

Internal Control Effectiveness and Optimization of Fast-Moving Consumer Goods Listed Companies: A Case Study of Bai Run Co., Ltd. Based on the COSO Framework

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Abstract

Internal control serves as the cornerstone mechanism for enterprises to mitigate risks, ensure compliance, and drive value growth. This study examines Bai Run Co., Ltd. (SZSE Main Board, Code: 002568), a leading domestic pre-mixed cocktail manufacturer, using the COSO Five Elements framework to systematically analyze its internal control system's organizational structure and institutional foundations. Through case studies in four key areas—inventory management, related-party transactions, fundraising, and subsidiary governance—the research evaluates implementation pathways and effectiveness. Findings indicate that Bai Run's internal control system achieved 100% coverage of core subsidiaries, driving revenue growth from RMB 1.927 billion to RMB 3.048 billion and net profit from RMB 535 million to RMB 807 million during 2020-2024. However, challenges remain, including incomplete risk quantification and imbalanced group governance efficiency. The paper proposes targeted optimization recommendations to provide practical references for listed companies in building efficient internal control systems.

Keywords: Bai Run Co., Ltd; Internal Control; Typical Cases; COSO Five Elements

1. Introduction

As the cornerstone of corporate governance, the effectiveness of internal control in listed companies directly determines their risk management capabilities and sustainable operational performance (Ministry of Finance et al., 2008). China's internal control framework for listed companies has evolved significantly since 2008, when the Ministry of Finance and four other ministries jointly issued the "Basic Standards for Enterprise Internal Control" and later introduced the "Supporting Guidelines for Enterprise Internal Control" in 2012. The 2023 revision of the "Corporate Governance Guidelines for Listed Companies" by the China Securities Regulatory Commission (CSRC) further reinforced the regulatory role of internal control in preventing

financial fraud and safeguarding investor rights (Ministry of Finance et al., 2008; CSRC, 2023). Given the food and beverage industry's characteristics—including long supply chains, rapid turnover, and complex operational processes—its vulnerability to internal control deficiencies poses heightened risks to product quality and operational efficiency. This makes the robustness and adaptability of internal control systems in these sectors particularly significant for academic research.

Existing literature primarily explores the relationship between internal control deficiencies and corporate performance or earnings quality from an empirical perspective, but lacks in-depth analysis of the adaptation mechanisms of internal control systems in dual-main-business fast-moving consumer goods enterprises regarding business synergy and differentiated management. Shanghai Bai Run Investment Holding Group Co., Ltd. (Stock Code: 002568), a listed company operating in both fragrance and flavoring and pre-mixed cocktail businesses, exemplifies the challenges of internal control mechanisms in the fast-moving consumer goods (FMCG) industry. These mechanisms must balance the high turnover characteristics of the sector with the complexity of multi-business synergy management, making Bai Run a representative case in the industry. This study examines Bai Run's internal control system design, key business practices, and information disclosure from 2020 to 2024. By integrating theoretical frameworks with case studies, it systematically analyzes the practical logic behind its internal control development, identifies existing issues, and proposes optimization pathways, aiming to provide actionable insights for similar enterprises. The theoretical contributions of this paper are as follows: First, it embeds the COSO five-component framework into the specific business scenarios of dual-main-business fast-moving consumer goods enterprises, validating the practical logic that “internal control is embedded in business operations” rather than “existing independently from business.” Second, it proposes an internal control adaptation model featuring “differentiation + synergy,” enriching the theoretical connotation of internal control system design for diversified enterprises.

This study adopts a structured methodology comprising four phases: theoretical framework, case study, problem analysis, and policy recommendations. The analysis begins with a systematic review of internal control theories, regulatory frameworks, and industry-specific characteristics. It then presents the operational profile and internal control architecture of Bai Run Co., Ltd. Subsequently, the paper conducts a comprehensive evaluation of the company's internal control practices through the COSO five elements framework, focusing on four critical operational areas: inventory management, related-party transactions, capital utilization, and subsidiary governance. Based on this assessment, the study identifies operational deficiencies in the control system and proposes targeted optimization measures. Finally, it concludes with key findings and actionable insights.

