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POLE POSITION WITH CORPORATE SOCIAL RESPONSIBILITY

The Case of SKF in Malaysia

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LETTER OF ACKNOWLEDGEMENTS

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What an adventure it has been! In April when we decided to take upon the quest of CSR, we had no idea about what to expect. Malaysia was not even considered, but we could not have had a better foundation for our research. Thank you Lars G. Malmer, Kerstin Wiklund and Bengt-Olof Hansson at the SKF Group headquarters in Göteborg for making the journey possible. Thanks also to the staff at the computer service unit, who had to work hard in order to retrieve all our information. Without you, all our work in Malaysia would have been lost and the thesis would never have been completed.

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ABSTRACT

The companies' increased power also implies increased responsibility and new demands from the society and its inhabitants, and this responsibility of the corporations can be termed Corporate Social Responsibility, CSR. The core of the thesis concerns how a MNC can gain a competitive advantage through undertaking CSR in South East Asia. To operate in a prosperous way a company must gain recognition and acceptance, or in terms of the institutional network approach; legitimacy, from all its key stakeholders and the society in general, which is conducted through finding a harmony between the internal and external environments. The thesis consequently investigates the institutional settings of the internal and external environments of SKF Nilai in Malaysia, which functions as a case company, and the so-called matching strategies the company has used in order to harmonise the institutional settings. This paper further explores the implications and the actual benefits that evolve during the process of CSR, both at subsidiary and Group level.

In conclusion, certain requirements, both internally and externally, constitute the base on which the mother company and the subsidiaries rest. This foundation is necessary in order to develop the correct strategies for establishing and sustaining a competitive advantage through CSR, and includes supportive culture, competent management and supportive organisational structure.

Key words: Corporate Social Responsibility, Competitive Advantage, Stakeholders, Institutional Network Approach, Matching Strategies, SKF, Malaysia

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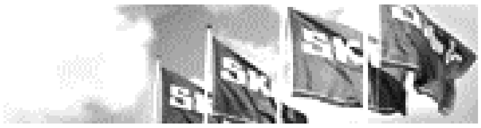

1 INTRODUCTION

The first Chapter will provide the background of the chosen subject, Corporate Social Responsibility, and a problem discussion that lead into the main problem and research problem statements. Subsequently follows two short paragraphs on the purposes and the delimitations of the thesis, whereby the Chapter is ended with an outline of the rest of the report in order to facilitate the subsequent reading.

1.1 POINT OF DEPARTURE – SUBJECT BACKGROUND

"We are not just cost-effective machines that can be made ever more efficient. There is another dimension that has to be recognized, and that is why the message I want to leave you with today is that business is uniquely placed to take a lead and to help create that vital balance in our lives – but doing so in partnership with local communities, with government, non-governmental organisations and other representatives of the voluntary sector."[1]

Prince Charles of Wales, World Economic Forum in Davos, 1992

Society has during the last decades moved from unification to fragmentation, not only in private life and in our fundamental beliefs, but also in business life.[2] Today, individualism and freedom are for many the finest goals to achieve and practically all means are allowed in reaching this self-fulfilment, leading to that people turn their backs on politicians and governments. Companies and organisations have instead come to play an increasingly important role in a contemporary society. Today, it is unimaginable with a modern society without companies providing us with products and services we need for our survival and comfort. Hence the modern society has become dependent on the functioning of corporations. Consequently, the function of corporations also has changed and has today a resemblance of the same function as the church in the medieval, where the power has been taken from the politicians and given to the

[1] O´Brien, S., (1993), p. 5
[2] Pratley, P. (1996)

business leaders.[3] As can be seen in the statement above however, increased power also brings about increased responsibility towards the society and its inhabitants, and this responsibility of the corporations can be termed Corporate Social Responsibility, CSR. Nevertheless, many people and corporations have not yet realised the importance of "the other dimension" and the "vital balance in our lives", despite the fact that the concept of CSR emerged even before the World War II as a reaction on companies' excessive focus on short-term profit maximisation and minimal adjustments to law.[4]

The unawareness much depends on the traditional view of social responsibility, which originates from Adam Smith's theory about "the Invisible Hand" and has been dominating in business life. Scientists within this paradigm, led by Smith's successor Milton Friedman, maintain that social responsibility of business is a single dimensional activity in which business has the only responsibility of supplying goods and services to society at a profit. Social activities initiated by a firm are here regarded as morally damaging, due to inefficient allocation of scarce resources and CSR can under these circumstances only be considered as a secondary outcome of profit maximisation.[5] Corporation laws, especially regarding accounting and auditing, and general strategies have mirrored this view for a long time.[6]

Recently, however, there has emerged an increased awareness of the importance of CSR, which for instance can be exemplified by the opening quotation. The reason has been the emergence of another theory of CSR. While the traditional view has a narrow focus of the role of businesses, claiming that the only criterion for efficiency is short-term profits, the newer viewpoint has a broader perspective, where business should aim at building sustainable relationships with different stakeholders, such as customers, suppliers, employees, shareholders and other interest groups in the community. Business is viewed as a multidimensional entity contributing to the welfare of society as a whole, and where

[3] Taylor, C. (1991)
[4] Stark, A., (May-June 1993)
[5] Vallance, E., (1995)
[6] Verschoor, C., C., (Oct 1998)

companies must have social functions besides seeking profit maximisation in the short term in order to succeed and survive in the long run. The issue here is rather to what degree companies should commit themselves to social responsibility, not if they should or should not be engaged in CSR.[7]

Looking into the future, a new era has just started. The concept of CSR will remain in business language and practice, because it is a vital groundwork to many other theories[8], but the reasons are also of a practical nature. Perhaps most importantly, the rules within the financial market are changing; stock analysts and company investors are increasingly incorporating environmental and social issues into their assessments of a company's value,[9] and trustees of pension funds are facing accounting where they have to declare their policy on social responsibility. Given the importance of pension funds as investors today, it will not be easy to dismiss this step towards ethical investment policies. Also churches and charity foundations are actively considering introducing ethical dimensions to their investment policies. Stakeholders, such as suppliers, governmental authorities, and other strategic partners have, as a result, become much more concerned about the corporation's overall reputation when selecting firms to create alliances. Simultaneously, the economic situation is becoming growingly complex since corporations are forced to continually improve their financial performance while complying with regulations in the various markets served. The social behaviour of companies will hence increasingly be reflected in the share prices.[10]

CSR is further consistent with what the public increasingly expects of the business community. People are no longer tolerant regarding poor social or environmental standards in companies' policies. It is the manner of earning profit that matters to the public opinion today.[11] Additionally, CSR is a subject that increasingly appears on the agenda of the international organisations, such as UN and OECD, and the governments, and there are already guidelines drawn

[7] O'Brien, D. & Quazi, A., M., (May 2000)
[8] Carroll, A., B., (Sep 1999)
[9] Rosenberg, H., (Jun 2000)
[10] Covin, J., G, & Miles, M., P., (Feb 2000)
[11] Carroll, A., B., (Sep 1999)

within several of them regarding the social responsibility of companies.[12] Quoting the Swedish Minister of Trade, Mr. Leif Pagrotsky, "the issue of social welfare will not go away, we have to deal with it!"[13]

Consequently, the subject of CSR will become increasingly important for corporations in the future and therefore constitutes an interesting topic to undertake research in. We have during the academic studies also become increasingly interested in and concerned about the subject, whereby it is natural to choose CSR in our investigation.

1.2 PROBLEM DISCUSSION

As described in the background, people of today to an increasingly extent realise that sustainable development is built on three pillars: economic growth, environmental protection, and social progress, but the development within the three pillars have so far been very uneven. The handling and reporting of financial data has been ongoing for many years and standards have been set for accounting; auditing; accreditation of auditors; content and presentation of information; and communication with stakeholders. Regarding environmental protection, there is presently a general uncertainty about our ecosystems and their limited resources, but environmental concern and reporting on environmental data is becoming more common and comprehensive.[14] However, there are currently no universally accepted standards although efforts have been made by several groups to establish environmental reporting standards. There is also an ambiguity about whether the market economy can function in a more sustainable direction, led by international institutions and by Multinational Corporations, MNCs, incorporating social engagement to a higher degree. Even though the measurement and reporting of social data and CSR have started, they consequently merely occur in an embryonic form and companies are unaccustomed to the topic. The current situation is further characterised by many MNCs having a superficial knowledge about the concept CSR but there is a

[12] Pagrotsky, L., Lundby-Wedin W., Nordh S., Olofsson, P., (2000-10-15)
[13] Pagrotsky, L., (2000-09-20)
[14] Stigson, B., (2000-12-14)

lack of clear definition and an awareness of the practical usage or benefits of the concept.[15]

In comparison with the traditional business issues, CSR might thus be perceived as a complex and somewhat diffuse issue internally, where the activities are difficult to measure and the results may not be visualised in many years. There is hence a need of a long-termed perspective within businesses, which is not always popular among business leaders with high demands from its shareholders to generate profit in the short run. Hence, there might be an aversion within companies to undertake CSR.

The subject of CSR is further affected by a number of external variables. The need for CSR varies between different countries, depending on each country's specific circumstances.[16] To conduct research in a country like Sweden is of less interest, since most social and environmental responsibility is taken care of by the state. The issue is of most concern for countries that lack a substantial social security net but that still has beginning to receive a general awareness. Another reason for choosing a developing country for the study is that they often lack either strict environmental laws or proper enforcement, whereby environmental and social friendly behaviour is rare. In developing countries the urge for CSR is also much more visible; a foreign MNC might in some cases even be forced to start with CSR activities before being able to continue with its other operations when establishing in a new market.

Some countries might however on the surface appear to be developed, possessing cutting edge technologies and infrastructure, nonetheless, there are many times a backside of the fast economic growth, showing incomplete social security systems and environmental care. In these countries, there is an even greater need of increased social activities taken by the corporations, since the economic development otherwise would inflict environmental and social damage in the long run. Many of the Newly Industrialised Economies (NIE) in South East Asia (SEA) is in the midst of a transition between underdeveloped and deve-

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15 http://www.wri.org
16 Jansson, H., (2000)

loped country. These countries have been very successful regarding growth rate and have a prospering economy. The fast industrialisation has however not been without sacrifice within both the social and environmental fields.

In summary, we realise that social awareness and activities are not only the responsibility of governments anymore, but also increasingly of the business society. Further, we believe that both the MNCs and the society have a lot to gain once the issue of CSR is accepted and successfully implemented. However, there might be aversions within companies to engage in CSR, since the subject is rather new, complex and somewhat diffuse. Especially MNCs operating on a worldwide basis might have difficulties assessing the subject since it largely differs according to the external environment. There is hence a need to investigate CSR further in order to resolve the issue and facilitate the decision-making within companies to undertake social activities, which might not be given sufficient focus today.

1.2.1 MAIN PROBLEM STATEMENT

With the background and problem discussion above in mind, we can state the following main problem:

> *How can a Multinational Corporation establish and sustain a competitive advantage by undertaking Corporate Social Responsibility in its subsidiaries in South East Asia?*

1.2.2 RESEARCH PROBLEM STATEMENTS

To facilitate the solving of the main problem, we chose to set up a few sub problems or research problems. As stated earlier, CSR depends on both internal and external circumstances, and consequently on how these environments are harmonised. Hence, a first research problem can be stated:

> *How does a subsidiary obtain harmony between the internal and external environments?*

Finally, there is a need to consider which the implications of engaging in CSR are, both for the subsidiary itself but also for the entire Group, whereby the second research problem can be stated as follows:

> *Which are the implications of undertaking CSR for a MNC?*

1.3 PURPOSE

The subject of CSR is very much connected to business ethics and moral issues. Our intention with this master thesis is however not to evaluate the moral or ethical nature of MNCs. Our main purpose is rather of a more practical quality, where we will try to *explore* and, in a practical way, *illuminate* the opportunities for a MNC, operating in South East Asia, to gain and sustain a competitive advantage by utilising CSR.

Our purpose could further be divided into six part-steps. The intention is to *identify* and *describe* the most important actors and characteristics of the internal and external environments of a subsidiary of a MNC, with focus put on the perspectives of CSR. The reason for such an identification and description is that there is no universal definition of CSR and that the need and implications of CSR therefore differ from case to case depending on the fact that environments and preconditions are specific, both for each company and each country. We will then *explain* and *evaluate* how these two environments interact and affect the MNC in its attempts to find a harmony between them. It is moreover our intention to *identify*, *describe* and *explain* the implications of taking CSR for a MNC in South East Asia, regarding the specific internal and external environments.

Finally, we will try to make the necessary *predictions* and thereafter give suitable *prescriptions* for the subsidiary as well as the entire Group with regard to CSR.

1.4 DELIMITATIONS

The delimitations of this thesis are mainly related to the limited resources concerning time and economical support and consist of the following:

- Even if it would be of great interest and enhance the overall validity, we will not be able to conduct research in more than one country in South East Asia, whereby, given the fact that MNCs operate on a global level, we might be forced to neglect some of the important actors in the subsidiary's external environment.
- The main part of the research will be accomplished in subsidiaries in South East Asia, even though the main problem and the second research problem are related to the entire Group. However, certain research will also be conducted at Group level in order to cover that perspective.
- Although accounting and auditing are essential parts of CSR, especially given the subjectivity and inconsistency that exist within the field, we will not regard these topics, since we do not possess sufficient knowledge about them.
- There are clearly many effects externally emerging from a company undertaking CSR, but these will not be dealt with since the thesis is focused on the company and further not on ethically and moral aspects.

1.5 OUTLINE OF THE THESIS

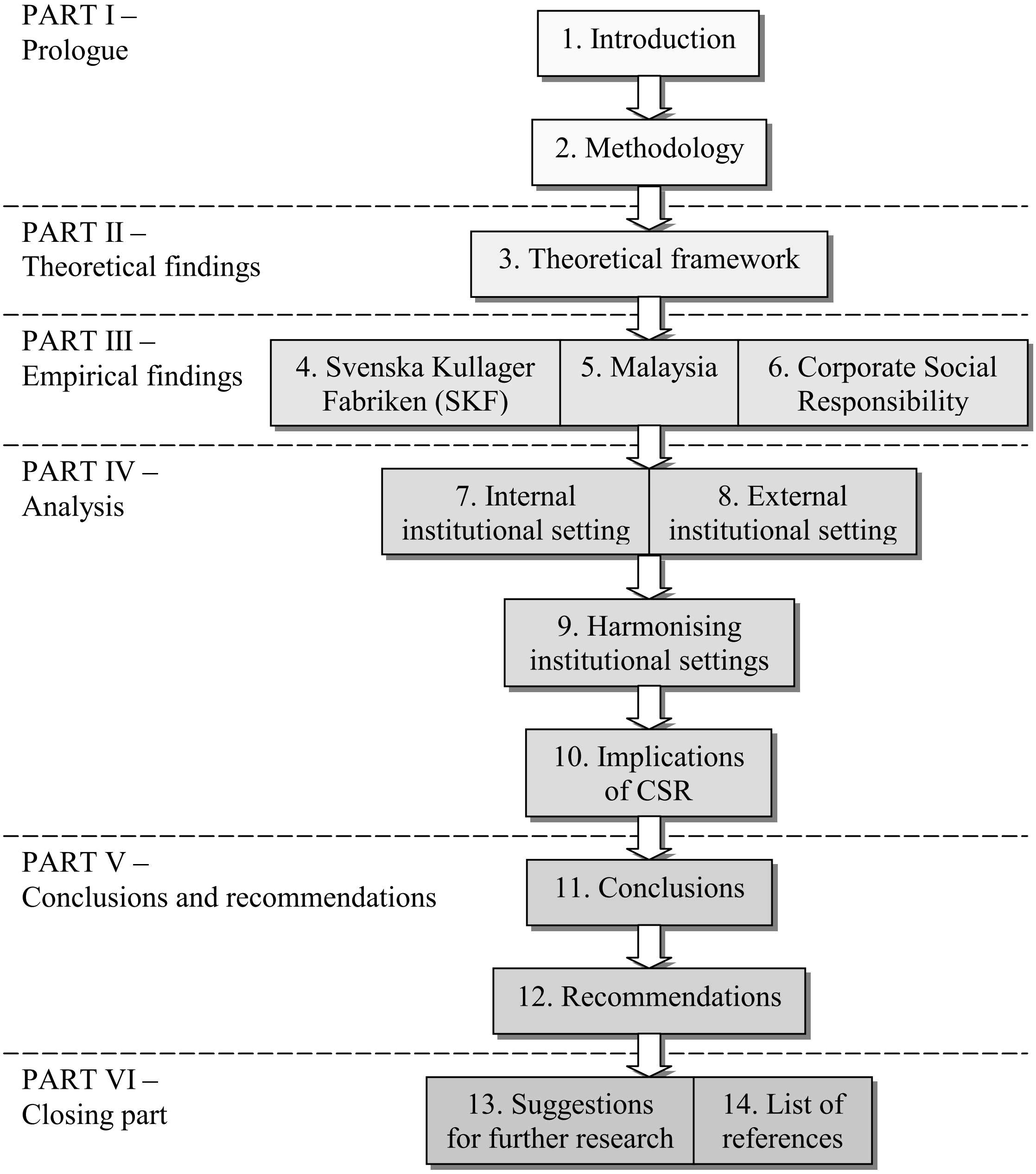
The thesis is divided into six parts with one or more Chapters under each part, plus appendixes. The main parts are Prologue; Theoretical findings; Empirical findings; Analysis; Conclusions and Recommendations; and Closing part. This first Chapter, the introduction, does together with the following methodology Chapter constitute the Prologue, which provides the reader with a smooth introduction to the subject and the thesis-writing process. The second part, consisting of the theoretical framework, gives a description of the concepts, theories and models we found suitable to our research.

Next follows the empirical findings, which consists of three Chapters. Firstly, we provide a presentation of our case company, where factors such as history, organisation, operations and company culture will be illuminated. Subsequently the external environment of the case company is presented, containing facts on the macro and microenvironment of the case country, plus the company's relations with the closest actors. Finally a Chapter that exclusively deals with our subject appears, including viewpoints, ideas and practical usage of CSR according to different groups, such as companies, governmental authorities and academics. The three empirical chapters should be regarded as being positioned at the same level, meaning that their individual order does not matter for the logic of the thesis.

The fourth part is the analysis, where in total four Chapters are utilised to present the analysis of the theoretical and empirical findings, and to give the answers to the research problems. In contrast to the empirical findings, the analysis Chapters are provided in a predetermined and specific order that is important for the logic of the thesis. The first Chapter consists of an internal analysis of the resources, capabilities, goals, values, organisational structure and systems of the case company, and is labelled internal institutional setting. Secondly comes the external institutional setting, which is an analysis of the external environment of the case company, constituting of institutions, actors and networks in the macro and microenvironments. These two first Chapters can be viewed at the same level since they have equal part of research problem one. The third Chapter, harmonising the institutional settings, is constructed to give the answer to research problem one. It is mainly based on the two previous Chapters and provides an analysis of the case company's strategies to match the internal and external environments. Finally, part four is finished with the Chapter implications of CSR, which provides an answer to research problem two through an analysis of the process and benefits of CSR. It is primarily based on the prior Chapter but also on the empirical findings.

The fifth part comprises two Chapters that also are provided in a logical order. Based on the analysis part, the first Chapter in the fifth part is the conclusions, which gives an answer to the main problem and some concluding thoughts about the subject of CSR. Subsequently, there is a Chapter with specific recommendations for the case company. Hence, also the fifth part can be viewed as a form of analysis. Finally, the thesis is ended with sixth, closing part, which provides suggestions for further research and a list of references. See figure 1.1 for a scheme on the outline of the thesis.

Figure 1.1 – The outline of the thesis

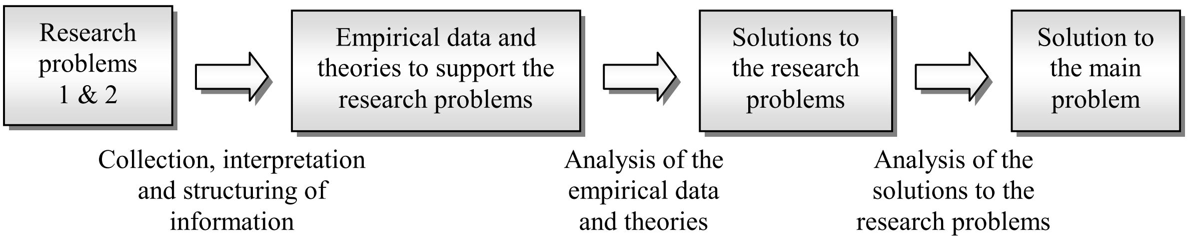


Source: Own elaboration

2 METHODOLOGY

In order to find solutions to the main problem we also stated two research problems. With these problem statements as a basis, we designed a research model where the sequential process of the research was defined. See figure 2.1 below. In this Chapter we will provide our methods of how we collected, interpreted, structured and analysed relevant data, which is represented by the arrows in the research model. There are also two paragraphs at the end of the Chapter dealing with the scientific approach and the quality of the research.

Figure 2.1 – Research model



Source: Own elaboration

2.1 COLLECTION, INTERPRETATION AND STRUCTURING OF INFORMATION

2.1.1 RESEARCH STRATEGY – THE CASE STUDY

According to Yin, there are in general five types of research strategies, experiment, survey, archival analysis, history and case study. Having evaluated the different approaches, we came to the conclusion that a case study would be the most suitable research strategy for this thesis. A case study focuses on contemporary events in a real life situation and suits research questions starting with *how* and *why* that concern events over which the investigator has limited control.[17] Since we are conducting a study of how MNCs can gain a competitive advantage through taking CSR in South East Asia, we believe it comprises a real life situation over which we have limited control.

[17] Yin, R., K., (1994)

In order to connect the different parts of the research we made up plan, a research design, of how to handle the empirical data. According to Yin[18], there are four types of different research designs, which are a mix of either single case or multiple case design on one side and either holistic or embedded design on the other side. The single case design means that only one company is being studied and the multiple case design that the study includes several companies. The holistic design means that the study only includes one single unit of analysis and fits problems of a global nature, while the embedded design involves studying more than one unit. Given our problems and purposes, we found it most suitable with an embedded single case design. The subject CSR does imply that more than one unit of analysis has to be studied; for instance the macro environment as well as a company's internal operations, while it is enough to study one company in detail.

In selecting a specific case, we had to analyse and evaluate both the external circumstances of different South East Asian NIEs and the internal circumstances of subsidiaries present in the area and their mother companies. We needed to approach companies that were present in a suitable country, that had undertaken a required degree of CSR and that had the potential to help us in our research by providing enough information. We managed to find a valid case, SKF Bearing Industries (Malaysia) Sdn Bhd in Malaysia, which is a wholly owned subsidiary of the Swedish SKF Group. We also contacted additionally three West European companies plus another of SKF's subsidiaries in Malaysia, but they were not studied in as much depth as the case company was. We therefore refer to them as reference companies rather than case companies. The other SKF subsidiary can also be seen as part of the SKF Group, whereby it is a combination of internal and external company. The reason for investigating the reference companies was to gain enhanced external validity.

2.1.2 COLLECTION OF INFORMATION

Given our stated problems and chosen case company, and country we found it necessary to conduct the main parts of the data collecting in Malaysia for three

[18] Yin, R., K., (1994)

reasons. Firstly, the SKF Group headquarters in Sweden could not provide us with all relevant facts about SKF in Nilai; secondly, the external environment of a company is specific for each country; and thirdly, CSR is perceived very differently in different parts of the world, a fact that lies in the nature of the subject. All the theoretical information was however collected in Sweden since we had better possibilities to search for such information from there.

There are two types of data to be collected, primary and secondary data. Secondary data is information that is collected and compiled previously without any actual connection to the study in question. Primary data is information gathered for the first time and for the specific purpose of the particular study. Collection of primary data is often necessary in order to solve a specific problem and should then be done after the secondary data has been carefully penetrated.[19]

2.1.2.1 Sources of secondary data

Secondary data was necessary primarily for information on the Malaysian macro and microenvironments but to some extent also for other subjects. However, most empirical information was collected through primary sources. The information on concepts, theories and models was on the contrary all collected as secondary data.

The secondary data was accessible in both Sweden and Malaysia, mainly through the Internet, the University libraries and through morning papers. We also received some internal secondary data from companies, organisations and government authorities and listened to two seminars, one about globalisation and another about sustainable development.

2.1.2.2 Sources of primary data

We decided to collect all primary data through personal interviews, mainly conducted face-to-face, since we believed our subject is rather complex and has different significances for different people. We could also easily discover if the respondents were not really sure about the question, even if they did not say it loud, by observing their facial expressions and way to speak. Furthermore, in a

[19] Kinnear, T., C. & Taylor, J., R., (1996)

country like Malaysia, where personal relations are essential, it was imperative to be present in person in order to make the respondent feel confident and, apart from providing relevant facts, also give her or his personal opinion. Some supplementary primary data was gathered through phone calls and e-mail after the interviews in person had been conducted.

Since CSR is a function of both internal and external circumstances, we found it necessary to conduct interviews with people both inside and outside SKF. Further, since CSR is connected with subjectivity and has not yet gained a universal definition, it was necessary to conduct interviews with as many different people as possible. We thought the opinions might diverge according to for instance profession, ethnic background, previous experiences and place of location. However, we put a lot of emphasis on choosing the appropriate interviewees in order to gain valid and reliable information since both our financial resources and time were very limited. We therefore made prestudies of all organisations and interviewees by looking into already written material and by discussing it with previous interviewees. In some cases, the interviewees also made requests for the questionnaire in advance. In general, it was a tough task to arrange appointments with the interviewees, but once they had decided to meet us, they were positively inclined and showed a great interest for our subject.

Internal interviews

Within SKF, it was imperative to receive the opinions not only from the top management at SKF Nilai, which is our case subsidiary, but also from other employees and from the Group level, which might have other interests and viewpoints. We were particularly interested in possible differences in the perception of the company's general internal structure and of CSR between the corporate level, situated in Göteborg, and the business level in Nilai. As mentioned previously, we also contacted another of SKF subsidiaries in Malaysia. Most of the interviews at SKF were decided and planned before we went to Malaysia, but we also contacted several employees once in Malaysia, as we discovered a need for more sources.

Table 2.1 – Internal interviews

SKF Bearing Industries Sdn Bhd, Nilai, Malaysia
Assistant Manager, Materials
General Manager, Plant & Maintenance
Human Resource Manager
Managing Director
Production Manager, Deep Grooved Ball Bearings
Production Manager, Spherical Roller Bearings
Representatives of the workers council
Safety, Health and Environment Officer
Senior Manager, Finance & Accounting
Training Executive
SKF Group headquarters, Göteborg, Sweden
Corporate Quality & Human Resource Manager
SKF Malaysia Sdn Bhd (sales office), Kuala Lumpur, Malaysia
Managing Director

Source: Own elaboration

The internal interviews provided information about not only the internal environment of SKF but also about Malaysia and of CSR in general.

External interviews

External respondents were chosen according to the same principles as the internal, but unfortunately, we did not have the resources to conduct a large amount of interviews within the same organisation or company. Since we did not have any contacts outside SKF prior to going to Malaysia, we had to arrange these appointments from there. Primarily, the attention was drawn to the closest stakeholders, such as customers, distributors, suppliers and competitors. Since SKF Nilai is a pure production facility, they did not have any direct contacts with the customers. Instead, they directed us to one of SKF's sales offices, SKF Malaysia in Kuala Lumpur, which could help us with issues regarding both customers and distributors. However, we were informed that most of SKF Nilai's customers and distributors are outside Malaysia, so we could not interview them. One possibility was to contact the largest Malaysian customers and distributors, but they were due to certain circumstances unable to make an appointment with us. Neither does SKF have any direct competitors present in Malaysia. As an alternative, we contacted three additional western companies, Volvo, Ericsson and Danone, since we believed there might also be competition for employees, for support from governmental authorities and for coverage in media. We figured these companies together with SKF Malaysia also would provide us with interesting aspects of CSR, which could be used as a reference to SKF Nilai and to get a more accurate picture of the situation for foreign MNCs in Malaysia.

We also saw a need to collect information from the Malaysian government's side, since we had understood that they are highly involved in FDI and foreign companies in general. We interviewed people from different governmental ministries and associations, which we found appropriate for our problem and case company, such as Ministry of International Trade and Industry (MITI) and Malaysian Industry Development Association (MIDA). Apart from governmental bodies, we saw a need to learn the opinions of interest organisations and met people from the Federation of Malaysian Manufacturers (FMM), the Malaysian Employer Federation (MEF), the Malaysian Swedish Business Association (MASBA) and the Federation of Malaysian Consumers Association (FOMCA). For both the governmental and non-governmental organisations, we interviewed people at both state and federal level since we believed there would be slight differences.

Finally, we wanted a more general opinion of CSR whereby we made three interviews with professors and doctors at two different universities and with the Swedish Ambassador.

Table 2.2 – External interviews

Reference companies in Malaysia
Danone, Britannia Brands Sdn Bhd, Shah Alam, Marketing Director; Organisation Development Manager

Ericsson Sdn Bhd, Petaling Jaya, Assistant Manager, Corporate Communications
Volvo, Swedish Motor Assemblies Sdn Bhd, Shah Alam, Human Resource Manager
Malaysian governmental authorities in Malaysia and Sweden
Kelantan State Economic Planning Unit, Kota Bharu, Malaysia, Deputy Director
Malaysian Industrial Development Authority (MIDA), Kuala Lumpur, Malaysia, Assistant Director, Industrial Promotion Division
Malaysian Industrial Development Authority (MIDA), Stockholm, Sweden, Swedish representative
Ministry of International Trade and Industry (MITI), Kuala Lumpur, Malaysia, Principal Assistant Directors
Malaysian interest organisations in Malaysia
Federation of Malaysian Consumer Associations (FOMCA), Petaling Jaya, President
Federation of Malaysian Manufacturers (FMM), Nilai, Chairman at Negeri Sembilan branch
Malaysian Employer Federation (MEF), Kuala Lumpur, Executive Director
Malaysian Swedish Business Association (MASBA), Kuala Lumpur, Executive Director
Additional interviews in Malaysia
Universiti Putra Malaysia Serdang, Lecturer at Malaysian Graduate School of Management
Universiti Tenaga Nasional, Kajang, Principal Lecturer, Dept. of Accounting & Finance; Principal Lecturer, Management & Marketing Dept
The Swedish Embassy, Kuala Lumpur, Sweden's Ambassador in Malaysia

Source: Own elaboration

In addition to these interviews, we also had some informal appointments, which did not give rise to specific information but rather to ideas of how to proceed in our work and a general understanding of the specific circumstances in Malaysia. Therefore, these sources will not be found in our list of references.

The external interviews mainly provided information about the perspective of CSR but also more general information about the Malaysian macro and micro-environments. The information hence came from both more specialised interest associations and different government bodies such as MIDA and MITI, and from companies and other organisations, which could give us a picture of for instance the Malaysia business norms.

Structure of the interviews

Initially, when we had no deeper knowledge of the subject, we used a rather unstructured form of interviews in order to gain an understanding of the subject rather than answers to our specific problems. The only guide we used was some broad guidelines, such as the business environment in Malaysia, the meaning of CSR and the general operations of SKF. Instead we tried to make the respondents speak freely. In order to make the interviews as efficient and fruitful as possible and to relate them to the specific problems, we later put together a general interview guide, with the results of the initial interviews as a foundation. See appendix 1. The formation of the interview guide should be seen as a continuous process, since it was extended and improved as we successively gained increased knowledge both about our specific subject and about the technique of conducting interviews. Using the interview guide, we were able to compile adjusted interview forms suitable to each interview occasion. See appendix 2 for an example, which comes from the interview with the Ministry of International Trade and Industry (MITI). A few of the interviews, both internally and externally, were of a more informal nature and for these interviews no predetermined questions were used.

2.1.3 INTERPRETATION & STRUCTURING OF INFORMATION

Even though the sources were carefully selected, there was a need to make an extensive interpretation of them, which was conducted through discussions about the collected data.

The concepts, theories and models applicable for our subject were structured into a theoretical framework, following the outline of our main problem and research problems. They were used to facilitate the analysis, whereby we can call them “analysis models”. However, we also found some important theories and models that were suitable for structuring the empirical findings rather than functioning as analytical tools. These models might therefore be called “description models”. Since they did not provide any particular knowledge on our subject and did not facilitate the analysis, they are not placed in the theoretical framework. Instead, they are presented very briefly just before they are used. Hence, concepts, theories and models can be found in the theoretical framework (Chapter 3), where the analysis models are presented; in the empirical Chapters (Chapters 4-6), where the description models are briefly presented and used; in the analysis Chapters and in the conclusions and recommendations (Chapters 7-11), where the analysis models are used. A few of the models are also both analysis and description models.

The empirical data is presented in the empirical findings part (Chapters 4-6) either according to a description model or after own structures. Initially, there is a general presentation of SKF (Chapter 4). Since our case company, SKF Bearing Industries in Nilai, Malaysia, is a wholly owned subsidiary of the SKF Group, much of the information is valid for both the individual subsidiary and the Group. For instance, the values of the SKF Group are also valid within SKF Bearing Industries in Malaysia. Such information is referred to SKF Bearing Industries in Malaysia, since that is where we have our main focus. In order not to confuse the reader, we have been careful in always pointing out which company we refer to. We have throughout the thesis used the term SKF Nilai when referring to SKF Bearing Industries in Malaysia, whereas SKF Group or merely SKF concerns the entire group.

The empirical findings on the external environment are presented in Chapter 5. Having SKF Nilai as a case company, the external environment is that of SKF Nilai, not of the SKF Group. However, as mentioned above, some external circumstances, such as the customers, are valid both for the Group and the individual subsidiary. We further decided to present the empirical data regarding CSR separately (Chapter 6), since we believe it is easier for the reader to get a comprehensive picture of CSR in that way. Hence, the CSR Chapter includes empirical data both from the internal environment and the external.

In order to enable the reader to derive each piece of information to a specific source, we made references in the form of footnotes on all information. However, delicate issues were treated differently in order to prevent inconveniences for our respondents and were therefore not marked with specific references. We further decided to separate the empirical findings from the analysis, since we wanted to provide the reader with an objective view of reality, enabling her or him to in a scientific and easy manner separate our empirical findings from our personal opinions about them. The reader would subsequently be able to create her or his own opinion before being affected by our opinions. Hence, the empirical findings part (Chapters 4-6) was formed to be truly descriptive, without any influence of our own ideas and thoughts. Our own opinions and beliefs were instead structured and presented in the analysis (Chapters 7-10). However, some of the description models had to be modified in order to provide an accurate structure of the empirical findings, and we were therefore obligated to give a minor description of why and how the modification was done. This description could be said to include elements of analysis even though it appears in the empirical Chapters.

