

Relation between Social Responsibility and Enterprise Long-term Competitiveness

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Abstract—The theory of corporate social responsibility holds that a company must not only fulfill its economic responsibility of making profits for its shareholders, but also undertake broad legal, ethical and philanthropic responsibilities. The notion of corporate social responsibility is most vulnerable to the argument that fulfillment of social responsibility will affect the company's financial performance and competitiveness, which will in turn undermine the efficiency of the economy at large. To find an answer to this question, this paper draws upon the logical core of the stakeholder theory to design a framework for analyzing social responsibility and enterprise long-term competitiveness. This framework is then used to examine the Mengniu case, and the results show that fulfillment of social responsibility is a fountain of enterprise long-term competitiveness, fulfillment of social responsibility may reduce short-term financial performance somehow, but it will greatly increase long-term financial performance and enterprise long-term competitiveness.

Index Terms—Financial performance, long-term competitiveness, social responsibility.

I. INTRODUCTION

Niu Gensheng, Chairman of the Board of Directors of Mengniu Dairy, often claimed that his personal motto was that “minor wins come from wisdom while major victories result from high standards of ethical conduct”. However, this dairy giant, which claimed to win victories through ethical conduct and servicing dairy farmers and consumers, was embroiled in a shocking scandal of tainted milk - its infant formula milk powder and various lots of liquid milk were tested positive for melamine.

Although a leader of the dairy industry, Mengniu paid lip service to the fulfillment of its social responsibility and raked in exorbitant profits at the expense of dairy farmers' interests and consumers' health. This has compelled us to ponder some questions: Should an enterprise fulfill its social responsibility? Is social responsibility merely a disguise for some unscrupulous enterprises to indulge in fraudulence, or is it a must-have strategy for an enterprise to succeed? Is social responsibility a meaningless extra burden on an enterprise or the main driving force of its value enhancement?

The concept of corporate social responsibility was born in the United States in the early 20th century; it holds that a company must not only fulfill its economic responsibility of making profits for its shareholders, but also undertake broad legal, ethical and philanthropic responsibilities [3]. Although from a practical perspective, corporate social responsibility has become an irreversible trend, it lacks a

solid theoretical foundation, and a complete theoretical system has yet to be developed. The notion of corporate social responsibility is most vulnerable to the argument that fulfillment of social responsibility will affect the company's financial performance and competitiveness, which will in turn undermine the efficiency of the economy at large. For example, with regard to the negative impact of social responsibility, Manne argued [12]: “If a company wants to sell its products in a highly competitive market, it cannot engage in many activities that will not help maximize its profits. If the company has to do so, it may not be able to survive.”

In the late 1990s, corporate social responsibility began absorbing the emerging stakeholder theory as its basis, thus gaining a semblance of a theoretical foundation [2, 10]. However, is it true that a company cannot survive if it tries to fulfill its social responsibility, or does social responsibility inevitably lead to a decline in financial performance and economic efficiency? To find an answer to this question, this paper draws upon the logical core of the stakeholder theory to design a framework for analyzing financial performance, social responsibility and enterprise sustainable development. This framework is then used to examine the Mengniu case, and the results show social responsibility and financial performance are not mutually exclusive, and that, in the long run, fulfillment of social responsibility will not affect a company's financial performance or competitiveness, but enhance its value and sustainable development.

II. STORY OF MENGNIU'S BREAKNECK EXPANSION

In China's corporate world in recent years, “the Mengniu speed” has been a buzzword. Following is a brief account of Mengniu's breakneck expansion [22]. When Mengniu was founded in 1999, it ranked 1116th in the dairy industry. From 1999 to 2002, it expanded “by surpassing a comparable enterprise a day on average”. In 2002, its sales hit RMB 1.668 billion, making it China's fourth largest dairy maker. In the subsequent years, Mengniu continued its leapfrog, breaking its sales records annually. Its annual sales totaled RMB 4.071 billion in 2003, the third largest in the industry; RMB 7.214 billion in 2004, the second largest; and RMB 21.318 billion in 2007, topping the industry.