The structure of this thesis is organized as follows: Chapter 1 presents the introduction; Chapter 2 examines the theoretical foundations and policy evolution of corporate internal control; Chapter 3 provides an overview of Bai Run Co., Ltd. and its internal control system; Chapter 4 analyzes the case of key business internal control at Bai Run Co., Ltd.; Chapter 5 diagnoses the internal control issues at Bai Run Co., Ltd.; Chapter 6 proposes optimization recommendations for internal control and their anticipated outcomes; Chapter 7 concludes with the findings and implications.

2. Introduction to Internal Control

2.1. Core Connotation and Theoretical Foundations of Internal Control

Enterprise internal control is a dynamic management mechanism embedded in the entire business process. Its core objective is to achieve the integration of risk prevention, compliance assurance, and value enhancement through the coordinated implementation of systems, processes, and measures. Unlike the traditional “post-event supervision” management model, modern enterprise internal control is based on the COSO five-component framework (control environment, risk assessment, control activities, information and communication, and monitoring) (COSO, 2013), emphasizing the closed-loop logic of “pre-event prediction, in-process control, and post-event review.” It serves as a core tool for enterprises to cope with market fluctuations and maintain operational stability.

For listed companies, internal control is not only an internal management necessity but also a mandatory regulatory requirement. China’s Basic Standards for Enterprise Internal Control and its supporting guidelines explicitly require listed companies to establish an internal control system covering all business operations and entities, conduct annual self-assessments, and disclose corresponding reports to ensure the authenticity of financial data, the security and controllability of assets, and the fairness of related-party transactions. This requirement compels enterprises to shift internal control from “passive compliance” to “active empowerment”—by optimizing resource allocation and improving operational efficiency through the internal control system, achieving a balanced approach between “compliance” and “development.”

2.2. Adaptability Characteristics, Value Shift, and Company-Wide Penetration Mechanisms of Internal Control in FMCG Listed Companies

The internal control system of FMCG listed companies must be tailored to the industry’s characteristics of “high demand volatility, rapid supply chain response, and intensive marketing activities.” On one hand, it requires refined inventory and fund management to address market demand uncertainties. On the other hand, it must prevent risks such as interest tunneling and resource wastage through mechanisms for related-party transactions and marketing expense management. The internal control systems of such enterprises typically exhibit the characteristics of being “scenario-specific, dynamic, and company-wide”—designing dedicated control processes for core business scenarios, adjusting risk assessment criteria in response to market changes, and embedding internal control requirements into front-line execution to prevent “empty systems.”

Modern enterprise internal control has moved beyond being a “cost factor” to becoming a “value creation tool (Li & Zhang, 2020).” Taking FMCG enterprises as an example, inventory internal control is not merely about “restricting stock levels” but rather uses demand forecasting models to help sales departments accurately match market needs, thereby avoiding both stock-out losses and inventory impairment losses. Similarly, fund internal control does not simply involve “freezing fund usage,” but rather links fund allocation to project progress, ensuring that raised funds precisely support capacity expansion and shorten project launch cycles. This logic of internal control being “symbiotic with business operations” is key to its transformation from a “compliance tool” to a “core competitive advantage.”

Furthermore, internal control in FMCG enterprises must achieve “company-wide penetration.” Since the execution of internal control often involves front-line roles (such as warehouse staff, promoters, and procurement specialists), treating internal control merely as a “supervisory task for management” can easily lead to “empty systems.” Therefore, the internal control systems of such enterprises typically establish a penetration mechanism based on “awareness—assessment—incentive.” This is achieved through “case-based training” that helps front-line employees understand the value of internal control (for example, showing warehouse staff examples of sales losses caused by insufficient stock), integrating the quality of internal control process execution into front-line KPIs (such as linking inventory count accuracy to performance evaluations), and rewarding employees who proactively identify risks, thereby shifting internal control from “passive compliance” to “active participation.”

2.3. Core Internal Control System of Bai Run Co., Ltd.: Organizational and Institutional Foundations

In terms of organizational structure, Bai Run Co., Ltd. focuses on ensuring audit independence by establishing a dedicated internal audit department that reports directly to the audit committee and independently to the board of directors, free from intervention by other business departments. The company employs no fewer than three full-time auditors with dual expertise in finance and business operations, and clearly defines responsibilities—if the audited department conceals facts or provides false evidence, the responsible personnel and relevant individuals bear joint liability.