2.2 ANALYSIS OF THE THEORIES AND EMPIRICAL FINDINGS

Even though the main part of the work (in time counted) consisted of planning for, collecting, interpreting and structuring the theoretical and empirical information, the most important task was to conduct the analysis. By analysing the empirical findings we were able to find solutions to the research problems, which are presented in Chapters nine and ten. The two previous analysis Chapters provide the basis for being able to give the answers to the two research problems. In order to get a good structure for presenting the analyses, we constructed our own variables of analysis in addition to the analysis models presented in the theoretical framework.

2.3 ANALYSIS OF THE SOLUTIONS TO THE RESEARCH PROBLEMS

Finally, by analysing the solutions to the research problems and making generalisations, we were able to give an answer to our main problem, which appears in Chapter 11, conclusions. Such an analysis also enabled us to give recommendations to SKF.

2.4 SCIENTIFIC APPROACH

2.4.1 KNOWLEDGE ABOUT THE SUBJECT & PURPOSE OF THE STUDY

The scientific approach can take different forms depending on the authors' knowledge on the subject and of the purpose of the study. It could be exploratory, descriptive or explanatory.[20]

In the opening phase of our research process, our knowledge about companies' view of CSR and how they actually go ahead and carry out CSR was very limited. The same limitations were true for the internal conditions of SKF and the external conditions in Malaysia. We therefore started with an exploratory approach, identifying and defining key terms, such as: CSR, resources and capabilities and the macro and microenvironment in Malaysia, which are all direct or indirect parts of our problems. Later on a more descriptive approach followed, where we were able to describe our findings of selected key terms and issues related to the problem. At the end of our work with the thesis we had gained a substantial amount of knowledge and could use a deeper approach, the

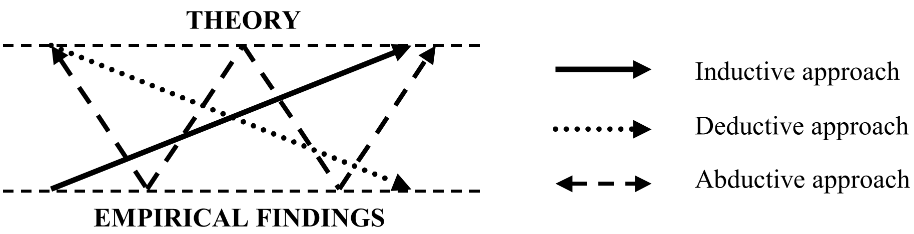
[20] Kinnear, T., C. & Taylor, J., R., (1996)

explanatory approach, to explain the relation between the different key terms, identified, and described earlier.[21]

2.4.2 THE RELATION BETWEEN THEORY AND EMPIRICAL FINDINGS

In defining the relation between theoretical and empirical findings, a researcher can take on either an inductive or deductive approach. The inductive approach is when a theory is derived from phenomena in the empirical findings, while the deductive approach is when the researcher departs from an existing theory and searches for empirical findings to suit it. It is also possible to take on an abductive approach, which is a mixture of the inductive and deductive approaches. In this third option the researcher builds the work on both already existing theories and her or his own, new theories.[22] See figure 2.2 for a visualisation of the three approaches.

Figure 2.2 – The inductive, deductive and abductive approaches



Source: Own elaboration

When we started our work we began accumulating some existing theories related to our subject and, to some extent, we tried to find empirical findings that fits these theories. However, we also developed our own theories and models, hence taking on an abductive approach.

2.4.3 DEPTH AND WIDTH OF THE RESEARCH

Regarding the depth and width of a research, there are two options, quantitative and qualitative research. The quantitative research involves data and evidences

[21] Merriam, S., B., (1998)
[22] Merriam, S., B., (1998)

that can be measured statistically, and therefore requires a wider but shallower base of information in order to give the research validity. Qualitative research, in contrast, will be based on data that cannot be quantified. Usually, the qualitative research therefore gives room for indepth interviews that enable the researcher to gain a more profound and comprehensive picture of reality. The qualitative research does not however provide such a width in the evidences and can consequently not be used to draw statistical conclusions. The conclusions will instead be more of an analytical and somewhat subjective nature.

The reason for us choosing a qualitative research was that we wanted to understand the whole rather than small pieces. We were accordingly also able to make indepth interviews and to adjust the questions for each individual respondent and occasion. Through this kind of interviews, we gave the respondents much more freedom to talk on their own initiative and to elaborate on the questions.

2.5 QUALITY OF THE RESEARCH

Even though we have been careful in designing and performing our research there are some deficiencies. In order to evaluate the quality of the thesis, we will analyse the validity, reliability and possible errors of our research methods.

2.5.1 VALIDITY

Validity concerns whether there is a correct relationship between theories and empirical findings (construct validity), whether the results of the research are in accordance with the reality (internal validity), and whether the findings can be generalised and provide conclusions regarding other situations than the specific case studied (external validity).[23]

2.5.1.1 Construct validity

Since we initially had very limited knowledge about the subject CSR and it has not yet reached a high priority within business schools, it does for example lack

[23] Yin, R., K., (1994)

a universal definition, we can not be sure of that the theories we chose are entirely valid. When initiating the research, we did not know which theoretical framework to use and even though we carefully discussed and evaluated all theories, it is still possible that we might not have been critical enough in our judgements.

Another source of poor construct validity was our initial limited knowledge about interview techniques. We might have asked the wrong questions or asked them in an inaccurate manner initially, and the first interviews might therefore be of a lower quality than the later ones. These skills were obtained gradually during the study and the research hence became a learning process.

However, since we stated the main problem and the research problems carefully, and then had them as a basis for the design of theoretical framework, we believe a rather high level of construct validity has been reached. We were also very cautious in choosing the theories with regard to how we perceive CSR. By undertaking an abductive approach, where we constantly moved between theory and reality, the level of construct validity was further enhanced.

To increase the extent of construct validity further, we used multiple sources in most of the cases and the research has been a continuous learning process. Virtually each interview provided us with information that could be used for the subsequent interviews, hence enabling us to move one step higher up on both the theoretical and empirical ladder in our search for the solution.

2.5.1.2 Internal validity

Given the subjectivity of corporate social responsibility and the difficulty of finding a universal definition, it is difficult to judge the internal validity of our thesis. However, at the same time, we claim that research on CSR always lead to high internal validity as a result of its subjectivity. The reason is that the reality regarding CSR appears very distinctive for different people and as long as the interviewees are sincere and trustworthy, the results will be in accordance with reality. In other words, there are no right or wrong realities regarding CSR. What people perceive as the reality is *their* particular reality even though others might not agree. Hence, in reaching a high internal validity concerning the issue of CSR, the most useful device is to make the respondents answer sincerely. In Malaysia, it is important to establish personal relations to gain confidence and we therefore conducted face-to-face interviews. We also tried to establish personal relations by initiating the interviews with talks about more personal issues not related to our thesis, which we believe was successful. There are however most likely cases were the respondents nevertheless answered what they thought would be correct and not what they really believed, especially considering that Asians occasionally have difficulties in answering forthrightly.

Regarding the internal environment of SKF, we believe that the internal validity is high since we based the results on multiple sources. In total, we made interviews with twelve employees and managers at three different SKF companies, both in Malaysia and Sweden, and supplementary information was collected from the company's official homepages, published material, presentation material and through guided visits at the different companies. However, the managers and clerical workers were over represented in our interviews, which might have made the results slightly biased.

The lowest level of internal validity in our thesis is most likely within the external Malaysian environment. There was no problem finding valid and reliable sources for the "hard" macro environmental figures such as the construction of the political system and the economical development and we were also able to use multiple sourcing, which increases the internal validity additionally. It was however more difficult to find official sources for information on softer issues, such as the business norms and country culture. We therefore had to rely on the primary data received from our respondents to a large extent. Since these issues are connected with a higher degree of delicacy, the interviewees might not have been objective in all cases. Furthermore, since some of the sources were not experts within the field there might exist some extent of subjectivity or even guessing, with the result of a lower internal validity. Data regarding SKF's customers, distributors and suppliers was only collected from interviews and internal material within SKF, which therefore might lead to a result that is not totally valid. We were also unable to set interviews with individuals and companies in the immediate surroundings, a weakness in our research that might imply lower internal validity. Nevertheless, we have tried to use multiple sourcing to the largest possible extent and based our results on the most reliable sources.

In total, we believe that the internal validity is high since we have a wide and multiple sourced basis of material that mainly consists of real-time face-to-face interviews and contemporary secondary sources. Furthermore, we believe that we have been able to find a good structure of how the research is presented, which further enhances the internal validity. However, as mentioned before, there are different opinions about the reality and perhaps our reality is only one of many different perspectives.

2.5.1.3 External validity

Since we have chosen the case study as our research strategy, a high degree of external validity is difficult to reach, especially since we have used a single case design. Malaysia is furthermore a country with wide internal geographical differences in for instance technological, social and economical development. Nevertheless, since we were careful in separating the empirical findings from our own ideas and analysis, the reader will be able to determine whether our findings can be generalised.

To increase the external validity we conducted many interviews both internally in SKF and externally. Specifically, the three reference companies and SKF Malaysia that were studied in addition to our case company gave us a more comprehensive perspective. Moreover, we conducted interviews in three of Malaysia’s 13 states, where one is ruled by the opposition, contrary to the other two, which we believe enhanced the external validity further. In addition, we constructed our own models, which we believe are useful for other companies, countries or industries.

Since we based our research on the institutions network approach and institutions are supposed to be rather stable[24], we believe that the external validity of the research of the macro environment is high. However, whereas institutions such as the country culture and the legal system are unlikely to change rapidly, the economy and government might give cause to rapid changes, and the research might not lead to abilities to generalise the findings. Since Malaysia is a developing country, people's opinions are furthermore likely to change more rapidly than in developed countries, especially regarding CSR, which is connected with a high degree of subjectivity. Since SKF operates in a traditional industry and has been present on the global market for a long time[25], we find it unlikely that the internal environment would undergo any severe changes, whereby the external validity concerning this research area must be considered relatively high.

In total, we believe that the external validity of our research is high. One observation must however be pinpointed. Even though we tried to be objective, both during the field study and the actual compilation of our material, we might have been biased since we are in favour of CSR.

2.5.2 RELIABILITY

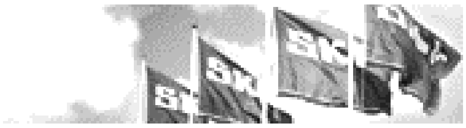
Reliability concerns to which extent another investigator, following the methods described and conducting the same case study, will reach the same results and conclusions.[26]

Since we gave a thorough description of how our research was conducted, we believe it would be easy for another person to conduct the same research. We also believe that our thesis is trustworthy since all sources of information were documented carefully. Furthermore, the empirical findings have a good relation with the theories, which will enhance the reliability and given the high external validity, where many of the institutions are relatively stable, the reliability is further enhanced.

[24] Jansson, H., (2000), ch. 1, p. 8
[25] http://www.skf.se
[26] Yin, R., K., (1994)

However, since the interviews mainly were conducted in English, which was the second language both for us and for the interviewees, misunderstandings and misinterpretations might have occurred and therefore affected the reliability negatively. These errors were however most likely reduced since both of us participated in all the interviews and we used a tape recorder, which enabled us to listen to the answer more than once if needed. Also the secondary data is subject to misunderstandings and misinterpretations but we tried to overcome this source of errors by using multiple sources.

PART II – THEORETICAL FINDINGS



3 THEORETICAL FRAMEWORK

This Chapter provides the concepts, theories and models we found suitable to our main and research problems. With a few modifications, they will facilitate the analysis of the empirical data while simultaneously providing useful insights about the subject on their own. Apart from theories and models directly related to CSR, we found there also was a need to utilise theories and models of a more general nature. At the outset, we will present the so-called institutions network approach, which functions as a fundamental perspective of reality and therefore also as a basis for the forthcoming models and theories.

3.1 FUNDAMENTAL PERSPECTIVE OF REALITY

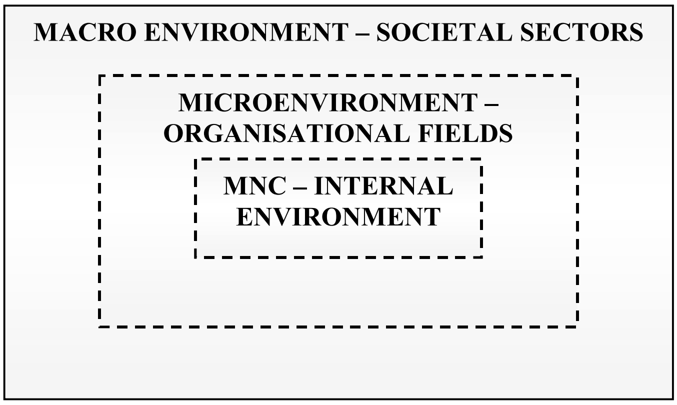
In order to be able to elaborate on Corporate Social Responsibility for a certain MNC in a certain country, we need to know both the internal and external circumstances of that company. A fundamental viewpoint that incorporates both the internal and external aspects from the perspective of an MNC and at the same time is highly applicable in a transition economy such as Malaysia, is the institutions network approach. According to this approach, all companies in today's society are members of and have to follow certain rule systems, norms, values, routines and habits that are justifiable within a special social grouping, for instance a company, a country or a market. These external procedures and ways of thinking are referred to as external institutions and the external environment that they together form can be referred to the external institutional setting. They define the relationships between individuals and groups in a predictable and rather stable way, and therefore lead to habitual and routinised behaviour among the members. Only by complying with these procedures will the company be able to operate efficiently with a profitable result and at the same time become legitimate in the society. Since the company also constitutes rule systems, norms and values, it functions as an institution on its own and the internal environment can be referred to as the internal institutional setting.

In a complex reality, enterprises have to deal with many different actors, factors and institutions at different levels, such as customers, suppliers, governments, country culture and general values. Regarding the dissimilarities in different countries and markets, the external institutional settings vary according to location of the company. The degree of sustained competitive advantage and therefore success will depend on how well the company can match its internal institutional setting to the external institutional setting. For enterprises in general and MNCs in particular, it is therefore of outermost importance to understand these institutional settings.

The institutions and their actors can be divided and analysed in three levels: the MNC, the organisational fields, and the societal sectors, with the company to be analysed placed in the centre. The MNC, which should be looked upon as an institution on its own, participates directly in and is part of the organisational fields, which are institutions such as product markets; governmental authorities; labour markets and interest associations. Each institution is represented by a group of actors. The product market is for instance represented by customers, suppliers etc. The societal sectors are broader and more abstract institutions that organise the society. They include for example the political system, the country culture and the religion.

To clarify the circumstances for the reader, we believe we can relate the institutional network terms to more frequently used terms. The sphere in which a company is situated is often divided into internal and external environment. The internal environment is the company itself and can in the institutional network approach be referred to as the MNC. The external environment is the surroundings and is divided into micro and macro environment. The microenvironment is the field in which the company, as well as other actors, for instance customers, suppliers etc, participates directly, hence signifying the environment to which the organisational fields belong. Finally, the macro environment is where we can find the societal sectors. Please see figure 3.1, for a visualisation of the institutions network approach.

Figure 3.1 – The institutions network approach



Source: Jansson, H., (2000), figure 1.1; Own modification

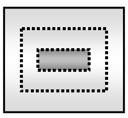
Even though the institutions and actors can be analysed in all three levels, they are by no means detached from each other, but are rather participating in a continuous institutional interaction. Hence, the way one part of society is organised will shape other parts. The relations between the MNC and the other actors in the microenvironment can be referred to as networks and a company can build up these networks in order to gain good relations and to comply with the surroundings institutions. It is then the institutions that determine the structure of the networks, that is the type of relationship between the actors. Companies within a network have of course their own interests to regard but are also included in a larger collective. The main purpose for a company to engage in building networks is to respond to policies and, at least in the long run, to reach higher profitability.

Since the MNC is in direct contact with the actors in the microenvironment, such as customers and suppliers, it has the possibility to influence the structure of the network with them, which in turn might influence the institutions (the organisational fields) at this level, such as the product market. Simultaneously, the MNC is influenced both by these institutions and actors. Hence, there is two-way influence in the organisational fields. Looking at the societal sectors on the other hand, the MNC does not have the possibility of being a direct influencing factor on these institutions since there is no direct contact between the MNC and the macro environment. The societal sectors can however have a direct influence on the MNC as well as on the institutions (organisational fields) and other actors in the microenvironment. The only way to influence the societal sectors is through the organisational fields in the microenvironment. Thus, a MNC participating in a network with for instance a customer has the possibility to affect and to initiate a change in the rule systems, norms and values in the product market. A changed product market might then have an influence on one or several of the societal sectors.

Exactly how an identification and analysis of the institutions within each level will be conducted is not specified in the institutions network approach. Instead, a variety of different models, theories and analysis tools can be used within the framework, depending on the individual cases. However there are some guidelines. When analysing the internal and external environments within the institutions network approach, it is clear that it is not enough to take note of the physical facts, such as the demographical structure of the country, the organisational structure of the customers or the physical information systems of the company. Instead, the researcher also needs to make an environmental analysis focused on the institutions, which signifies both formal and, at times more importantly, informal rule systems, norms, values, enforcement mechanisms, and thought styles.[27]

The institutions network approach should, due to its scope and lack of specific analysis tools, be regarded an underlying and general theory, creating a basic viewpoint of reality on which other theories and models can be based. The institutions network approach can therefore function as a tool for us to evaluate the appropriateness of other theories and models by providing a general framework. Hence, only theories and models that are in line with this approach will be used.

3.2 THE INTERNAL INSTITUTIONAL SETTING



Starting from the centre square of the institutions network approach, we will discover the internal institutional setting a company posses-

[27] Jansson, H., (2000), ch. 1-2

ses, that is which formal and informal rules, norms and values that are present within a company. By its way of combining internal and external factors, the institutional network approach largely corresponds to the so-called resource-based view, which can be utilised as the base for an internal analysis and for illuminating the internal institutional setting.

Within this view, the basic units of a company are its resources. However, in isolation the resources cannot give any advantages to the company. Instead they have to work together and thereby create organisational capabilities. In addition, a company also rests on its long term and consistent goals, values, organisational structure and organisational systems. Normally, the resources are classified and analysed in tangibles, intangibles and human resources. The organisational capabilities can in turn be classified and analysed according to a value chain, where the activities of a firm are separated and formed into a sequential chain. The primary goal for corporations is assumed to be profit maximisation, but not necessarily in the short run. The company can accordingly possess other values than merely economical ones, such as development of the employees, high product quality and improvement of the natural environment. It is nevertheless the case that social and moral goals and values also lead to improved profitability in the long run.[28] Please see figure 3.2 on the following page for a visualisation of the internal environment of a company, based on the resource-based view and the institutional network approach.

[28] Grant, R. M. (1998) Contemporary Strategy Analysis, Blackwell Publishers Ltd, Oxford, UK

Figure 3.2 – The internal environment of a company

Source: Grant, R., M., (1998), p.111-121; Own

3.3 THE EXTERNAL INSTITUTIONAL SETTING

Following the institutional network approach, the external institutional setting is divided into societal sectors, which operate in the macro environment, and organisational fields, which belong to the micro-environment and are in direct contact with the MNC.

3.3.1 THE BUSINESS SYSTEM THEORY

As mentioned before, the societal sectors and organisational fields are connected with each other, constituting a certain external institutional setting. One theory that concerns the macro environment and its influence on the micro-environment is the business system theory. There are three main dimensions of the macro environment that can determine the characteristic of some of the societal sectors. These dimensions can also be used to determine what kind of impact there will be on the organisational fields (institutions) and actors in the microenvironment.

1. **Trust.** Trust is very much connected with the family values within an institutional setting. In societies where commitment and loyalty to collectiveness rarely spreads outside the family boundaries, trust is most probably lacking and cooperation with non-familiars often becomes difficult. Hence, it is complicated for companies to make employees loyal and work efficiently. The high importance of personal networks, both inside and between companies, further indicates a general lack of trust. Apart from in the general country culture, the trust mechanism within an institutional setting is often reflected in the business norms.

2. **Individualism.** If a society is based on self-interest of people, individual identities, rights and commitments are compulsory. In societies where collectivism is present, individuals are on the contrary given much less emphasis.

3. **Authority relations.** How authority is regarded in society will influence how authority will be conducted in firms. The issue might for instance concern whether authority rests on formal or informal rules, how authorities' roles are distinguished and the remoteness between authorities and the people. The higher the power distance, the lower the reciprocity between superiors and subordinates within companies. This issue is reflected in the political structure and in the business norms.[29]

The business system theory has received a lot of criticism, but since it is based on sociological theory and the author of this theory wishes to show that economic performance has sociological roots, we believe it is applicable for our subject. Further, the empirical study that the theory is based on, was conducted in South East Asia, which has to be considered an advantage since it most likely makes the theory more reliable for our specific thesis.[30]

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[29] Jansson, H., (1999), ch. 3; Casson, M., & Lundan, S., M., (Summer 1999)
[30] Casson, M., & Lundan, S., M., (Summer 1999)

3.3.2 THE STAKEHOLDER THEORY

There are several theoretical approaches and models for analysing the micro-environment and the actors therein. The most usual ones are the traditional industry analyses, such as Porter's Five forces of competition framework[31]. However, these generally merely focus on profitability and competitors within a specific industry, and are often accused of being static.[32] Furthermore, traditional industry analyses do not regard the institutional perspective and the networks a company has with its surrounding actors, which is necessary in order to examine the organisational fields. Our research obviously demands a broader view than traditional industry analyses can provide.

In similarity with the institutional network approach, which implies that companies have to adjust to several external and internal factors in order to gain legitimacy on the market, the stakeholder view says that companies have to regard a variety of constituencies present in the immediate surroundings in order to be profitable. The reason for this is that businesses relate to and affect groups and individuals in the nearby surroundings, and therefore need to consider their interests.[33] Hence stakeholders can be described as groups or individuals with whom the organisation interacts or has interdependency, plus any individual or group who can affect or is affected by the actions of the company. Thus, the different stakeholders can claim to have the same significance as the actors in the microenvironment in the institutions network approach, which makes the stakeholder view highly applicable for analysing the microenvironment and its organisational fields and actors.

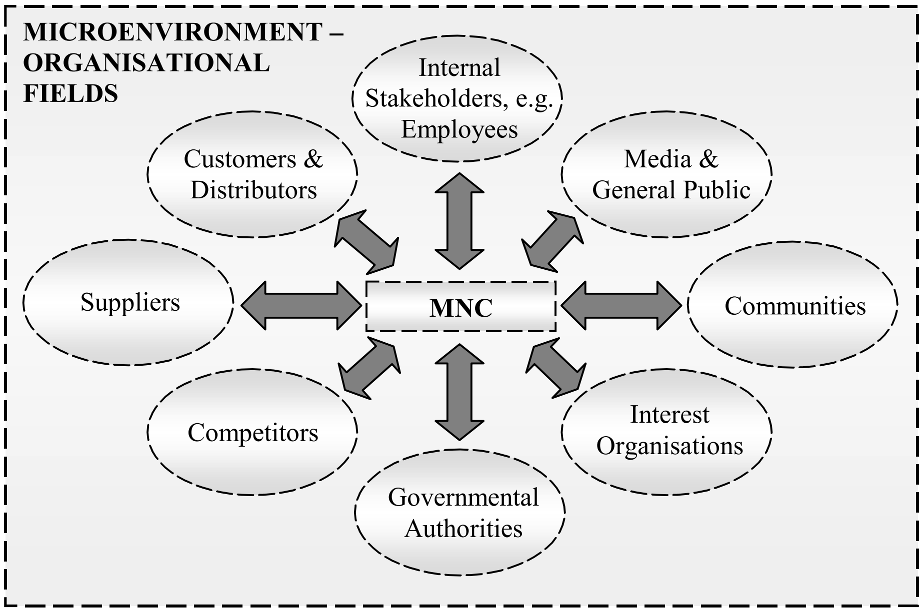
There are many different stakeholders (actors) and it is up to each company to evaluate who are their stakeholders. In the literature, common internal stakeholders include shareholders, owners, investors, management officers and employees; while common external stakeholders include customers, suppliers,

[31] Porter, M., E., (1985)
[32] Grant, R., M., (1998)
[33] Weiss, J., W., (1994)

competitors, governmental authorities, interest organisations, communities and media/general public.[34]

As maintained by the institutions network approach, the stakeholders (actors) in the microenvironment function in clusters, determined by how they relate to the company and which underlying institution they belong to. Product markets, which are an institution in the microenvironment, for instance consist of customers, suppliers and competitors that share common rule systems, norms and values and that therefore can be clustered. Identification and analysis of the organisational fields can be achieved through analysing each individual stakeholder plus the MNC's relation with each of them.

Figure 3.3 – The stakeholder view



Source: Own elaboration

The stakeholder theory is an important and commonly used framework within business ethics, and several of the most popular business ethics and society texts rely on the concept.[35] We further believe that the stakeholder view is consistent with the undertaking of CSR, since CSR is focusing on the interests of the major actors in a company's proximate environment. Therefore, the

[34] See for instance Grant, R., M., (1998); Holme, R. & Watts, P., (Januari 2000)
[35] Gibson, K., (Aug 2000)

stakeholder view will be utilised as a basic approach in identifying and analysing the actors and institutions (organisational fields) of the microenvironment.

3.4 MATCHING THE INTERNAL AND EXTERNAL INSTITUTIONAL SETTINGS

Concerning the resource-based view presented earlier, Grant writes: "*strategy is concerned with matching a firm's resources and capabilities to the opportunities that arise in the external environment.*"[36] This is a statement that fits very well into the fundamental ideas behind the institutional network approach, that a company has to match its internal institutional setting with the external institutional setting in order to gain good relations and to comply with the surroundings institutions. Hence, a company's strategies function as a link between the internal and external institutional settings and imply mutual impact relations.

Figure 3.4 – strategy as a link between the internal and external environment

Source: Grant, R., M., (1998), p. 12; Own modification

3.4.1 STRATEGIC INNOVATION

When innovation in products and processes has begun to slacken, which occurs particularly in mature industries and where the potential for competitive advantage seems limited, so-called strategic innovation becomes important. Strategic innovation means that many companies seek sources of competitive advantage through innovation and differentiation in their strategies, in addition to the traditional innovativeness in products and processes. So how do companies achieve strategic innovation?

[36] Grant, R., M., (1998), p. 106

- The strategy making process should not merely be a task of top management, but also people from further down the organisation should be brought into the strategy formulation.
- Strategic innovation is more than just rethinking old strategies; it also requires completely new approaches to structure the business operations.
- Strategic innovation involves creating customer value through the combination of dimensions that were previously conflicting, for instance lean production that combines low costs and high quality.
- The key element in formulating new strategies is to identify the company's strengths in terms of resources and capabilities.[37]

3.4.2 MATCHING STRATEGIES

Matching strategies specifically refers to the MNC's strategies of connecting its internal institutions to the external institutional setting in order to get a competitive advantage. There are in general two types of matching principles, the efficiency based and legitimacy based matching principles. Efficiency based matching means that the company seeks cost-efficiency and profit maximisation while the legitimacy based matching indicates that the matching of a company is to gain legitimacy in for instance the market, the community or from the government in order to gain and maintain support.[38]

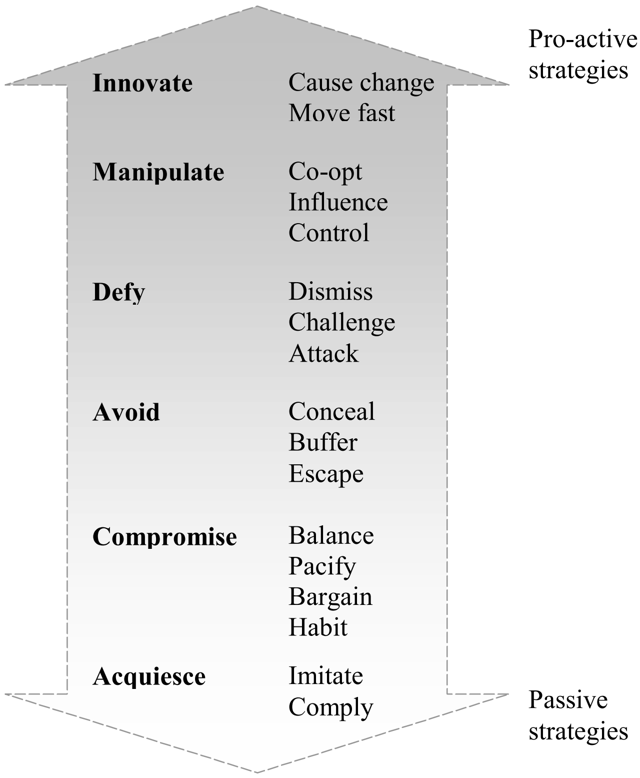
By tradition, markets are mainly efficiency-based, meaning that companies have to be cost efficient and profit maximising in their attempts to survive on the market.[39] However, companies also have to adhere to national laws, rules, norms and values, and, especially in less developed countries and transition economies, to contribute to the national development and economic welfare in order to gain legitimacy. Acquiring legitimacy is necessary in order to receive the required resources such as money, information, labour and access to markets. There are three major types of legitimacy. The first is technical legitimacy, which relates to the economic performance and technical foundations of the company, hence connecting the efficiency aspect with that of legitimacy.

[37] Grant, R., M., (1998)
[38] Jansson, H., (2000)
[39] Lord Wedderburn of Charlton (1984)

Companies can also gain regulative/procedural legitimacy by adherence and respect for the country's laws, procedures and bureaucracy. From an even broader perspective, an enterprise can gain legitimacy through behaving according to the fundamental values and attitudes in the society. Social legitimacy concerns how the company contributes to the social needs and is expressed through its Corporate Social Responsibility. Hence, by demonstrating a social responsibility, a company might gain the needed legitimacy in a certain country.[40]

In their attempts to accomplish the right matching, companies can choose from a variety of strategies, ranging from purely emergent or passive to perfectly deliberate and pro-active. Please see figure 3.5 below.

Figure 3.5 – Main types of matching strategies and tactics



Source: Jansson, H., (2000), ch. 4, table 4.1

[40] Jansson, H., (2000)

3.5 CORPORATE SOCIAL RESPONSIBILITY

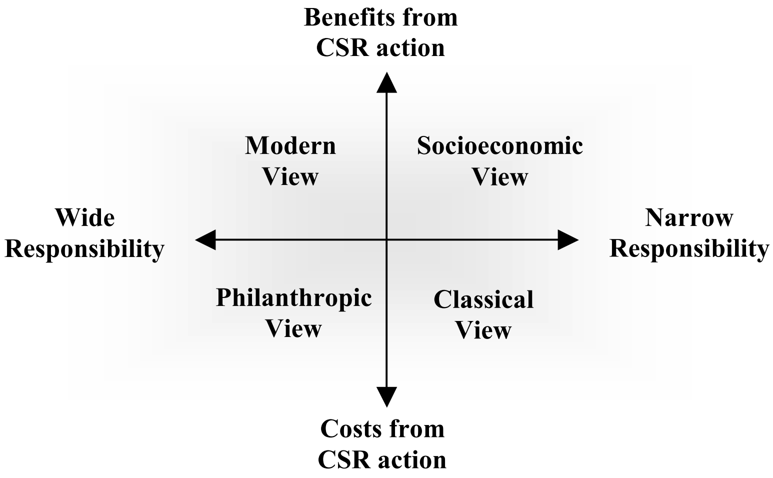
3.5.1 SCOPE OF CSR – THE TWO-DIMENSIONAL MODEL[41]

To which extent CSR should be taken is decided according to the perception of CSR within a company. One model to help discover the perception of CSR is “The two-dimensional model of Corporate Social Responsibility”. The model has two axes. The horizontal axis is used to locate the position of the company with regards to the extent of CSR. The right hand extreme represents a narrow view of social responsibility where business responsibility is perceived in terms of supply of goods and services leading to profit maximisation within the "rules of the game". The emphasis here is on profit maximisation in the short-term. By contrast, the left extreme considers corporate social responsibility in a broader context, reaching beyond regulation to serve the wider expectations of society in areas such as environmental protection, community development, resource conservation and philanthropic giving.

The vertical axis of the model represents two extremes of managers’ perception in terms of the costs and benefits of social involvement. At one end of this axis the main consideration is on the expenditures of exercising social responsibility in the short term. The other end of the axis is concerned with the long-term benefits arising from social action, and the manager here perceives the potential benefits for the business to outweigh the costs. See figure 3.6.

[41] O'Brien, D. & Quazi, A., M., (May 2000)

Figure 3.6 – The two-dimensional model of Corporate Social Responsibility



Source: O'Brien, D., & Quazi, A., M., (May 2000)

Modern view

The modern view captures a perspective in which a business maintains a relationship with the society and where there are net benefits flowing from social actions, both in the short and long run. This modern view of social responsibility includes the stakeholder view noted earlier.

Socioeconomic view

The socioeconomic view is a narrow view, but accepts that the adoption of some degree of social responsibility will lead to net benefits for the company in terms of, for example, avoiding costly regulation, building good customer relationships and building good supplier relationships. In this context, social responsibility can be justified even if a manager holds a narrow view.

Classical view

The classical view of social responsibility is limited to a narrow perspective where CSR is seen as generating a net cost to the company without any real benefit flowing from an activity.

Philanthropic view

The last quadrant includes a broader view of social responsibility in which businesses agree to participate in charitable activities even though this is perceived as a net cost. This impetus may arise from altruistic or ethical desire "to do" good for society.

Regardless of which quadrant the company belongs to, the effects of implementing CSR are difficult to predict and can also be two fold, causing both good to some people and harm to others. Since the perception of CSR is very subjective, it can lead to both a confusing and controversial situation for a firm, where it on one side engages in non-profitable charity and on the other hand use unscrupulous means in profit seeking because people have different opinions. In order to avoid such situations, the company has to internalise the concept and perception of CSR by for example adopting socially ethical objectives and strategies, which becomes embedded in the organisation and that all employees are well aware of. Therefore a company's commitment to CSR must start on a managerial level and be viewed as a strategic issue.

3.5.2 THE CSR MATRIX

The essence of CSR is a valuable stakeholder dialogue, which in terms of the institutions network approach is equivalent with the importance of building relations and networks with the actors in the microenvironment. Therefore, when pursuing CSR activities, the main focus must be put on the stakeholders (actors) and the company's relations with them. The two most important matters therefore are:

- *With whom* the company should have a dialogue (build relations with)
- *What* the dialogue and, later on, CSR activities should contain, which according to the institution network approach is determined by the underlying rules, norms and values, the institutions.