How did an enterprise without a source of supply, manufacturing facilities or a market rise to become the leader of the dairy industry? What is the secret to Mengniu's extraordinary expansion? Industry analysts generally attribute it to the rapidly expanding dairy market in Mengniu's formative years, and more importantly, its successful operational strategy. Firstly, Mengniu implemented

a “market first, factory next” reverse operating model, under which limited funds were devoted to promotional campaigns in the market and access to manufacturing facilities were obtained in the form of “virtual alliance”; in such an alliance, Mengniu entered into a partnership with selected enterprises and used their equipment and manpower, while the partner enterprises retained their title to the equipment and manpower. Secondly, to secure the supply of milk, Mengniu implemented a “ride hitching” model of “company + milk station + dairy station”, under which Mengniu entered into a joint development contract with the owners or managers of milk stations or the local village government or residents’ committee where the milk stations were located, thereby securing the support of the local government. The milk stations must fulfill a pre-set minimum supply target and sold all fresh raw milk they had procured to Mengniu. Mengniu also provided loans for selected dairy farms which had entered into an exclusive supply agreement with itself, and the loans were used to purchase cows. Throughout the process, Mengniu didn’t have the title to the milk stations, dairy farms and pastures.

Mengniu suffered a serious funding shortage in its breakneck expansion. Immediately after its formation, Mengniu began seeking external financing. After its unsuccessful attempt to raise funds from the domestic equity market, Mengniu started looking for potential foreign investors to satisfy its thirst for capital. In 2002, after a dazzling series of capital operations, Mengniu secured an investment of RMB 216 million from Morgan Stanley, CDH Investments, and CDC Capital Partners. However, this investment was based on a Value Adjustment Mechanism (VAM) agreement with tough terms: (1) If Mengniu’s annual compounded profit growth rate couldn’t reach 50% from 2003 to 2006, its managers must transfer their 78.3 million shares to Morgan Stanley; otherwise, Morgan Stanley must transfer its own 78.3 million shares to Mengniu managers as a reward; and (2) If Mengniu’s managers failed to reach the 50% profit growth target in the first year of the agreement, they would lose their control over Mengniu Dairy.

Although the agreement had come with stringent conditions, Mengniu’s “skyrocketing” growth exceeded the target specified in the agreement. Mengniu’s annual after-tax profits soared from RMB 77.86 million in 2002 to RMB 230 million in 2003, representing an increase of 194% year-on-year, allowing its managers to retain their control over the listed company. On April 6, 2005, as Mengniu’s actual annual profit growth far exceeded the 50% requirement specified in the VAM agreement, Morgan Stanley and two other investors paid RMB 50 million worth of convertible notes (which could be converted into 62.6 shares in the listed company) to Mengniu managers, thus putting an end to the agreement.

As Mengniu took off, some problems began to surface, and the most prominent ones were price warfare and source of supply. Mengniu’s breakneck expansion had inspired many dairy makers in the industry to copy “the Mengniu Model”; they scrambled to launch new products, expand their production capacity, and seize more sources of supply, in order to gain a bigger share of the market. However, terminal products became increasingly homogenized and the market was thrown into chaos; some dairy makers had to undertake low-standard marketing gimmicks, such as price cuts and bundled sales. Although

such efforts did increase sales, the paper-thin profit margins reduced the enterprises’ ability to keep their head over the water, and many of them were lamenting that milk was even cheaper than water. During the fierce price warfare, in 2006, the dairy industry’s profits amounted to merely RMB 5.5 million, and 30% of the enterprises were losing money and another 30% were struggling to survive.

Source of supply was the primary factor hindering the dairy industry’s growth. The reason is obvious. Although a liquid milk processing line can be built in a matter of months, it takes three to five years to build an upstream milk supply source and to cultivate fine breeds of cows. Statistics from the National Development and Reform Commission show that from 2000 to 2006, China’s dairy production soared by 450%, but the number of cows increased by 180% only [7]. The shortages of raw milk, especially high-quality raw milk, hampered the growth of China’s dairy industry, and the problem was more acute for Mengniu due to its development model. Mengniu operated a “ride hitching” model, under which the company did not spend money to build supply bases; rather, it just procured from external suppliers. Although this model helped ease financial pressure on the cash-strapped Mengniu, it was harder for Mengniu to control the quality of raw milk as it owned no supply base.