In terms of institutional framework, Bai Run Co., Ltd. has established a system network featuring “quantitative standards and full-process coverage.” Core policies include the Rules of Procedure for Shareholders’ Meetings, the Information Disclosure Management System, the Fundraising Management System, and the Related-Party Transaction Management Measures. Taking financial reporting internal control as an example, the company has established clear quantitative criteria for defect determination: potential misstatements equal to or exceeding RMB 46.17 million are classified as material weaknesses, those between RMB 18.47 million and RMB 46.17 million as significant deficiencies, and those below RMB 18.47 million as general deficiencies, ensuring the operability of internal control defect identification and remediation. Such quantitative methods help enhance the effectiveness of internal control improvements (Ashbaugh-Skaife et al., 2008).

3. Overview of Bai Run Co., Ltd. and Its Internal Control System

3.1. Basic Corporate Positioning and Operational Data

Shanghai Bai Run Investment Holding Group Co., Ltd. (Stock Code: 002568) is a listed company in the domestic food and beverage sector that simultaneously operates two core businesses: “flavors and fragrances” and “pre-mixed cocktails.” Its flagship pre-mixed cocktail brand, “RIO,” holds over 60% of the domestic market share and has become an iconic brand in the industry. The flavors and fragrances business focuses on flavor development and production for the food, beverage, and tobacco sectors, leveraging years of technical expertise to establish a stable customer base. The company is one of the few enterprises in the industry to achieve full-chain coverage from “raw material R&D to end products” (Bai Run, 2024). Notably, the operational characteristics of these

two core businesses differ significantly: the flavors and fragrances business emphasizes technological R&D and long-term partnerships, characterized by long production cycles and slow inventory turnover; the pre-mixed cocktail business follows a fast-moving consumer goods (FMCG) logic, relying on high-frequency promotions, rapid turnover, and market responsiveness. These differences in business characteristics impose higher demands on the adaptability and flexibility of the internal control system.

From an operational data perspective (Figure 1), between 2020 and 2024, the company's revenue grew from RMB 3.08 billion to RMB 5.21 billion, representing a compound annual growth rate (CAGR) of 13.8%; net profit increased from RMB 520 million to RMB 970 million, with gross margins stably maintained in the range of 65%–70%. The overall development trend reflects “steady revenue expansion and robust earnings quality” (Source: Bai Run Co., Ltd. Annual Reports, 2020–2024).

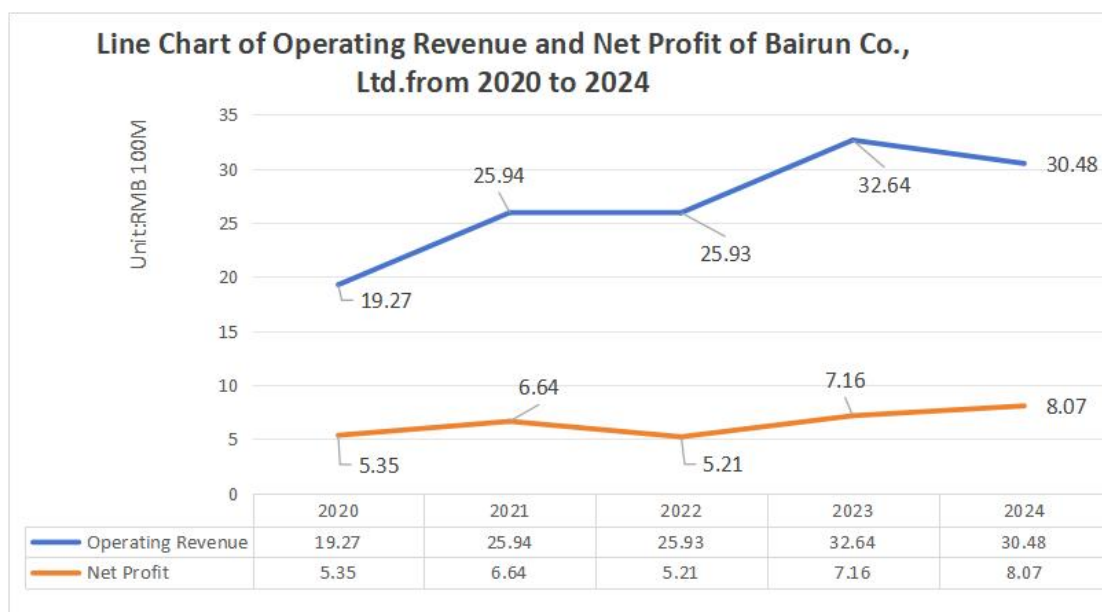


Figure 1. Line chart of revenue and net profit of Bai Run Co., Ltd. from 2020 to 2024