In order to discover *with whom* there should network building and later have a dialogue with, in other words, who the key stakeholders or actors are, the company should evaluate them according to three issues:

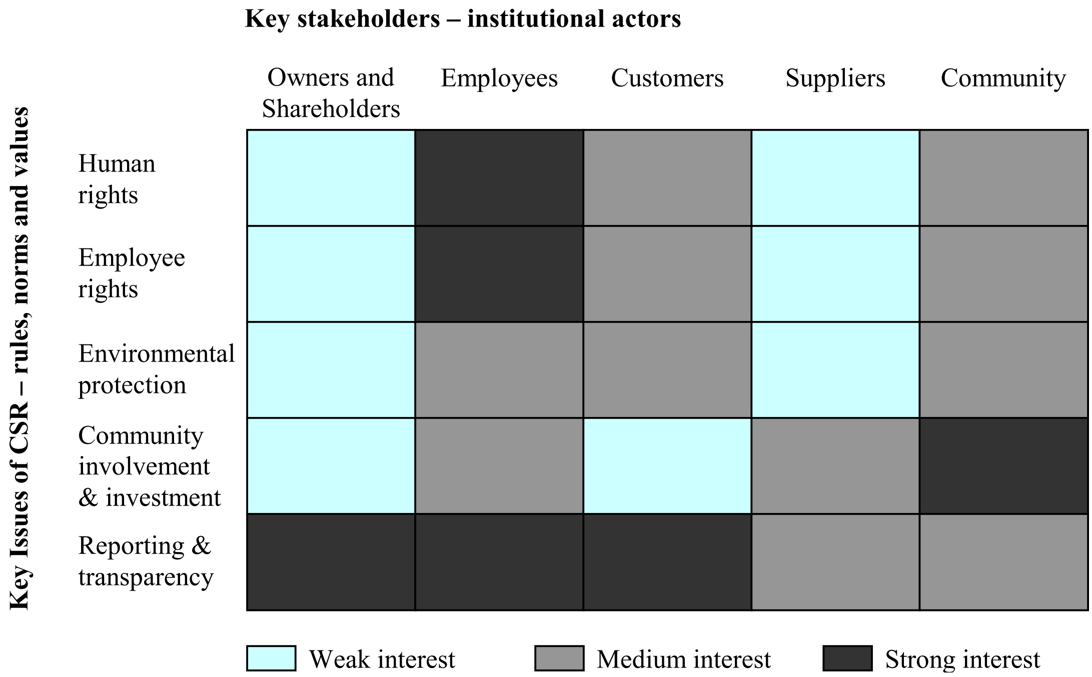
1. Authority. Is the stakeholder group representative of issues that are relevant for the business or is it responsible for those with a genuine

interest in the company? In other words can the stakeholder group give legitimacy for the company?
2. Contribution/influence. Does the stakeholder group contribute to running the business more responsibly or does it have a significant influence on the company or on other stakeholders?
3. Outcome. Is the dialogue or engagement likely to result in a productive and efficient outcome in the long run?

By answering these questions, the company can screen the stakeholders. If the answers are yes, the stakeholder must be considered a key stakeholder and the company should establish continuous and regular dialogues, through network building and creating relationships. *What* the dialogue and activities should contain can be evaluated through a matrix where one axis contains the key stakeholders and the other axis contains key issues of CSR. As for the key stakeholders, the key issues of CSR will vary depending on the perception of CSR that is present within the company and the organisations of the stakeholders. Thus, the key issues of CSR relate to the major rule systems, norms and values, that is institutions, which are present within and outside these organisations. Subsequently, the key issues of CSR (the institutional norms and values) are connected with the key stakeholders (the institutional actors) through plotting the level of importance each key issue gives rise to for each stakeholder. Please see figure 3.7 for an example of the CSR matrix.

Where a stakeholder has a strong or medium interest, the darker squares in the matrix, the company should initiate certain CSR related activities. Since the institutional settings differ from situation to situation, there are no universal key issues or institutions of CSR, and no universal key stakeholders or institutional actors. Each company’s shadings on the matrix will therefore be unique, depending on the specific internal and external institutional settings, which for instance differ according to the industry in which the company operates and its geographic location. The fields described in the matrix in figure 3.7 should therefore merely be viewed as examples.

Figure 3.7 – The CSR Matrix



Source: Holme, R., & Watts, P., (Jan 2000), p 16; Own modification

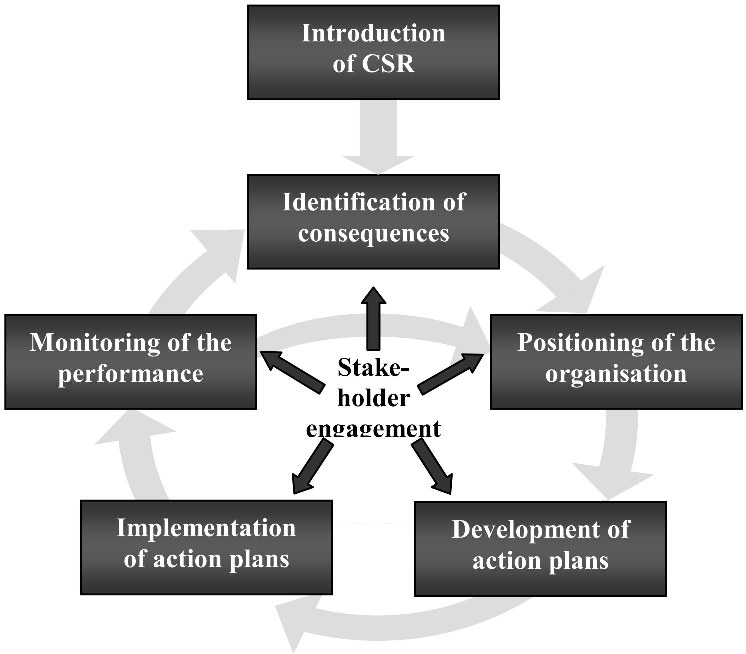
3.5.3 THE SIX PHASE PROCESS OF CSR

Engaging in CSR can be seen as a continuous process that consists of six phases and where stakeholder engagement always is crucial.

1. Introduction of CSR. The company needs to introduce CSR in a way that makes the employees realise the importance of taking CSR seriously.
2. Identification of consequences for the business. There will be consequences of CSR and they therefore need to be assessed.
3. Positioning of the organisation. The company needs to position itself regarding the issue of CSR and compare it with other organisations.
4. Development of action plans. It is necessary for the company to develop action plans since it must prioritise which actions it can engage in.
5. Implementation of action plans.
6. Monitoring of the performance. The performance has to be monitored and measured in order to make improvements possible.[42]

[42] Holme, R. & Watts, P., (Januari 2000)

Figure 3.8 – The six phase process of CSR



Source: Holme, R. & Watts, P., (Jan 2000), p. 19; Own modification

3.5.4 MEASURING AND REPORTING ON CSR

During the decades, there have been intensive discussions and studies about the effects of engaging in CSR and the relationship between corporations' financial and social performances. The results have been inconsistent, which might partly be due to companies' different methods of measuring environmental, social and financial performance.[43] Even though there is no clear evidence, many studies suggest that Social and Ethical Accounting, Auditing, and Reporting (SEAAR) are a premise for a positive relation between financial and social performance.[44] As written in a report by the Global Reporting Initiative:

> *"Whether one is an institutional investor, an activist, a government official, or a senior executive, every party needs clear, orderly information to evaluate economic, environmental, and social performance."*[45]

[43] Stanwick, P., A. & Stanwick, S., D., (Jan 1998)
[44] See for instance Verschoor, C., C., (Oct 1998); Holme, R. & Watts, P., (Januari 2000)
[45] Global Reporting Initiative report, (June 2000), p. 10

So what is SEAAR? In general, SEAAR means that the companies have to listen to its stakeholders and thereafter respond to their views in the accounting, auditing and reporting, which will result in profound differences in corporate governance, strategy, management, auditing and reporting. Hence SEAAR gives an opportunity to incorporate triple bottom line reporting within a company, which includes economic, environmental and social reporting.[46] Furthermore, it helps the company understand, measure, report on, and ultimately improve its social performance.[47] To date, there are no standardised social accounting, auditing or reporting, but companies are nevertheless increasingly mainstreamed.[48] In choosing the specific indicators of a company's performance to be included, there are three important principles:

- The indicators must reflect what the company actually is doing
- The indicators must be capable of demonstrating trends
- The indicators must be communicable to a range of stakeholders[49]

Following, our delimitations we leave the issues of accounting and auditing for now. Regarding reporting, there are however a couple of guidelines we would like to present. Please see appendix 3 for a summary of key characteristics currently included in social reports.

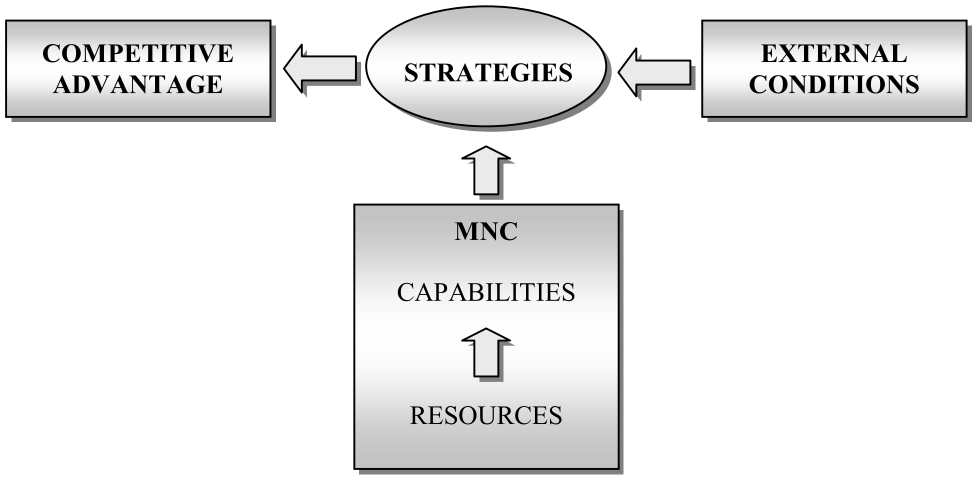
3.6 COMPETITIVE ADVANTAGE

The expression "competitive advantage" usually refers to a company's position on the market and its ability to formulate, implement and take advantage of its strategies. Competitive advantage is further associated with above-normal economic returns.[50] A competitive advantage emerges from a company's ability to match its internal conditions with the external and is hence a result of a company's strategies. It is further therefore dependent on both the internal resources and capabilities, and on the external conditions. Competitive advan-

[46] Buxton, P., (2000-04-27)
[47] Pilling, A., (Dec 1998)
[48] http://www.sustainability.co.uk
[49] Holme, R. & Watts, P., (Jan 2000)
[50] Kulkarni, S., P., (Oct 2000)

tage is usually market determined, but may not always result in higher profitability directly. Instead, it can lead to opportunities for increased profits in the future, for instance through investments in technology, customer satisfaction, philanthropy, employee benefits or activities to gain a larger market share. There are two main types of competitive advantage: cost advantage and differentiation advantage. While cost advantage is related to a company's cost leading position, differentiation advantage refers to a company's ability to gain a dominant position by its way of creating added value through other means than merely costs, for instance product quality, brand image or superior service. For a visualisation of competitive advantage, please see figure 3.9.

Figure 3.9 – Competitive advantage



Source: Grant, R., M., (1998), p. 113; Own modification

It is however not enough to gain a competitive advantage; it also needs to be sustained in order to be valuable for the company. In order to sustain the competitive advantage, the resources and capabilities it leads to need to be:

- Valuable
- Scarce
- Durable
- Immobile
- Difficult to replicate[51]

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[51] Grant, R., M., (1998)

- Non-substitutable[52]
- Heterogeneously distributed among the competing companies[53]

Traditionally, competitive advantage has been attributed to an emphasis on product and process technology, access to financial markets, developing economies of scale and learning curves, patents, protected and regulated markets and industry attractiveness. Recently, however, academics have started to emphasis other resources and capabilities.[54]

3.6.1 REPUTATIONAL ADVANTAGE[55]

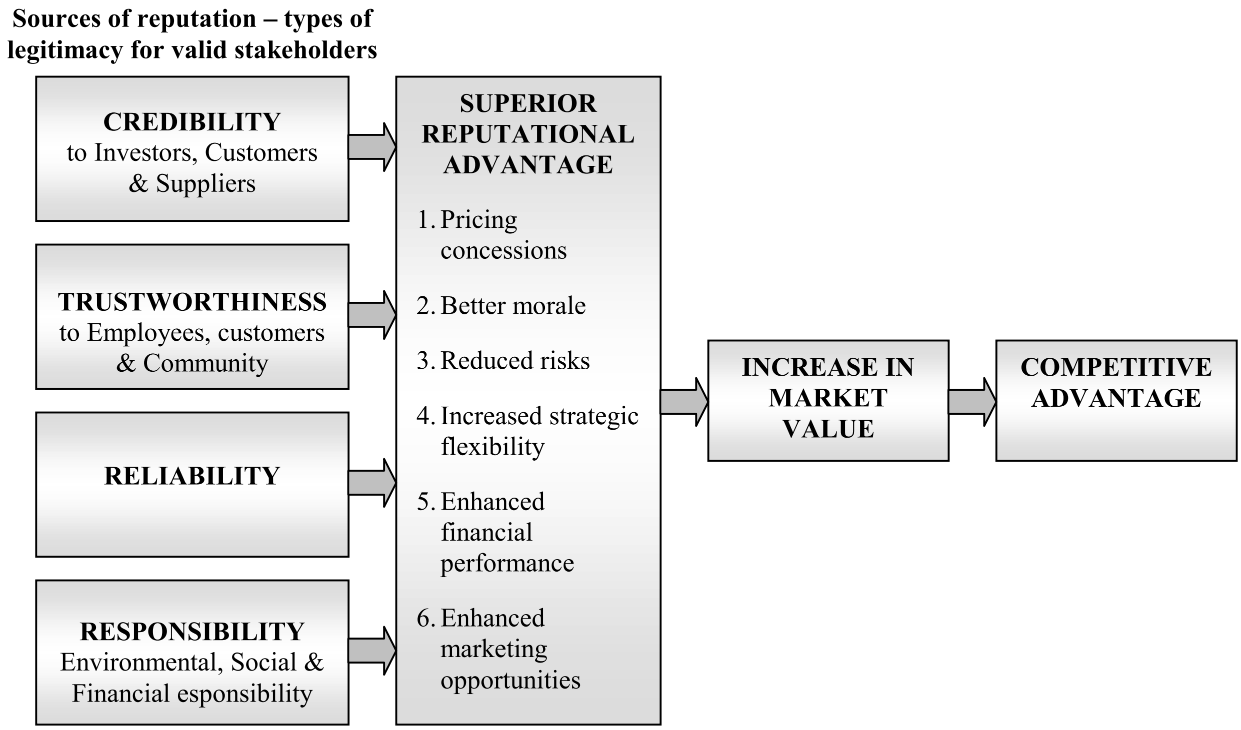
Whereas the frequently used term "image" relates to a company's ability to directly manage impressions, "reputation" is an intangible resource constituted by the real perceptions hold by its relevant stakeholders. Lately, stakeholders have become more concerned with a corporation's overall reputation when selecting future alliances partners or valuing their performance. Therefore, companies are encouraged to seek innovative ways to enhance its reputation.

Reputation is a function of credibility, trustworthiness, reliability and responsibility, and superior reputation will provide a reputational advantage, which hence can be seen as a differentiation advantage, and may result in pricing concessions, better morale, reduced risks, increased strategic flexibility, enhanced financial performance and enhanced marketing opportunities. All in all, good reputations will initiate positive effects on the market value of the company and can be considered a source of competitive advantage. Since the credibility, trustworthyness, reliability and responsibility can only be judged externally by the company's stakeholders (actors), they have the same significance as the earlier described legitimacy. Legitimacy in turn depends on which rules, norms and values the specific stakeholders hold in a specific market context, whereby the theory about reputational advantage has a strong connection to the institutions network approach. Further, a firm's reputation is

[52] Greening, D., W. & Turban, D., B., (Sept 2000)
[53] Barney, J., (1991)
[54] Greening, D., W. & Turban, D., B., (Sept 2000)
[55] Miles, M., P. & Covin, J., G., (Feb 2000)

consequently not built in isolation. It is influenced by the reputations of the stakeholders it associates with.

Figure 3.10 – Reputation as a source of competitive advantage



Source: Miles, M., P. & Covin, J., G., (Feb 2000), p. 301; Own modification.

In conclusion, in order to build a durable reputation today, a company must establish strong relationships through network building not only with customers but also with other key actors, such as employees, investors, communities, government authorities, financial analysts and consumer agencies. Organisations that are responsive to the internal and external stakeholders, that is, organisations that have the ability to match the internal institutional setting with the external, will also be able to develop a positive reputation. Firms that produce superior quality products, use truthful advertising, act in a socially and environmentally responsible manner, and have a history of fulfilling their obligations to various stakeholder groups are therefore creating reputational advantage and consequently competitive advantage.

3.6.2 THE SLACK RESOURCES THEORY AND THE GOOD MANAGEMENT/RESOURCE-BASED PERSPECTIVE[56]

Two other theories support the idea that environmental and social responsibility (the fourth source of reputation in the reputational advantage theory) enhances the reputational and therefore the competitive advantage of a company, the slack resources theory and the good management/resource-based perspective. The slack resource theory suggests that organisations with superior financial returns tend to allocate the optional resources for social and environmental projects. These investments are all designed to develop and enhance competitive advantage through reputation, image, segmentation and long-term cost. The good management theory suggests that companies with a competent and innovative management team will search for alternative sources of competitive advantage in order to better satisfy customers and other stakeholders, which ultimately will enhance shareholder value.

3.6.3 QUALITY WORKFORCE AND KNOWLEDGE MANAGEMENT[57]

At present, an increasing amount of literature emphasises human resources as a source of competitive advantage and states that the key to firm success is a company's ability to create, manage and transfer knowledge. It is therefore increasingly important with the selection and management of a quality workforce, which is characterised by intelligence, motivation, experience, creativity, commitment, analytic abilities and computer skills. Clearly, if firms can attract a larger pool of quality job applicants, the potential for success is greater.

To attract job applicants companies can use their CSR related activities, a statement that is based on the signalling theory and the social identity theory. The signalling theory advocates that a company's Corporate Social Performance (CSP), which is the total of the CSR related activities, sends signals to prospective job applicants about what their potential future workplace is like. The social identity theory suggests that employees will gain higher self-images

[56] Miles, M., P. & Covin, J., G., (Feb 2000)
[57] Greening, D., W. & Turban, D., B., (Sept 2000)

when working for socially responsive firms compared to less responsive counterparts. Hence, a business's CSP has to be known by job applicants to have an influence on their perceptions of the firm as an employer. However, merely attracting a quality workforce is not enough. The successful company furthermore must be able to take advantage of such human resources and develop it into skills that are valuable, scarce, non-substitutable, and unable to be easily imitated by competitors.

3.6.4 TRUST BASED LEARNING ORGANISATION[58]

In contrast to organisations where for example activity based costing (ABC) approaches have a foothold and where competitive advantage derives from accurate accounting figures and performance criteria, the trust based learning organisation is the future form of business. The trust based learning organisation will be based on eleven key factors that will be prerequisites for future competitive advantage.

One market and electronic global presence

Economical, technological and ecological forces intensify the global integration and the globalisation of markets, which implies that all markets can be challenged and that all innovations by competitors might represent a threat. Organisations will therefore need to be globally present, in particular through global distribution systems and electronic technology. Such a global presence will enable organisations to take advantage of economies of scale and global brand recognition, and further to sustain competitive advantage.

New social responsibility

Major organisations will take on increased responsibilities for education, infrastructure, community welfare and security. This social responsibility will become fundamental in gaining competitive advantage by its way of attracting a productive, motivated, secure and stable workforce, and increase customer loyalty. Furthermore, as social structures erode the company will gain a competitive advantage simply by providing a stable social order.

[58] Thorne, K. & Smith, M., (Mar 2000)

Dynamic integration of the supply-chain network

By integrating the suppliers into the organisation and by creating inter-organisational teams, the communication between the organisations will be facilitated and the rate of learning will increase. Benefits will be gained from sharing mutual experience and knowledge, which will result in more satisfied end customers.

Virtual organisational structure

The developments within information technology and telecommunications will allow for a decentralised or even home-based workforce. This virtual organisation is possible for such functions as technical, research, marketing and information technology. The successful organisation's focus will thus shift from control based to trust based and be possible through dedicated, trustworthy and loyal employees. Manufacturing will still need to take place at a central plant, but even for these professions, employees will be empowered with more responsibility and less direct supervision so that a trust based organisation emerges.

Technological innovation

Technological innovations will transform many functions of the organisation, which will empower the company with dynamics and flexibility. Technological innovation will also improve work processes and work flows.

Innovations in information technology

Also, innovations in the area of information technology will give organisations benefits, such as overcoming information overload and analysis paralysis. In total, the information technology will enable organisations to be cheaper, faster, more flexible and more competitive.

People come first

Companies must encourage creativity and utilise each employee's unique knowledge and capabilities in order to be competitive. Organisations therefore increasingly have to treat their employees as their most important resource. Despite the influence of technological innovation the most successful enterprises will be the ones with innovative management and a quality workforce. The employees therefore need constant education and through this continuous learning, the company will reach continuous improvements.

Team-based organisational structure

The organisations of the future will increasingly replace the normal hierarchical structures of today with teams of specialised employees, which will manage their own direct environment and setting relevant organisational goals.

Responsibility to the environment and ecology

Organisations of the future will need to pursue zero environmental impact on the natural environment of their operations. Since environmental protection requires that companies are innovative in order to raise resource productivity, competitive advantage will be gained not only by meeting legislated requirements, but also by exceeding them. Organisations will also be exposed to tougher requirements from the customers since at least the younger generation emphasises environmental issues to a larger extent than before.

Partnership with customers

As with the suppliers, the customers will be incorporated into the organisation as partners, which enable the company to extend its culture, facilitate the communication of its values and belief systems, and develop its resources and capabilities to create competitive advantage also for its customers. By doing so, the company will create a milieu that is not easily challenged or imitated.

Clearly communicated vision and objectives

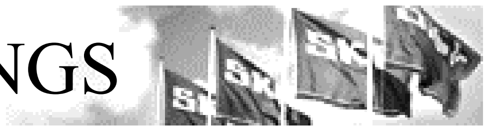
In order to make the work meaningful and to attract, motivate and retain skilled people, the organisation will need a strong purpose and vision and it has to be focused on its core values. The purpose of a business will be more than just increasing profit or market share; it will reflect a commitment to employees, customers and the community. The leadership will consequently increasingly concentrate on formulating and implementing organisation-wide strategies.

The vision must reflect the organisation's core values and purpose and has to have a practical and flexible implementation plan. Most importantly, commitment from top leadership will be required to communicate the direction of the company and to ensure that teams successfully implement the vision on a global basis.

For such an organisation to be successful, it has to have a new kind of management style.

- Shared vision. The leadership must possess a shared vision and common purpose.
- People focus. There are four basic leadership styles appropriate to all circumstances, delegating, supporting, coaching and directing. Successful management lies in understanding this principle and using the appropriate style to match each problem.
- Teams of leaders. Also the leadership must be organised in a team structure, which has shared decision-making and responsibility.
- Short-term rotation. The leadership team will be rotational in nature, which will allow new members to contribute with new ideas. Each leadership team should exist on a short-term basis before it is replaced.
- Transient management. Leaders will have a wide and varied competence base, which includes multicultural, multi-industry and global leadership experiences.
- Educated management. A critical factor in developing leaders is education, which will not only take the form of formal education, but also of experiential learning in the workplace.
- Psychological strength. The pressures on leaders of the future will increase and they will need to be innovative and creative and operate with clear ethical and moral values.

PART III –
EMPIRICAL FINDINGS



4 SVENSKA KULLAGER FABRIKEN (SKF)

Svenska Kullager Fabriken (SKF) is a huge company with worldwide presence, but it is far from being as famous as many other Swedish MNCs, such as Volvo, Ericsson or ABB. Our empirical section will therefore be initiated with a Chapter providing the basic facts about SKF in general and SKF Bearing Industries in Nilai, Malaysia in particular. Factors such as history, organisation, operations and company culture will be illuminated.

4.1 THE SKF GROUP

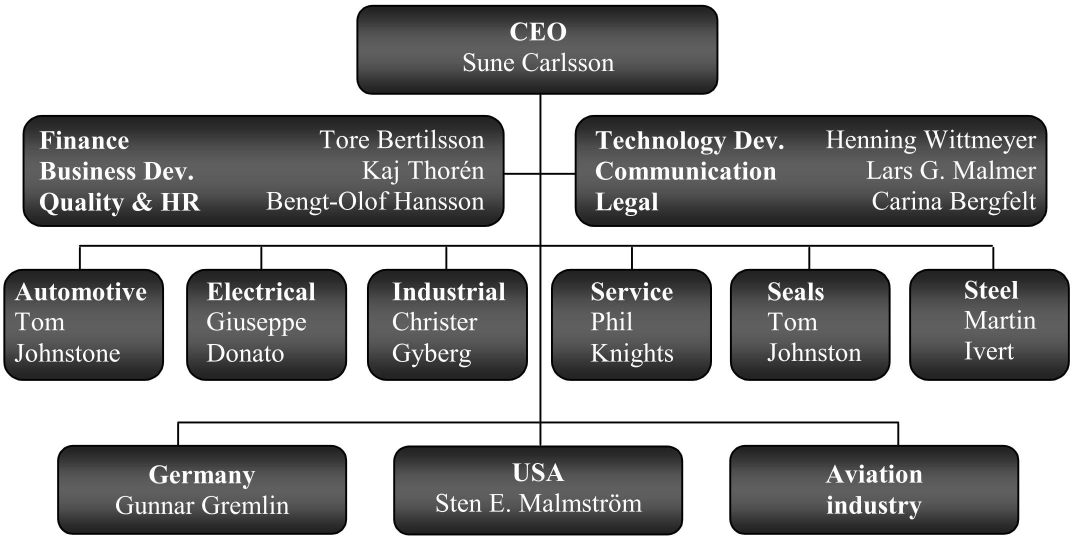
Around a sketch of the world's first self-aligning ball bearing by Sven Wingqvist, a young engineer, Svenska Kullager Fabriken (SKF) was founded in 1907, in Göteborg, Sweden. By the end of its first year SKF had 15 employees and the balance sheet showed a loss of 5 371 SEK. No more than 2 200 bearings had been produced, but this modest beginning was soon to change. In 1908, SKF established affiliates and sales representatives in Europe and only four years after the foundation, SKF established the first SKF factory outside Sweden, at Luton in the United Kingdom, and the first research laboratory was opened in Göteborg. As a result, the demand for the company's products started to exceed the supply. Then – as now – most of the customers were operating in the transport industry. In its early years SKF started to produce cars themselves through a subsidiary named Volvo, which later became independent from SKF.

Since then, SKF has grown steadily through mergers, acquisitions and the establishment of new products, factories, sales offices, distribution centres and research centres all over the world. The company soon became the leading manufacturer in the bearing industry. In 1963, SKF established Group Headquarters in Göteborg, in order to streamline the administration, to increase the international cooperation, to strengthen the awareness of the Group policies and to eliminate production duplication and bottlenecks. Presently, the SKF Group is the mother company of 150 subsidiaries, consisting of 80 factories and 41 000 employees, and has representation in 150 countries. The SKF Group has a turnover of MSEK 36 693 and is thereby still the leading bearing company in the world.[59]

4.1.1 ORGANISATION AND OWNER STRUCTURE

After several restructurings, SKF today is structured as a matrix organisation, after ABB as a model. It is characterised by two-channel communications, especially at local level, which implies that more than one information channel is used. Hence, all reporting is made to more than one person within the SKF Group.[60] The Group is divided in six divisions with a staff on corporate level handling the functions of finance, business development, quality and human resources, technology development, communication, and legal issues. SKF also has one separate area covering operations related to the aviation industry and the German and US markets are handled separately. See figure 4.1.

Figure 4.1 – The organisation chart of the SKF Group



Source: http://www.skf.com

The ten largest Swedish shareholders within SKF as of September 29 this year consist of large investment companies, pension funds and insurance companies. In addition, foreigners own 34,3 % of the voting rights.

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59 http://www.skf.se/
60 Chua, E., (2000-10-18)

Table 4.1 – The ten largest Swedish shareholders by September 29, 2000

Shareholder	% Voting rights	% Share capital
Investor AB (investment company)	21,9	14,6
SPP (pension funds)	5,9	3,3
The National Insurance Fund, Forth Fund Managing Board	4,0	3,3
Skandia (insurance group)	3,6	2,3
Putnam	2,4	2,3
AMF Sjukförsäkring (pension funds)	1,9	1,6
Nordbanken Saving Funds	1,6	0,9
KPA (ethical pension funds)	1,0	0,6
Stiftelsen för kunskaps- och kompetensutveckling (foundation for knowledge and competence development)	1,0	0,6
Gamla Livförsäkringsbolaget (insurance group)	1,0	0,7

Source: http://www.skf.com

The SKF share is listed in the stock exchanges in Stockholm, London, Paris, Zurich and through the Nasdaq index in the US. Analysts following the performance and development of SKF are situated in Stockholm and London.[61]

4.1.2 OPERATIONS

Since the early days of self-aligning ball bearings, SKF has extended its product line to cover all sorts of so-called rolling bearings, which is the term for all bearings that transfer loads via rolling elements. Rolling bearings are divided into two product groups, the earlier mentioned deep grooved ball bearings (DGBB), which have balls as rolling elements; and the spherical roller bearings (SRB) containing rollers as rolling units. Apart from bearings, SKF also provides related products such as screws, seals, lubricating oil, tools and measurement equipment.

[61] http://www.skf.com

Nowadays, SKF is more aware of the customers' needs and wants and tries to listen to and focus on them. The SKF Group therefore increasingly focuses on services and sales support, and tries to provide complete solutions for the customers, not merely single products. The company for instance trains the customers in how to use the products, sells know-how and performs consultation. The greater awareness of the customers and the improved services have led to better quality of products, which in turn have resulted in fewer complaints.[62]

The company is still present in the traditional industries such as the automotive industry and the electronic industry, but is also manufacturing and selling rolling bearings to for instance, in-line skating and extreme speed racing, for which there is a website called skfsport.com, providing a variety of products for individual end-consumers.

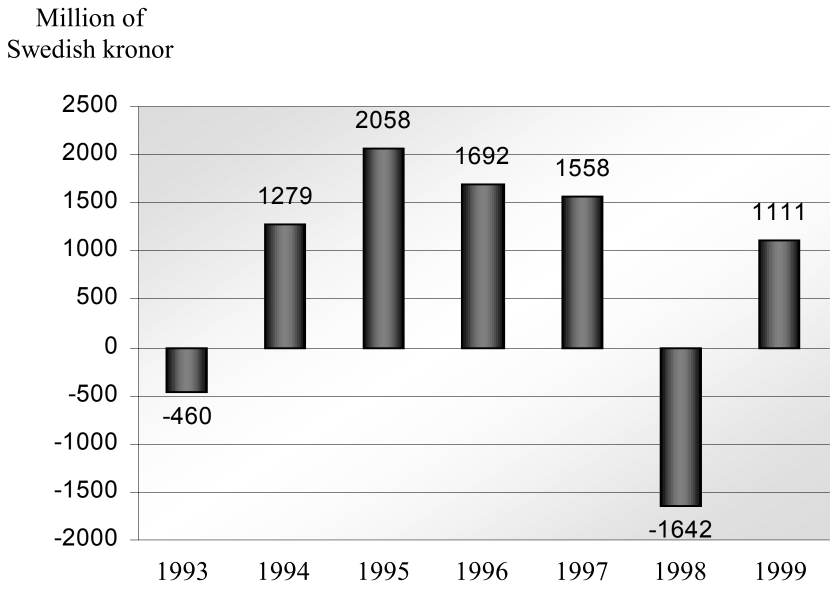
From the very beginning, SKF has focused intensively on quality and image, which also is the strength of the SKF trademark. SKF has further intensely focused on R&D and product development since the early days. With its extensive sales and distribution network, made up of the Group's own factories – directly supplying OEM customers – its own sales companies and central warehouses in approximately 50 countries, plus about 7 000 independent distributors and dealers worldwide, SKF has furthermore been able to reach recognition and a strong brand name worldwide. The network is presently being extended with an additional channel, a new virtual market place – Endorsia.com. However, SKF is at the same time a low-profile company since they operate in the business-to-business sector with a rarely visible product.[63]

4.1.3 FINANCIAL PERFORMANCE

For the net profit/loss for the SKF Group during the last seven years, please see figure 4.2 below. For the first nine months of this year, the SKF Group doubled its profit before tax to MSEK 2 241 compared with 1999.

[62] Chua, E., (2000-10-18)
[63] http://www.skf.se

Figure 4.2 – the net profit/loss for the SKF Group 1993-1999



Source: http://www.skf.com

4.2 SKF BEARING INDUSTRIES (MALAYSIA) IN NILAI

SKF has been present in Malaysia since 1973, through its successful sales office, SKF Malaysia, located in Kuala Lumpur. The sales office is responsible for the sales and distribution of SKF's products on the Malaysian market, which in comparison with other markets is relatively small. Apart from rolling bearings, the office also sells tools to handle the bearings, certain related products and does to an increasingly extent provides special services and education, which is very appreciated among the customers. In the beginning of the 90s, the SKF Group decided to set up a new production plant in Malaysia since the Asian region was, and still is, the fastest growing region in the world, and established SKF Bearing Industries (Malaysia) in 1991. The plant was set up in Nilai, a smaller city about 50 kilometres south of Kuala Lumpur in the state of Negeri Sembilan. (The production plant will hereafter simply be referred to as SKF Nilai.) The aim for the new production plant was to support the sales offices in Malaysia and in the other Asian countries with products. Hence, it should only have the production responsibility for Asia, not for any other markets.[64]

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[64] Ong, E., Y., (2000-10-17)

The reasons for choosing Malaysia in general and Nilai in particular were the good conditions provided by the Malaysian government and the low costs of labour. Nilai had at the time not been exposed to foreign companies before since virtually all MNCs had established in the Kelang valley, west of Kuala Lumpur, on the initiative of the government. Albeit being one of the pioneers in the area, SKF succeeded with its integration into the community.[65]

4.2.1 ORGANISATION AND OWNER STRUCTURE

With the initial aim of supporting the sales offices in Asia with products, SKF Nilai should not have the production responsibility for any other markets than Asia. The factory would consequently have to show a very high degree of flexibility since the Asian market was fluctuating. As a result, the factory initially faced huge process problems and the organisation was rather inefficient. The capacity of the factory was not fully used, and still is not, whereby the organisation had to be restructured. There have also been restructurings due to changes in the Group.