Another problem was that dairy farmers had not benefited from the shortages of raw milk. In 2008, cow feed prices rose by nearly 50%; normally, raw milk prices should be hiked as well; however, under increasing pressure from rising costs, many dairy makers who offered low prices moved to squeeze procurement prices for raw milk; consequently, many dairy farmers, who had already been caught between a rock and a hard place, were plunged into heavy debts and even bankruptcy. Rumors were circulating on the Internet that some dairy farmers supplying raw milk to Mengniu had gone bankrupt due to Mengniu’s failure to provide pledged funding support, climbing feed costs, and declining raw milk prices.

With soaring feed costs and squeezed raw milk prices, many dairy farmers who had lost money stopped keeping cows; as a consequence, the supply of raw milk dropped. At the same time, major dairy makers were scrambling to expand their production capacity in an attempt to grab a larger share of the market. Given such an environment in the dairy industry, trouble was just a matter of time. In September 2008, the melamine scandal came to light – Mengniu’s infant formula milk powder and various lots of liquid milk were tested positive for melamine. In the aftermath of the melamine scandal, in December 2008, Mengniu reported losses of RMB 900 million for the whole of 2008.

III. FINANCIAL PERFORMANCE, SOCIAL RESPONSIBILITY AND ENTERPRISE SUSTAINABLE DEVELOPMENT

A. *Financial Performance, Social Responsibility and Enterprise Sustainable Development: A Stakeholder Analysis Framework*

According to the mainstream enterprise theory, an enterprise consists of owners of human capital and possessors of physical capital; as physical capital can be used as collateral, their possessors naturally assume the enterprise’s residual risks, and therefore hold the residual rights

of control and residual claims to the enterprise; as it's held by its owners, the enterprise should aim to maximize the wealth of its owners (i.e. shareholders).

Different from the mainstream enterprise theory, the stakeholder theory holds that "an enterprise is a set of multilateral contracts between stakeholders" [6]. As all stakeholders invest in the company and assume corresponding risks, residual claims and residual rights of control should be unevenly distributed among the possessors of physical capital and human capital at the enterprise, and the company's shareholders do not necessarily occupy the central position among the stakeholders. To ensure the fairness and justness of the contracts, the interests of all shareholders should be taken care of. Thus, the enterprise should aim to effectively create wealth for all stakeholders, including shareholders, and for society at large.

Although the mainstream enterprise theory and the stakeholder theory have different opinions on the aims of enterprises, the latter's central argument that enterprises should focus on stakeholders' interests has gain extensive acceptance. This argument is believed to be helpful in reversing enterprises' tendency to stress shareholders' interests while neglecting stakeholders' interests.

Then, why should enterprises should be concerned about stakeholders' interests during their operations? The reason is obvious – only when the stakeholders' interests are preserved can the enterprise's development be sustained and long-term shareholder value be ensured. As "an enterprise is a set of multilateral contracts between stakeholders" and an enterprise operates continuously, to ensure the sustainability of the enterprise's operations, the contract between the enterprise and its stakeholders must be long-lasting or repeatedly renewed. This means that the game between the enterprise and the stakeholders is repetitive, and such a repetition dictates that the relationship between the enterprise and the stakeholders is not only competitive but also cooperative. Given such a relationship, the enterprise has the responsibility to satisfy the stakeholders' interests, and this responsibility is the enterprise's social responsibility. Admittedly, the enterprise may ignore this responsibility and instead try to maximize its short-term financial performance and its shareholders' short-term gains by squeezing and even damaging the stakeholders' interests. However, such a practice will only serve to compel the stakeholders whose interests have been damaged to withdraw from the game with the enterprise. Without the cooperation of its stakeholders, the enterprise will not be able to sustain its operations and long-term shareholder value will be damaged[4, 13,14].