3.2. Core Objectives and Coverage Scope of the Internal Control System

The internal control system established by Bai Run Co., Ltd. centers on three core objectives: “risk prevention, compliant operations, and value empowerment.” First, it establishes risk prevention mechanisms for core business processes such as procurement, production, and sales, focusing on mitigating specific risks arising from the dual-main-business model, including inventory buildup and supply chain disruptions, thereby ensuring the security of corporate assets. Second, it strictly adheres to regulatory requirements for internal control in listed companies, incorporating key processes such as internal control self-assessment and defect remediation into the scope of annual information disclosure, effectively mitigating compliance risks. Third, through optimized design of internal control processes, it breaks down coordination barriers between the two main businesses, enhances cross-business resource allocation efficiency, and provides support for the sustained expansion of the company’s dual-main-business model.

In terms of coverage scope, the internal control system has achieved penetrating management across all core subsidiaries of the company, covering 12 wholly-owned subsidiaries and 3 controlled

subsidiaries. These include Baks Wine Industry, responsible for pre-mixed cocktail production, RIO Wine Industry, which leads brand marketing, as well as subsidiaries focused on flavor and fragrance R&D and production. Currently, the system's business coverage has reached 100%, comprehensively covering all major business segments, including flavor and fragrance R&D and production, full-chain pre-mixed cocktail operations, and supply chain management, while asset coverage has also achieved 100%.

3.3. Benchmarking Standards for the Internal Control System

The construction of Bai Run Co., Ltd.'s internal control system is built upon two key benchmarks. The first is domestic regulatory policies and standards, strictly following requirements set forth in policy documents such as the Basic Standards for Enterprise Internal Control and the Corporate Governance Guidelines for Listed Companies, while incorporating special regulatory provisions related to information disclosure, related-party transaction management, and the use of raised funds for listed companies, thereby establishing a compliance-oriented foundational framework for internal control. The second is internationally recognized internal control frameworks, primarily referencing the COSO Internal Control—Integrated Framework (2013 Edition), deeply integrating its five core components—control environment, risk assessment, control activities, information and communication, and monitoring—into the design of various business processes. Additionally, considering the differentiated characteristics of the dual-main-business model, supplementary control indicators tailored to the industry and the company's specific context have been established, such as “supply chain responsiveness,” “full product quality traceability,” and “cross-business coordination approval.”

According to the company's 2024 internal control self-assessment report, the operational effectiveness of Bai Run's internal control system meets the core requirements of the aforementioned benchmarking standards. Both internal controls over financial reporting and non-financial reporting have remained effective in all material respects, with no material internal control weaknesses identified.

4. Case Analysis of Internal Control over Key Business Operations at Bai Run Co., Ltd.

4.1. Case 1: End-to-End Inventory Internal Control (Supporting Promotional Activities)

(1) Scenario Background

RIO cocktails heavily rely on major promotional events such as “618” and “Double 11” to drive sales. To achieve sales targets, it is essential to precisely align inventory supply with market demand, avoiding both stockouts and excess inventory buildup. Consequently, end-to-end inventory internal control plays a critical role in ensuring the success of promotional campaigns.

(2) Full Internal Control Implementation Process

Pre-Event Planning: The internal control department leads a collaborative effort involving the sales, procurement, and warehouse departments to develop a detailed stocking plan based on

historical sales data and market trends. This plan clearly defines product flavors, specifications, and turnover cycles.

Procurement Control: The procurement department is supervised to ensure it works with qualified suppliers, verifying supplier credentials and raw material quality commitments, thereby mitigating raw material supply risks at the source.