Today, the factory lies under the Electrical Division, headed from Italy by Mr Giuseppe Donato, and is separated from the sales offices.[66] The Electrical Division has the responsibility for production, product development and sales to manufacturers of electric motors, household appliances, electric components for cars, power tools, office machinery and two-wheelers. Furthermore it has the responsibility for the production of all deep groove ball bearings within SKF.[67] The factory is to 100% owned by AB SKF Sweden, a Swedish subsidiary of the SKF Group. A subsidiary in Malaysia being wholly owned by a foreign company is very unusual, but was made possible through the so-called pioneer status that SKF received when establishing in Nilai as one of the first foreign companies, giving the company some special benefits.

Even though SKF Nilai and SKF Malaysia today work under different divisions – the sales office in Kuala Lumpur lies under the service division and reports

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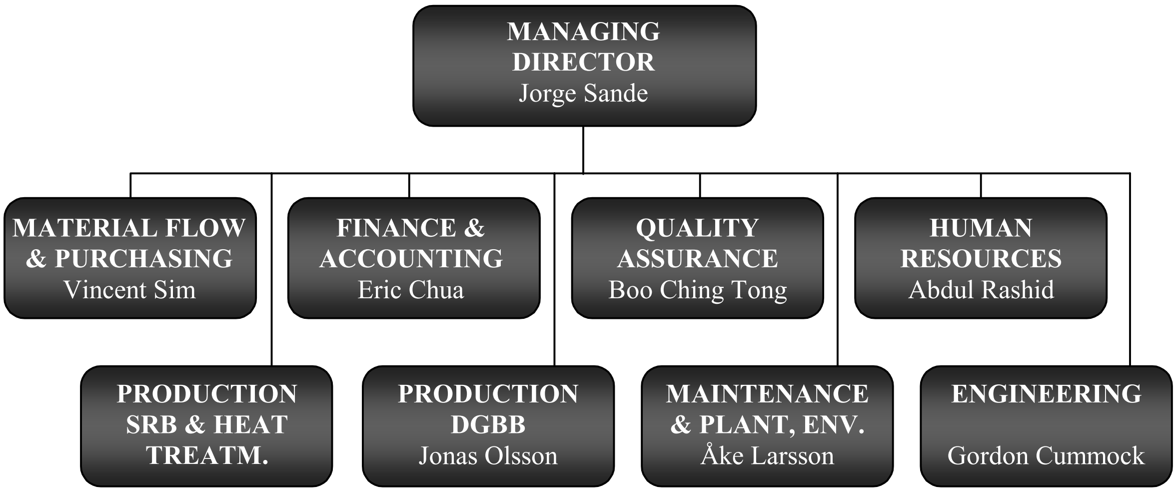
[65] Sande, J., (2000-10-16)
[66] Olsson, J., (2000-10-16)
[67] http://www.skf.com

directly to the regional distribution centre in Singapore – they work together on issues such as OEM customer contacts and production planning. Mr Ong, the Managing Director of SKF Malaysia, has also been involved in improving the image of SKF Nilai.[68]

SKF Nilai is organised into eight functions, see figure 4.3 below. Certain functions, such as legal issues, tax planning, large supplier contracts and communication, are handled on the corporate level at the SKF Group in Gothenburg and the headquarters have a relatively high level of influence over SKF Nilai in general.[69] There is no or little room for their own ideas and innovation, which results from the fact that almost all of the production is exported outside Malaysia through the distribution centre in Singapore. Even products sold in Malaysia goes via Singapore. The exception is the products for the Malaysian OEM-customers, which are shipped directly through the sales office in Kuala Lumpur.[70]

Figure 4.3 – The organisation chart of SKF Nilai



Source: Written material, SKF Bearing Industries in Nilai, Malaysia (2000-10-18)

68 Ong, E., Y., (2000-10-17)
69 Sande, J., (2000-10-16)
70 Pinto, G., (2000-10-18)

4.2.2 OPERATIONS AND FACILITIES

SKF Nilai is a pure production facility and does not have any responsibility for product development or sales. However, SKF Nilai is presently trying to build up face-to-face relations with the customers and the first five minutes of every meeting at SKF Nilai are dedicated to talking about the customers, even though the meeting might concern a different issue. Customer complaints are also taken seriously. At SKF Nilai, treatment of customer complaints is conducted through so-called improvement teams that work with the customers' objections as a basis. Sometimes SKF Nilai even visits the customer and tries to explain to them what went wrong. [71]

When the company was established in 1991, it was one of the most modern rolling bearing plants in the world and one of few companies within its industry sector to refine their products to such a large extent.[72] It is equipped with three roller channels and one ring channel for Spherical Roller Bearings (SRB) and four channels for Deep Grooved Ball Bearings (DGBB), which all are managed by different teams of workers. All the spherical bearings produced in Nilai are branded Explorer today, which is an improvement of the original spherical bearing that has increased the lifetime considerably. The Explorer bearings, which today is produced in four plants, in Nilai, Sweden, England and the US,[73] have a ten times longer lifetime than the Chinese counterparts, and six times longer than the Japanese. The brand name Explorer is at the moment being thoroughly exploited, and it has gained immense success. [74]

For certain products, SKF Nilai is the owner, which means that it has the production- and supply responsibility in Asia, the Pacific, Europe and the US for these products. When SKF Nilai on its own cannot handle the total production, it takes help from other production plants. Apart from the products of which SKF Nilai is the owner, it produces additionally approximately five products at a time, of which other factories are owners. This structure, implies that SKF

[71] Rahim, M., A., (2000-10-18)
[72] Internal material, Presentation of SKF Nilai
[73] Internal material from SKF Nilai
[74] Kee, K., D., (2000-10-18)

Nilai, as well as the other production plants, is exposed to internal competition.[75] As a result, the production cannot be projected in advance. Consequently, the factory has to close down at times, resulting in the workers having to take out their annual leave.

4.2.3 EMPLOYEES

From initially having constituted about 500 people, SKF Nilai's workforce today constitutes about 360 people, managers included. The workforce is quite young in comparison with most other European companies in similar industries, and consists of 50% Malays, 30% Indians and 20% Chinese, who mainly comes from the Nilai community. There are also a few expatriates working at SKF Nilai. Initially there were 20 expatriates employed at the factory, but step-by-step they have been replaced by locals.[76]

SKF Nilai has a high degree of technical advanced operating processes, which at the time of the establishment was rather unique, and SKF therefore had problems finding skilled labour. There were further problems with low efficiency and loyalty and high employee turnover. During the financial crisis in 1997, SKF Nilai had to decrease its number of employees even though it is very difficult to dismiss employees in Malaysia, legally speaking. SKF Nilai handled the needed adjustments in the workforce by applying so-called voluntary separation schemes, which imply that the employees were asked to resign voluntarily and thereafter received a certain number of monthly salaries. Since after the crisis, the employee situation is changed. The reason is that the discharges provided the company with a possibility to keep the most competent and suitable people. Efficiency and productivity have increased enormously and the employee turnover was down to approximately one percent last year.[77]

In order to avoid the legal impacts and other difficulties of discharging employees in the future, SKF Nilai today tries to recruit employees temporarily.

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[75] Olsson, J., (2000-10-16)
[76] Rashid, M., A., (2000-10-16)
[77] Larsson, Å., (2000-10-18)

However, another problem has emerged; the difficulty of finding skilled people that are willing to sign a temporary contract.[78]

4.2.4 GOALS

The SKF Group's and therefore also SKF Nilai's overall objective is to attain long-term and sustained profitability. The main task related to this objective is to develop, produce and market products and services that satisfy the needs of the customers and at the same time are safe for their intended use.[79] During the last years SKF has become more focused on cost cutting and profit maximisation.[80]

At SKF Nilai, the representatives of the workers council see the goals of SKF in three levels. The most important goal for SKF is to make profit, thereafter comes the goal of creating a safe working environment and an organisation that is environmentally friendly, and thirdly come the goals related to taking care of customers, suppliers and employees.[81] The other respondents agree that the main goal of SKF is to make profit. Some meant that if the company is profitable, the employees will gain automatically, for instance through higher salaries, better bonuses and more benefits. It is therefore essential that the employees understand this connection. To revise the goal of profitability, SKF Nilai makes business plans one year at a time and additional planning for two years ahead, and the profitability is measured for each quarter.[82]

4.2.5 VALUES

Within the SKF Group, there are four general values that form the base of how the company is managed. These values are applicable to all SKF companies, hence also to SKF Nilai, and are stated as follows:

- Teamwork
- Empowerment (to transfer responsibility to all employees)

[78] Sande, J., (2000-10-16)
[79] http://www.skf.com
[80] Larsson, Å., (2000-10-18)
[81] Hairulnizam, M. & Radzi, M., (2000-10-16)
[82] Pinto, G., (2000-10-18); Rahim, M., A., (2000-10-18)

- Openness
- High ethics[83]

Within the SKF Group, there are besides two important policies that have worked as guidelines for all SKF companies, the environmental and Total Quality Management policies.[84]

The first SKF environmental policy was issued in 1989 due to the fact that a number of important customers were starting to express an interest in ISO 14001. The policy has been successful and by December 1998, the whole SKF Group was certified to the international standard ISO 14001. The term "environment" however includes the internal working conditions, such as health and safety of the employees, as well as the external environment. To support the policy, there are therefore also a set of internal standards and programs, most important the "Group Environmental, Health and Safety Manual" (SHE), to which all SKF companies are working.[85]

Since some of the large automotive customers have applied specific requirements, most of the SKF companies are also certified to the quality standard ISO 9000. The SKF Group also operates Total Quality Management (TQM), which is focused on three dimensions: customers, employees and processes. The overall goal of the TQM activities is to satisfy customers and reduce costs, which can only be done with competent and committed employees. Positive results can be detected within all three areas, but there are still demands for additional improvements within the organisation. Previously, SKF Nilai was very focused on TQM and the concept has certainly made its marks in the organisation, but today, the company is more volume and profit driven.[86]

The values and norms within the SKF Group are very Swedish, especially those values related to the employees.[87] However, most people at the factory still

[83] http://www.skf.se
[84] Larsson, Å., (2000-10-18); Sande, J., (2000-10-16)
[85] http://www.skf.com
[86] Olsson, J., (2000-10-16)
[87] Fälth, H., (2000-10-12)

believe that there is a good mix of Swedish and Asian values in the company and that SKF has been able to adjust to the external environment.

4.2.6 VISION

In addition to the values and goals, there is also a Group vision present in SKF. The company wants "*to be recognised as the world leader in bearings, seals and related products by being the best in our business through:*

- *Providing customer value*
- *Developing our employees*
- *Creating shareholder value"*[88]

4.2.7 COMPANY CULTURE AND MANAGEMENT STYLE

The SKF Nilai company culture lies very close to the Group culture, which has developed during several decades. There does however not exist a special culture within SKF; it is rather the case that the culture is more or less the same as in any other company originating from Sweden. The Swedish culture was initially difficult to comprehend for many Malaysians. This led to various problems in the beginning, but the situation has improved and today, many employees do not want another culture since they are used to low hierarchies, openness, democratic consensus and co-decision.[89]

SKF is a typical engineering company with a high degree of refinery, where everything is measured, from the profit of the SKF Group to the time for an individual employee to search for an error of a machine, which of course has led to a special culture. The company even measures the level of skills among the employees, in order to increase the motivation and create a competitive workforce. This measuring is conducted through judging the skills of the employees in each process/machine. The workers themselves make the judge-ments of their skills and there is a relation between this judgment and the sala-

[88] Internal material from SKF Nilai
[89] Rashid, M., A., (2000-10-16)

ry. Since the system of self-judgement was introduced, the employees' opinions about the skills have declined.[90]

During its not quite 10 years of operation, SKF Nilai has changed Managing Directors several times, most of them being Swedish.[91] The last change of MD occurred about one year ago, when there also was a change of the Finance & Accounting Manager. The Managing Director post is today held by the Argentinean Mr Jorge Sande, and the Finance & Accounting Manager is Mr Eric Chua Tham Hoe.

The opinions among the interviewees regarding whether the changes of top management affect the company culture are diverse. In those cases the culture is believed to have changed, it is said to depend on either a different personality or a different nationality of the MD. There are some claims that the company has become less open, that there is higher power distance and more hierarchical levels since the latest MD replaced his Swedish predecessor in 1999. There are also opinions that the earlier focus on TQM and the "culture for continuous improvement" have disappeared. The changes are however not necessarily regarded as negative. Some believe there has been openness and democracy, often in the form of meetings, to such a large extent that it has interrupted the operations. Mr. Sande himself does not believe that being Argentinean would have affected the operations at SKF Nilai. He is indeed accustomed to the SKF culture, since he joined SKF 1984 and he has managed two SKF factories in Mexico. However, he has never worked in Asia before.

When the new CEO of the SKF Group, Mr Sune Carlsson, who came from ABB and was given the position in 1998, an increased focus on costs was introduced within the entire company. [92] Some of the employees believe that SKF Nilai changed both the Managing Director and the Finance & Accounting Manager for that reason. They say it seems like their predecessors were replaced because they were not profit-minded enough in the eyes of the Electrical

[90] Olsson, J., (2000-10-16)
[91] Rashid, M., A., (2000-10-16)
[92] Sande, J., (2000-10-16)

Division. In addition, several of the respondents say that the most recent change of CEO at the SKF Group has made the entire company and also SKF Nilai more short sighted in their decisions and ways of thinking.

There are differences of opinion about whether there is segregation present in the company or not. Some of the interviewees claimed there is segregation not only between the managers and the workers, but also between the three ethnic groups and the different departments, while others claimed there is no segregation at all. The claims about segregation comes from all levels in the company.

4.2.8 POSSIBILITIES FOR CO-DECISION

Within the company there is a so-called open-door policy present, which enables all workers to talk to the managers whenever a need appears and this policy forms the basis for the employees to take part of the decision-making. SKF Nilai has a wide range of different workers councils and committees. The most influential grouping is the so-called workers council, sometimes labelled in-house union, which has meetings on a monthly basis. Represented in the council are both workers and managers on either a fixed or rotating basis. Even the MD participates at times.[93]

Apart from the monthly meetings with the workers council, the employees participate in daily morning meetings, monthly manager meetings and quarterly meetings with all employees participating. An example of what the workers have accomplished through co-decision is the newly established canteen, which provides good food for all tastes and religions. SKF also makes the employees conduct working climate analyses and surveys, which are good both for the employees, who can affect their situation, and for SKF, which receives feed back.[94]

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[93] Sande, J., (2000-10-16)
[94] Rashid, M., A., (2000-10-16)

Looking at the relationship between the workers and the managers, it is in general good and many managers believe that the workers are the most important resource at SKF Nilai. However, the workers think there are too many managers in comparison to the workers and that some people are afraid to talk with the managers in spite of the open door policy, which leads to lower degree of co-decision. The same opinion also came from people that belong to the management team. The workers also feel that despite all the meetings, it is sometimes difficult to make themselves heard and actions are not always taken or taken very slowly from the management's side. Moreover they feel that not enough information is transferred to them and that the communication at times is imperfect. The end result of all the meetings is that nothing of importance has been accomplished.[95]

4.2.9 INTERNALISATION OF THE SKF CULTURE

The knowledge and awareness about SKF Nilai's goals and values is clearly related to the level at which the employee is working. At the top management level, all the people are well aware of what the company values are, while the workers do not always posses the same knowledge and awareness.[96] SKF Nilai is however, trying to communicate the importance of the goals and values by educating, motivating, giving incitements and knowledge.[97] However, there are different opinions among the interviewees about the extent of awareness of the values and goals. Some believe the values are embedded in the daily operations, and all employees therefore know about them at least indirectly. Others claim that the goals and values are always stressed; all scorecards for instance contain the goals, which have made them internalised, while a handful of interviewees think that the values and visions presently do not permeate the company at all, since it is very focused on cutting costs. Teamwork is for example supposed to be present within the company, but this is not true for all departments.

[95] Hairulnizam, M. & Radzi, M., (2000-10-16)
[96] Pinto, G., (2000-10-18)
[97] Kee, K., D., (2000-10-18)

4.2.10 FINANCIAL PERFORMANCE

Initially, SKF Nilai faced immense problems with both the employees and the processes, which led to huge losses for the company and a very expensive investment.[98] When establishing, SKF Nilai took a loan from SKF Treasury. In 1998, the loan amounted 30 millions USD but today, after having been profitable for a short while, the loan has decreased to approximately 9 millions USD. The company expects to have paid off the loan within a couple of years and to be continuous profitable, even though the tax exemption on profit will end in 2002. The company will nevertheless be exempted from paying tax on products since the main part of components is imported from Europe and the products are merely being assembled at SKF Nilai.

Even though SKF Nilai is doing extremely well at the moment it does not show to its full extent. The reason is that approximately 50% of the produced goods are exported to Europe and the Euro is presently relatively weak in comparison with the Malaysian Ringgit. The real cause is that the Ringgit since 1998 is pegged to the strong US Dollar, which has moved ahead of the Euro. Moreover, despite the current excess of cash, many of the previous losses are yet to be paid back and it will consequently take a long time before the company can show profit in excess.[99]

[98] Olsson, J., (2000-10-16)
[99] Chua, E., (2000-10-18)

5 MALAYSIA

The external environment of SKF Nilai can be divided into the macro and micro-environments. In the macro environment, factors such as social and demographic structure, political structure, and national and international economy will be presented. Hence, these factors are not specific for SKF Nilai, but valid for all companies in Malaysia. In the microenvironment, on the contrary, we will provide the basic facts of the immediate surroundings of SKF Nilai, following the stakeholder theory. In order to get the background information about Malaysia, we provide an initial paragraph on the history of the country.

5.1 MALAYSIA – A MULTICULTURAL STATE IN CONSTANT EVOLUTION

The course of Malaysian history has been determined by its strategic position at one of the world's major crossroads, its tropical climate in the regime of the northeast and southwest monsoons, and the multi-cultural influences from Asia, Europe and Middle East.

Figure 5.1 – Malaysia in a geographical perspective

Source: http://www.lib.utexas.edu

Its geographical position made the Malay Peninsula a natural meeting place for traders from India and China as early as the year 100 A.D. The Hindu and Buddhist elements had a major impact on the region and have left their marks in the culture. The Hindu-Buddhist period ended with the penetration of Islam, which was brought to the peninsula by Indian and Arab traders during the 14th and 15th Centuries.[100] The Europeans made their entrance during the 16th and 17th Centuries and this epoch was dominated by a constant battle for control over the Malay Peninsula, mainly between Portuguese, Dutch and British colonialists. At the end of the 18th Century the British aimed at controlling the trade route to China through the Straits of Malacca and in 1824 the Dutch colonists, who were in control of the Malay Peninsula at the time, traded it to Great Britain for areas on Sumatra that were occupied by the British. Year 1896, the British areas on the Malay Peninsula were formed into the British colony of Malaya, with Kuala Lumpur as the capital. During this period of time the population grew considerably, mainly through foreign workers who became employed in the mines and rubber plantations.[101]

In 1956, the leader of Malaya, Mr. Tunku Abdul Rahman Putra, went to London for a discussion with the British government concerning the independence of Malaya. The meeting resulted in the signing of the Independence Treaty and consequently, the independence of Malaya on August 31, 1957. Mr. Abdul Rahman was then elected as the first Prime Minister of Malaya. A few years later, the Prime Minister proposed a federation of Malaya and the British colonies of Sarawak, Sabah, Brunei (on Borneo) and Singapore. All but Brunei joined in the federation and on July 9 in 1963 the enlarged federation took the name Malaysia. After a period of differences in opinions between the Singaporean leader, Mr. Lee Kuan Yew, and the governance in Kuala Lumpur, it inevitably led to an incompatibility and Singapore withdrew from the Federation in 1965 and became independent.[102]

Malaysia has been a country in constant evolution and the last decade is no exception. The country has experienced a tremendous growth, much of which can be assigned the high level of foreign trade. However, the objective of "Vision 2020"[103] – to be a fully industrialised country by the year 2020 – has

[100] http://www.mymalaysia.net.my
[101] http://www.tradeport.org
[102] http://www.smpke.jpm.my
[103] See part 5.2.3.3 Vision 2020 for further information

not yet been reached, even though there are different opinions among Malaysians, whether Malaysia can be considered a transition country or not.

Malaysia is still a transition country even though the learning curve has been better than those of western countries. The reason is that Malaysia has been able to look at how the western countries developed and succeeded.[104]

Mr. Shahrol Shahabudin, Assistant Director, Industrial Promotion Division at MIDA (Malaysian Industrial Development Authority)

Malaysia is still not a fully developed country, even though the progress is impressive and the country is far ahead of most other Asian countries.[105]

Mr. Eric Chua Tham Hoe, Senior Manager Finance & Accounting, SKF Bearing Industries in Nilai

Malaysia is not a transition country other than in the sense that transition happens all the time. Before, Malaysia only exported raw material, now it exports refined products, supports R&D and has a more knowledge based production.[106]

Mr. Au Leck Chai, Principal Assistant Director, MITI (Ministry of International Trade and Industry)

5.2 THE MALAYSIAN MACRO ENVIRONMENT

One of many methods that are applicable in describing the macro environment is the Business Environment Method, which consists of six macro environmental factors that influence a specific industry. These are the natural environment, social structure, demographic structure, government national and international economy, and technology.[107] It is necessary to make a few modifications

[104] Shahrol, S., (2000-10-25)
[105] Chua, E., (2000-10-18)
[106] Chai, A., L., (2000-10-25)
[107] Grant, R., M., (1998)

in order to follow the institutions network approach. Firstly, the government should be part of the microenvironment, since the company stands in direct contact with its authorities and ministries. In its place, we would like to add the political and legal structure, which is a macro environmental factor. Further, the social and demographic structures can be put together since both are related to the general structure of the people within a country.

5.2.1 NATURAL ENVIRONMENT

Malaysia is as mentioned above divided into two distinct parts, Peninsular Malaysia (Malaya Peninsula) and the East Malaysian provinces of Sabah and Sarawak on the north of Borneo, separated by the South China Sea.

Since gaining its independence, Malaysia has made great strides in socio-economic development. Industrial advancement has transformed the economy from agriculture-based into a diversified economy, which has had an impact on the natural environment. In the early days of abundant resources and minimal development pressures, little attention was paid to growing environment concerns. Only since the enactment of the Environmental Quality Act in 1974, and the formation of a regulatory agency, the Department of Environment (DOE), has environmental management in Malaysia taken on a formalised and structured form.[108]

5.2.2 SOCIAL AND DEMOGRAPHIC STRUCTURE

The Malaysian population, totalling 23 million people, has many origins: Chinese, Indian, Malay and Thai, just to mention some. The earliest of today’s inhabitants, however, has none of the above-mentioned origins. The indigenous people of Malaysia mainly consists of different tribes, such as the Orang asli of the Malaya Peninsula, the Penan of Sarawak and the Rungus of Sabah, many of whom still largely pursue a nomadic way of life. Their presence in the country probably dates back over 5000 years; yet, they are merely a small minority of the country’s population today. The largest community of the population today

[108] http://www.jas.sains.my

is the Malays, which constitutes approximately 50% of the total number of residents, and the first Malay settlers established themselves around 1000 B.C. Together with the indigenous peoples mentioned above they are referred to as Bumiputera ("the sons of the soil") or more commonly; merely Malays (even though the expression is wrong).[109]

Most of the Malays are Muslims and speak the language Bahasa Malayu, which is a constructed language created in Indonesia. Apart from Indonesian influences, Bahasa Malayu has elements from Malayan and Chinese dialects, and loanwords mainly from the English language. Bahasa Malayu, commonly referred to as Malay, is today the official language of Malaysia and was put in place to unite the country.[110] Not too long ago, most of the Malays were farmers and fishermen, but during the last decades, initiated by the Bumiputera policy[111], they have been educated away from the agriculture sector and into the industry and political power. Also characteristic for the Malays is their religion, Islam, which is the official religion of Malaysia. In the North Eastern parts of the country, particularly in the states of Terengganu and Kelantan, the fundamental Muslims have a strong foothold. However, there is religious freedom in Malaysia, allowing each individual to have her or his own religious beliefs.

The other two major ethnic groups in Malaysia arrived much later, following the evolution of the country itself. During the British era there was a shortage of labour, whereby a massive number of people immigrated to the British colony of Malaya, mainly Chinese, in order to support the mining industry of tin. Today, the Chinese comprise about a third of the Malaysian population and are present in all of Malaysia. Their presence is particularly strong in the state of Penang in the northwest of Malaysia. The Chinese are Buddhists and Taoists, speak Hokkien, Hakka and Cantonese, and have been, and to a certain degree still are, dominant in the business community.

[109] Utrikespolitiska institutet (1998)
[110] http://www.mymalaysia.net.my
[111] See part 5.2.3.2 The Bumiputera policy for further information

Apart from the Chinese, a lot of Indians, mainly Hindu Tamils from southern India and some Indonesians, later immigrated to work with the rubber plantations and the construction of the infrastructure. The Indians account for about 10% of the Malaysian population today and speak Tamil, Malayalam, and some Hindi. They mainly live in the larger towns on the west coast of the peninsula. From an origin in the working class, the Indians could today be said to constitute the middle class and often work within the administrative apparatus. The Indian group have however often ended up between two chairs and have no real political power. Within all three of the major ethnic groups a range of smaller sub-groups can be found, each with its own culture, characteristics, language and traditions.

There are also many traces from the colonial era left in Malaysia. English was for example recently reinstated as the language of instruction in tertiary education and despite the fact that Bahasa Malayu is the official language, people generally speak English when members of different communities talk to each other.[112] Malaysia is still subject to large waves of people entering the country. With hundreds of construction projects taking place at the time, there is a constant need of foreign labour. Simultaneously, Malaysia is in better economic conditions than many of its neighbouring countries and a lot of people have consequently immigrated from Thailand, Bangladesh, Indonesia, Sri Lanka and the Philippines during the last decade.[113]

From time to time in the past there has been serious hostility among the major ethnic groups in Malaysia, mainly due to the immense cultural differences among them. It is consequently hardly possible to define the peoples of Malaysia as Malaysians; rather, Malaysia consists of many different peoples. When Malaya became sovereign in 1957, the ethnic hostility existed, however not visible on the surface, but in May 1969, a serious racial riot between Malays and Chinese broke out. It was initiated in Chinatown in Kuala Lumpur, as a protest against what was considered an unfair treatment of the different ethnic groups. However, to be able to retain the order it was quickly and effectively

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[112] Utrikespolitiska institutet (1998)
[113] Rashid, M., A., (2000-10-16)

put down, both from the Chinese and the Malay sides. Rapid economic growth over the past decades has alleviated much of these tensions, but during economic setbacks the ethnic hostilities often reappear.[114] It has not bloomed to the same extent as in 1969 again, but there are claims that the hostility is still present and that new riots may occur, even though most Malaysians want to assert that there are no such tensions and that ethnic groups live happily together.

5.2.2.1 Asian values

Even though the population of Malaysia constitutes a melting pot of different nationalities, cultures, ethnic backgrounds and values, there are those claiming that there is a set of values, in Malaysia as well as in the rest of Asia, which can be considered unique “Asian Values” and that give the country a special character. During the 90s, and especially in the connection to the crisis, there was a lively and at times spiteful debate about whether these values exist. The proponents argued that values such as *hard work, discipline, thriftiness, family solidarity and community cohesiveness* are unique Asian attributes, while the critics maintained that these values are by no means unique for Asia. Furthermore, the opponents claim that the Asian Values cannot represent everything of any Asian culture or religion and even to a lesser extent the total of all cultures and religions in the whole of Asia, since Asia consists of many different peoples.[115]

Part of the debate concerning Asian Values has for some reason been about Western Values. Leaders such as Lee Kuan Yew, Singapore’s elder statesman, who is in the forefront of the Asian values debate, are convinced that the “economic decline” of the West is part of a larger crisis of moral values, where the obsession with individual rights is the origin to the problem. The issue of individual rights has in turn led the debate into the delicate matter of human rights and whether Asian Values is contradictory to human rights. There exist official statements by governments in the region making the following claims about the so-called "Asian view" of human rights:

[114] Chai, A., L., (2000-10-25)
[115] http://www.jaring.my/just/Asianvalues.html

- Rights are "culturally specific"
- The community takes precedence over individuals
- Social and economic rights take precedence over civil and political rights
- Rights are a matter of national sovereignty

These statements are quite the opposite of the Western perspective of human rights and from that perspective, it is the duty of the West to transfer their values of democracy and human rights, which are regarded sacred, to the rest of the world. The Asian countries however, perceive the West's attempt to apply universal standards of human rights to developing countries as disguised cultural imperialism and an attempt to hinder the development of Asia.[116] One of the stronger opponents of this viewpoint is Malaysia's present Prime Minister, Dato' Seri Dr. Mahathir bin Mohamad, known for his (at times) implacable statements. As a proponent of the Asian Values, the Prime Minister thinks that there many times exists a conviction in the West that the Western values and beliefs are universal and that the advocates and defenders of Asian Values are merely justifying oppression, dictatorship and uncivilised behaviour.

Despite the controversy with the West, there still exists a perception of "West is best" in many of the ex-colonial countries, which is reinforced by domestic traders who raise their margins on imported goods. Apart from the additional transportation cost and import duty, they place a premium cost on Western products.[117]

5.2.2.2 Self perception

Since there are huge differences between the cultures of the ethnic groups, individuals and their self-perceptions are also diverse. The largest difference can be seen between the Malays and the Chinese. In Malaysia, private life and business life are integrated to a large extent and particularly Chinese therefore tend to take incidents occurring at work very personally. Criticism might for instance lead to reactions of a personal kind. It might be difficult to approach

[116] http://www.puaf.umd.edu
[117] http://www.apmforum.com

them frankly and directly, and communicating through third persons can consequently be more successful than addressing a person directly.

A related feature is the fear of "losing one's face", which means that Chinese, and other Asian people, to the largest possible extent want to behave appropriately and avoid embarrassing situations. A mistake is therefore not usually admitted and it should not be pinpointed in a direct manner since that could cause the person to lose her or his face. This characteristic also includes a recognition that other people feel the same way and that they do not want others to lose her or his face, which results in that Chinese often are quiet and do not protest loudly. In combination with a general high power distance and a hierarchical way of thinking, criticising someone older or a superior is almost unthinkable for a Chinese, but also for the other ethnic groups.[118]

5.2.2.3 Family boundaries

For all the major ethnic groups, the family plays an important role and in many families several generations still live together. The family might even function as an alternative mechanism to social security, such as geriatric care. Hence Malaysian parents are prepared to do just about anything for their children, to offer them the very best opportunities for a prosperous future, which the children will reward later by taking care of their aging parents. When Malaysians talk about their family it is furthermore not only the direct family, but also cousins, uncles, aunts, just to mention a few. It can sometimes be difficult for a Westerner to understand the strong ties that exists in a family and why a Malaysian has to leave work when for example an uncle is ill.

Outside the family, however, Malaysians tend to be somewhat more reserved.[119] With people that are not close, relations tend to be more difficult to handle. Doing business in Malaysia can therefore be rather difficult. In order to facilitate the business contacts, Malaysians try to build personal relations and socialise with business partners in a familiar way in order to enhance mutual trust and confidence and to create a more familiar atmosphere. Hence, it is

[118] http://www.tradeport.org
[119] Rashid, M., A., (2000-10-16)

common to initiate business contacts with conversations at a more personal level.[120]

Even though the strong family values are still present, they are beginning to erode, especially in the larger cities, as a result of a more westernised life-style.[121]

5.2.2.4 Social Security System

The Ministry of National Unity and Social Development provides the frame-work for social welfare services in the country, but the public social security system is still very limited and is lacking for example a real pension system that includes everybody and geriatric care.[122] The Social Security Organisation (SOCSO) was formed in 1971, and is based on monthly contributions from employers and employees. However, SOCSO only covers employment acci-dents and disability for Malaysian workers and permanent residents. The Pen-sions Act from 1980 provides for the administration of pensions, gratuities and other benefits for officers in the public service and their dependants. Never-theless, no officer has an absolute right to compensation for past service or to any pension, gratuity or other benefit under this act.[123] Since the public social services are limited, private charitable and service organisations instead carry out a large part of the work. Also the private companies become very impor-tant, both in providing lifetime employment and social security and activities. In the town of Seremban for instance, private companies have been urged to help organise activities for youths.[124]

5.2.2.5 Educational System

In Malaysia, there are both public and private universities. This higher edu-cation is not provided for free and even though there are loans available from the government and some banks for students, most of them finance their studies through their parents. The reason for this is that parents feel a responsibility for

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[120] Fälth, H., (2000-10-12)
[121] Rashid, M., A., (2000-10-16)
[122] http://www.mymalaysia.net.my
[123] http://www.lawyerment.com.my
[124] The Sun, (2000-10-18)

their children and moreover expect the children to pay them back when working.[125] For those Malaysians who can afford it, they send their children to study abroad, which is due to an insufficient domestic educational system. On the whole, there is a mismatch in the Malaysian education system between the supply and demand of labour. The universities have not been able to educate the Malaysians to fit the new demands of the employers, especially not the foreign MNCs. The Malaysian government has however recently taken action to stop or even reverse the outflow of Malaysian students, which is called "brain drain", by introducing attractive schemes to lure the Malaysian abroad to return to Malaysia. The government has also recognised the need for Malaysians to be more proficient in English, as to enable them to master Information and Communication Technology.[126]

5.2.3 POLITICAL AND LEGAL STRUCTURE

Malaysia is a parliamentary democracy under a constitutional monarchy and consists of 13 states plus the territory of Kuala Lumpur. Apart from the federal parliament and government, each state has an assembly and a government headed by a chief minister. Nine of these states have hereditary rulers, titled Sultans, while the remaining four have appointed governors in counterpart positions. Malaysia's supreme head is the King, who holds his position for a term of five years and is rotated among the sultans of the nine states. Presently, the King is the sultan Sri Paduka Baginda Yang Di-Pertuan Agong Tuanku Ja'afar Ibni Almarhum Tuanku Abdul Rahman. The role of the Sultans and the King has over time become almost entirely ceremonial and symbolic, whereby they have no political power. In practice, the power is concentrated on the Prime Minister, currently His Excellency Dató Seri Dr. Mahathir bin Mohamad, who is head of the federal government and leads the cabinet. Dr. Mahathir is in many ways a controversial man and his ideas and policies have caused discussions and disagreements both internally and in other parts of the world. His strong beliefs have for instance caused him to discharge many of his closest companions due to differences of opinion.

