

The Impact of Fulfilling Social Responsibilities for Listed Companies on Financing Constraints: A case study of Kangmei Pharmaceutical

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Abstract: Under the rapid development of social economy, corporate social responsibility has gradually entered one of the criteria for major companies to evaluate enterprises, enterprise in the process of development, not only the pursuit of interests as the only goal, should also pay attention to including consumer demands, employee career development and environmental protection and other involved in the content of corporate social responsibility. Through this paper, for our country listed companies through the practice of social responsibility to ease financing constraints provide theoretical basis and case support, guide listed companies legal compliance capital market resources, at the same time for the capital market regulators improve the system of corporate social responsibility specification, to ease the financing of listed companies constraints, reduce resource mismatch provide useful reference.

Keywords: Kangmei Pharmaceutical, Financing Constraints, Corporate Social Responsibility.

1. Introduction

In 2017, the 19th National Congress of the Communist Party of China put forward clear requirements for corporate social responsibility, and all sectors of society regard the fulfillment of corporate social responsibility as the top priority [1]. The problem of financing constraints and the issue of corporate social responsibility occur at the same time, which also restricts the development of listed companies in China. More and more cases of non-performance of corporate social responsibility show that the fulfillment of corporate social responsibility is indeed inseparable from the financing constraints of enterprises. In recent years, due to gutter oil, toxic milk powder, fake vaccine lack of social responsibility events, exacerbated the social distrust of the enterprise, also push the enterprise involved to the forefront of the theory, the serious lack of social responsibility make longevity lost the trust of the social public, financing, eventually led to the company bankruptcy delisting [2-4]. Thus, corporate social responsibility has gradually become an important basis for judgment [5]. Therefore, how the performance of corporate social responsibility will affect the financing constraints, how the enterprises should avoid the disadvantages caused by financing constraints by actively assuming social responsibilities, and how to standardize the legal compliance of enterprises to alleviate the structural financing constraints caused by resource mismatch. This paper is based on the above background of this paper aims to analyze the impact of the financing constraints, and introduce the kang mei pharmaceutical case analysis, add domestic case study blank in corporate social responsibility and financing constraints, for listed companies by strengthening the construction of social responsibility to alleviate their financing constraints, improve the efficiency of capital supplier configuration provide theoretical basis and case support. In terms of theory, based on the large sample data, this paper examines the impact of the performance of the social responsibilities of listed companies on their financing constraints from a macro

perspective, and selects some targeted and representative case companies to analyze how the performance of their social responsibilities will affect the financing constraints from the micro level. This paper analyzes the specific impact of corporate social responsibility on financing constraints, thus adding theoretical and case study results to relevant research fields.

2. Literature Review

The impact of listed companies' social responsibility on financing constraints from a positive point of view, enterprises that actively fulfill their social responsibilities can often send a good signal to the outside world. For example, demonstrating good corporate governance can help increase investor confidence and reduce information asymmetry, thereby easing financing constraints faced by firms. However, on the other hand, if enterprises are overly invested in social responsibility activities, it may lead to the dispersion of resources and the increase of costs, which in turn will adversely affect the financing ability of enterprises and increase financing constraints [5]. In summary, the impact of social responsibility on financing constraints is not a simple linear relationship, but is more affected by a variety of factors, and most studies have found that. To alleviate the financing constraints of corporate social responsibility, it is necessary for enterprises to actively fulfill their social responsibilities. By searching for case studies at home and abroad, it can be found that in the research on corporate social responsibility and financing constraints, there are relatively few studies on the use of comprehensive indicators to measure financing constraints in China, and in addition, the case studies on the impact of corporate social responsibility on financing constraints are relatively lacking in China.

The concept of corporate social responsibility: Scholars from the perspective of social responsibility believe that corporate social responsibility is only the corresponding economic responsibility and legal responsibility. With the development of research, CSR should be economic, legal,

ethical and philanthropic in order of importance [5]. From the perspective of stakeholders, some scholars believe that corporate social responsibility is a fiduciary responsibility to all stakeholders. Therefore, the definition of corporate social responsibility in this paper is mainly from the perspective of stakeholders, including the responsibilities of enterprises to shareholders, creditors, employees, suppliers, consumers, governments, communities and the environment. Concept of Financing Constraints: Corporate financing methods include endogenous financing and external financing. Endogenous financing mainly comes from the accumulation of historical earnings within the enterprise, regardless of corporate dividends and interest payments, and there is no limit on financing costs. External financing refers to the issuance of stocks, bonds and borrowing from banks to obtain external funds, and need to pay the corresponding financing costs. As can be seen from the figure 1, there is a general ESG introduction.