Warehouse Management: A process of “quantity verification + quality sampling inspection → system entry → partitioned and categorized storage” is implemented. Inventory is scientifically managed based on shelf life and product category.

Real-Time Monitoring: The warehouse management system is synchronized in real-time with sales data. Inventory warning thresholds are established, and when inventory levels approach these thresholds, a replenishment alert is automatically triggered.

Post-Event Review: Following the promotional campaign, a special audit is conducted to reconcile sales volumes, inventory records, and system data. Discrepancies are analyzed to identify root causes, and subsequent stocking plans are optimized accordingly.

(3) Corresponding COSO Components and Implementation Effectiveness

Corresponding Components: Risk Assessment + Control Activities. Risk Assessment is reflected in the anticipation of the “stockout/inventory buildup” risk through stocking plans. Control Activities are reflected in end-to-end measures such as procurement control, warehouse management, and real-time monitoring.

Implementation Effectiveness: During a specific year’s “Double 11” campaign, the inventory turnover efficiency of core hot-selling products (Chen et al., 2017) increased by 30%, with no stockouts occurring, and post-campaign inventory levels were maintained within a reasonable range.

4.2. Case 2: Related-Party Transaction Internal Control (Historical Deficiencies and Remediation)

(1) Scenario Background

In the past, the company experienced deficiencies in its internal control over related-party transactions. A major shareholder acquired equity in a core subsidiary at a significantly low price, after which the company repurchased the equity at a high price, harming the interests of minority investors. To regulate related-party transactions, the company implemented targeted improvements to its internal control mechanisms.

(2) Full Internal Control Implementation Process

Dynamic Related-Party Management: A related-party list database was established with clear identification criteria. The list is updated quarterly and disclosed to ensure comprehensive identification of related-party transactions.

Mandatory Pricing Review: All related-party transactions must be supported by an appraisal report from a qualified third-party professional institution, with the appraisal results serving as the core basis for pricing to ensure transaction fairness.

Mandatory Approval Procedures: Related-party shareholders and directors must recuse themselves from voting on related-party transactions. An internal audit department conducts special reviews, forming a three-tiered control mechanism consisting of “pricing review—recusal from voting—special audit.”

(3) Corresponding COSO Components and Implementation Effectiveness

Corresponding Components: Control Environment + Risk Assessment + Control Activities. The Control Environment is reflected in the improvement of systems such as related-party management and recusal from voting. Risk Assessment is reflected in the identification of “interest tunneling” risk and its mitigation through third-party pricing. Control Activities are reflected in processes such as mandatory review and mandatory approval procedures.

Implementation Effectiveness: Following the remediation, related-party transactions have become fair and compliant, with no further instances of interest tunneling.

4.3. Case 3: Special Internal Control over Raised Funds (Ensuring Standardized Use of Funds)

(1) Scenario Background

As a listed company, the standardized use of raised funds is a key regulatory focus. The company must ensure that raised funds are used exclusively for their designated purposes, preventing misappropriation or unauthorized changes in usage.

(2) Full Internal Control Implementation Process

Special Account Management: Raised funds are deposited into a special account, with a supervisory agreement signed with the bank. Pledging, misappropriation, or disguised changes in usage are strictly prohibited.

Quarterly Special Audit: The internal audit department conducts quarterly reviews of fund usage, with a focus on comparing “committed usage” against “actual allocation.”

Strict Approval for Changes: When adjustments to fund allocation are necessary, a full process is followed: “board of directors approval → supervisory board review → information disclosure.”

Dual-Authorization Payment: Expenditures from the special account require the joint signature and authorization of both the chief financial officer and an audit specialist.

(3) Corresponding COSO Components and Implementation Effectiveness

Corresponding Components: Control Activities + Monitoring + Risk Assessment.

Implementation Effectiveness: According to the 2024 internal control evaluation, the management of raised funds was free of any violations, with the rate of dedicated use reaching 100%.

4.4. Case 4: Full-Chain Internal Control over Subsidiaries (Group-Level Management and Control)

(1) Scenario Background

The company has multiple subsidiaries under its umbrella, including Baks Wine Industry (core production) and RIO Wine Industry (marketing). It is essential to achieve “strategic alignment and joint risk prevention” across the group.