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[125] Che Rose, R., (2000-10-17)
[126] Bardan, S., (2000-10-30)

The Federal Parliament consists of the House of Representatives with 192 elected members and the Senate comprising of 69 members, 26 elected by the 13 state assemblies and 43 appointed by the King on the Prime Minister's recommendation. By the time of the foundation of Malaysia in 1963 an ethnic party system was established, consisting of three parties, one for each of the three larger ethnic groups, UMNO as the Malay party, MCA for the Chinese and MIC as the Indian party. Presently, there are more than 30 registered political parties in total in Malaysia, the previous mentioned included. The Barisan Nasional (National Front) is the ruling coalition party at the moment and comprises 14 parties, most of which are ethnically based. The coalition party commands a two-thirds majority in the Parliament. UMNO has been the principal party in the governing coalition that has ruled Malaysia continuously since its independence from the United Kingdom in 1957 and the Prime Ministers have always been head of UMNO.[127]

There are regional differences in the political situation. In Penang, the Chinese have their own governance and in the North Eastern provinces there is a high concentration of Malays and therefore, the region is very influenced by Islam. Consequently, in the states of Kelantan and Terengganu, the fundamentalist Islamic opposition party PAS is in governance in the state governments. These two states are the only ones that are ruled by the opposition to the federal government. Being in opposition, the two states cannot rely on the federal government to the same extent and there exists a certain degree of discrimination from the federal government. The states have not been allowed to establish any universities; they have no opportunities to expose themselves to international MNCs and are being rejected in technological development, which is sweeping over other parts of the country.[128] An example of the tension between Kelantan and the federal government is the open discussion in media between the federal and state government of Kelantan regarding how much the federal government actually has spent on developing Kelantan.[129]

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[127] http://www.tradeport.org
[128] Mohd. Azamili, J., (2000-10-23)
[129] The Sun, (2000-10-27)

5.2.3.1 Policies

The Malaysian government pursues a very active trade and industry policy, in which the Prime Minister, Dr. Mahathir has a leading role. The foreign MNCs have a large part in this policy with the government encouraging FDI in the country, wanting foreign companies to contribute to the development of Malaysia. Since 1997, initiated by the financial crisis, however, the mentality against western companies has deteriorated and the signals to them are very clear: without any contribution to the country, they are not welcome in Malaysia. The Prime Minster has made strong statements about the West and he claims that Western analysts were the reason for the economic recession in 1997.[130]

The government's approach to FDI has also become stricter in the sense that it is now not trying to encourage any foreign companies, but especially those that are willing to invest in high-tech industries.[131] The government is also trying to control the manufacturing MNCs by stressing the importance of local content as well as technology transfer. Furthermore, the government is very restrictive in transferring expatriates to Malaysia. There has for instance been a governmental policy saying that for every expatriate, the company must also employ a Malaysian, who should work parallel with the foreigner until she or he successively learns and in the end can replace the foreigner. The foreign expatriates are always considered temporarily solutions.[132]

Initially during the expansive period and FDI friendly policies, the government promoted Kuala Lumpur and the close by Kelang valley in the state of Selangor for establishment of foreign MNCs. Since those were the only locations where the MNCs could find a suitable workforce, the MNCs clustered in these areas. The government is now, with its regional policy, creating incentives for foreign companies to establish or move out their operations to other parts of the country. However, not many companies are actually moving out of the region, partly because they do not want to and partly because the supply or appropriate infrastructure and high-skilled labour is still not sufficient in all parts of the count-

[130] See Mahathir, M., (2000); See also further under paragraph 5.2.4.1 The Financial Crisis
[131] Che Rose, R., (2000-10-17)
[132] Supramaniam, H., (2000-10-25)

ry.[133] Despite the fact that there exist governmental incentives in the form of favourable conditions for the companies, there has not been an active promotion from the Government to lure companies to for example to Sabah and Sarawak.

The government has recently started to increase its concern for the Malaysian environment and will provide RM 85 million to the Department of Environment (DOE) to continue its monitoring efforts and to take firm action against individuals, companies and property developers, who fail to comply with environmental regulations. The environmentally related regulations and laws are however perceived as complicated and therefore difficult to follow. There will also be efforts in educating the public on environmental conservation.[134] Another action taken by governmental agencies is for example the Drainage and Irrigation Department's (DID) campaign themed "It's My River, It's My Life", where they adopt a friendly approach to corporations and individuals to encourage them to pledge their contributions to the rivers. This approach does not mean however, that polluters can continue their actions and where the policy does not work, they will use enforcement mechanisms.[135] There are however claims from many of the respondents, both Malaysian and foreigners, that the enforcement mechanisms are stricter for foreign companies than for domestic ones.

Among all the governmental policies and strategies there are two that are more complex and comprehensive then the others: the Bumiputera Policy and Vision 2020, and we will therefore present them more thoroughly.

5.2.3.2 The Bumiputera Policy

In 1970, the Malaysian government introduced the so-called Bumiputera policy, which means the policy of ”the sons of the soil”. This policy was an attempt to incorporate the Malay people, who traditionally worked with agriculture, into the Malaysian business life and to reduce the general poverty. The

[133] Sadayandy, K., (2000-10-05)
[134] The Sun, (2000-10-28)
[135] The Sun, (2000-11-01)

government felt that there could be severe problems later on if nothing was done. There was for instance a fear that the Chinese people would control everything sooner or later. Hence, the explanation for the policy was that not only one race should dominate a country that has such a multicultural diversity, but that there should be a balance between the major ethical groups in the society. However, there was no interference in the religious patterns. For companies, the Bumiputera policy means that they have to employ a certain amount of Bumiputeras, Malays, regardless of what would be the best solution for business.[136]

Of course, everyone did not welcome the policy and it caused tensions between the ethnic groups, but today it is formally accepted. The reason is that the government has tried to increase the whole welfare while simultaneously make redistributions, so that no one would feel they were worse off than before. Under the surface however, there still exists a discontent with the racial policy, which is present within all ethnic groups, and the complaints become louder during economic recessions.[137] Good or not, the Malaysian Bumiputera Policy become a role model for discriminatory policies, and governmental representatives from other countries with similar racial problems have come to Malaysia to learn how to reach success with such a policy.[138]

5.2.3.3 Vision 2020

"*By the year 2020, Malaysia can be a united nation, with a confident Malaysian society, infused by strong moral and ethical values, living in a society that is democratic, liberal and tolerant, caring, economically just and equitable, progressive and prosperous, and in full possession of an economy that is competitive, dynamic, robust and resilient.*"[139]

Dató Seri Dr Mahathir Bin Mohamad, Prime Minister of Malaysia

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[136] Sadayandy, K., (2000-10-05)
[137] Goh, C., C., (2000-10-20)
[138] Chai, A., L., & Supramaniam, H., (2000-10-25)
[139] http://www.smpke.jpm.my

Vision 2020 outlines nine central strategies that the country must apply in order to become a fully developed nation by the year 2020. The idea is that Malaysia must be a nation that is fully developed along all dimensions: in terms of national unity and social cohesion, economical and social justice, political stability, general quality of life, spiritual values, natural environment and national pride and confidence.

It is stated in Vision 2020 that Malaysia will continue to rely on the private sector as the primary engine of economic growth and that the government will continue to downsize its role in the field of economic production and business. The State will however not retreat totally from the economic life of Malaysia. It will still oversee and provide the legal and regulatory framework; it will be proactive in the fiscal and monetary management; and it will drive the development of the physical infrastructure.[140]

5.2.3.4 Legal structure

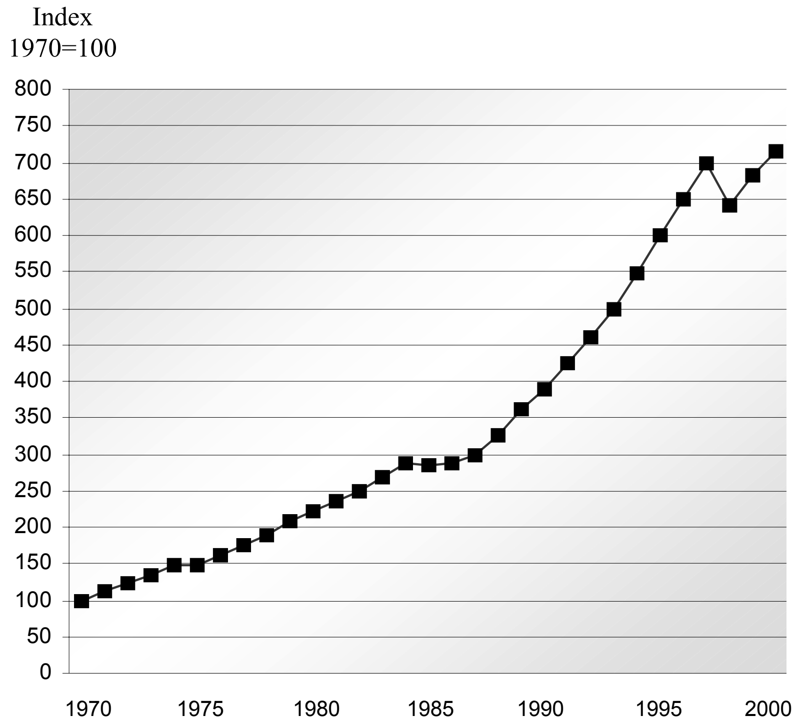
Part of Malaysia’s inheritance from its former colonial rulers, is its legal structure, with the old British structure, rules and regulation. Judicial power is vested in the Federal Court, the Court of Appeal, the High Court and the Magistrate's Court, the Session's Courts and the Juvenile Courts. The Judiciary is headed by the Chief Justice of Malaysia. For cases regarding certain matters, involving Muslims only, there is also the Syariah courts. Nevertheless, the country is missing important enforcement mechanisms with the consequence that many laws are not followed in practice.[141]

5.2.4 NATIONAL & INTERNATIONAL ECONOMY

The Malaysian economy has developed incredibly during the last few decades, which for instance is shown by the GDP growth and a stable currency, the Malaysian Ringgit (RM). Please see figure 5.2 below for the GDP growth rate.

[140] http://www.smpke.jpm.my
[141] http://www.lawyerment.com.my

Figure 5.2 – The GDP volume growth for Malaysia 1970-2000



Source: International Financial Statistics, (2000), p. 670-675; the figure for 2000 is estimated

There are a number of South East Asian political leaders and government officials who believe that the supposedly unique Asian values were the main source of the rapid transformation of many of the South East Asian countries, such as Malaysia and Singapore. The opponents of Asian Values pinpoint other reasons for the good economic development. There was for instance a huge amount of Japanese capital circulating in the region initiated in the mid-eighties, and the Malaysian government, as well as other Asian countries, has made strategic investments in human resource development.[142] Another reason for the rapid economic growth is the determined push for export-oriented industrialisation by the Malaysian government. Looking at the figures of export, it has, just as the GDP, grown tremendously over the years. The largest individual countries with which Malaysia has a trade surplus are the USA, Singapore and the Netherlands, in that order, and the largest individual exported product group is electrical and electronics products, accounting for almost 60 % of the total

[142] http://www.jaring.my/just/Asianvalues.html

export. Another factor that is mentioned is the general peace and political stability that has prevailed within both Malaysia and the whole region for about two decades.[143]

5.2.4.1 The financial crisis

Nevertheless, as can be seen in the figure above, there was an economic downturn in Malaysia during 1997, which was the result of the Asian-wide financial crisis, initiated by the fall of the Bath in Thailand. Ironically enough, some people claim that the fundamental reason for the crisis was the Asian Values.[144] In Malaysia, however, the crisis was blamed on western currency traders and short-term investors. The main effect of the crisis was therefore a rapid depreciation of the Ringgit against the US Dollar and a capitalisation of the stock market, which led to a severe economic recession.[145] The poor, especially in urban areas, were the ones most affected by the crisis and despite Malaysia's past success in reducing poverty, the financial crisis meant that the numbers of poor grew considerably.

Even though Malaysia was severely affected, the Asian crisis did not struck Malaysia as hard as some other countries, such as Thailand, Indonesia and South Korea. According to the World Bank, the reason was Malaysia's traditionally robust fiscal policy, cautious management of the country's external exposure and a well-developed supervisory and regulatory framework for the financial sector, which originates from the British era. A company was for instance not allowed to borrow abroad unless they themselves generated foreign currency. Hence, Malaysia had much less foreign debt than the other South East Asian countries and therefore did not have to borrow money from the International Monetary Fund (IMF), which many other countries struck by the Asian crisis had to do.[146]

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[143] International trade and industry report 1999, (May 2000)
[144] http://www.jaring.my/just/Asianvalues.html
[145] Mahathir M., (2000)
[146] http://www.worldbank.org

According to the Prime Minister, three measures were undertaken in order to come to terms with the crisis and they also succeeded. Firstly, the offshore Ringgit market and the currency speculations were eliminated through a prohibition for non-residents to sell the currency to other non-residents. Consequently, only the Malaysian government could determine the exchange rate of the Ringgit. Secondly, the Ringgit was pegged to the US Dollar at a rate of 3,80 RM. The decision to peg the Ringgit to the US Dollar was seen as controversial from the international community, particularly from the G-7 countries and the IMF. From the Malaysian viewpoint, the pegging was an attempt to prevent future speculative attacks on its currency, but also to resist the pressure to borrow foreign currency from IMF. Lastly, a "twelve-month rule" was initiated, imposing a prohibition to repatriate portfolio funds in order to prevent capital outflows from the country.[147]

5.2.4.2 The future

The Malaysian economy is now showing a positive trend again, but whether the country is back at the same economical level as before the crisis is subject to discussion. Since Malaysia has a high level of external trade as a percentage of GDP, the country's economy is dependent on international trade and the country's economic recovery will depend on a strong export performance.[148]

5.2.5 TECHNOLOGY

Malaysia has undergone a tremendous development in the area of technology. In only a short period of time, it has gone from a large base in agrarian industry (rubber and palm oil industry) to cutting-edge technological industries.

Foreign companies have had a large impact in this process. By setting up their plants, they have transferred their know-how to Malaysia, and most companies are also required to transfer technology in order to get the necessary licenses and tax releases. The general Malaysian strategy has been to successively build up core knowledge and a technology base. Before the crisis, it was totally

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[147] Mahathir M., (2000)
[148] http://www.fmm.org.my

unthinkable that a foreign company would be allowed to establish itself if it produced something that Malaysia already knew how to do. Examples of long-term technology transfer are the Japanese car company Mitsubishi's license-agreement with the domestic car manufacturer Proton, which made Proton very successful, and the Swedish telecom company Ericsson, which know-how and technology has contributed to the country's development.[149]

However, the technological development is not evenly spread throughout the country, but is mainly focused around Kuala Lumpur. Particularly, the states of Sabah and Sarawak on Borneo and the North Eastern states on the peninsula are lagging behind in the technological development. Also the smaller towns and the countryside all over the country have not experienced the technological development.[150]

5.2.5.1 The Multimedia Super Corridor[151]

One of the most recent projects and the dominating technological development in the country is the so-called Multimedia Super Corridor (MSC), which is part of the Vision 2020 and was initiated by the government and its Multimedia Development Corporation (MDC) in 1996. The MSC is a 15 by 50 km physical greenfield corridor that was established to accelerate Malaysia's entry into the Information Age and to attract foreign companies to Malaysia. The corridor should be used for companies that develop, distribute and employ multimedia products and services or for companies that want to use these technologies. The government therefore had advisors from the large foreign MNCs present in Malaysia participating in the creation of the MSC.

The corridor is built on three key elements, a high-capacity global telecommunications and logistics infrastructure, new policies and cyber laws, and an attractive living environment. Physically speaking, the MSC includes, among others: Technology Park Malaysia; Petronas Twin Towers, which is the tallest building in the world; the Kuala Lumpur International Airport; and two of the

[149] http://www.tradeport.org
[150] Chai, A., L., (2000-10-25)
[151] Investing in Malaysia's Multimedia Super Corridor, (2000)

world's first so-called smart cities, Putrajaya and Cyberjaya, which are completely new cities, built from the ground. Putrajaya will be the new capital of the government while Cyberjaya will accommodate companies, private homes and a multimedia university. Interested companies need to apply for the MSC status, which will enable them to take part of the physical and legal benefits of the MSC.

To drive the development and give shape to the MSC, seven applications or "Flagship Applications" are used throughout the corridor. These applications consists of:

- A paperless government
- Smart schools, with access to Internet and suitable applications, courses and teachers. The smart schools model will be developed within the MSC and will then be transferred to the rest of Malaysian schools.
- Telemedicine. Multimedia technologies will be incorporated in the health care system
- R&D clusters to lead the development within multimedia technology
- National multipurpose cards. The MSC will be the test area for the multipurpose cards, which will be issued to all Malaysians citizens in the future, including credit card, phone card, identification card etc
- Borderless marketing centres. The multicultural capabilities of the Malaysians will together with multimedia technology help companies with MSC status to serve their customers in the Asia Pacific market.
- Worldwide manufacturing webs that will provide the companies with opportunities to establish regional hubs for product development, manufacturing and distribution.

5.3 THE MICRO ENVIRONMENT OF SKF NILAI

Apart from influencing the macro environmental factors, a company stands in direct contact with other individuals, companies, organisations and communities in its closest surroundings, the microenvironment. These various stakeholders have their own particular interest in SKF Nilai's business and contribute to

SKF Nilai's possibilities and operational implications through the relations they have with SKF Nilai. Hence, beneath follows a presentation of the stakeholder groups and their relations with SKF in general and SKF Nilai in particular. Following the stakeholder theory, stakeholder groups can be both internal and external. Thus, even though the shareholders, owners, investors and employees normally are regarded as being part of the company, the stakeholder theory simultaneously views them as external actors, whereby we also will present them as part of the microenvironment. However, since facts about these groups already have been presented in Chapter 4, we refer to this Chapter for additional information on the internal stakeholder groups.

5.3.1 SHAREHOLDERS, OWNERS & INVESTORS

SKF Nilai is neither independently deciding *what* they will produce nor *how* to produce it, and is in general strictly controlled by the owners and investors, the SKF Group and the Electrical Division.[152] There is not much room for co-decision in the production and there is furthermore sometimes a resistance towards new ideas from SKF in Europe.[153] The shareholders mainly consist of large investment companies, pension funds and insurance companies.

Within SKF Nilai, and the whole SKF Group, profitability is measured through what is labelled TVA, Total Value Added, which is a form of EVA. This measurement means that the opinions and expectations of the shareholders always are considered and that the shareholders are paid quite a lot of interest within SKF. There is also a specific section at the homepage aimed at facilitating the decision-making for the investors and shareholders.[154] However, since SKF Nilai has been unprofitable for a long time, the shareholders have not yet been given any return on their extensive investments in the Nilai plant, and even though they have been very patient, they of course want the fastest possible return on their invested money.[155]

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[152] Hansson, B-O., (2000-11-10)
[153] Larsson, Å., (2000-10-18)
[154] Chua, E., (2000-10-18)
[155] Hansson, B-O., (2000-11-10)

5.3.2 EMPLOYEES

The workforce at SKF Nilai comprises 360 people, in general young of age, and mainly coming from the immediate surroundings. Even though there are some complaints about SKF Nilai, most of the employees say they are satisfied with their working place. Most of them claimed they chose SKF as their employer because the company provides an open environment and that there are possibilities for personal development through a voluminous amount of training programs and frequent upgrading of the personal skills. Some also mentioned the physical environment and the economical benefits. Furthermore, several former employees have expressed their wish to return to SKF Nilai.[156]

5.3.3 CUSTOMERS & DISTRIBUTORS

Most of SKF Nilai's customers operate within electrical and heavy industries, general machinery and industry distribution plus all the customers of deep grooved ball bearings. Most of SKF Nilai's customers, about 97%, are located outside Malaysia but due to the structure of SKF, with all shipments from SKF Nilai going through the regional distribution centre in Singapore or through the sales office in Kuala Lumpur for the Malaysian OEM customers, the customers just buy a SKF rolling bearing not a rolling bearing from the particular SKF Nilai plant. Looking at the Malaysian market particularly, to which SKF reaches through the sales office in Kuala Lumpur, the single largest customer is Proton, the Malaysian car manufacturer. Proton is the only customer with whom SKF Nilai occasionally has direct contact.[157]

In total, the shipments from SKF Nilai are mainly exported to the rest of Asia and Europe. For the deep grooved ball bearings (DGBB), about 9 % are also exported to the US. Most of the largest Asian customers can be found within the automotive industry, for example Beijing Electric Motor in China, the Japanese Suzuki Motor Corporation and Volvo Construction Equipment in South Korea. SKF Nilai's single largest customers in Asia for DGBB are located in Japan and for SRB in South Korea and Japan. In Europe, most

[156] Olsson, J., (2000-10-16)
[157] Ong, E., Y., (2000-10-17)

products of both bearing types are sold to Germany and Italy.[158] Please see figure 5.3 below.

Figure 5.3 – Shipments from SKF Nilai's production via Singapore

Source: Internal material from SKF Nilai; Own elaboration

All SKF's customers place much importance in the brand name. A disadvantage for SKF Nilai in their relation with customers is that "Made in Malaysia" occasionally still is considered to signal poor quality, but this perception is changing and for a product such as rolling bearings, the location of production is less important.[159] In Asia, however, the brand name is not as important as in Europe and SKF's customers in Asia are more price-oriented. Nevertheless, they also look very much into the physical appearance of a product. The Asians are furthermore very specific about their requirements and would complain if they were not completely satisfied.[160] The customers also have the expectation that SKF Nilai shall provide products of high quality and value for money, and that the company shall be supportive. In general, customers have a good image of SKF and SKF Nilai and for many people rolling bearings are equal to SKF.[161] SKF's offering of total solutions and good after-sales services has strengthened the customer relations.

5.3.4 SUPPLIERS

The quality standards of rolling bearings demand a very high quality of raw material, which is difficult to find in Malaysia. Most of the components to SKF

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[158] Internal material from SKF Nilai
[159] Sande, J., (2000-10-16)
[160] Ong, E., Y., (2000-10-17)
[161] Bardan, S., (2000-10-30)

Nilai are therefore imported from other countries in Asia, such as China and South Korea, but also from Europe and Sweden. Particularly steel is imported from Sweden. Spare parts and tools are on the contrary to the largest possible extent supplied by Malaysian companies.

All the main suppliers at any SKF company have to be approved by the SKF Group before they can be used and these rules are rather strict and clearly transmitted to the concerned suppliers. Most of the suppliers have also been used for a long time and some are subsidiaries of SKF. SKF Nilai presently tries to develop the relations with local suppliers but there is no formal pressure from the government regarding local content, since the local content only constitutes the value added.[162]

5.3.5 COMPETITORS

Even if SKF Nilai is the only major rolling bearing producer in the country, it does face fierce competition, both in Malaysia and in the region. Most of SKF's competitors in Asia are Japanese and they hold a dominant position in this part of the world. One of the main reason for the strong Japanese position is the Japanese keiretsu system, a complex interdependent producer – sub-contracting network system, which means that in order to become a supplier to a Japanese company, the supplier, in our case rolling bearing producer, needs to be a member in the same keiretsu. Consequently, most of the large Japanese companies that are in need of rolling bearings only use Japanese suppliers in their own keiretsu. These keiretsu-networks are built on extremely strong ties between its members, which have taken several years to build up, and it is very difficult for an external supplier to get access to the system. Apart from the Japanese competitors, other main competitors on the global market mainly come from Germany.

Rolling bearings are simple products, which implies that there are no real differences among the different brands and producers regarding the physical product, the differences can instead be seen in the service and in the symbolic

[162] Sande, J., (2000-10-16)

attributes. Presently, no other competitor in the world can stand up against SKF's strong brand name in the rolling bearing industry; hence, most competitors try to build a cost advantage and compete on the basis of price instead of quality.[163]

Competitors should be viewed as partners rather than competitors because SKF Nilai can benefit from cooperating with them. Technology is of course confidential, but other areas should be shared. Through benchmarking, a company can for instance learn about environmental and social standards.[164] SKF Nilai is presently trying to find suitable partners, because an eventual establishment of an Asian Free Trade Area will lead to fiercer competition.[165]

5.3.6 GOVERNMENTAL AUTHORITIES

For a company to operate in Malaysia, it needs to receive licenses from different governmental authorities. The two most important licenses for foreign companies are the manufacturing license, which gives the company permission to operate in Malaysia and that is issued at the federal level, and the land license, which is needed to set up a production plant or other construction and gives the company the property rights of the land. Even though the federal government is involved in where to locate foreign MNCs, the final decision on the land license is made by the state governments. Normally, however, a manufacturing license will automatically lead to an approval of the land license.[166]

5.3.6.1 Ministry of International Trade and Industry (MITI) & Malaysian Industrial Development Authority (MIDA)

One of the most important governmental authorities for foreign companies is the Ministry of International Trade and Industry (MITI) and the underlying agency Malaysian Industrial Development Authority (MIDA).

[163] Ong, E., Y., (2000-10-17)
[164] Rahim, M., A., (2000-10-18)
[165] Sande, J., (2000-10-16)
[166] Sadayandy, K., (2000-10-05)

MIDA, which was established in 1967, is the government's principal agency for the promotion and coordination of industrial development in Malaysia, mainly in the manufacturing sector. MIDA is the first institution to which a foreign company wanting to establish a manufacturing project in Malaysia needs to contact. To facilitate the process, MIDA has established overseas offices in a number of countries in Asia Pacific, Europe and North America. MIDA assists potential investors with for instance information regarding government policies, tax incentives, infrastructures and possible joint-venture partners. The manufacturing license should be applied for at MIDA and the authority also evaluates other applications, such as tax exemptions, number of expatriates and local content. To facilitate the implementation of projects, MIDA takes help from advisors from a variety of Malaysian ministries.

Also after an establishment do foreign companies have contact with MIDA, which might recommend MITI about policies and strategies after suggestions from the companies and other organisations. MIDA also offers assistance through consultations with relevant authorities at both the federal and state levels. In order to facilitate the assistance and to encourage establishments in all states, MIDA has representative offices in each of the different states, except for the states closest to Kuala Lumpur, Selangor and Negeri Sembilan since the main office in Kuala Lumpur is close.[167]

MIDA also has their own guidelines, for instance about environmental care, but does not have an impact on the daily operations of the companies. Once established in the country, the foreign companies have contact with other authorities and non-governmental organisations, which also function as the communication channel between MIDA and the companies.[168]

From the very beginning SKF's new production plant in Nilai was very well received at the federal Malaysian level. Since establishments in this geographical area at that time were rare, it was highly encouraged by the government. The Minister of Trade and Industry was personally involved in the establishment

[167] Internal publications, MIDA
[168] Shahrol, S., (2000-10-25)

and opening of the factory and the necessary manufacturing license was approved easily and without delay.[169] Since SKF was one of the first companies to establish in Nilai, it was also given the so-called pioneer status, meaning that the company is among other factors exempted from paying taxes on profit until the year of 2002 and that it can be wholly owned by its Swedish mother company. Receiving the pioneer status is not an easy task, but since SKF Nilai's integration into the Malaysian society was smooth, the special pioneer status became possible. With investments flowing from abroad, SKF Nilai was, and still is, regarded an important company in the area.

The interaction between SKF Nilai and the governmental authorities is conducted in a very social way. Whenever there is an event or happening governmental representatives are invited and SKF has frequent contact with MITI, MIDA and other authorities.

So far, there have not been any real difficulties in the governmental relations, but the government is often asking for contributions from SKF. However, SKF Nilai recently became involved in a problem with a landslide close to the factory. The land on which the landslide occurred belongs to the government, but SKF gave economic assistance since they wanted to maintain the good relations with the government. A few months ago, the local authorities also conducted an investigation of SKF Nilai and the nearby companies, in order to find out which company had caused an oil leakage in the area. SKF Nilai cooperated and furthermore conducted an internal investigation, just to ensure that they were not responsible for the leakage.[170]

5.3.7 INTEREST ORGANISATIONS

SKF Nilai is currently a member in a various number of interest organisations, most significantly the Malaysian Swedish Business Association (MASBA), Malaysian Employer Federation (MEF) and Federation of Malaysian Manufacturers (FMM). But there are also other important organisations such as the

[169] Rashid, M., A., (2000-10-16)
[170] Sande, J., (2000-10-16)

Federation of Malaysian Consumer Associations (FOMCA) and different labour unions.

5.3.7.1 The Malaysian Swedish Business Association (MASBA)

Sweden does not have an ordinary chamber of commerce in Malaysia, which is due to the fact that the Swedish companies present in Malaysia are rather large, and such large companies usually do not need external help when establishing and operating in a foreign country. As an alternative, there is the Malaysian Swedish Business Association, MASBA, which has approximately 70 member companies, of which about 60% are Swedish. The organisation should be seen as a platform for both formal and social meetings more than a traditional chamber of commerce, and the primary task is to provide useful relations between the members. There are meetings once every month, always with some attraction connected to business. MASBA is independent from the Malaysian government but has very good relations with the governmental authorities, especially MITI and MIDA.[171]

5.3.7.2 The Federation of Malaysian Manufacturers (FMM)

The Federation of Malaysian Manufacturers, FMM, is a voluntary organisation for manufacturing companies, both domestic and foreign, and acts as a channel to the Malaysian government. It is present both at the federal and state level and is well recognised for the governments, which quite often consider its opinions. The government has for instance followed FMM’s wishes regarding employment of handicapped people, environmental protection and R&D. They could also very well listen to FMM when it comes to social issues. FMM furthermore has representatives in many governmental committees and associations and has a relatively close contact with MITI. Moreover, all registrations to FMM have to go through the government. Even though FMM and the government try to collaborate, FMM’s standards are not always in line with those of the government and not all meetings have a successful outcome.

FMM Negeri Sembilan, where SKF Nilai is a member, has approximately 80 members, which is a relatively low number compared to other states. Selangor,

[171] Öhberg, B., (2000-10-12)

where Kuala Lumpur and the Kelang valley are situated, for instance has 800 members but the companies in Negeri Sembilan tend to become more and more active.[172]

5.3.7.3 The Malaysian Employer Federation (MEF)

The Malaysian Employer Federation, MEF, is an association for individual companies and other employer bodies. Today, they have 3300 individual companies and nine association members. MEF is active in any field that could be related to businesses. All in all, MEF is very involved in Human Resources, governmental decisions and how to maintain the competitiveness of Malaysia as a host country for the large MNCs. It has a relatively large impact on the government's policy construction and was for example involved in pointing out that there was, and still is, a mismatch of the supply and demand of labour. The MEF then conducted their own investigation of how to solve the problem, which has been presented for and considered by the Minister of Finance, containing a recommendation that the universities should consult the private sector in order to provide more accurate education. The relationship between MEF and the labour unions is not as close as its relationship with the government and it happens that MEF faces resistance from the labour unions.[173]

5.3.7.4 The Federation of Malaysian Consumers Associations (FOMCA)

The Federation of Malaysian Consumers Associations, FOMCA, is a voluntary association created for the Malaysian consumers and consists of a variety of small consumer associations. Most members are federal agencies, but there are also other interest groups. FOMCA is a non-political and civic organisation but is a member of the National Council, which operates directly under the Prime Minister. The way to the top is very short if they need to bring up something particular with the Prime Minister. FOMCA is also a member of Consumer International, an international association focusing on the rights of consumers worldwide. However, FOMCA never deals with the MNCs directly, but rather through the government and non-governmental organisations. The work is more focused on teaching the Malaysian consumers to become more aware and

[172] Goh, C., C., (2000-10-20)
[173] Bardan, S., (2000-10-30)

articulate, to increase their knowledge about their rights as consumers and, consequently, to strengthen the consumer protection.[174]

SKF is a rather inactive member in the majority of larger interest groups. In the nearby area however, SKF is relatively active and takes a lot of initiative for local councils, committees etc together with the neighbouring companies.[175]

5.3.7.5 Labour unions

In the Malaysian Industrial Act it is clearly stated that every individual worker is allowed to form a union. Nevertheless, the management of companies in Malaysia is often strong enough to suppress any attempt to start a real labour union. Instead, it is common with so-called in-house unions, which have no relations with external organisations, and hence have very limited power. The government's attitude towards unions could be caught in this quote; "it is time unions abandon their strike and picket mindset and make radical changes in order to be seen as a contributory force in a free economy era". This quotation was made after Human Resource Minister Datuk Dr. Fong Chan Onn witnessed the signing of two collective agreements, between the Non-Metallic Mineral products Manufacturing Employees' Union and the Hong Leong Management Company.[176]

Since SKF Nilai does not agree to labour unions, but only a workers council, which works as an in-house union, the relation between SKF Nilai and its "union" is described under "possibilities for co-decision", paragraph 4.2.8.

5.3.8 THE COMMUNITY – NILAI

When SKF was established in Nilai in the state of Negeri Sembilan in1991, it was a somewhat controversial decision. Nilai is a small community with private houses close to the factory and not too long ago, palm plantations completely dominated the landscape and the town was a typical rural town with only a few industries employing all the inhabitants. The demographical structure in the

[174] Hamdan, A., (2000-10-30)
[175] Sande, J., (2000-10-16)
[176] The Sun, (2000-10-24)

community is somewhat different from the rest of the country, with the Indian population representing about 30% compared to about 10% for the whole country. Even if Nilai is located close to Kuala Lumpur it was not promoted for foreign companies and SKF was the first foreign company to establish itself there. The government is presently encouraging investments in Negeri Sembilan and today, there are many other international MNCs in the area but it can by no means be compared with the busy and highly international Kelang Valley.[177]

As part of the federal government's policy to develop the whole of Malaysia, Negeri Sembilan was recently chosen for the establishment of a new university.[178]

Since SKF was the first international company in the Nilai area they received a good image. Today however, there are many other MNCs in the area and SKF has even lost employees to them.[179] Nevertheless, there is cooperation between SKF and the other companies on certain issues. SKF believes it is in a good position towards the community in general and that it is a good corporate citizen taking care of the surrounding environment. SKF Nilai has been well received among individuals and groups in the community.[180]

5.3.9 MEDIA & GENERAL PUBLIC

It is not only trade that has gone through globalisation, but also media, which has created a so-called "CNN World". Media has become a powerful stakeholder of the majority of the larger MNCs. Recently, media has increased its attention on the companies' behaviour, and public opinion is therefore changing. In developing countries, such as Malaysia and Indonesia, where it previously was enough for the MNCs to transfer a "trust me" culture to the society and where the general public's acceptance was built on a trust in that the companies acted in good faith, the general public has started to increasingly demand to also see what the companies actually are doing. These "Tell Me"

[177] Goh, C., C., (2000-10-20)
[178] The Sun, (2000-10-28)
[179] Fälth, H., (2000-10-12)
[180] Thasan, D., J., (2000-10-18)

and “Show Me” requirements were until recently only present in more developed countries, but as a result of media’s increased attention to companies’ behaviours, it has spread to the developing countries. Today, the general public in for instance Malaysia demands not only to be informed about the companies operations, but also that the companies have a genuine intention of changing their behaviour for the better.[181]

Malaysian media has recently also started to highlight environmental and social issues, which has raised the awareness among the general public of what the MNCs do on this issue. However, even though public opinion currently is changing, people do not yet have the same consciousness as in more developed countries.[182] Furthermore, even though the government is focusing on human development, the Malaysian people’s individual power is limited.[183]

The establishment of the Nilai plant however received a lot of attention in media, which helped position the company in people’s mind. Later, SKF Nilai has been utilising media to communicate itself as the employee’s choice, but in general SKF keeps a low profile and is quite anonymous to the general public. It does not figure in the press as frequently as other end-consumer MNCs. Since SKF tends to keep a low profile, it is not well known among ordinary people that are not directly involved in the industry.[184]

At Group level, SKF is said to have a good relationship with media, which is characterised by high degree of openness. The company tries to give information as openly, early and honestly as possible. Nowadays informing media and the general public is also done to a larger extent and SKF has a somewhat higher profile today than before.[185]

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[181] http://www.sustainability.co.uk
[182] Faizura Rashid, M., (2000-10-19)
[183] Hamdan, A., (2000-10-30)
[184] Larsson, Å., (2000-10-18)
[185] Hansson, B-O., (2000-11-10)

6 CORPORATE SOCIAL RESPONSIBILITY

In this Chapter we will try to illuminate our empirical findings specifically related to CSR in Malaysia. CSR has different meanings in different countries and for different persons. Some believe in a wide perspective while others have a more narrow view. Some can only see costs related to taking CSR, while others can see benefits as well or only benefits. We have tried to show the wide range of views that exists within SKF as well as for different stakeholders to SKF. The Chapter is divided into the perspective of SKF; the Malaysian government; the interest organisations; the academic world; and our three reference companies, Danone, Ericsson and Volvo. For the companies, there are also paragraphs about what is actually done within the area of CSR.