Thus, to achieve sustainable development and long-term shareholder value, enterprises must fulfill their social responsibility. As fulfillment of social responsibility may have an adverse influence on its long-term financial performance, an enterprise should seek to optimize rather than maximize its short-term financial performance, thereby ensuring its sustainable development and long-term shareholder value[1, 5,18]. According to the forgoing analysis, the relations among financial performance, social responsibility and enterprise sustainable development can be expressed with the diagram in Fig. 1.

The stimulatory effect of social responsibility on an enterprise's long-term financial performance is not just a finding of theoretical analyses, but has also been confirmed in empirical studies. Roman, Hayibor and Agle re-

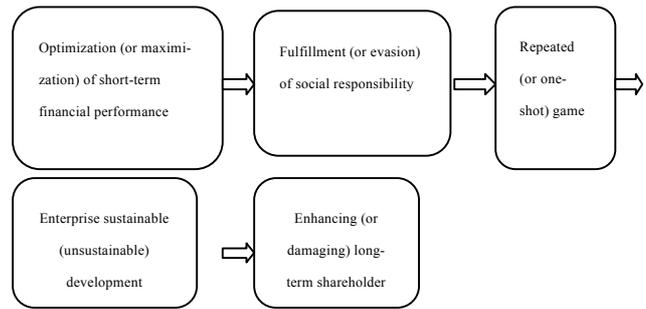


Figure 1. Relations among financial performance, social responsibility and enterprise sustainable development

viewed 55 papers on the relationship between social responsibility and financial performance [15], they found that 33 of these papers suggested a positive correlation between social responsibility and financial performance; 14 concluded that the two are unrelated; and only five pointed to a negative correlation between the two. Many subsequent studies have also concluded that social responsibility and financial performance are positively correlated [16, 17, 19, 20]. By and large, most of the empirical studies recognize a positive correlation between social responsibility and financial performance, i.e., in most cases, an enterprise's fulfillment of its social responsibility is conducive to the long-term growth of its financial performance.

B. Nature, Classification and Hierarchy of Social Responsibility from Stakeholders' Perspective

The concept of corporate social responsibility dates back to the early 1920s, but even to this day, opinions remain divided on its meaning and classification. We believe that, from the stakeholders' perspective, social responsibility is in essence the enterprise's responsibility to pursue the satisfaction of stakeholder interests. By stakeholder, corporate social responsibility can be classified into responsibility for employees, responsibility for customers, responsibility for suppliers, responsibility for creditors, responsibility for the government, responsibility for the community, responsibility for the environment, and responsibility for shareholders.

As an enterprise generally involves a large number of stakeholders, its social responsibility in relation to stakeholders should also be defined by level of importance. In terms of its effects on corporate value growth, social responsibility can be classified into two types: value-driving social responsibility and socially-constraining social responsibility. Value-driving social responsibility is directly related to an enterprise's operations and is the primary driver of its value growth and sustainable development; it primarily comprises responsibilities for employees, customers, suppliers, and creditors. Take social responsibility for customers for an example. The fulfillment of social responsibility for customers means that the enterprise must provide its customers with products which are reliable and of a high quality and have good value for money, though this will inevitably consume financial resources. However, with this consumption of financial resources come greater customer satisfaction and increased sales. Thus, fulfillment of social responsibility obviously directly drives an enterprise's value growth. As such, we call this type of social responsibility "value-driving social responsibility". The second type of social responsibility,

which we call “socially-constraining responsibility”, is not directly related to an enterprise’s operations; rather, it is a responsibility fulfilled by the enterprise out of legal, moral or charitable considerations or voluntarily, and encompasses responsibility for the government (primarily tax-paying responsibility), responsibility for the community (mainly responsibility for public interests), and responsibility for the environment (largely responsibility for environmental protection). Although this particular type of social responsibility is not directly related to an enterprise’s operations, non-fulfillment may result in legal liabilities and loss of goodwill, whereas proper fulfillment will allow the enterprise to boost its profile, thus indirectly driving its value growth and sustainable development.