(2) Full Internal Control Implementation Process

Unified Systems: Subsidiaries strictly implement the standardized internal control system of the parent company, covering core processes such as inventory management, revenue recognition, and expense approval.

Data Penetration: Data from core production subsidiaries across the “raw material—production—finished product” chain is synchronized in real-time with the parent company’s system, enabling full-chain traceability. **Tiered Expense Control:** Large marketing expenses ($\geq$ RMB 5 million) incurred by subsidiaries must be reviewed and approved by the internal control department of the parent company. **On-Site Audit Supervision:** The parent company conducts special audits at subsidiaries semi-annually to verify system implementation and risk prevention status.

(3) Corresponding COSO Components and Implementation Effectiveness

Corresponding Components: Control Environment + Information and Communication + Monitoring. **Implementation Effectiveness:** In 2024, there were no significant discrepancies between the financial data of subsidiaries and the group’s consolidated financial statements, and no independent operational risks occurred.

5. Diagnosis of Internal Control Issues at Bai Run Co., Ltd.

5.1. Historical Internal Control Deficiencies

In the early stages of establishing its internal control system, Bai Run Co., Ltd. primarily focused on ensuring compliance in core operations such as pre-mixed cocktail production and financial accounting, with insufficient consideration given to its diversified business operations. This left behind certain historical issues. On one hand, the early internal control processes did not cover emerging business areas such as marketing channel management and brand partnerships, leading to non-standard distributor management, instances of cross-regional selling (diversion of goods), and trademark usage disputes arising from insufficiently detailed contract reviews in brand co-branding collaborations. On the other hand, the internal audit department was once subordinate to the finance department, lacking independent supervisory authority, resulting in cursory inspections of key tasks such as inventory counts and accounts receivable write-offs. This led to issues such as discrepancies between inventory records and actual physical stock, as well as some accounts receivable not being written off in a timely manner. Furthermore, when acquiring upstream and downstream enterprises, the company failed to establish unified internal control integration rules, resulting in inconsistent financial and business processes between acquired companies and the parent company, with data unable to be directly integrated. This caused delays and inaccuracies in the group’s internal control data statistics.

5.2. Insufficient Adaptability of the Current System

As Bai Run Co., Ltd. expanded into new product categories such as fruit wines and sparkling water, and ventured into new channels such as e-commerce and new retail, the existing internal control system has gradually shown signs of disconnect from business development. First, the internal control approval processes still follow the multi-layered model characteristic of traditional manufacturing, which does not align with the “rapid market response” nature of the fast-moving consumer goods (FMCG) industry. For example, the approval process for marketing expenses related to new product launches involves 7 to 8 steps, lagging significantly behind industry peers and often causing missed market opportunities. Second, internal control assessment indicators focus solely on sales and collections from offline channels, failing to incorporate metrics such as inventory turnover rates and customer repurchase rates for online channels, making it difficult to effectively monitor operational risks in online businesses. Third, the company’s existing ERP system only covers finance and production modules, while marketing and supply chain data are dispersed across other systems that are not interconnected. This makes it difficult for the internal control department to pre-emptively identify risks through data analysis. Additionally, in response to changes in industry regulatory policies, such as controls on underage alcohol consumption and regulations on alcohol advertising, the internal control system has not been updated in a timely manner with corresponding preventive measures, exposing the company to compliance risks.

5.3. Barriers to Implementation and Dissemination

The effective operation of an internal control system depends on execution by employees at all levels. However, Bai Run Co., Ltd. Faces significant barriers in the implementation and dissemination of internal control. First, there is inconsistent emphasis on internal control among management. While senior executives recognize its importance, mid-level managers often view it as an additional burden and frequently shortcut processes to expedite business progress. For instance, they may skip customer credit checks and sign sales contracts, increasing the risk of bad debts. Second, front-line employees have weak awareness of internal control and lack systematic training. They merely complete forms mechanically, frequently making errors or omitting steps, which undermines internal control efficiency. Third, internal control implementation is not tied to performance evaluations, resulting in a lack of employee motivation to comply. Some employees even deliberately circumvent internal control oversight to achieve performance targets. Fourth, during cross-departmental collaboration, internal control responsibilities are unclearly defined. For example, the marketing and finance departments may shift responsibility to each other during expense reimbursement processes, causing delays and hindering business progress.