6.1 SKF'S PERSPECTIVE

6.1.1 PERCEPTION OF CSR

Even within the same company there can exist as many perceptions of CSR as there are persons. In presenting these perceptions we will follow the organisational structure of SKF, starting with the Group level, followed by the level of Managing Directors, top managers, assistant managers and officers, and finally workers.

6.1.1.1 Group level[186]

CSR is to act towards the customers, the employees and the shareholders in the same way as the company would like to be treated.

Bengt-Olof Hansson, Human Resource Manager, the SKF Group

The motives of taking CSR are important, they must be genuine or they will not work, whereby CSR should then be seen as a strategic issue. However, the initiative of CSR must come from everybody, not only from the companies. It is important that there are laws and regulations, and a demand from customers and from the general public.

[186] Hansson, B-O., (2000-11-10)

There is no conflict between profit maximisation and CSR since taking CSR could give rise to certain benefits that might lead to increased profitability in the long run.

- Enhanced respect in society
- Enabling long-termed presence in a country
- Easier maintenance of the personnel
- Easier promotion of participation at management level
- Opportunities to develop the competence of the employees

Already within two to three years, Mr. Hansson, the Human Resource Manager of the SKF Group, believes that CSR will be as common as environmental policies. With the next generation there will most certainly be a change of view in how to look at CSR and there will be a demand on the leadership and on the companies from the graduates looking for certain perspectives at a company.

6.1.1.2 Managing Director level

Mr. Jorge Sande, MD at SKF Nilai, states that Corporate Social Responsibility involves taking personal care about the employees, the employees' families and the immediate surroundings of the company.[187] Mr. Ong, MD at SKF Malaysia, further believes that CSR also involves educating the customers and that CSR is the responsibility of the whole SKF Group, not the individual companies.[188]

The benefits of CSR is that the company will get happy employees and consequently a better image, since the employees will act as ambassadors, spreading a positive word of mouth about their company.[189] CSR will also result in better sales since the education of customers will enhance their performance. By showing their customers that they take social responsibility SKF has further gained their confidence. Hence, it is very important that the company appears responsible.[190]

[187] Sande, J., (2000-10-16)
[188] Ong, E., Y., (2000-10-17)
[189] Sande, J., (2000-10-16)
[190] Ong, E., Y., (2000-10-17)

6.1.1.3 Top management level

CSR is what a company can do in improving the general social well being of the area it operates in, in all respects, human, environmental and economical.[191]

Mr. Eric Chua Tham Hoe, Senior Manager Finance & Accounting

CSR is to take responsibility for the employees, their environment and the society around them.[192]

Mr. Åke Larsson, Plant & Maintenance Manager, Environmental Responsible Malaysia

CSR is the company's responsibility towards the people.[193]

Mr. Kee Kam Dick, Production Manager SRB, Heat Treatment Responsible

CSR is to improve the situation for the employees and their families at the same time as the laws and regulations should be respected, and the company has to be profitable.[194]

Mr. Jonas Olsson, Production Manager DGBB

CSR is to follow the government's requirements[195]

Mr. Abdul Rashid Mohamad, Human Resource Manager

In developing countries, there are usually no developed social security systems. The governments might be able to set the minimum standards, but they do not have the possibility of solving the social problems, such as unemployment. Therefore, companies in such countries will have to take the initiative to take social activities. Hence, in Malaysia CSR is more about social protection than

[191] Chua, E., (2000-10-18)
[192] Larsson, Å., (2000-10-18)
[193] Kee, K., D., (2000-10-18)
[194] Olsson, J., (2000-10-16)
[195] Rashid, M., A., (2000-10-16)

in fully developed countries, where CSR often concerns the natural environment.[196]

Looking at the reasons for undertaking CSR, there are several aspects and ideas.

- Increased opportunity to attract the right employees and to get a more loyal and efficient workforce. The employees will furthermore reach a higher degree of self-satisfaction.[197]
- Strengthened company image.[198]
- Enhanced relations with the government. Being a good corporate citizen has for instance led to an extension of the tax exemption.[199]
- Opportunities in the marketing strategies.
- Improved social conditions.
- Increased profits. Even though CSR involves spending a lot of money they will constitute a good investment. Many of the internal campaigns have for instance led to fewer lost working hours. [200]

There were also opinions about the negative effects of CSR:

- High costs.
- Small possibilities to gain anything at all for SKF Nilai since Malaysia is a small market.[201]
- It would not increase the sales in Malaysia since most of the Malaysian customers are merely focusing on price.[202]

6.1.1.4 Assistance managers and officers level

At this level CSR is seen as the obligations of a company to take care of and help the staff, the community and the natural environment. The initiative to take CSR should come both from the government and the private companies.

[196] Kee, K., D., (2000-10-18); Larsson, Å., (2000-10-18); Rashid, M., A., (2000-10-16)
[197] Chua, E., (2000-10-18); Larsson, Å., (2000-10-18); Rashid, M., A., (2000-10-16)
[198] Chua, E., (2000-10-18); Kee, K., D., (2000-10-18); Larsson, Å., (2000-10-18)
[199] Chua, E., (2000-10-18)
[200] Kee, K., D., (2000-10-18)
[201] Olsson, J., (2000-10-16)
[202] Rashid, M., A., (2000-10-16)

Presently, however, most companies are not very pro-active and in Negeri Sembilan CSR is a relatively new term, only a few factories actually do take social responsibility. Mr. Gerard C. A. Pinto, Assistant Manager Product Coordination, believes that the big players, such as Ford, should bring the issue of CSR up to a certain status, where a certain social standard is a requirement, whereby CSR would be given a higher priority and give rise to several benefits.

For a small company, which cannot do much without permission from the Group, decisions on CSR have to come from higher instances. The issues should be emphasised and put into the business plan. It should also be stated which activities should be accomplished and which should not.[203]

The benefits arising from taking CSR are:

- Increased motivation of the workers so that the objectives are reached.[204]
- Strengthened image, but only in the country where the activities are taking place.[205]
- Decreased loss of manpower and therefore higher productivity, for instance by reducing the amount of accidents.
- Enhanced relations with the stakeholders since CSR will give opportunities of doing things differently and people tend to discover new approaches.[206]

6.1.1.5 Workers level

CSR could be defined as the management's responsibility towards the employees, the environment and the society.[207]

Mr. Mohamad Hairulnizam and Mr. Mohamad Radzi,
Representatives of the Workers Council

The benefits of CSR are immense. If a company dedicates money for the employees, they will be more engaged and hence able to produce more qualitative

[203] Pinto, G., (2000-10-18); Rahim, M., A., (2000-10-18); Thasan, D., J., (2000-10-18)
[204] Pinto, G., (2000-10-18)
[205] Rahim, M., A., (2000-10-18)
[206] Thasan, D., J., (2000-10-18)
[207] Hairulnizam, M., & Radzi, M., (2000-10-16)

products and be more efficient. The company will then be able to sell their products at a profit and can spend even more money on CSR. It is thus possible to combine CSR and profit maximisation.[208]

6.1.2 HANDLING OF CSR AND CSR RELATED ACTIVITIES

The opinions about how CSR is handled, how far the company has come, and which activities SKF in fact performs varies from person to person. We will first present the thoughts about how CSR is handled and at which level SKF is regarding CSR, whereby we will display the activities that were mentioned, even though all interviewees might not agree to them.

At *Group level* it is believed that SKF takes CSR to a very large extent and that the company has an international strategy regarding this issue. However, there is no operational handbook with detailed instructions for the individual companies since, in the end, SKF's mission is to produce and sell ball bearings.[209] Looking at *MD level*, Mr. Sande at SKF Nilai, also believes that SKF takes CSR to a very large extent and that it is internalised in the organisation since the managers try to balance each employee's wishes to other influences and they handle every decision with regard to how it will affect the employees in the future.[210]

At *top management level* at SKF Nilai, there are different opinions about whether CSR is part of a strategy within SKF and whether it is embedded in the organisation. The Finance & Accounting Manager states that even though nothing is written down and there are only separate CSR programs, CSR is viewed as a strategic issue, stressed through the managers and highlighted in the meetings.[211] The Production Manager for DGBB does not believe that CSR is regarded a strategic issue within SKF, but since the different visions, missions and programs are communicated in an open way, there are still some stra-

[208] Hairulnizam, M., & Radzi, M., (2000-10-16)
[209] Hansson, B-O., (2000-11-10)
[210] Sande, J., (2000-10-16)
[211] Chua, E., (2000-10-18)

tegic goals that could be viewed as CSR.[212] The Plant & Maintenance Manager, which is the same person being responsible for the Environment for SKF in Malaysia, and the Safety, Health & Environmental responsible for SKF Nilai, states that CSR is not internalised at SKF yet and that it is not transmitted through the managers.[213]

The top managers at SKF Nilai further regard both the SKF Group and SKF Nilai as an average or somewhat above average MNC in regards to which extent and by which means CSR is undertaken, while they believe the company is in the forefront in Malaysia when it comes to strict environmental issues.[214] There are also claims that SKF Nilai's potential to undertake CSR is limited due to its small size,[215] the increased focus on cost cuttings and profit maximisation.[216]

At *assistance manager and officer level*, our respondents do not believe there are any strategies or guidelines from the Group regarding CSR for the time being. The managers at SKF do not transfer a CSR view on a daily basis and the concept is not yet internalised. If directives about CSR, as a policy or a strategy, were to come from the SKF Group, SKF Nilai would however be able to implement them quickly. They further claim that the view of social responsibility at SKF is very narrow and that SKF so far mainly has been involved in internal CSR activities. SKF Nilai is still at the learning stage and could therefore be viewed as an average foreign MNC.[217] SKF has not reached the stage of thinking in benefits yet; hence taking CSR is seen as causing costs and the SKF Group possesses a very cost saving approach, which also is reflected by the top management at SKF Nilai.[218]

[212] Olsson, J., (2000-10-16)
[213] Larsson, Å., (2000-10-18)
[214] Chua, E., (2000-10-18); Rashid, M., A., (2000-10-16); Kee, K., D., (2000-10-18); Olsson, J., (2000-10-16); Larsson, Å., (2000-10-18)
[215] Rashid, M., A., (2000-10-16)
[216] Larsson, Å., (2000-10-18)
[217] Pinto, G., (2000-10-18); Rahim, M., A., (2000-10-18); Thasan, D., J., (2000-10-18)
[218] Thasan, D., J., (2000-10-18)

Even though SKF is certified according to the ISO 14001, not much is actually done in practice according to the interviewees at *worker level.* In total, the company is not taking CSR, which is mainly a result of that the company is ill managed. The only actions taken are related to the employees but for the rest; SKF Nilai is only following the main stream, and certain criteria are not even followed, even though they claim to be. Compared to other companies, SKF is nevertheless a good corporate citizen that has not caused any real problems.[219]

6.1.2.1 Codes of conduct

The SKF Group is presently developing its own codes of conduct, which are in line with the majority of international standards within the area. They are rather general and do not point out specific activities, but will be distributed to all the subsidiaries. They involve for instance human rights, workers rights and behaviour towards the stakeholders.[220]

6.1.2.2 Economical benefits

SKF Nilai is a bit above average regarding salaries and social benefits. Within the company there is an employee pension fund, which is the same as individual pension savings. Those working a lot will have a higher pension compared to those working less. Apart from the pension system, there are also additional compensations for overtime and travel, and the company gives subsidised loans to the employees on cars, houses and studies that are conducted in their spare time.[221]

6.1.2.3 Health insurance

All employees have full health insurance and their families are included to a certain extent.

[219] Hairulnizam, M., & Radzi, M., (2000-10-16)
[220] Hansson, B-O., (2000-11-10)
[221] Olsson, J., (2000-10-16)

6.1.2.4 Facilities

SKF Nilai is equipped with certain facilities aimed at the employees. These include a praying room for the Muslims, football field, lecture hall and a canteen for all ethnic groups.

6.1.2.5 Reduced working week

SKF Nilai has regulated working hours to 42 hours a week compared to the 48 hours statutory working week.[222]

6.1.2.6 Education and training

At the beginning of their employment, SKF Nilai has an intensive training program for all the employees. When the factory was newly established, 80 people were also given additional training in Europe. Apart from the initial training, SKF provides regular education and training for the employees during the whole period of employment, which includes concepts such as Total Quality Management (TQM), environmental friendliness, continuous improvement/ Quality Improvement Teams (QIT), competence development, and On the Job Training (OJT). In total, approximately two percent of the total amount of working hours is spend on training and education today.[223]

6.1.2.7 Religious holidays and rituals

When there is a religious holiday, SKF Nilai celebrates this day, regardless of which religion it belongs to and all employees get the day off. The plant also provides a praying room for the Muslims and longer lunch break on Fridays since that is the Islamic holy day. When the plant was newly established all the machinery was also blessed according to Hindu religious beliefs.

6.1.2.8 Zero-accident program

The zero-accident program is a program initiated at the Group level, which aims at lowering the amount of accidents in the SKF factories. The program has focused on the expression "Who wants blood on the ball bearings?" and includes education and rewards for the employees. At SKF Nilai, the program has

[222] Olsson, J., (2000-10-16)
[223] Sande, J., (2000-10-16)

much been about changing the attitudes of the employees since they are not used to wearing protective clothes, glasses and shoes. The program has been very successful and led to an improved internal working environment and fewer accidents. As a result of the zero-accident program, SKF received the certification ISO 18001, which is an international standardisation for health and safety.[224]

6.1.2.9 Social activities

Once a year the company organises a family day with sport activities, dinner and lucky draw, where all the employees and their families meet under social and relaxed conditions.[225]

6.1.2.10 Charity

The company has given minor donations to the community when there have been such queries. SKF Nilai has for instance conducted preparation and training for students in the community before their examinations.[226]

6.1.2.11 Summer employment

For those employees that have children, SKF Nilai tries to arrange summer employment.[227]

6.1.2.12 Environmental care

To protect the external environment, SKF is pursuing a lot of activities. SKF Nilai is consistent with the Group policy and is certified according to the ISO 14001 standard, which is followed quite carefully and it is audited regularly.[228] SKF is also applying a so-called zero discharge system for industrial waste, meaning that all water used in the production process is reused to 100 percent. Concerning the sewage treatment, SKF lies well above average.[229] However, this was not the case initially. Before, SKF Nilai was rather careless regarding

224 Larsson, Å., (2000-10-18)
225 Sande, J., (2000-10-16)
226 Rahim, M., A., (2000-10-18)
227 Kee, K., D., (2000-10-18)
228 Olsson, J., (2000-10-16)
229 Larsson, Å., (2000-10-18)

environmental issues. The waste from the steal grinding was for instance dumped directly on the waste disposal site without thinking about the consequences. The issue was addressed when SKF Nilai got a new MD.[230]

6.1.2.13 Customer development

SKF Malaysia provides training and education for the customers so that they can upgrade their knowledge. SKF Nilai takes part of this customer development through their careful treatment of customer complaints.[231]

6.1.2.14 Community development

Together with the factories in the immediate surroundings, SKF Nilai participates in a fire protection project. The cooperation means that in case of fire, the participating companies will get support from the neighbouring companies in first place, since they have the right equipment and can come to assistance very rapidly. Only in second place will they get assistance from the fire brigade, which is located quite far away.

SKF has together with the nearby companies been involved in the establishment of a new road toll, since the former toll was overcrowded. SKF Nilai also invites the companies in the immediate surroundings to show how SKF handles environmental issues.[232] Further development of the community is that SKF Nilai helps develop the social situation in Nilai through increasing the employment rates and supporting the subcontractors.

6.1.2.15 Technology transfer

Even though SKF Nilai is a rather small factory, its technology and processes are not usual in Malaysia. Therefore, through its mere presence in the country, SKF Nilai contributes to technological transfer and development.[233]

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[230] Hansson, B-O., (2000-11-10)
[231] Sande, J., (2000-10-16)
[232] Larsson, Å., (2000-10-18)
[233] Kee, K., D., (2000-10-18)

6.1.3 IMPROVEMENTS OF SKF'S CSR ACTIVITIES

In general most employees feel that SKF should take CSR to a larger extent within all the major areas. We will here present the more specific suggestions about how SKF Nilai could improve its CSR that evolved during the interviews.

- Increase the number of motivation talks.
- Increase the number of social activities.[234]
- Provide better health care, such as major health controls every fifth year
- Lower the noise level in the factory.
- Increased responsibility for the environment
- Increased transfers to the pension funds. However, the Managing Director of SKF Nilai believes that raising pension funds will lead to lower results, which in turn will affect the employees negatively in the long run.[235] Furthermore increased pensions will not lead to a better image for the company; it will only have internal effects.[236]
- Provide more and better facilities, which also could be utilised by the community.[237]
- Increased involvement in the community, for instance by making contributions to the schools, children's homes and elderly homes in the area.[238]

6.1.4 MEASURING AND REPORTING ON CSR

The problem with taking external CSR is that its effects are difficult to measure and that the result will not show until after a long period of time. Today here are no internal measurements within SKF of CSR, only on certain environmental variables.[239] Externally, there are certain indexes showing a company's social performance. SKF has quite recently been appointed membership in Dow Jones Sustainability Group Index, which is the only index that measures a company's sustainability on a global basis, covering all sectors and industries

[234] Thasan, D., J., (2000-10-18)
[235] Hairulnizam, M., & Radzi, M., (2000-10-16)
[236] Sande, J., (2000-10-16)
[237] Kee, K., D., (2000-10-18)
[238] Larsson, Å., (2000-10-18)
[239] Chua, E., (2000-10-18); Kee, K., D., (2000-10-18)

on the market. The sustainability group index comprises 236 companies globally judged to be leaders in sustainability and is based on the Dow Jones Global index, which is constituted of 2000 companies.[240] Dow Jones has concluded that the Sustainability Index has outperformed the General Index by 5% points during the last five years.[241]

There are different opinions among the respondents as to whether SKF reports on its CSR. Mr. Hansson at the Group level claims that SKF demonstrates its CSR by talking about it on the homepage.[242] Mr. Thasan and Mr. Rahim at SKF Nilai believe that even though some activities are performed, SKF is a low profile company and consequently the performance does not show externally.[243]

Looking at the homepage of SKF there is a special section dedicated the company's environmental care and the company releases an environmental report annually, but there is no additional information on CSR related issues.[244]

6.2 THE GOVERNMENTAL PERSPECTIVE

6.2.1 MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI)[245]

Whereas environmental issues are regulated by law, social issues are not mandatory, but encouraged. The initiatives to take CSR should hence come from both the MNCs and the government, and today both the private and public sectors are driving the process forward. The MNCs of today are proactive in the sense of standardisation, such as ISO14001, and MITI for example gives incentives regarding waste treatment. Since CSR cannot be compulsory but has to come from the heart of the companies, they should view it as a possibility to create a win-win situation. The companies must understand that if their sur-

[240] http://www.skf.se, 2000
[241] Stigson, B., (2000-12-14)
[242] Hansson, B-O., (2000-11-10)
[243] Rahim, M., A., (2000-10-18); Thasan, D., J., (2000-10-18)
[244] http://www.skf.com
[245] Chai, A., L. & Supramaniam, H., (2000-10-25)

rounding environment collapses, the companies' operations will be affected. Companies taking CSR are therefore more competitive than others, benefiting from the government's acknowledgment of these activities, which creates a stronger relationship with the government and gives good PR.

In the future MNCs will be more proactive and CSR will be integral in the daily operations of the MNCs. The ideal situation would be where the company consider the whole society, knows everything about the country culture and how to operate in this environment. CSR could then be used as an umbrella-policy in the company. But everything concerning CSR does not have to be large processes or strategies; the small details and activities also count. CSR exists at two levels; at company level with the individuals inside the company and at a higher level, that is the company's role as a corporate citizen in the society.

6.2.2 MALAYSIAN INDUSTRIAL DEVELOPMENT AUTHORITY (MIDA)

CSR is when companies give something back to the society, which is necessary because without taking CSR they would not get anywhere. It is all about give and take in the relations with the neighbours (other companies or local community), the governmental authorities, employees and all the people that somehow are related to the company. CSR could be defined as how companies treat the host country in the best way and this includes not only following the minimum standards of the host country but also to apply the standards of the home country.[246] When taking CSR, a company must consider that it should be conducted internally before it can be conducted externally. CSR will lead to benefits since companies in Malaysia are thinking long-term, hence, profit maximisation does not restrain CSR and CSR does not restrain profit maximisation. Nevertheless, the bottom-line is that CSR always involves costs, at least initially.[247]

[246] Sadayandy, K., (2000-10-05)
[247] Shahrol, S., (2000-10-25)

6.3 INTEREST ORGANISATION'S PERSPECTIVE

6.3.1 MALAYSIAN SWEDISH BUSINESS ASSOCIATION (MASBA)[248]

CSR can be defined as what in Sweden is regulated by laws, regulations and cooperative agreements; for instance leave for nursing a sick child, maternity leave etc. If this kind of social security is not mandated through laws and regulations, then it becomes the responsibility of the companies. On a long-term basis, CSR can give a competitive advantage, since both the public and other interest groups are aware of the need of CSR. There are even companies that have made CSR a part of their corporate image.

6.3.2 FEDERATION OF MALAYSIAN MANUFACTURERS (FMM)[249]

CSR is to have profitable operations and to thereby create opportunities to develop the society by making full use of a company's resources. The society must be considered a part of the company's working environment and it is clear that there exists a mutual dependency between companies and the society. Not only have the companies been shaped by society; the companies have also affected the development of the society. The companies therefore have to develop a better society and a cleaner environment at the same time as they give back part of the return to the investors.

According to Mr. Goh, the chairman of the Negeri Sembilan branch of FMM, CSR can normally be viewed as a flow. Either as a one-way flow out of the company, where CSR takes the form of charity and can only be seen as a cost; or as a circle-flow, where CSR is used as a strategy, which is part of creating a better society that in turn forms a better environment for the company and thereby makes the company more profitable. CSR can of course involve charity, but it also have to involve creation of jobs, business opportunities and

[248] Öhberg, B., (2000-10-12)
[249] Goh, C., C., (2000-10-20)

supplier development through good relations, which all are more meaningful than charity.

To take on CSR is a difficult task since there may be conflicting goals. Businesses want profit and CSR might inflict on this goal, at least on the short term; therefore the top management needs to make some guidelines. However, CSR does not need to be very costly and can generate benefits and even a competitive advantage in the long run. An example of activities to pursue is to put up dustbins with the company logo, which will provide a cleaner environment and at the same time the company gets good return on invested money through valuable promotion and a good image.

6.3.3 MALAYSIAN EMPLOYERS FEDERATION (MEF)[250]

CSR should be viewed as a stepwise process. The first step is to take a responsibility internally towards the employees. Only then can the company extend their responsibility to cover external actors. If the employees are happy, they become more productive and the company will raise profit that can be re-invested in CSR. The company can then, in mentioned order, take responsibility for the employees' families, the community and the state in which they operate. The initiative to take CSR should come from the companies themselves and the government should not interfere. Companies must have the freedom of conducting self-regulation. However, there are also other non-governmental organisations that can monitor the performance of the MNCs, both on an international and national level, such as the International Labour Organisation (ILO) and MEF, and in reality, little is done without international pressure. For example Nike, which took advantage of cheap labour in Indonesia, did not change until the international consumers reacted and started a movement against them. The host country itself cannot put any pressure on the company since they are dependent on foreign investments.

There is no contradiction between profit maximisation and CSR, because it will pay off in the long run. If looking at CSR in isolation it will of course involve

[250] Bardan, S., (2000-10-30)

costs, but looking at it in a larger context it will include benefits such as an increased market share. Even if there is no contradiction, the shareholders often disagree on the company taking a social responsibility. It is then up to the top management to come up with a program to educate the shareholders. They need to understand that in order to survive in the long run, they need to have a large market share and to obtain that, CSR is a good tool. At the end of the day, CSR will lead to increased profit. Hence there is a need for commitment from the top management and CSR has to be part of the company's strategies.

However, when the host country is only aimed for production, then MNCs are not really interested in developing a good image there and hence not willing to take a social responsibility. Many exporting companies do not even want to be connected to the country in which it has production plants, since it might be connected with poor quality. CSR is then merely seen as a cost because they will not get anything in return. The host country can through CSR however be developed into an important market, which will raise the company's total market share and the strength of the global image. Therefore, to make companies take a social responsibility, their operations must be highlighted worldwide. Only then can exporting companies also gain something from conducting CSR.

6.3.4 FEDERATION OF MALAYSIAN CUSTOMER ASSOCIATIONS (FOMCA)[251]

CSR must be market driven from supply and demand, where the consumers are aware of the social problem. CSR is holistic and it is imperative to look at the environment as a whole. Charity is not enough with since it is more important to have happy employees and environmentally friendly processes.

Professor Hamdan, the president of FOMCA, is of the opinion that MNCs in general rarely take CSR, and those who say that they do, exaggerate their actions. Scandinavian MNCs however, are usually better than the average. For 20 years Professor Hamdan has tried to change the way MNCs look at CSR, from only regarding the costs to also regarding the benefits. The solution to the

[251] Hamdan, A., (2000-10-30)

situational problem with MNCs not taking their CSR is to develop better laws, strengthen enforcement mechanisms, more education, honesty among people, a criteria how to measure CSR, a general functioning monitoring and punishments for those who do not follow regulations. Presently, Malaysia is lacking a general awareness and the question is who should take the first initiative. By taking the first step and by executing CSR activities a company could actually initiate a consumer movement and gain an advantage.

6.4 THE ACADEMIC PERSPECTIVE

In general, CSR refers to the level of sensitivity a company has regarding the environment, a country's culture and its society and the duty to create harmony between them. The foreign MNCs in Malaysia can be divided into two subgroups regarding the issue of CSR. The Japanese, the European and the US MNCs form one group, which are aware of the need of CSR. The other group consists of foreign MNCs from the neighbouring Asian countries, which are less sensitive towards these issues. The reason for the Asian MNCs being less interested in CSR is purely economic, since any CSR activity will raise costs for the company and they are really concerned about their short-term profit.[252]

The degree of CSR that a company can perform thus depends on two factors, willingness and capability. Companies have different kinds of priorities: profit, employees, security and safety First when all the former priorities have been reached, the company is willing to consider taking CSR They may also be willing to take CSR but their capability to make profit is relatively low, and the company is hence always subjective to earnings. Nevertheless, even when the company has reached a surplus, the business exists in order to make profit.[253] All companies can still benefit from taking CSR by building a good image and receiving publicity. CSR and profit maximisation are then supplementing each other and since companies can operate peacefully, attract good workers and in the end make profit through their good image.[254]

[252] Che Rose, R., (2000-10-17)
[253] Alcantara, C., (2000-10-17)
[254] Abu Bakar, M., Y., (2000-10-17)

CSR is a concern for everyone, not only a responsibility of companies. It can be initiated from the company as a corporate strategy, but it should also start natural at every level, on corporate, governmental or on individual level. So far however, there is no meeting point between the different parties, and companies do not put CSR among their top priorities, but if it were mandated by law, with the initiative taken from the government, CSR would be rated as a top priority.

6.5 DANONE'S PERSPECTIVE

6.5.1 BRIEF COMPANY BACKGROUND

Danone, established in France in 1966, is one of the largest food and beverage companies in the world, employing about 70 000 people worldwide. It is the owner of famous brands, such as Danone, LU and Evian. In Malaysia, where the company has been present since 1990, it is called Britannia Brands Malaysia Sdn Bhd, and is situated in Shah Alam in the Kelang Valley.

Since its creation, Danone has been built on both economic development and social responsibility, especially regarding children. Issues such as nutrition, combating economic privation and the environment have always been prioritised on Danone's agenda.[255] Within Danone these beliefs are articulated through three main values, which are reflected throughout the organisation and in all its operations. The first value is openness, which has to be present in all operations and at all levels in Danone. The second value is enthusiasm, meaning that the company besides articulating intentions and visions also needs to really perform what they are saying. They need to be engaged and enthusiastic in order to make real achievements. Finally, humanism is the third major value within Danone, and it should be applied both internally towards employees and externally towards the people in the close by environment. The greatest resource within Danone is consequently considered to be the employees.

[255] http://www.danone.com

6.5.2 CSR AT DANONE

6.5.2.1 Perception of CSR

Ms. Nadiah Tan Abdullah, who is the Business Development Manager at Danone, believes that CSR has undergone a redefinition during the last decade. Before, an organisations' main role was to generate money, which could be seen as a kind of social responsibility, but today the role of organisations has been extended. Besides being profitable, companies today also have an important role to play in society, since companies are not detached from their external environments and have an impact on these environments.[256]

If the company is to gain anything from CSR, CSR has to emerge from a genuine commitment and enthusiasm, because it is impossible to merely pretend that the company has good intentions. Such a misleading facade will soon be brought to light. CSR should therefore be the operational way of expressing the values and culture of a company. By definition, CSR has to be well embedded in the company and before anything can be done externally, it must have a foothold internally since a company's principal ambassador is its workforce. The most observable positive effects of CSR are that it gives the company an advantage in attracting the right employees and unites the employees in an enduring vision. The Malaysian customers however will not chose the Danone brand merely because of its engagement in CSR, since the general awareness of these issues still is relatively low in the country. The effects are more long-term than that.

Within Danone, CSR comes very natural since the culture and values of the company are very much related to social responsibility and the employees are very committed. However, the initiatives of CSR come from the absolute top managers of the company and are communicated through a strong leadership.[257]

[256] Abdullah, N., (2000-10-19)
[257] Danker, R., (2000-10-19)

6.5.2.2 Activities

Given that Danone is committed to CSR, it engages in many activities, most of which are internal since the company holds the belief that CSR has to start internally with the employees. However, the company has also been engaged in a number of large external activities, mainly related to children. The latest activity in which Danone takes part is named "Children's Hour". Children's Hour originated in the United Kingdom in 1998 and had the aim of raising funds for children in need. Companies were encouraged to donate the equivalent of one hour's pay for their total workforce and employees were asked to do likewise. Today nearly 4 000 companies have joined the campaign and the total amount of raised money today stands at 12,8 millions USD.

Danone felt the idea was very good so in 1999, they decided to engage to a larger extent. The idea was initiated by the CEO, who invited representatives from all countries, in which Danone is present, to discuss the issue with him. Today, Danone is one of five official sponsors of the project and is labelling their products with the Children's Hour logo, inviting consumers to make a financial contribution. Due to the Children's Hour, Danone has engaged in different national programs. The reason was that the consumers would feel their contribution gave results in their own country. Thus it has been up to each national Danone company to choose suitable programs.

In Malaysia, Britannia Brands Malaysia set up a partnership with the Malaysian Council for Child Welfare, which was created in 1954 under the presidency of the Queen of Malaysia as the first Malaysian non-governmental organisation to promote children's well being. The money raised goes to projects for helping families with disabled children. Apart from the Children's Hour project, Britannia Brands Malaysia also built four homes for abused and abandoned children during the 90s, which are managed by the Ministry of Social Welfare.[258]

The primery effect of these social activities in Malaysia has in particular been a united and more engaged workforce at Britannia Brands.[259]

[258] http://www.children.danonegroup.com
[259] Danker, R., (2000-10-19)

6.6 VOLVO CAR CORPORATION'S PERSPECTIVE

6.6.1 BRIEF COMPANY BACKGROUND

The Swedish automotive manufacturer Volvo has been present in Malaysia since 1960 and the first Volvo passenger car was assembled at the production plant, Swedish Motor Assemblies, in Shah Alam in the Kelang valley in 1967. The production plant lies under Volvo Car Malaysia, which is a partly owned subsidiary of the Volvo Group with headquarters in Kuala Lumpur. In 1999, the passenger car branch of the Volvo Group, Volvo Car Corporation, was sold off to Ford Motor Company and today; Volvo Car Malaysia and Swedish Motor Assemblies consequently are subsidiaries of Ford.

The Volvo brand has reached worldwide recognition, due to its strong global presence but most of all because of its focus on safety and other "Swedish" values. The change of ownership has not affected the organisation substantially and Volvo Car Corporation is still very much considered a Swedish company.

6.6.2 CORPORATE SOCIAL RESPONSIBILITY AT VOLVO

6.6.2.1 Perception of CSR

Mr. Abdullah, who is the human resource manager at Swedish Motor Assemblies, sees CSR as both philanthropic and a means to gain profitability and competitive advantage. It should emerge from a clear strategy, where taking social responsibility becomes embedded in the organisation and something natural. CSR should not be enforced; instead, it should develop through the fact that it can help create a win-win situation for the company and the community. This does not exclude however, that the company can use CSR in for instance their marketing.

Today, not enough attention is put on CSR in Malaysia, neither from the government, the general Malaysians nor from the media. They have still not reached the "right" level of awareness and knowledge.

Since the government is not powerful enough and has not reached a sufficient level of knowledge and awareness, CSR has to be initiated by the companies themselves. Mr. Abdullah argues that if all MNCs took care of their employees and community, more or less the whole population would be covered by a social net. However, many companies are still not conscious enough and are too focused on profit maximisation, whereby regulations are still needed. The optimal future scenario would be that the companies took a broader social responsibility without any governmental regulations, since regulations will have negative effects in the long run, and that the general public became more conscious.