In terms of influence on corporate value growth and sustainable development, value-driving social responsibility is obviously more important than socially-constraining social responsibility. Within value-driving social responsibility, there are different levels of importance. Kaplan and Norton (1998) argue that the main factors that drive corporate value growth include “learning and growth”, “internal operating process”, and “the market and customers” [9], with the first two factors hinging on employees and the last factor depending on customers. Hence, we believe that responsibility for employees and customers is the very core of corporate social responsibility and is of central concern to the enterprise, and we call it “core-value-driving social responsibility”. The hierarchy and relationship of the different types of social responsibility in order of importance are shown in Fig. 2.

In Fig. 2, core-value-driving social responsibility, social responsibility driving other values, and socially-constraining social responsibility appear in a descending order of importance. It’s noteworthy that Fig. 2 does not include social responsibility for shareholders. This does not mean that it is insignificant. Rather, in terms of value driving, social responsibility for shareholders and three types of social responsibility in Fig. 2 are completely different in nature. Fulfillment of the three types of social responsibility in Fig. 2 will drive corporate value growth, and only by growing its corporate value can an enterprise adequately fulfill its responsibility for shareholders. As sociality for shareholders and the other three types of social responsibility have a certain cause-and-effect relationship, they should not be put together here for comparison.

Fig. 2 shows that the three types of social responsibility have different levels of importance. As such, their fulfillment should be prioritized accordingly. In general, the more important a certain social responsibility is, the more consideration and resources should be devoted to it.

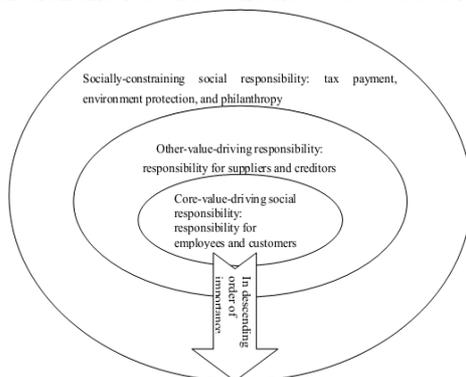


Figure 2. Hierarchy and relationship of social responsibility

In other words, an enterprise should give first priority to core-value-driving social responsibility while ensuring other-value-driving social responsibility. For socially-constraining social responsibility, its fulfillment should depend on the actual circumstances: legal responsibility must be fulfilled to the letter; moral responsibility should be fulfilled to the greater extent practical; and voluntary public interest responsibility may be fulfilled according to the enterprise’s abilities without detracting the enterprise from other more important responsibilities.

IV. WILL FULFILLMENT OF SOCIAL RESPONSIBILITY REDUCE AN ENTERPRISE’S VALUE? – LESSONS FROM THE MENGNIU CASE

A. *The Less-than-Fair VAM Agreement Put Mengniu Executives into a “Make or Break” Situation*

Mengniu’s breakneck expansion was largely driven by its operating philosophy and the capitalists behind the scene. We may say that when Mengniu entered into the VAM agreement with Morgan Stanley and other international financial institutions, its executives were left with no alternative but to “fight for their life”. They must do everything possible to boost their enterprise’s short-term financial performance, and the fulfillment of social responsibility for the stakeholders was largely ignored. After reaching the performance target in the VAM agreement, Mengniu executives argued that the agreement was actually a stock option incentive, and that as long as Mengniu could hit the performance target specified, all parties to the agreement would win. This is true. In the gamble, all players won. Morgan Stanley and the two other investors made a neat exit with windfall profits and Mengniu executives retained their controlling rights [8]. However, not all stakeholders won. At least the dairy farmers and consumers lost – the dairy farmers were plunged into bankruptcy while the consumers’ health was endangered.

Mengniu’s decision to enter into the VAM agreement can be largely attributed to its obsession with short-term financial performance and neglect of its social responsibility. This reminds us that stock option incentives like a VAM agreement must be used with extreme care, as a poorly executed VAM agreement might “poison” the enterprise’s long-term value. Although such an agreement can boost an enterprise’s financial performance in the short run, it is set to undermine the enterprise’s growth momentum in the long run.

B. *Fulfillment of Social Responsibility Is a Prerequisite for Enterprise Sustainable Development*

Mengniu’s breakneck expansion provides a vivid example of the relations among financial performance, social responsibility, and enterprise sustainable development. Mengniu slid into the abyss along the path illustrated in Fig. 1 – “maximization of short-term financial performance – evasion of social responsibility – make-or-break struggle – loss of growth sustainability – destruction of long-term shareholder value.”