6. Recommendations for Internal Control Optimization and Expected Outcomes

6.1. Targeted Optimization Measures

(1) Addressing Historical Deficiencies to Strengthen the Internal Control Foundation

Bai Run Co., Ltd. has established a dedicated internal control remediation team to identify 23 historical issues, including channel management and post-acquisition integration, and to develop

corresponding remediation plans. To address distributor management issues, a credit rating system has been implemented, categorizing distributors based on their qualifications, sales performance, and collection track record, enabling differentiated cooperation policies. To address post-acquisition integration issues, an internal control integration management policy has been introduced, requiring acquired companies to unify their financial and business processes with those of the parent company within six months, with progress monitored by the audit department. Additionally, the internal audit department has been separated from the finance department, empowering it to conduct independent audits across all business segments, including marketing and supply chain, thereby strengthening internal control oversight.

(2) Optimizing System Design to Align with Business Development

Taking into account the characteristics of the fast-moving consumer goods (FMCG) industry and the company's business structure, Bai Run Co., Ltd. has restructured its internal control processes and indicators. In terms of processes, the approval hierarchy for new product launches and expense approvals has been streamlined, with the online business approval process reduced from 7–8 levels to 3–4 levels, supported by the implementation of a digital approval system to enhance efficiency (Li & Wang, 2022). In terms of indicators, new assessment metrics such as online inventory turnover rate and advertising compliance have been introduced, establishing a comprehensive “offline + online” evaluation system. Furthermore, the information system has been upgraded by integrating data interfaces between the ERP system and e-commerce and supply chain systems, enabling the use of big data to identify risks such as abnormal distributor orders and inventory buildup. At the same time, dedicated personnel have been assigned to monitor industry policies, ensuring timely updates to internal control provisions to maintain compliance.

(3) Strengthening Implementation and Dissemination to Ensure Effective Internal Control Execution

Bai Run Co., Ltd. has focused on three areas—training, accountability, and performance evaluation—to drive effective internal control execution. First, tiered training programs have been implemented, with a total of 12 training sessions conducted in 2024, covering over 2,000 employees. Second, a responsibility matrix for internal control roles has been established, clearly assigning tasks such as marketing expense review and supplier management to specific positions to avoid cross-departmental finger-pointing. Third, internal control implementation has been integrated into performance evaluations, accounting for 15% of the overall assessment. Employees who demonstrate strong compliance are rewarded with bonuses and promotion opportunities, while those who violate controls are subject to penalties. This approach has helped enhance employee motivation to adhere to internal controls.

6.2. Key Outcomes of Internal Control Implementation

(1) Significantly Enhanced Risk Prevention Capabilities

Through the optimization of the internal control system, Bai Run Co., Ltd. has effectively managed business risks. The distributor credit rating system has reduced issues such as cross-regional selling and overdue payments by 80%, while the accounts receivable turnover rate has increased from 6 times to 8 times per year. In terms of regulatory compliance, the company has

achieved 100% compliance in areas such as underage protection and advertising, with no further administrative penalties received. The big data risk control system, through real-time monitoring, addressed 12 risk incidents related to inventory buildup and abnormal expenses in 2024, reducing economic losses.

(2) Sustained Improvement in Operational Efficiency

The streamlined approval processes have shortened the new product launch cycle from three months to one and a half months, while the efficiency of online expense approvals has increased by 60%, significantly accelerating the company's responsiveness to the market. The refinement of internal control indicators has enabled more precise management of online operations. In 2024, online inventory turnover increased by 30%, customer repurchase rates rose from 25% to 38%, and the share of online revenue grew from 18% to 27%. With clearer cross-departmental responsibilities, communication costs have been reduced by 40%, contributing to a substantial improvement in the group's overall operational efficiency.

(3) Enhanced Value Creation Capability of the Internal Control System

The optimized internal control system is no longer limited to risk oversight but has become a driver of business development. By analyzing internal control data, the company identified market potential in the premium pre-mixed cocktail segment. Following adjustments to its R&D and marketing strategies, the share of revenue from premium products increased from 30% to 45%. The integration of internal controls for acquired companies shortened their time to profitability from 18 months to 12 months, supporting the company's diversified growth. Additionally, the company's internal control evaluation rating improved from "Good" to "Excellent," enhancing its reputation in the capital markets.