Since CSR is already internalised in Volvo's operations, in their norms and as a part of the organisation, CSR is not a pure strategy; it is rather a natural underlying thought style. Within Volvo, the initiatives to CSR activities might therefore arise at any level of the company and the ideas are communicated to the top management team, which takes a decision.

6.6.2.2 Activities

Swedish Motor Assemblies has conducted both internal and external CSR related activities although the external activities have been sparse. The internal activities include education for the employees in Europe, and since Volvo feels it needs to be open-minded and global medical care, which is extended to the employees' families; internal doctor and nurse at the plant; and education of the employees of how to handle their income. Before, Swedish Motor Assemblies generously gave loans to the employees in order for them to have a more decent life. Today, the loans are given under restrictions and certain conditions; for instance an employee can borrow money for a car only if he or his family does not have any other means of transportation, and the employees are educated about the importance of not letting the expenses exceed the real income. Other internal CSR activities include the provision of sport facilities and monthly sessions for ladies, on how to maintain their health, flower arrangements and skincare.

The external activities have mainly consisted of small donations, such as dialysis machines to hospitals and establishments of bus stops outside the factory. Swedish Motor Assemblies also has a special employment program for deaf and mute people, which had very limited options for a job before. Today, the production plant employs 15 deaf or mute people.

In order to increase sales and improve their image through CSR, the company needs to be innovative. Volvo Car Malaysia has increased both its sales and image through so-called launching festivals, which coincide with the introduction of new models of Volvo cars on the Malaysian market. This year, Volvo arranged the “Volvo World Music Festival” by the end of October, which was aimed at employees, potential buyers and the general public.[260] The event was designed to suit every taste and provided music groups and individual artists from all over the world, performing a great variety of different music styles. The admission to the festival was free and held centrally in Kuala Lumpur. The happening received a lot of attention in the press[261] and earlier launching festivals have resulted in proud employees and higher sales rates.

6.7 ERICSSON’S PERSPECTIVE[262]

6.7.1 BRIEF COMPANY BACKGROUND

Ericsson is a Swedish telecom company that has 35 years of experience in Malaysia, which was the first Asian country in which Ericsson was established. Today there are seven individual Ericsson subsidiaries in Malaysia that are managed from the Ericsson headquarters, Ericsson SDN BHD, in Petaling Jaya in the Kelang Valley, and Ericsson is one of the largest foreign MNCs in Malaysia. Four of the seven companies are situated in the new Multimedia Super Corridor.

[260] Abdullah, M., T., B., (2000-10-19)
[261] The Sun (2000-10-16)
[262] Faizura Rashid, M., (2000-10-19)

Ms. Mimi Faizura, who is the Assistant Manager of Corporate Communications at Ericsson in Malaysia, is of the conviction that Ericsson in Malaysia has good and close relations with all interest groups, which is the result of Ericsson's strong brand name and good corporate image. The company has a global presence and has reached worldwide fame, also in Malaysia. Ericsson is very careful to promote their good image in media.

Ericsson has a flat organisation and mainly uses informal, open door policies, which derives from the fact that Ericsson is a Swedish company. There is even a perception present within the company that there are sometimes an excessive number of meetings and that the employees at times have too much authority.

6.7.2 CORPORATE SOCIAL RESPONSIBILITY AT ERICSSON

6.7.2.1 Perception of CSR

Traditionally, CSR has been defined as a company's external corporate citizenship. However, Ms. Faizura regards CSR as a company's responsibility towards people both inside and outside the company. CSR has always been regarded very seriously within Ericsson, perhaps because it is a Swedish company, but was until very recently only taken from a narrow perspective.

Even if CSR initially is connected with costs, there will be benefits in the long run, leading to cost savings. Therefore, there is no contradiction between profit maximisation and social responsibility. Engaging in CSR might even lead to a competitive advantage since the general public becomes increasingly concerned about and aware of what the MNCs do and a good reputation may attract superior employees. Ericsson is also able to use CSR in their marketing. However, there is still a need to convince the shareholders that CSR will give benefits also for them in the long run, which is difficult since there are no universally applicable measurements of CSR. What can be measured is the image of the company and the brand equity, and in the future, common social standards, accounting and reporting might become possible to apply.

CSR has to be initiated by the MNCs since the Malaysian government is not fully developed in the field yet, but if the MNCs have the know-how; the government is willing to listen to the companies. However, it is not only large companies that can initiate CSR. Even small companies can contribute to a certain extent. It is all a question of using the resources in the right way.

6.7.2.2 Activities

Within Ericsson, the initiative to engage in CSR and to undertake social activities does not normally come from the top management. Instead, individual people that feel something could be done come up with the ideas, which then are communicated to the top managers where they are decided.

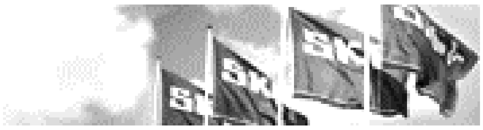
There are both internal and external CSR related activities undertaken within Ericsson. The internal CSR activities consist of loans, medical care, pension funds, maternity and safety programs for the employees. The external CSR mainly consists of activities that are related to the telecom industry and include technological transfer, such as the new WAP technique or research projects that are performed together with state-owned universities, development of local suppliers and contribution to the welfare of the country. To mention some figures, Ericsson alone stands for more than 1% of the total Malaysian export. Next year, Ericsson will broaden its activities essentially by implementing an environmental program, the Environmental Management System, which is part of a global strategy.

Ericsson has also been able to convert an initial problem into an advantage through CSR activities. A few years ago when Kuala Lumpur suffered from heavy pollution that threatened the health of people, Ericsson decided to pay for trips home for the families of the expatriates. The local employees then felt unfairly treated since their families also suffered from the pollution, whereby Ericsson arranged a loaning system where the local employees could borrow money to buy air-filtering systems with a low interest. Hence, something that begun as a sensitive problem ended as a benefit for Ericsson, since they gained a lot of positive promotion in the media.

6.7.2.3 Improvements of Ericsson's CSR activities

Even though Ms. Faizura believes that Ericsson is a good corporate citizen, the scope of CSR could be improved. Internally, there is room for more education of the employees on environmental issues, and externally, Ericsson could participate in educating the employees' families and school children to create awareness about these issues. There is also a wish to be engaged in charity, but the company has a tight budget.

PART IV – ANALYSIS



7 INTERNAL INSTITUTIONAL SETTING

According to the institutions network approach, all companies constitute institutions built on certain rule systems, norms and values. Following the resource-based view described in the theoretical framework, a company can be analysed according to its resources and capabilities, which rests on the goals, values, organisational structure and organisational systems, in order to find the different rule systems, norms and values that exist. By providing an analysis of the internal environment according to the resource-based view, we will be able see which kind of institution SKF Nilai is. However, Looking at SKF Nilai particularly, they are only a production plant, whereby they do not cover the complete process of SKF, and do not have their own goals, values, structure etc, but are an integrated part of the SKF Group. Therefore, the analysis will include the whole Group but with special focus on SKF Nilai where possible. We will also provide a specific paragraph regarding CSR.

7.1 GOALS

As for most other companies, SKF's formal and articulated goal is to attain long-term and sustained profitability, which has to occur in the framework of the needs of the customers, and it seems like all employees are well aware of this primary goal. Since SKF has put a lot of effort into research and product development, has reached a world leading position and pays a lot of attention to the customers, the goal must also be considered consistent and constitutes a formal rule that SKF is working towards.

We have not been able to discover any formal sub-goals and there appears to be slightly different opinions about whether they exist. Hence, there seems to be informal sub-goals in the company. The workers at SKF Nilai saw the goals of SKF at three levels, with profitability as the primary goal, a safe working environment and an environmentally friendly organisations as the second goal, and taking care of customers, suppliers and employees as a third goal. No one at the managerial level could however mention any sub-goals and some said that there is no need to have specific goals regarding for instance the employees, since they automatically will gain benefits through increased profitability. The thought styles about the goals are therefore diverse.

The vision, to be the world leader in bearings through providing customer value, developing the employees and creating shareholder value, could be seen as a set of goals since it is relatively operational. However, it seems like the vision has not received the same awareness as the stated profitability goal since many of the interviewees did not know about it. Further, the workers did not perceive it as including the employees as part of the articulated goals and vision, which imply a lack of awareness about the vision.

Nevertheless, we have the impression that even though the vision is not formally emphasised it is rather embedded in the organisation of SKF Nilai. All meetings, for instance, start with a small talk about the customers and a lot is done to increase the customer value, for instance research, product development, education of the customers, a superior distribution network and good after sales services. The employees get continuous education and training, which many of the employees convey as the main reason for choosing SKF as their employer, and they are empowered with a rather high degree of responsibility. Finally, the shareholders are considered to a large extent since the profitability is measured through the so-called TVA.

Regarding long-sightedness, both the articulated goal and vision are long sighted. However, SKF Nilai has become more shortsighted in specific areas during the last years as a result of the increased focus on cost cuts, and that the employees notice large changes in the company due to that. Being an enginee-ring company where everything is measured further enhances the short sighted-ness and business plans for one year at a time and additional planning for two years ahead do not encourage a long-term perspective.

7.2 VALUES

The four articulated values within the SKF Group, teamwork, empowerment, openness and high ethics are well known to all employees. As far as we are concerned, most of these values are long-termed, consistent and rather well embedded in the organisation of SKF Nilai. SKF has focused on these values since the beginning and most subsidiaries are in line with the mother company, which we believe imply consistency and entrenchment. It is also natural that the values are long-termed since they have been present throughout SKF's long history. There are however differences among the different values, which implies that not all of them are given the same attention.

The atmosphere at SKF Nilai is open and the workers are never far from the managers. There is a large amount of meetings where all employees participate and the double communication structure enhances the value of openness. The company has however become less open; there is a higher power distance and more hierarchical levels since the most recent change of MD. Concerning empowerment, the employees have a large responsibility since they even can make self-judgements of their skills, which are directly related to their salaries. They have also been able to accomplish changes through their committees and meetings. Initially, the responsibility might even have been too large since many of the employees found it difficult to work in an organisation characterised by low hierarchies and co-decision. However, the employees are discouraged from participating in any labour unions, which lessens the value of empowerment.

The empowerment for the Nilai factory towards the SKF Group is also rather limited. There seems to exist a rather general opinion among the employees at SKF Nilai that the Electrical Division is too powerful and that SKF Nilai does not have the possibilities of deciding much on its own. This claim is rather opposing to the value of empowerment. Simultaneously, SKF Nilai expects the Electrical Division and the Group to be proactive and take initiatives, which for instance is shown by the fact that the employees at SKF Nilai think that it is the responsibility of the Group to initiate CSR and to draw guidelines. Hence, in reality, there are contradictory thought styles regarding empowerment.

Regarding the fourth value, high ethics, SKF does have environmental policies, both internal and external, which are pursued actively; they are certified according to ISO 14 001 and ISO 18 001. The employees were able to mention a large amount of benefits with acting ethically and taking CSR, and we have not been able to find evidence of unethical behaviour. Especially the internal "zero-accident program" presently influences the entire organisation and people are engaged. Some of the interviewees also said that it is the responsibility of SKF Nilai to initiate social activities since the social security system in Malaysia is not yet developed. Further, SKF's membership in Dow Jones Sustainability Group Indexes indicates ethical behaviour.

However, there are some indications of that the value of high ethics is not particularly emphasised and therefore does not govern the company's actions. Externally SKF is not really pro-active in their actions, which can be exemplified by the belief that a worldwide social standard would increase the extent to which CSR is taken. Hence, SKF expects others to take the first initiative, and as said at the Group level, the mission of SKF is to sell rolling bearings nothing else. Most of the respondents also believe that SKF is an average MNC when it comes to CSR and that the activities mainly have been accomplished internally. Looking at the definitions of CSR, most of them focus on the employees. Even though almost everything else is measured within SKF, there are further no internal measurements on ethical behaviour. There are also claims that CSR is still merely seen as a cost within the company, which might be true since some of the respondents believe that CSR is involved with high costs and that CSR related activities have to be reduced during times of cost cuttings. There are different claims about whether there are any strategies or guidelines at Group level and whether a CSR-thinking is internalised. Since many believe there is no such strategy and that the managers do not transmit a CSR view, it can at least not have been communicated very successfully, and is not internalised.

Thus, it is obvious that the perceived values differ from person to person, depending on their particular position and background. The formal values do not always equal the actual values permeating the company.

7.3 ORGANISATIONAL STRUCTURE

In spite of all the restructurings there are still some problems left, which imply a rather poor organisational structure. Since the individual companies are exposed to internal competition, there are for instance no possibilities for making estimates in advance, which is of a structural disadvantage. The situation becomes insecure and the SKF companies must show substantial flexibility, which SKF Nilai has not been able to every time. The factory has for example had to close down several times. However, it is not an easy task to have the perfect organisational structure given the size and complexity of the company.

The organisation in Nilai does not include any of the functions that are not specifically related to the production of rolling bearings. Hence, the company does not have very much insight into research, product development, marketing, legal issues, sales activities, distribution etc, which creates a limited perspective. A few of the respondents for instance mentioned that there are small possibilities to gain anything from engaging in certain activities since Malaysia is a small market. Such an opinion implies that the perspective is somewhat limited since SKF Nilai in reality has the whole world as its market and is an important link in the value chain of SKF. It is in this context further interesting to note that no one at SKF Nilai mentioned the customers as a group to consider when pursuing CSR activities. With such a thought style present in the company, it might consequently be difficult to emphasise the importance of the customers since they are rather invisible. The result is that the employees at SKF Nilai might have difficulties in viewing their function as an important part of the whole, which in turn leads to lower motivation and engagement among the employees. However, there are some signs that there exists a feeling of being part of the entirety at SKF Nilai. Customer complaints are carefully evaluated and each meeting is initiated with a talk about the customers.

The organisation at SKF Nilai has a classical functional structure, which is easy to overview and functions well. The tasks are clearly defined and distributed among the positions. However, the workers, and also some of the managers, think there are too many managers. Such an opinion enhances the feeling among the workers that they are not considered as important as for instance the shareholders. There have been many changes of Managing Director at SKF Nilai, and frequent changes in management styles will lead to an inconsistency and thereby confusion for the employees, which will weaken the internalisation of both goals and values.

7.4 ORGANISATIONAL SYSTEMS

Within SKF there exists double communication channels and all reporting is therefore made to more than one superior within the SKF Group, which enhances the openness. However, the workers complained about that not enough information is given to them during the meetings and that communication sometimes is poor. The managers on the contrary maintained that they do give information, sometimes in excessive amounts, which implies that the managers and workers do not speak the same language and that the communication, as is argued by the workers, at times is poor. Another evidence for this is that most of the employees complained about that there are too many meetings and the workers claimed that the meetings do not result in any real achievements.

7.5 RESOURCES

As suggested in the resource-based view resources can be analysed in three groups: tangible, intangible and human.

7.5.1 TANGIBLE RESOURCES

SKF Nilai has not shown a profitable result until recently, whereby they do not have excess financial resources. However, the company is profitable at the moment and has been able to pay off large parts of its loan. The current cost cutting activities will enhance this positive development and the financial resources are therefore good. Being located in Malaysia, SKF Nilai further faces low costs of production, especially of labour, which is a financial resource. For the SKF Group, the financial situation has been rather stable, except for in 1998 when the company faced a huge net loss. In general however, SKF is based on a solid financial ground, and have been in business since 1907 and have reached a dominant position.

Even though SKF Nilai is not the most modern rolling bearing factory in the world any more, its machinery and facilities are still strong physical resources. The factory has a high capacity and is one of only four SKF factories capable of producing the Explorer bearing. It further encloses other physical facilities, such as a praying room, assembly hall, football field and canteen. Other physical resources, even though they are not direct parts of SKF Nilai, are the sales office in Kuala Lumpur, which for example provides product show rooms, education facilities and workshops for customers; and the regional distribution centre in Singapore. Both are located close to the Nilai plant, which means that its physical location enables SKF Nilai to be near its Asian customers.

7.5.2 INTANGIBLE RESOURCES

Since SKF tries to make everything within the company tangible through a broad range of measurements, not as much focus is put on the more intangible resources. However, there are some important intangibles as well.

SKF has succeeded in becoming the world leader in rolling bearings through focusing on high quality, which implies that the company has good basic technology. Apart from being of good quality, the products are also provided with a very strong brand name. For many people, in and out of Malaysia, rolling bearings equal SKF bearings, which clearly shows the strength of the brand. There are furthermore few customer complaints, which strengthen the impression of SKF having a quality product. However, since “Made in Malaysia” still is considered implying poor quality, the importance of the brand name as a resource is slightly reduced for SKF Nilai.

Whether the overall image constitutes a resource is difficult to say. In one sense, the image is a real resource of SKF Nilai since they are well recognised within the industry and seem to have good relations with for instance the government, which gave them the pioneer status. In another sense, however, SKF is a low profile company that focuses on its products rather than on its image, whereby a good image does not constitute such a valuable resource. Further, although SKF has a good reputation within its industry, SKF Nilai is not well renowned by the general public, even though some of the respondents made this claim. We were for instance in general not able to get comprehensive comments about SKF from the other (even Swedish) companies and organisations we met, and many of the external respondents did not possess any knowledge about neither the origin of SKF nor the operations in which it engages.

Most respondents claimed there is not a specific SKF company culture but many, both internally and externally, believed there is a special culture in all Swedish MNCs. Looking at the Swedish companies in Malaysia where we made interviews at, they are more open and democratic, and they generally possess a low power distance. SKF Nilai is further one of few companies, and the only foreign one, in Malaysia within its industry, which gives them a unique position, and the culture thereby constitutes a resource. Evidence of this is that several former employees have expressed a wish to return to SKF Nilai. Such a wish might also be a result of other causes, such as high salaries and other economical benefits, but our research has not suggested that SKF Nilai gives much better conditions to the employees than the average foreign MNC in Malaysia. Further, many of the employees are now used to the typical management style of low hierarchies, democratic consensus and co-decision, and think it would be difficult to work in another company with a different culture.
SKF also has a resource in its values since they are rather long-term, consistent and well embedded in the organisation. SKF is furthermore a multinational that has a long experience of foreign operations and is therefore used to cross-cultural management, which has given them useful knowledge and comprises an intangible resource.

7.5.3 HUMAN RESOURCES

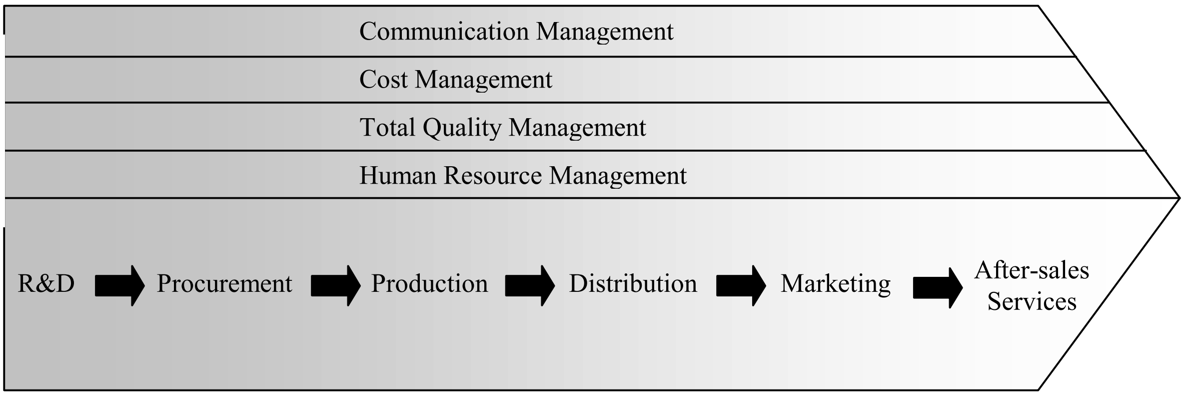
Many of the respondents said that the largest resource of SKF Nilai is the employees but we have not been able to completely evaluate the competence and special skills of the employees and therefore cannot verify that statement. The impression we have is that many of the managers possess specialised knowledge and skills and most of them have also been at SKF Nilai for a long time. Many of the interviewees furthermore appeared very innovative and able to motivate other employees and create opportunities for increased employee and customer value. Even though he does not belong to SKF Nilai, there is also a great resource in Mr. Ong, who is Managing Director of SKF Malaysia. He is in close contact with SKF Nilai and appears to be very competent and innovative. Regarding the workers, they are young of age, which makes them more flexible and easily adjustable to changes. They are also loyal since the employee turnover is low and they have been able to raise the productivity significantly during the last years. Following the discussion above, SKF Nilai has valuable human resources.

7.6 CAPABILITIES

Working together, the resources will give the company its capabilities, which also are reflected by the goals, values, structure and systems. The capabilities can be analysed according to a value chain, where the core operation is described as a sequential chain of functions.

Given the operations and structure of SKF, we believe that their main functions are R&D, procurement, production, distribution, marketing and after-sales services. Apart from the core functions directly related to the production and sales of rolling bearings, SKF also has four major supporting functions that run simultaneously with the other functions, hence, during the whole course of events. These are Communication Management, Cost Management, Total Quality Management (TQM) and Human Resource Management.

Figure 7.1 – The SKF value chain



Source: Own elaboration

7.6.1 RESEARCH AND DEVELOPMENT (R&D)

SKF has always invested a lot in R&D and has, when looking at their market leading position and innovativeness in the product field, also been successful in their research. Additionally, measurements are made in a variety of functions and operations, and these results will constantly provide the company with opportunities to discover new areas of research and development, which will improve the company's operations additionally. A strong financial base further enhances the strong capability of research and product development since R&D requires immense investments that might not give returns in a long time.

7.6.2 PROCUREMENT

The headquarters are to the largest possible extent involved in contracting suppliers, hence there is a capability of good procurement within the company. Moreover the company is very experienced, which gives good capabilities in attracting the right suppliers and the best raw material and components. SKF's mere size also gives it an advantageous position towards its suppliers and sub-contracting.

7.6.3 PRODUCTION

SKF has reached a level of high quality in their products, which implies that they have good production capabilities. Looking at SKF Nilai, which only engages in production, they have state of the art machineries with a high production capacity, leading to a good production capability. They are also one of few plants to produce the Explorer bearing, which witnesses of a high capability of producing quality products. The human resources further contribute to the production capability since the factory has increased its productivity remarkably over the last years. Also the workers are of course playing a large part in the production capability at SKF Nilai. Rolling bearing production might seem like a completely automated operation without need of human beings, but in order to make high quality products, there is a requirement of highly skilled and careful labour that can handle the machines and perform the necessary measurements.

However, the organisational structure and process problems have complicated the production and the plant has yet not taken full advantage of the production capacity. The reason seems to be the tough internal competition within SKF and furthermore that SKF Nilai is very controlled by the Electrical Division.

7.6.4 DISTRIBUTION

Since SKF is present in 150 countries, their distribution capability certainly is good. The company has shown their innovativeness in distribution, most recently by introducing Endorsia.com. The structure with regional distribution centres and local sales offices, distributors and dealers has led to an almost absolute coverage of the customers. In the case of Malaysia, we believe much of the success can be attributed to Mr. Ong at the sales office in Kuala Lumpur, who showed innovativeness and engagement. The distribution capability of SKF Nilai is enhanced by its strategic location, close to both Kuala Lumpur and Singapore.

7.6.5 MARKETING

The marketing capabilities of SKF are good since they have reached a very high degree of brand awareness. However, towards the general public, SKF has not put much effort into marketing. It is a rather anonymous company and it seems like they want to keep their low profile. Regarding SKF Nilai, they do not have any pure marketing functions but they are still in need of conducting some marketing, since they for instance need to attract employees.

7.6.6 AFTER-SALES SERVICE

Increasingly, SKF is focusing on after-sales services such as education of the customers and quality treatment of customer complaints. Such a development appears natural since SKF has a strong customer focus, which can be noticed in the goals, values and organisational structure. The good capability of providing valuable after-sales services is enabled by the strong brand name. Without a famous brand, customers would for instance not participate in educations. Increased operations in after-sales services also suggest that the company is innovative. It can, without losing focus on the core operations, enhance the scope of business and increase the basis of profitability.

7.6.7 COMMUNICATION MANAGEMENT

The Group structure includes a specific function for corporate communications, which is necessary in such a large company in order to reach consistency and efficiency in the organisation. SKF also possesses the value of openness, and good communications, in, among and externally of all subsidiaries and head-quarters, are therefore a prerequisite.

At SKF Nilai a variety of instruments are utilised in order to have good internal communications; for instance, the open-door policy, working climate analyses and the daily, monthly and quarterly meetings. However, as mentioned above, the communication is not always the best since workers and managers have different opinions of how the previously named instruments fill their purpose. The slight tensions between SKF Nilai and the Electrical Division's head-quarters might also imply weak spots in the communication capability.

The external communication is also important but since SKF is a quite anony-mous company to the general public, a lot of effort is not put into external communications. SKF is also a business-to-business company and the products themselves are very invisible, consequently, there is not a great need to communicate with the end consumer, which for instance may be a passenger car buyer. The communication with the customers however, seems very good indeed. There are good goals and visions focused on the customer, after-sales services and evaluations, complaints are dealt with thoroughly and the brand is renowned.

7.6.8 COST MANAGEMENT

By measuring many different areas and functions, the company manages to make the operations more concrete, and facilitates a good cost management. The reasons for choosing Malaysia and Nilai, the good conditions and the low costs of labour, and the internal competition are also of an economical nature, which implies strong cost management. At the moment SKF moreover focuses intensively on cutting costs in the entire organisation.

7.6.9 TOTAL QUALITY MANAGEMENT

We expect the highly qualitative research, products, distribution system and after-sales service are a result of a basic culture of quality management within SKF. There is also a TQM policy and SKF is certified according to ISO 9001, which witness about that the quality thinking is internalised in the organisation. Lately, there has occurred a change in focus however, since the interviewees at SKF Nilai do not regard the company as emphasising TQM anymore. The reason for the decline appears to be the more recent focus on cost cuttings but there is simply also the possibility of lower interest for TQM. Presently, the zero-accident program receives most of the attention, both from managers and workers. This program can of course be seen as part of a total quality management but somewhat more narrow, and it is not an articulated part of TQM.

7.6.10 HUMAN RESOURCE MANAGEMENT

Human resource management at SKF is always pinpointed. Two of the values, teamwork and empowerment, are also directly related to human resource management, and the vision specifically exclaims the importance of employee development. The various education and training programs further imply a good human resource management and the fact that many of the respondents at SKF Nilai specifically mentioned the possibilities for personal development is a sign of good human resource management.

However, the management is presently very much focusing on profit-maximisation, whereby restraints have been put on long term thinking, also in human resource management. As mentioned before, there also seems to be some problems in the communication between the managers and the workers, which might be the result of poor communication and interaction capabilities for certain people.

7.7 SKF AS AN INSTITUTION

In summary, looking at what has been analysed above, there are several clear rule systems, norms, values, enforcement mechanisms and thought styles, both formal and informal, which constitute the internal institutional setting of SKF Nilai.

Conformity: Since SKF Nilai is closely tied to the Electrical Division, there is not much room for their own initiatives and innovations; rather, the company follows the norms, rule systems and values of the SKF Group and the Electrical Division, which can be seen as an enforcement mechanism. Also externally, SKF is a company that does not want to stick out from the normalities and pursues a rather passive approach, emerging from the norm of conforming to the external requests. The majority of external activities have emerged from specific external demands and not from SKF's own innovativeness. One of the areas where SKF is more pro-active is within environmental care.

Well-structured organisation: Formally, the norm is that everything within SKF is measured. Tasks are clearly defined and distributed among the positions; and there exist double communication channels. However, there are deficiencies in the communication abilities, which imply an informal rule system that does not reach the same extent of well-formulated structure as the formal organisation. In turn, there is a lack of enforcement mechanisms for this norm.

Internal focus and low-profile image: Externally, specifically towards the general public, the norm of SKF is to pursue low profile strategies and activities. Outside the specific industry and closest customers SKF is not well known and does not put much effort into marketing. Further, most activities related to CSR are performed internally and they are not particularly communicated externally

Swedish values: Formally, SKF strongly works according to the values of low power distance, openness, democracy, teamwork, empowerment and co-decision, which also appear in many different ways. Just to mention some, there is a double communication system, an open-door policy, a large number of meetings, and a specific function for corporate communications. However, beneath the surface, certain factors imply that those "Swedish values" are not completely followed, or do at least not have the desired effects, and that the frequent changes of management styles have led to an erosion of these values. Consequently the enforcement mechanism is not always functioning to hundred percent. The communication is sometimes poor and managers and workers do not speak the same language. Some employees are also afraid to approach the managers even though there is an open-door policy and SKF Nilai has become less open since the last shift of MD. However, in general SKF's culture does focus more on the "Swedish" attributes than on other attributes.

Quality and product focus: The thought style of quality has existed since SKF's early days and is well embedded in the organisation. There are immense investments in R&D of the products and SKF Nilai has a high capacity, good basic technology, modern machinery and produces a highly qualitative product. The TQM approach, also a typical thought style, is formally permeating the entire organisation. However, the focus on TQM has in reality declined substantially at SKF Nilai recently, whereby there are weak enforcement mechanisms regarding the TQM thinking.

Employee focus: The focus on the employees is part of a formal rule system is. Human resource management is always pinpointed and there is a large number of various education and training programs, following the values and though styles within the company. Informally however, the reality might look somewhat different. The fact that no one at managerial level mentioned the employees as part of the goals and that some claimed there is no need for such specific goals regarding the employees, might be a reflection of that SKF does not pay particular attention to the employees and hence is not following the norms and values. Not all meetings and employee engagement are further claimed to result in any real achievements, which witness of a weak enforcement mechanism. However, the different opinions about to which extent SKF focuses on the employees might also depend on a mismatch in the communication.

Customer focus: The customer related capabilities of SKF are strong. There is worldwide customer coverage through the immense distribution system; the after-sales services are good and appreciated; customer complaints are dealt with carefully; and each meeting at SKF Nilai is initiated with a talk about the customers. Hence, the rule systems are in accordance with the norms and values, and the enforcement is powerful. However, since SKF Nilai is not directly engaged in any sales activities, customers become somewhat invisible, which might weaken both the thought style and enforcement mechanism.

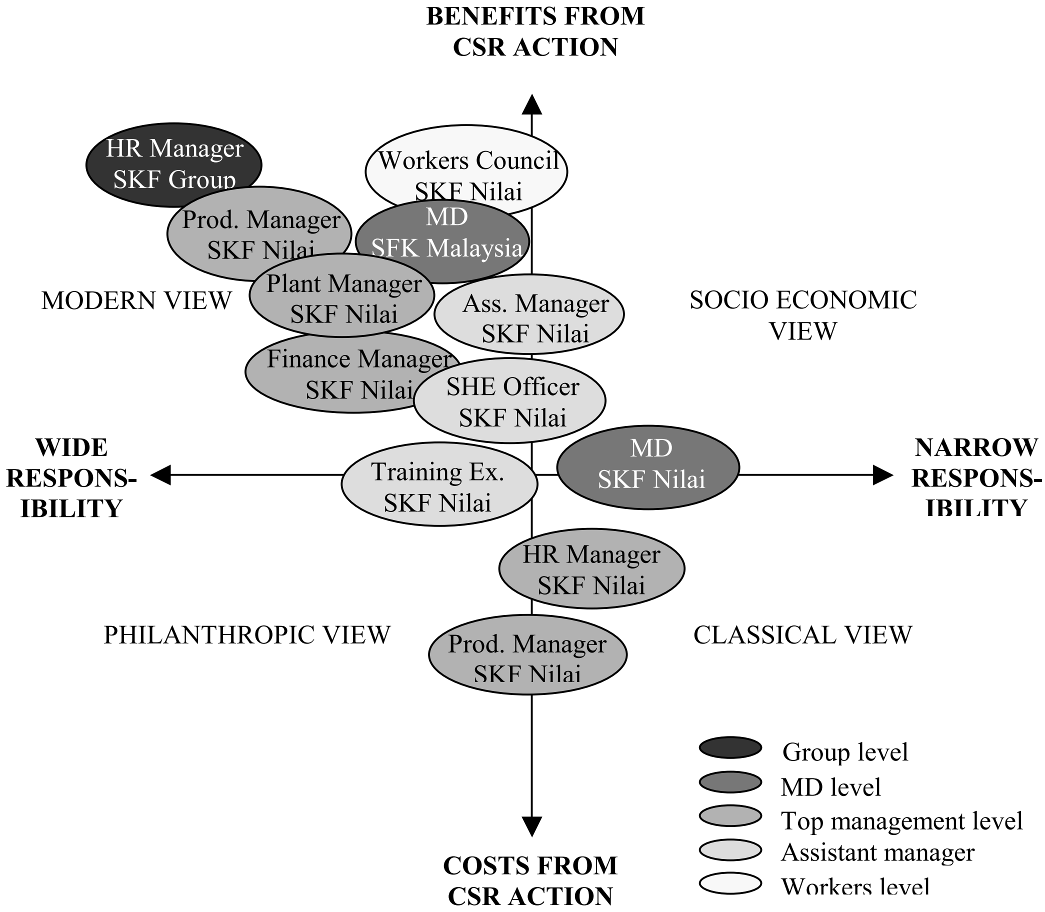
Cost focus: Being a large company with small margins, it is natural to put focus on the costs and on cost management. Rather recently, SKF entered a new phase characterised by an increased focus on cutting in costs and profit maximisation. The results are seen clearly within the organisation even though the impact of such an approach purposely has been toned down. Hence, the enforcement mechanisms are strong. SKF Nilai has become more shortsighted and do not put emphasis on business development to the same extent as before.

Early mover: SKF was one of the first large-scale companies in its industry and one of the earliest to extend its operations outside its home country's borders. The focus on R&D, product quality and customers have further enhanced the norm of SKF being an early mover in their core operations and imply a strong enforcement mechanism. SKF Nilai does not have large possibilities to act on their own, but since they are closely tied to the Group, a strategy or move initiated at Group level would easily be complied with at SKF Nilai. Thus, SKF Nilai will also be an early mover.

7.7.1 CSR IN AN INSTITUTIONAL PERSPECTIVE

Parts of the internal institutional setting are directly related to social behaviour and issues. However, in order to determine the specific rule systems, norms and values of CSR within SKF, we need to look more specifically into that matter. By using the two-dimensional model, which shows how CSR is perceived, we can look upon CSR as a specific rule system, based on norms, values, enforcement mechanisms and thought styles. In order to determine the perspective of CSR for SKF Nilai as a company we need to analyse the answers provided by the respondents, which are the employees of the SKF Group and at SKF Nilai. Hence, even though the employees are stakeholders in the microenvironment, it will be used as determining the internal rule systems since there is no universal definition within the company. According to what was presented in Chapter 6 and analysed above, we can plot each interviewee's opinion into the two-dimensional model, see figure 7.2 on the following page.