Figure 1. ESG introduction.

3. Case study of Kangmei Pharmaceutical

Kangmei Pharmaceutical Co., Ltd. (hereinafter referred to as "Kangmei Pharmaceutical") only involved the manufacture of chemical drugs in its initial business, after 2002

After years of development, as of 2013, Kangmei Pharmaceutical's business has penetrated into the entire industrial chain of traditional Chinese medicine [6].

The key links run through the upstream, middle and downstream of the traditional Chinese medicine industry, from the cultivation of medicinal materials, the trading of medicinal materials, to the production and development,

Terminal sales. In the process of expansion, Kangmei Pharmaceutical has been involved in a series of scandals such as bribery, fraud, market manipulation, and suspected pyramid schemes, and in 2018, Kangmei Pharmaceutical was exposed to financial fraud, involving an amount of nearly 30 billion yuan. In 2022, Kangmei Pharmaceutical won the "2022 3-15 National Product Quality Stable and Qualified Enterprise Exhibition" by China Quality Supervision magazine. Since then, Kangmei Pharmaceutical has continuously strengthened the control and integration of Chinese herbal medicine resources around the key links of the traditional Chinese medicine industry chain, and has successively established a 300,000 mu GAP Chinese herbal medicine planting base, and successively laid out the Chinese herbal medicine market [6].

Before the reorganization at the end of 2021, Kangmei Pharmaceutical established a board of directors and a board of supervisors under the leadership of the shareholders' meeting, which led senior management including a president, a vice president, and three deputy general managers, and set up 26 management departments, including the general

manager's office, human resources department, finance department, procurement management department, audit department, direct sales department, customer service department, engineering management department, labor union, etc., to manage a large number of branches and subsidiaries established and acquired.

In April 2023, the reorganized Kangmei Pharmaceutical adjusted the original organizational structure, set up 4 major business units to adapt to strategic business segments and channel strategies, 3 middle office departments, and 13 back office departments [6].

3.1. The Current State of Corporate Social Responsibility

The serious lack of economic responsibility and legal responsibility in corporate social responsibility is vividly reflected in the financial fraud case of Kangmei Pharmaceutical, and corporate social responsibility can be defined as the responsibility of the enterprise to the stakeholders involved in business activities.

3.2. Social Responsibility to The Stock System

This paper selects the income per share as an important indicator to measure the social responsibility of Kangmei Pharmaceutical to shareholders, and the responsibility of the enterprise to shareholders is to obtain more profits for shareholders, which is full of risk compensation required by shareholders' investment, which can be reflected through earnings per share, and its calculation formula is: earnings per share = net profit / The total number of shares of Pudao shares in the year. The social responsibility of employees This paper selects the employee profit card as an important indicator to measure the level of social responsibility performed by Kangmei Pharmaceutical to employees. The higher the employee's profit, the more substantial the company's care for the employee. Calculation formula: "Employee profit water" = cash paid to employees and paid for employee 1 / main business income. Social Responsibility to Creditors This paper selects the quick ratio as an important indicator to measure the level of social responsibility of Kangmei Pharmaceutical to creditors. Kangmei Pharmaceutical's short-term borrowings account for a high proportion of its financing structure, and the short-term debt repayment pressure is "large." The larger the quick ratio, the better the company's short-term solvency and an important safeguard for the rights and interests of its creditors. Calculation formula: Quick Ratio = Quick Assets / Current Liabilities. This paper selects the growth rate of operating income as an important indicator to measure the level of social responsibility of Kangmei Pharmaceutical to consumers. When consumers are satisfied with the company's products and services, the company's market share will increase accordingly, and the growth rate of operating income will also increase. Calculation formula: operating income growth rate = (this year's main business income 1: annual main business income) 1!: Annual main business income. The social responsibility of suppliers: In this paper, the accounts payable turnover rate is selected as an important indicator to measure the level of social responsibility performed by Kangmei Pharmaceutical to suppliers. The higher the accounts payable turnover rate, the lower the capital occupation rate of the enterprise to the supplier, reflecting its higher quality commitment to the supplier. The calculation formula is: Accounts Payable Turnover = Operating Cost / Average Accounts Payable

Occupancy.