7. Conclusion and Implications

7.1. Research Findings

(1) Adaptive Construction of the Dual-Main-Business Internal Control System is a Key Support for Operational Stability

Addressing the operational differences between its "flavors and fragrances (long-cycle R&D)" and "pre-mixed cocktails (short-cycle FMCG)" businesses, Bai Run Co., Ltd. has established an internal control framework featuring "penetrating control + differentiated indicators." This framework not only achieves 100% coverage of business operations and assets but also balances the operational requirements of distinct business types through industry-specific indicators such as "supply chain responsiveness" and "cross-business coordination approval," thereby providing institutional support for the coordinated expansion of its dual-main-business model.

(2) Scenario-Based Internal Control Practices Serve as an Effective Approach to Theoretical Demonstration

The internal control processes across four core business scenarios—such as inventory management and related-party transactions—follow a closed-loop logic of "pre-event risk

assessment → in-process control → post-event review and optimization.” These practices are deeply aligned with the five components of the COSO framework, validating the practical value of “embedding internal control into business operations” rather than treating it as “an independent function separate from business.”

(3) Internal Control Optimization is a Dynamic Iteration from Compliance to Value Creation

Although Bai Run Co., Ltd.’s internal control system already meets regulatory requirements, challenges remain, such as insufficient granularity in risk quantification and barriers to implementation at the operational level. The company’s optimization efforts—focusing on “upgrading risk assessment models and establishing grassroots-level internal control penetration mechanisms”—reflect the evolutionary logic of internal control transitioning from a “passive compliance tool” to an “active value creation tool.”

7.2. Industry Reference

(1) Dual-Main-Business Enterprises Require “Differentiated” and “Coordinated” Internal Control

For enterprises in the FMCG industry operating multiple business lines simultaneously, a “one-size-fits-all” control logic should be avoided. Companies can draw on Bai Run’s approach to differentiating between long-cycle R&D businesses and short-cycle FMCG businesses, while simultaneously establishing cross-business coordination mechanisms to prevent internal control blind spots caused by operational silos.

(2) FMCG Enterprises Should Implement Internal Control Through a “Scenario-Based” and “Company-Wide” Approach

Given the FMCG industry’s characteristics of “intensive marketing activities and high demand volatility,” internal control must be embedded into core business scenarios to achieve targeted effectiveness. It is recommended to design specific control processes for high-frequency scenarios such as promotional campaigns, supply chain coordination, and new product launches, and to promote the transition of internal control from “management responsibility” to “active company-wide participation” through case-based training, performance evaluation integration, and risk feedback incentives.

(3) Internal control should balance "compliance" and "industry flexibility"

For listed companies, internal control must strictly adhere to regulatory requirements to establish a solid compliance foundation. At the same time, the FMCG industry’s characteristics of “rapid market changes and emerging marketing models” require internal control systems to maintain flexibility for adjustments. This includes incorporating industry-specific control indicators and optimizing process designs to align with the industry’s pace, achieving a balance between “compliance without rigidity” and “flexibility without violating regulations.”

7.3. Research Limitations and Future Prospects

This study is based solely on publicly disclosed information from Bai Run Co., Ltd. for the period 2020–2024 (annual reports and internal control self-assessment reports) and does not incorporate primary research data on the implementation of internal controls within the enterprise. Consequently, the analysis is limited in its depth regarding grassroots execution details and the actual effectiveness of internal control deficiency remediation. Furthermore, the inherent limitations of the case study methodology constrain the external validity of the research findings, warranting caution when generalizing conclusions to other industries or different types of enterprises.

Future research can be expanded in two directions: First, adopting methods such as “corporate surveys + in-depth interviews” to obtain authentic feedback from internal control implementers, enabling a more detailed analysis of pain points and optimization pathways for internal control implementation in FMCG enterprises. Second, conducting comparative studies of multiple listed FMCG companies with dual-main-business models to distill a more universally applicable industry-specific internal control framework, thereby enhancing the generalizability of research conclusions.

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