Firstly, the VAM agreement meant that Mengniu had to do whatever it took to maximize its short-term financial performance. Secondly, to achieve this goal, Mengniu was willing to risk farmers’ interest and consumers’ health. In Mengniu’s operations, marketing took center stage and

received the bulk of the enterprise’s funding, while the procurement of raw milk and the dairy production process took a back seat. Such a practice boosted its financial performance in the short run, but inadequate devotion to the procurement of raw milk and the dairy production process would inevitably lead to a decline in dairy product quality and pose risks to consumers’ health. As such, Mengniu’s melamine scandal was hardly surprising. Moreover, as Mengniu injected the bulk of its funding into marketing, funds were limited for procurement of raw milk. As a result, Mengniu had to squeeze procurement prices in order to increase its profits, leaving dairy farmers with little gains. Kong Xiangzhi and Zhong Zhen (2008) looked into the earnings of dairy farmers in 2007 in Hohhot city, one of Mengniu’s primary sources of raw milk [11]. They found that although the State Council’s “Eight Guidelines for the Dairy Industry” had helped lifted raw milk prices, dairy farmers were still losing money. The profitability of the dairy farmers is shown in Table I.

Although no data on the profitability of the dairy farmers are available for 2008, the year when the melamine scandal broke out, there were media reports after 2008 about declining procurement prices for raw milk and increased losses among the dairy farmers as a result of rising costs of feed prices. Thirdly, as Mengniu failed to fulfill social responsibility, the enterprise was engaged in a one-short game with the stakeholders, who steadily withdrew from the contract with the enterprise in face of damaged interests. Specifically, the dairy farmers suffering heavy financial losses had to slaughter or sold off their cows in large numbers, exacerbating the already tight supply of raw milk [21]; moreover, the melamine scandal forfeited the consuming public’s confidence in the dairy industry; consequently, the sales of dairy giants such as Mengniu and Yili plummeted. Fourthly, when stakeholders withdraw from their contracts, the enterprise is bound to take a heavy beating and its sustainable development prospects and long-term shareholder value will inevitably be damaged. A set of statistics from Inner Mongolia show that in the wake of the melamine scandal, about RMB 6.4 billion worth of Yili and Mengniu products were taken off shelves, with RMB 3.6 million worth of products to follow, and that the two dairy makers’ orders plunged by 80% and their daily raw milk collection dropped to less than one-fifth of the pre-scandal levels. On December 31, 2008, Mengniu announced that due to the melamine scandal, the company was expected to incur losses of RMB 900 million for 2008, compared with net profits of RMB 936 million in 2007. Mengniu’s melamine fiasco can largely be attributed to its obsession with short-term financial performance and neglect of its responsibility for dairy farmers and consumers. While non-fulfillment of its social responsibility helped boost Mengniu’s financial performance in the short run, it ruined the company’s financial performance and shareholder value in the long run. Table II lists the cumulative abnormal returns (CAR) of Mengniu’s shares in the five days before and after the scandal erupted (Day 0 being the first trading day for Mengniu’s shares after the company’s milk was found by the quality watchdog to be tainted with melamine; the earnings rate of the Hang Seng Index being the normal yield rate). Table 1 shows that before the day of the scandal outbreak (Day 0), although Sanlu’s melamine incident had been reported in the press, Mengniu’s share prices were largely unaffected, indicating that many investors

optimistically hoped that Mengniu was clean, a hope reinforced by Mengniu’s “absolutely no melamine” statement. When the national quality watchdog announced Mengniu’s test results, investors’ confidence evaporated and the company’s share prices took a nosedive – on the day when the news broke, Mengniu’s CAR plunged to -63.38% and its share prices plummeted to HK\$ 7.95 from HK\$ 20 on the previous day, wiping out approximately HK\$ 17.2 billion of the company’s market value, inflicting heavy losses on the investors. Mengniu paid a dear price for the neglect of its social responsibility.