4. Financing Status

Based on different sources of financing, the financing methods of enterprises can be further divided into two perspectives: endogenous financing and external financing, so as to comprehensively analyze the financing status of Kangmei Pharmaceutical. Endogenous financing: On the whole, Kangmei Pharmaceutical's profitability has a more serious problem, the main business income generation ability has been improved, the profit realization ability is not strong, the cash flow is shortage, and the endogenous financing ability has also declined, especially after being exposed to financial fraud, the lack of social responsibility has damaged Kangmei Pharmaceutical's reputation, so the company's continuous operation needs to rely on high external debt. Exogenous financing: equity financing: increasing pressure to repay principal and interest on time; Kangmei Pharmaceutical's financial risk and guarantee risk have also increased successively. Debt financing: With the continuous development of its main business, Kangmei Pharmaceutical has formed a marketing model of the whole industry chain with traditional Chinese medicine as the core [7]. In order to ensure the stable operation of the marketing model, it requires continuous, long-term and high capital investment, and Kangmei Pharmaceutical's operating conditions and cash retention are not enough to support its capital needs, all of which make Kangmei Pharmaceutical's debt financing face a more severe test.

5. The Impact of Corporate Social Responsibility on Financing Constraints

In the case of Kangmei Pharmaceutical, its failure to effectively fulfill its social responsibilities had a significant negative impact on financing constraints. Kangmei Pharmaceutical's financial fraud and other illegal acts seriously violated the principle of social responsibility. This undesirable behavior has led to the impact of its financing constraints in the following ways: First, it has greatly damaged the reputation and image of the company. The loss of trust from investors, financial institutions and the public has led to a significant decline in the credit rating of enterprises in the financing market, a sharp narrowing of financing channels, and more severe financing constraints. Second, the degree of information asymmetry has increased. Fraud, the true financial status and operating conditions of the enterprise are concealed, so the risk and value of the enterprise cannot be accurately assessed by investors and financial institutions, and the financing threshold and financing cost are also raised accordingly. Moreover, it has triggered severe penalties from regulatory authorities. This not only leads to huge fines and legal costs, but also severely damages the company's position in the capital market, further exacerbating the difficulty of financing. Finally, there is the impact on supply chains and partnerships. Suppliers and partners may be less willing to cooperate, require more stringent payment terms or reduce the scale of cooperation, which affects the company's cash flow and financing ability to a certain extent.

Further analysis of the specific impact of Kangmei Pharmaceutical's performance of corporate capital responsibilities on its financing constraints, focusing on

Kangmei Pharmaceutical's equity financing and debt financing, mainly through the actual characteristics of financing scale and financing cost.

The impact of equity financing: After Kangmei Pharmaceutical's financial fraud and its true social responsibility performance were exposed, it had a huge impact on its equity financing: with the rapid spread of the suspicion of financial fraud on Kangmei Pharmaceutical on the Internet, Kangmei Pharmaceutical's share price fell sharply, agency costs rose, equity financing channels were restricted, and the scale of equity financing also declined. Impact of debt financing: Compared with equity financing, debt financing has relatively relaxed approval conditions, has a tax deduction effect and will not shake the corporate governance structure. Since 2017, Kangmei Pharmaceutical's external financing structure has undergone great changes - from equity financing and debt financing to relying entirely on debt financing.

6. Conclusions of the Study

Through the investigation and analysis of various cases, it can be found that alleviating the financing constraints faced by enterprises requires enterprises to actively fulfill their social responsibilities. Actively fulfilling corporate social responsibility can help enhance the reputation and image of enterprises, so that enterprises can gain the trust of consumers, enhance investor confidence, reduce the degree of information asymmetry, and thus broaden financing channels and reduce financing costs. Specifically, banks and other financial institutions will give preference to companies that are better at fulfilling their social responsibilities, and in the end, equity financing for these companies will be smoother.

Various case studies can also prove that there is a negative correlation between corporate social responsibility and financing constraints. In other words, the fewer constraints in the financing process, the more it shows that the company attaches great importance to fulfilling its social responsibilities. This is mainly because the company's active implementation of corporate social responsibility sends a positive signal to the market, enabling potential investors and creditors to identify and more accurately assess the company's risk and value, so that they are willing to provide the company with more favorable financing terms.

Through the empirical study of the case, it is found that corporate social responsibility has a significant weakening effect on financing constraints. Actively participating in social responsibility practices such as public welfare activities, environmental protection, and employee welfare can effectively improve the relationship between enterprises and stakeholders. To a certain extent, this kind of social capital is transformed into financial capital, and enterprises will be able to break through financing problems more easily, reduce financing pressure, and develop in a higher direction. To sum up, an important way to alleviate financing constraints is to actively fulfill social responsibilities. On the one hand, the fulfillment of social responsibility improves the transparency and credibility of enterprises, and investors can choose the right enterprises with more confidence, reducing the uncertainty in the financing process. On the other hand, it also promotes enterprises to form a good governance structure and risk management mechanism to further reduce financing risks, so that the financing environment of enterprises becomes more competitive.

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