complete transparency in the manufacture of all products, encouraging stakeholders to inspect these processes.

Community Support—Addressing Social Challenges

What actions did the company undertake that contributed to the development of the community? The organization endorsed or sponsored simple philanthropic activities, but it was also involved in more complex relationships that more fully utilized company assets. BY-HEALTH’s philosophy of public welfare could be summarized in slogans such as “Gain more and share more” and “Every life has equal value no matter where he/she was born and lives.” One only gained through giving to others, and the more one gave, the more one would receive in return. In 2005, BY-HEALTH launched the 1+1+Hope Project,[[10]](#footnote-10) and it has provided assistance in the construction of 14 Hope primary schools thus far. In 2011, it launched a public benefit program called the China Tour of Health and Nutrition Express. In 2012, it started a program to improve children’s nutrition in poverty-stricken areas, and, in 2013, it initiated a nutritional education program in collaboration with the China Youth Development Foundation.

Further tasks and expectations

Using the CCMF as a guide, Cai and his team discovered that their CSR activities had grown organically to include a wide variety of initiatives. Although the many actions were encouraging to employees and positively affected the community, they required an ever-increasing commitment of company resources.

Moving into 2017, BY-HEALTH needed to strategically analyze each CSR initiative according to the standards of the CCMF. How did current activities reflect BY-HEALTH’s identity, and what programs should the company continue to invest in? Should some of these initiatives be curtailed? If so, what effect would this have on the community? What more could Cai do to communicate the value of transparency (symbolized by the factory) to consumers and shareholders (see Exhibit 2)?

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Exhibit 1: List of BY-HEALTH’s CSR Activities Since 2005

2005

* Kicked off the 1+1+ Hope Program to build Hope primary schools and offer free dietary supplements to children in impoverished areas (total project expenditure since launch: over ¥6 million)
* Started to construct its first primary school

2006

* Began hiring famous spokespeople and doing regional campaigns to promote dietary health

2010

* Offered scholarships to students from low socioeconomic backgrounds (ended in 2015)

2011

* Made detailed ingredient information traceable
* Started the Health Express Nutrition China Program and released the *BY-HEALTH China Health Report* for the first time

2012

* Together with the Chinese Nutrition Society (CNS), the Global Child Nutrition Foundation (GCNF), and Yao Ming, launched a program to improve children’s nutrition in poverty-stricken areas in China (ended in 2015)
* Began a three-step plan to ensure responsibility in all aspects of the value chain
* Opened the transparent factory (total expenditure and investment: ¥1 billion)
* Founded the BY-HEALTH College of Nutrition
* Offered financial support to impoverished university students

2013

* Kicked off the Project Hope BY-HEALTH Nutrition Education Supporting Program with the China Youth Development Foundation (total expenditure: ¥10 million over three years)
* Helped over 10,000 nutritionists obtain public nutritionist occupational qualification certificates
* Began to cooperate with the Yao Foundation to support a basketball season in Hope primary schools for five consecutive years (2013–2017) (total expenditure: ¥1.7 million over five years)

2016

* Began construction of a museum of nutrition

Note: The Health Express Nutrition Program provided free physical examinations and health and nutrition knowledge to the public; The BY-HEALTH College of Nutrition provided comprehensive education for nutritionists and an internal research facility for nutritional studies; The Project Hope BY-HEALTH Nutrition Education Supporting Program aimed to publicize knowledge about nutrition to pupils and teachers at village schools and to sustainably improve pupils’ diets by training public nutritionists and organizing lectures on nutrition.

Source: BY-HEALTH, *2010-2012 Report on Corporate Social Responsibility* and company data, translated by case authors.

Exhibit 2: BY-HEALTH Finances, 2013–2015

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|  | **2013** | **2014** | **2015** |
| Operating Revenue (¥ millions) | 1,482.24 | 1,704.98 | 2,266.04 |
| Free Cash Flow (¥ millions) | 626.51 | 560.64 | 634.89 |
| Earnings/Share (¥) | 0.64 | 0.77 | 0.89 |
| Total Assets (¥ millions) | 2,455.33 | 2,701.17 | 4,905.41 |
| Return On Equity (%) | 20.57 | 22.02 | 15.69 |

Source: Company data.

1. For a more detailed account of the history of the CFDA (formally the SDA) see: Haona Li, He Sun, and Frances J. Richmond, “The Historical Evolution of China’s Drug Regulatory System,” *Value in Health* 17, no. 3 (2014): A30–A31. [↑](#footnote-ref-1)
2. A full list of goods the CFDA regulates can be found in the database section of the CFDA website, accessed March 18, 2017, http://eng.sfda.gov.cn/WS03/CL0755/. [↑](#footnote-ref-2)
3. ¥ = CNY = Chinese yuan; All currency amounts are in ¥ unless otherwise specified; ¥1 = US$0.15 on January, 2017. [↑](#footnote-ref-3)
4. These figures can be found on the China Health Care Association website, accessed March 20, 2017, www.chc.org.cn/ricc/hyxx.php. [↑](#footnote-ref-4)
5. “China—Pharmaceuticals,” United States International Trade Administration, May 31, 2016, accessed March 21, 2017, https://www.export.gov/article?id=China-Pharmaceuticals. [↑](#footnote-ref-5)
6. Zeng Yi, “China’s Rapidly Aging Population,” *Today’s Research on Aging* 20 (July 2010): 1–5. [↑](#footnote-ref-6)
7. Mette Morsing, “Conspicuous Responsibility: Communicating Responsibility—To Whom?” in *Corporate Values and Responsibility,* eds. Mette Morsing and Christina Thyssen (Frederiksberg: Samfundslitteratur, 2003), 145–154. [↑](#footnote-ref-7)
8. Vesela R. Veleva, “Managing Corporate Citizenship: A New Tool for Companies,” *Corporate Social Responsibility and Environmental Management*, 17, no. 1 (2010), 40–51. [↑](#footnote-ref-8)
9. Ibid. [↑](#footnote-ref-9)
10. The 1+1+Hope program allocated part of BY-HEALTH’s sales revenue to the construction of one primary school per year to enable children in remote mountainous areas to continue their studies. [↑](#footnote-ref-10)