In an attempt to maximize its short-term financial performance, Mengniu evaded its social responsibility, which in turn destroyed its long-term shareholder value. This case clearly demonstrates that social responsibility and financial performance are not mutually exclusive, and that, although fulfillment of social responsibility may affect a company’s financial performance in the short run, it is beneficial in the long run and enhance the company’s sustainable development and long-term value growth.

TABLE I.
PROFITABILITY OF DAIRY FARMERS IN HOHHOT IN 2007

I. Average annual total revenues per dairy farmer	
1. Average annual milk sales revenues	
Number of milk production days per cow per year	265
Milk production per cow per day (kg)	19.75
Average annual raw milk price (RMB/kg)	1.92
Average number of cows kept by a dairy farmer	5.5
Annual milk sales revenues (RMB)	$19.75 \times 265 \times 1.92 \times 5.5 = 55268.4$
2. Annual cow sales	
Average weight of a cow culled (kg)	500
Beef production rate	30%
Average annual number of cows culled by a dairy farmer	2.7
Average annual cow price (RMB/kg)	18.12
Annual cow sales revenues (RMB)	$500 \times 30\% \times 2.7 \times 18.12 = 7338.6$
Average annual total revenues per dairy farmer (RMB)	$55268.4 + 7338.6 = 62607$
II. Average annual total costs per dairy farmer	
1. Annual feed costs	
Feed costs per cow per day (RMB)	17.61
Average number of cows kept by a dairy farmer	8.2
Annual feed costs	$17.61 \times 8.2 \times 365 = 52706.7$
2. Medical and disease prevention costs (RMB)	
	2476
3. Mating costs (RMB)	
	492
4. Water, power, fuel, machinery depreciation, and farm maintenance costs (RMB)	
	1780
5. Maize growth costs (RMB)	
	5220.5
Average annual total costs per dairy farmer	$52706.7 + 2476 + 492 + 1780 + 5220 = 62675.2$
III. Average annual net earnings per dairy farmer (RMB)	$62607 - 62675.2 = -68.2$

TABLE II.
CAR OF MENGNIU SHARES FIVE DAYS BEFORE AND AFTER THE MELAMINE SCANDAL OUTBREAK

Day	-5	-4	-3	-2	-1	0
CAR (%)	-0.51	2.56	-1.46	-5.33	-0.63	-64.01
Day	1	2	3	4	5	
CAR (%)	-61.96	-58.25	-58.70	-62.13	-59.36	

C. Fulfillment of Social Responsibility Should Be Hierarchical

It's not fair to accuse Mengniu of failing to fulfill its social responsibility completely. As a matter of fact, Mengniu donated cash and materials to improvised regions on several occasions.

However, Mengniu failed to recognize the hierarchical nature of social responsibility and did not fulfill its social responsibility for dairy farmers and consumers. In fact, Mengniu did not forget about the hierarchy of its social responsibility, but actually deliberately turned a blind eye to it. Niu Gensheng always claimed that Mengniu wanted to be "a servant to all consumers". Apparently, he was also aware that making efforts to turn its slogans into a reality would seriously affect his company's short-term financial performance, which would in turn reduce the possibility of hitting the target set in the VAM agreement. Thus, he chose the lesser devil and ignored his company's social responsibility for consumers and dairy farmers. He also recognized that some charitable social responsibility had to be fulfilled, as this required little money but could generate much publicity nationwide, producing much better results than general advertising. Clearly, this skewed fulfillment of social responsibility was in essence a form of hypocrisy, and the enterprise would forfeit its opportunity to achieve sustainable development as a result of failure to fulfill some fundamental social responsibility.

V. CONCLUSION

The concept of corporate social responsibility has been surrounded by controversy since its inception. The debate is largely focused on two questions: Whether a company should fulfill its social responsibility? And will fulfillment of social responsibility affect a company's financial performance and long-term growth? Through a case study, this paper concludes that social responsibility and financial performance are not mutually exclusive, and that, in the long run, fulfillment of social responsibility will not affect a company's financial performance or competitiveness, but enhance its value and sustainable development. The Mengniu case also shows that social responsibility is hierarchical in terms of importance and therefore its fulfillment should be so as well.

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