Figure 7.2 – The perception of CSR within the SKF Group and SKF Nilai according to the two-dimensional model



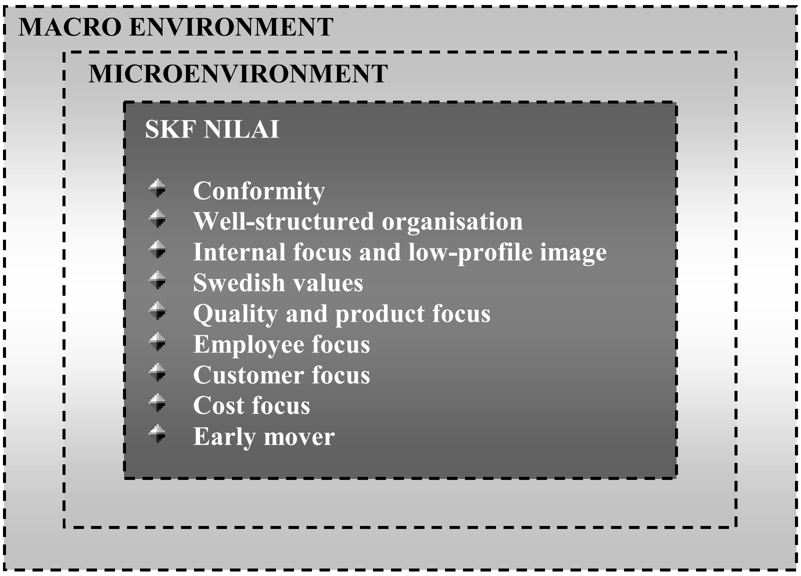
Source: Own elaboration

As can be seen most clearly in the figure above, CSR is looked upon from very different angles within SKF. Further It is not possible to discover a pattern suggesting that people operating at the same level or within the same functions have the same perspective. The two production managers at SKF Nilai do for instance have very different perspectives and the Human Resource managers, one at corporate level and one at SKF Nilai, are also far apart.

Even though most respondents have or are close to having a modern view there is no common thought style and even less a common norm or value. Hence, there will not be any powerful enforcement mechanisms. Especially conside-ring that SKF Nilai is an open and democratic company where the Managers try to balance the thoughts of all employees. Some of the respondents are closer to having a classical view of CSR.

In summary, it is difficult to say that SKF Nilai as an entity has a specific perspective of CSR since the individual perceptions of CSR are very diverse. The company can however claim to have rather common thought styles regarding CSR. There are no extreme perspectives that differ immensely from the rest of the perspectives. The social aspect is neither emphasised particularly nor totally rejected, which is a norm that very much reflects the rest of the internal institutional setting. SKF Nilai is a company with a low profile and a high internal focus, which also is highlighted by the actual activities and the perception the respondents have about SKF Nilai being an average company concerning CSR. CSR does hence not imply any additional rule systems, norms, values, thought styles or enforcement mechanisms. Please see figure 7.3 for a summary of SKF Nilai's institutional setting.

Figure 7.3 – The internal institutional setting of SKF Nilai



Source: Own elaboration

8 EXTERNAL INSTITUTIONAL SETTING

After describing the macro environment, using the business environment method, and the micro environment, and using the stakeholder view, we will in this Chapter analyse our empirical findings according to Jansson's Institutions network approach in order to derive the institutions in the external environment. First, the societal sectors of the macro environment are analysed, thereafter the actors, networks and organisational fields in the microenvironment. For the issues specifically related to CSR, there is a special paragraph in order to facilitate the forthcoming analysis of the matching between the internal and external institutional settings.

8.1 THE MACRO ENVIRONMENT – THE SOCIETAL SECTORS

Looking at the Malaysian macro environment, we found nine specific institutions, which give shape to the Malaysian society: Ethnic Diversity, Concentrated Political Power, Inconsistent Legal System, Contradictory Asian Values, Strong Family Values, Religious Freedom, Business Norms, New Technological Norms and Insufficient Education System.

8.1.1 ETHNIC DIVERSITY

The ethnic mix and grouping of Malays, Chinese and Indians is reflected in society in many ways. The diversity of different ethnic groups has a direct or indirect impact on all the other societal sectors and forms a particular and complex national rule system for Malaysia. Within each major ethnic group, there are particular norms and values, such as self-perception, which at times are conflicting. Even without the formalisation of a racial governmental policy, the Bumiputera policy, Malaysia would obviously have an informal rule system of ethnic diversity.

One formal if not written rule is to transfer the view of harmony between the different groups and that what happened in 1969 can never happen again. This could however be considered a polished surface, and beneath, some resentment can be found among the minority groups. If Malaysia was to be hit by a new financial crisis, there is for instance a rather imminent risk that the ethnic tensions would develop again.

Officially there is also the view that the relation between race and livelihood has been successfully dissolved. However, it seems there still exist certain occupational norms related to ethnic origin, some which comes more natural than others. This issue of occupational norms is of course sensitive and closely related to the characteristics of the different ethnic groups. Some people even claim that there are special norms between races regarding abilities or capacities, which shows that the Bumiputera Policy has not been as successful as argued by the government.

8.1.2 CONCENTRATED POLITICAL POWER

With the political power strongly concentrated on the Prime Minister, the thought frame of the Prime Minister is the same as the thought frame of the government with a remarkably close resemblance to an autocratic dictatorship, which gives rise to a high power distance. The Prime Minister is known for his controversial statements, but nevertheless, his rule is the only rule, which has been proved by the dismissal of many of his former companions. The Prime Minister transfers his values to more or less every issue both within politics and outside, or as is possible to express it, everything has become politics.

Characteristic for the thought frame within politics in Malaysia is the extremely high presence of racial and religious norms and values. Most of the ruling coalition parties are ethnically based, focusing on racial and religious objectives and norms. One of the most controversial formal thought styles is the Bumiputera policy, in which the government tries to create harmony in the society through a very systematic, racial political structure. For an outsider the very existence of an official, purposely racial policy might be unthinkable; even if racial policies exist in other countries, they are usually unofficial or more indirectly racial. It is incomprehensible to consider the full extent of the effects of this policy, both for individuals and for the company and the society as a whole. The formal norm is that the Bumiputera policy is accepted by everybody; nevertheless, there are many persons of different ethnic origins, which are not satisfied with the Bumiputera policy. Naturally, the strongest opposition comes from the ones who lost the most with the Bumiputera policy, but there is little they can do due to strong enforcement mechanisms regarding this issue, opposition is either controlled or dismissed.

Another complex and comprehensive thought frame created by the government and the Prime Minister is the Vision 2020, in which it is stated in formal rules that the government will downsize its role, however, the government also states that it will continue to interfere whenever necessary. Hence the governmental impact on the general though style in Malaysia will continue to be strong also in the future. It seems like the government's real intention is to keep its powerful position, enabling them to control the foreign MNCs and the domestic companies, while it simultaneously expects the private sector to engage in social issues. With an inadequate social security system and limited public social services in combination with an increased general privatisation, the norm of who will provide the missing parts is changing from the public to the private sector and charitable organisations.

Following the Prime Minister's rule system for foreign MNCs cannot be regarded a simple task, due to the fact that the government is transferring formal and informal values that are contradictory. Although the government is highly encouraging FDI in the country, the Prime Minister is at the same time making statements where he is discrediting the West and "Western values". There are even indications that the Prime Minister suspects there might be a strategy initiated from the Western world to work against Asia in general and Malaysia in particular. In Malaysia however, there is a quite strong opposition to the autocratic rule system of the Prime Minister, primarily shown in the highly Islamic states of Kelantan and Terengganu.

Formal rules from the government for foreign MNCs include the requirements on local content, technology transfer and the number of expatriates working in the company. Another area with heavy governmental interference, is the decision of where foreign MNCs should establish themselves. The norm has so far been Kuala Lumpur and the Kelang valley in the Selangor state and an informal rule is to partly overlook the states ruled by the opposition.

8.1.3 INCONSISTENT LEGAL SYSTEM

Part of the inheritance from the British era is Malaysia's rule system for the financial sector. However, some of the standards and values are not very effective since the lack of enforcement mechanisms almost can be interpreted as an informal norm, especially when it comes to the enforcement for companies that are not obeying the law. It is important to remember that a developing country like Malaysia lacks the longer history of enforcement mechanisms, which can be found in developed countries. However, the governmental authorities seem keener on monitoring and controlling the foreign MNCs than the domestic companies.

8.1.4 CONTRADICTORY ASIAN VALUES

Even if some of the Asian values are true in the Malaysian society, the expression "Asian values" does not exist as a formal or informal norm in the daily life of Malaysians. Nevertheless, certain Asian values do appear. The disliking of Westerners is occasionally present, but this thought style could change quite swiftly with the next generation, which is more open to Western influences and have other norms and values, due to studying oversees.

Regarding the "Asian view" of human rights, the values (claims) stated from governments in the region are very applicable on the official perception of human rights in Malaysia. With a formal racial or ethnic rule system and thought frame, human rights must be considered culturally specific and beyond. The second and third claims, that community takes precedence over individuals and that social and economic rights take precedence over civil and political rights, are more than visible in all the Government's or Prime Minister's policies, but especially in the comprehensive Bumiputera policy and the Vision 2020. Lastly, with an autocratic ruler like the Prime Minister human rights cannot be anything other than a matter of national sovereignty. Hence, all the values can be viewed as formal norms given by the Malaysian government.

One can have any opinion on the extent of democracy and human rights that exists in Malaysia, but it has to be remembered that Malaysia is a former colonial country that has not had its independence for a long period of time. Accordingly, a certain degree of suspiciousness towards West's attempts to transfer its rule system as the universal standard is understandable and therefore democracy and human rights might have other meanings in the Malaysian thought style. However, it is less reasonable to believe that the motive behind the West's crusade for human rights would be to hinder the development of developing countries. It is quite ambiguous when the Prime Minister's formal norms and values oppose Western values and insinuate Western conspiracy theories, while there are informal rules allowing the traders to put a premium cost on Western products, which reinforces the perception that "West is best".

8.1.5 STRONG FAMILY VALUES

One institution that highly characterises the Malaysian thought style is the family values. The family itself constitutes its own rule system, where every-body is obliged to put the family before anything else, including work and individual freedom. According to the Business System Theory, societies with strong family values and loyalty that rarely spreads outside the family are often characterised by a lack of trust for people outside the family, which also can be seen in Malaysia. There is for instance a lack of trust towards the Western world and since all business contacts must be initiated at a personal level, the lack of trust is also shown in business life.

However, with changing lifestyles, the family values will unquestionable change as well, but it will probably take a longer time in Malaysia then in many other Asian countries. This is due to conservative pressure in forms of values and norms in this issue, both from the government and from the religious institutions, not to forget that the country has a long history where the Malay-sians are used to depend on their family in every situation.

8.1.6 RELIGIOUS FREEDOM

Malaysia has an abundance of different religions with different standards due to its rich mixture of different ethnic groups, but the government has not put any restrictions on the matter of religion other than claiming Islam as the official religion of the country. There is a personal freedom of choice in this matter and people do convert to other religions than the norm given by their family. There seems to be a sort of mutual understanding between the different religious groups that is detached from the ethnic matters. There is a common thought style where all Malaysians seem to understand the importance of religious issues regardless of which religion it is, and are of course welcoming the number of national public holidays, which follows the consideration of all religions.

However, Islam is still the dominating religion and affects much of the Muslim's everyday life in Malaysia. There is for instance a division within the legal rule system with its own rules and norms, the Syariah court, which is based on Islamic thought styles and values, and only regards Muslims.

8.1.7 BUSINESS NORMS

Since the national culture of Malaysia is rather different from western cultures, the business norms also differ. Perhaps the most characteristic business norm in Malaysia, and in all of Asia, is the importance of getting to know the business partners personally before doing business. There has to exist mutual trust and confidence before the parties can progress. Hence it is more the norm than the exception to initiate a business relation in a personal manner, for instance by asking questions about each other's families or to strengthen the relationship by playing golf.

Bahasa Malayu, the official language, can also be considered a formal rule, but there is also an informal norm of English being used when persons from the different ethnic groups meet. Another informal norm in Malaysia is that business life and private life are not separated in the same way as in the Western world. Due to the integration of the work and the personal life, criticism at work could be perceived as personal criticism, whereby it might be more appropriate to communicate through a third person, instead of approaching the focal person directly. Other thought styles include high power distance and hierarchical thinking, which makes criticism towards superiors more or less impossible. A particular thought style for the Chinese, but also other groups, is the fear of "losing one's face", which has implications for the ways of doing business.

8.1.8 NEW TECHNOLOGICAL NORMS

Dominating the technology development in Malaysia, the MSC comprises much more than new techniques and amazing infrastructure and buildings. The MSC is based on three dimensions, the technology itself, a new legal framework and a new way of living, which imply new ways of thinking, new norms and values. The seven "Flagship Applications" can be looked upon as rule systems that will shape the values and norms in the new society. New such rules are:

- Paperless administration.
- Multimedia technology will be the norm in Malaysian schools
- Telecommunication will be the norm within the health care system.
- Increased focus on R&D clusters within multimedia technology.
- Time- and cost-efficiency is valued high.
- Companies with MSC status will get increased power and possibilities to market themselves in other Asian countries
- Clustering of product development, manufacturing and distribution.

The seven flagship applications will have an impact on many different areas in the Malaysian society and might become tomorrow's new rule system, whereby the Malaysians live their daily life. However, being a giant project, the effects will only show in a rather distant future.

8.1.9 INSUFFICIENT EDUCATION SYSTEM

Despite the presence of both public and private universities, the educational rule system has not managed to support the companies demand for labour. Today there is a mismatch between the norms and values inside the educational rule system and the companies' norms and values. It seems like an increased participation from the private sector will change the educational system by adding their norms and values, which also has been done, for instance through MEF.

An important rule within the educational system is the Malaysian middle class' norm of sending their offspring to study abroad. Naturally some students chose not to return to its home country, commonly referred to as "brain drain". However the Malaysian government will take action to put an end to the out flow of future skilled labour.

8.2 THE MICROENVIRONMENT

In the microanalysis we will analyse the environment closest to SKF Nilai, which according to the institutions network approach comprises the actors, networks and organisational fields that the focal company comes in direct contact with. In order to distinguish the organisational fields, an analysis of the actors and networks (stakeholders and stakeholder relations) can first be accomplished. Although the theory implies that there are both internal and external stakeholders we will not make this distinction since it has shown difficult to draw a line between them. For instance, the owner, SKF Sverige AB, can be seen as both and internal and external stakeholder.

8.2.1 ACTORS AND NETWORKS

8.2.1.1 Shareholders, owners and investors

SKF Sverige AB being the sole owner of SKF Nilai is of course setting its marks on the rule system of SKF Nilai. The norm is that the company is supposed to generate revenue for its owners and shareholders and the enforcement mechanism is rather strong. In the economic recession, the company for instance had to decrease its number of employees. The owners of SKF Nilai have however been forced to wait for its return on their investments without becoming impatient, hence, they have a rather long-term perspective. This thought style is further enhanced by SKF's membership in Dow Jones Sustainability Index.

Regarding the shareholders of SKF there is a clear pattern. Of the ten largest Swedish shareholders, most of them are large institutions operating in investment, insurance or pension sectors. Hence, the shareholders are not particularly interested in the operations of SKF; rather, they require steady returns on their investments since that is necessary for their own survival.

8.2.1.2 Employees

The low employee turnover at SKF Nilai implies that the degree of loyalty among the employees towards SKF is rather high. The high loyalty could depend on the fact that most employees value the possibilities for personal development and perceive the benefits as relatively good.

When SKF Nilai was established in 1991, most employees were passive and felt awkward with the openness and the democratic, low hierarchy decision process. Now however, the situation is totally different; the workers have gotten used to the information sharing and have developed new thought styles, where they are more active in for example their workers' council. It seems like the workers really value openness and information sharing, which is exemplified by the fact that they actually want more information, despite all the meetings that are taking place and that they feel they have problems to reach the managers.

8.2.1.3 Customers & Distributors

According to SKF's organisational structure, all the sales to export markets and to domestic customers, which are not OEM customers, shall be distributed via the regional distribution centre in Singapore, hence there is always one distribution level within SKF. Since the regional distribution centre handles SKF's products from plants all over world, SKF Nilai's customers just buy a rolling bearing from SKF and not from SKF Nilai. The bad image of "Made in Malaysia" is hence of less importance. Regarding Malaysia, the distribution centre in Singapore ships the products to the distributors and dealers in Malaysia, therefore, even though SKF Nilai is in the country, there is no contact with the domestic distributors.

Other sources of influence on the customer rule system is the rolling bearing industry in general and the industries that SKF's customer belongs to. The fact that rolling bearings are relatively simple, low-profile products, where the differences between different brands are marginal, customers makes other rules, demanding more service and other values added. The fact that the majority of SKF Nilai's customers belongs to electrical and heavy industries, general machinery and industry distribution, indicates that they apply similar rules of measuring and cost-cutting as at SKF Nilai. However, the customers demanded SKF to initiate ISO 14 001, which implies that they are aware of environmental issues.

In Asia, brand is of less importance than for example in Europe. This should however not change the rule system too much, since almost 50 percent of SKF Nilai's production is sold to European customers. What might influence the rule systems of the customers is the Asian customers thought styles regarding that SKF should behave well and operate in accordance with the norms of the government and the society. The customers, regardless nationality, also expect SKF to deliver high quality and added value for the premium price they pay.

8.2.1.4 Suppliers

Part of the supply-chain for SKF is internal. Hence, these suppliers do not have a high bargaining power and are in general following the same norms and thought styles as SKF. Since SKF demands a high quality of the products and the raw material, the suppliers also need to be quality focused. However, there are also external, local suppliers of SKF Nilai. Regarding these local suppliers, they are not really important for the actual products, whereby their bargaining power is low. Since there usually is a regulation regarding local content, the Malaysian suppliers to foreign MNCs are rather dependent on the large MNCs.

8.2.1.5 Competitors

SKF Nilai has a rather special position on the Malaysian market since they are the only major rolling bearing producer in the country. Nevertheless the majority of Nilai's products are sold on export markets where the competition is intense.

SKF's most important market in Asia is Japan and the majority of SKF's competitors in Asia are Japanese, controlling the Asian market and thereby setting the rules of the market. Japanese subcontracting-networks, so-called Keiretsus, make it difficult for SKF to compete with Japanese rolling bearing companies.

Since SKF applies internal competition, the other production plants have to be regarded competitors to SKF. However, there are no different rule systems or thought styles within these companies since they all belong to the SKF Group.

8.2.1.6 Governmental authorities

In a country like Malaysia, where the governmental interference is heavy, a foreign MNC must follow the formal but also informal rule systems of the governmental authorities, which are powerful. However, they are somewhat contradictory. For instance, the official rule is that MIDA's representative offices in each of the different states are supposed to encourage establishments in all states. Nevertheless, it does not work equally smoothly in the states ruled by the opposition.

To be able to conduct business in Malaysia, it is further necessary to follow the informal rule of "give and take" in the relations with the neighbours, governmental authorities, employees and other people related to the company, even though there are no formal rules regarding social issues. The informal expectations from MIDA are that companies should not only follow the minimum standards but also apply the standards of the home country to the host country. Equivalently, MITI highly values companies taking their responsibility and the informal thought style that MITI transfers comprises an ideal situation where the company has a broad perspective of the whole society, is familiar with the country culture and knows how to conduct business in Malaysia.

However, the enforcement mechanism seems to lack in function. MIDA for instance has some formal guidelines regarding environmental care, but does not appear to have an enforcement mechanism to monitor and control the behaviour of the companies. The norm is also that once the foreign company has established itself, the contact between the company and the government is handled by other institutions and non-governmental organisations, which further enhances the weak enforcement.

8.2.1.7 Interest organisations

MASBA, which emphasis on social issues, is with 60 percent of their members being Swedish, highly influenced by Swedish norms and values. Two other voluntary interest organisations with a totally different alignment are FMM and MEF. These organisations work more like communication channels between the companies and the government and manage practical problems more than social issues. Both organisations' rule systems are highly influential on the government's own rules and norms. These organisations also have an impact on the companies' rule systems, especially FMM, which operate on a state level with branches in each state and therefore has the opportunity to take part of forming norms and values in the particular state.

Regarding social issues, the thought styles of FMM and MEF include that there exists a mutual dependency between companies and the society, and that the initiative to take on social activities should be set by the companies and not by the government. Hence, FMM and MEF want to see less governmental interference.

The norms and values of FOMCA, emphasise the interests of the general public and are striving to increase the power of the consumers and common people. By building up awareness among people, FOMCA tries to increase the civil courage, to support people that do not want to comply with the rule system of the companies. Hence, FOMCA does not have any real impact on the foreign

MNCs, rather on their end consumers. Therefore, they would like more governmental interference.

The two most powerful interest organisations hence seem to be FMM and MEF, both with substantial influence over the governmental authorities and over the MNCs, which has shown in several cases. Due to constant lobbying for instance, supporting the MNCs aversion towards real labour unions, unions tend to have rather low status also at the governmental authorities. Further, it seems like other interest organisations, such as FOMCA, have limited real influence over the governmental authorities since there is no evidence of that any of their ideas have been given emphasis in the governmental authorities.

8.2.1.8 The community

Nilai has gone through a quick development from having been a small, rural town, with agriculture as the basic industry; to the more modern industry area it is today with both domestic and foreign MNCs and some local authorities. The risk with such a rapid development is that the thought styles, norms and values of the people have not developed at the same pace and the community is still dependent on the foreign MNCs since it has not the same attractiveness as for instance the Kelang valley.

Besides the SKF factory, private houses are located but at the moment, it does not create any particular rules. In a developed country however, the closeness of private accommodations would have implied substantial regulations and responsibility for a company. Nevertheless, the rule system can change with an upswing of the state's economy, which might happen with the federal governments decision to establish a new university in Negeri Sembilan.

The fact that the demographic structure in the community is characterised by a large amount of Indians might affect the rule systems of the community, but since the ethnic mix is present everywhere, it is a large influence.

8.2.1.9 Media & General Public

There is a special relationship between the media and the general public. Even though the media is setting the rules, deciding what to show to the world, the media is dependent on the general public for its power. Simultaneously, media has an insight in both the companies and the community and therefore work as a communication link between the community, the general public and the companies. The media consequently has the power to change the public opinion, which makes it an increasingly powerful actor.

Media has changed the rules of how companies can behave. By setting new rules the companies must change their norms from where they transfer a "trust me" culture to a culture characterised by "tell me" and "show me", where the companies must prove that they have genuine intentions, not only say it. The globalisation of media has also made information more accessible to the general public in developing countries and has also led to that a mistake in one part of the world might have implications for the image and reputation in another parts. It is however not only the global media networks that focus on environmental and social issues, the awareness is also increasing among the domestic media actors and consequently among the general public. Another factor contributing to the increased awareness of the general public is the appearance of different non-profit organisations, such as FOMCA, which are work to increase the awareness of people.

However, there seem to be different rules for business-to-business companies and business-to-customer companies, where the latter category must keep a higher profile and is more exposed to the general public.

8.2.2 THE ORGANISATIONAL FIELDS

Looking at what has been analysed above, the formal and informal rule systems, norms, values, enforcement mechanisms and thought styles of the actors and their networks constitute certain institutions, organisational fields, which together comprise the micro environmental institutional setting of SKF Nilai.

8.2.2.1 Product market

SKF Nilai's product market is represented by SKF Nilai, suppliers, customers, distributors, competitors and other SKF companies. The market is affected by the fact that rolling bearings are a relatively simple, low profile product and not very visible for the end customer. Since the rolling bearing market is rather mature, with limited product differentiation between different brands, the manufacturers together with the customers have driven a development where the focus is not only on the actual product, but also more on service and added value. Hence, the development is driven mutually between the companies and their customers. Neither part has a large bargaining power vis-à-vis the other part. The different preferences among the customers depend on their geographical location and imply a rule system where also geographical differentiation is present but perhaps not as strong as for more sophisticated consumer products.

Most companies in the product market are large companies; hence there is a general awareness among all actors. The customers are rather aware of how the manufactures of rolling bearings is conducting their operations and are assuming that the producers behave well and take their responsibility. The manufacturers are at the same time paying much attention to what the customers value and require. There are in general the same kind of thought styles, norms and values present among the companies within the market, implying focus on cost cutting and measurements of the results, as within SKF.

The market is further characterised by a networking approach. Distributors and suppliers are internal, which Japanese Keiretsu systems are examples of. According to the Business System Theory, the importance of such networks witness of a general lack of trust.

8.2.2.2 Official establishment

The official establishment incorporates the governmental authorities, but also the non-governmental interest organisations since they are closely related to the government. Malaysia is a country with heavy governmental interference and also the interest organisations, speaking for the sake of the private sector, are strong.

The rules given by the governmental authorities are both formal and informal and they are combined with strict enforcement mechanisms. However, the enforcement is less powerful considering environmental and social issues and there is a difference in enforcement between domestic and foreign MNCs. Nevertheless, it seems like the authorities want the MNCs to take more responsibility than what is mandated by law. Hence the heavy governmental interference is quite selective. The non-governmental interest organisations also believe that the private sector should act responsibly and that it should not be compulsory by law. It should instead be part of the companies' strategies and they should have a holistic view of social responsibility. Also the responsibility of enforcement and monitoring should stay within the private sector, which reflects the real situation today to a very large extent. Thus, the thought styles, norms and values of the official establishment are very much characterised by an expectation on the private sector to take a broad responsibility for its actions and surroundings and to be self-regulating.

Given the relative power of FMM and MEF vis-à-vis FOMCA, the interests of the companies are regarded to a larger extent than the interests of the consumers by the Malaysian official establishment.

8.2.2.3 Public interests

The public interests can be represented by the community, the general public and media and is the unstructured equivalence to the official establishment. Also FOMCA can to a certain extent represent the public interests since they consist of independent consumer organisations and are engaged in increasing the power of the consumers and in building up awareness among common people.

The development within media towards global reporting and the increased awareness among common people has increased the pressure on MNCs to behave in a responsible manner. The consequence of globalisation can therefore be that if environmental pollution or a social scandal happens at one subsidiary, it could affect the entire company even though it might be situated in another continent. The exposure to the general public can sometimes work as an enforcement mechanism, which forces the MNCs to change their norms. However, there is a clear difference between the public interests of the business-to-business sector and the business-to-consumers sector.

The Nilai area has undergone a severe change during the last decade and is today a more developed community, where increased awareness among the citizens is a natural development. It could however not be compared with the closely situated Kelang valley and is still dependent on quite a few number of companies. The community is in turn quite vulnerable to the influence of SKF Nilai and the other MNCs in the area. With a stretched budget, the community becomes dependent on the welfare of the MNCs. The community's ability to offer the MNCs an attractive business environment affects its economical bargaining power.

In general, people's awareness about the MNCs behaviours seems to increase, which puts larger pressure on the companies to behave well.

8.2.2.4 Financial market

Malaysia's financial market is no exception to the heavy governmental interference and comprehensive regulations. However, Malaysia's financial market does not operate in isolation from the outside world. Companies partly or wholly owned by foreign shareholders will be affected by foreign values and norms and even to a larger extent by foreign analysts. Hence, the norms, values and enforcement mechanisms of the analysts will have a large impact on the value of the company and these are quite strong. The financial situation for SKF and SKF Nilai has earlier been characterised by short-termed, speculating analysts and investors, where revenue always is a prerequisite, but is becoming increasingly long-termed, of which the Dow Jones Sustainability Index and the owners' patient are examples. The fact that most of SKF's shareholders are Swedish pension funds and insurance companies might however inflict on the long-sightedness, but also within these companies is a long-term perspective becoming increasingly prioritised.

8.2.2.5 Labour market

Since Malaysia is yearly tapped on its prime future labour due to the outflow of students oversees, commonly referred to as the "brain drain", it can be considered rather difficult to find skilled labour in Malaysia. However, this might be hampered in the future thanks to ambitious schemes to attract Malaysians abroad to return to Malaysia. The access to skilled labour also varies to a large extent between different areas. Agricultural traditions in Nilai do of course affect people's perceptions of working in a factory and they lack the necessary skills. Further, Negeri Sembilan does not have a university, which hinders the development of new skilled labour and thereby also the establishment of foreign MNCs. The establishment of a new university in Nilai will however increase the access to skilled labour, which will change and create new norms.

Two characteristics of the societal sectors that according to the Business System Theory influence the organisational fields are reflected in the labour markets. These are the high power distance and the lack of trust for people that are not part of the family. There might therefore be problems with loyalty and efficiency, and low reciprocity between superiors and subordinates.

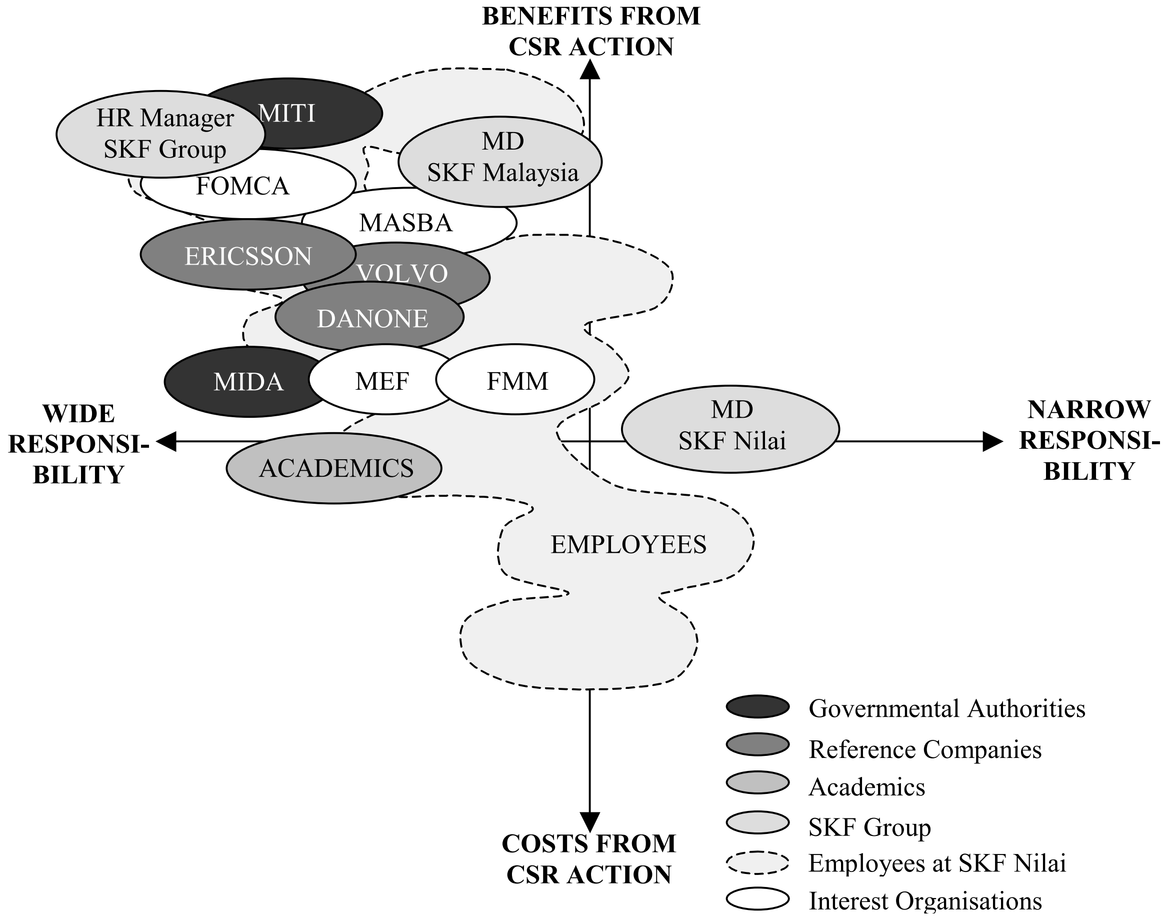
8.2.3 CSR IN AN INSTITUTIONAL PERSPECTIVE

After looking deeper into the organisational fields, searching for different rules and norms, we will now use the two-dimensional model of CSR to view how the different actors specifically perceive CSR, that is, which norms, values, thought styles and enforcement mechanisms that are connected with CSR. Some actors' values and thought styles are missing, such as customers and suppliers, due to lack of empirical data. Volvo, one of the reference companies, could however be viewed as a customer since they utilise rolling bearings in their production. All three reference companies could further be regarded as competitors. Not directly in the rolling bearing industry, but as competitors for skilled labour, for support from the government and for attention in media.

There is no specific data about the general public. However, since CSR is a rather subjective issue, each individual respondent can, apart from being part of a stakeholder group, also be seen as an actor in the general public. Also the academics have to be considered parts of the general public since they do not constitute direct stakeholders of SKF Nilai on their own.

Regarding the employees and owners, they are both part of the company and actors in the microenvironment, since they are internal stakeholders. Even though the employee's answers were used in the internal analysis to determine the perspective of CSR at SKF, they also have to represent the employees as a stakeholder group here in the micro environmental institutional setting. The question is who should be regarded as employees and who should be regarded as employers at SKF Nilai of our interviewees. As far as we are concerned, the employees of SKF Nilai are those that work at the factory and that fully or partly were employed by someone at the factory. Thus, we can exclude those respondents that are not working at the factory plus those that fully were employed by people outside the factory. Consequently, those to exclude are the Corporate Human Resource Manager, the Managing Director of SKF Malaysia and the Managing Director of SKF Nilai. Simultaneously, these people could be regarded part of the SKF Group since they are employed at this level, even though the two MDs work at two of the subsidiaries. Their viewpoints could be a reflection of the perspective of the SKF Group.

Figure 8.1 – The perception of CSR for the stakeholders of SKF Nilai according to the two-dimensional model



Source: Own elaboration

Judging from their position in the model, all the external stakeholders have rule systems that are in accordance with the modern view, hence, it is their belief that private companies should take a rather wide social responsibility and that such actions will give rise to valuable benefits. There are however some differences among the external stakeholder groups.

The reference companies have wide perspectives regarding to what extent companies should take CSR. They also seem to value CSR, since they believe that CSR action mainly cause long-term benefits. In these companies, CSR is rather embedded in the organisations whereby it becomes the norm. Ericsson is the largest of the three reference companies and is also the one viewing CSR most widely. Whether there is a relation between size and perception of CSR cannot be judged with the limited empirical material we have, but Ericsson, being one of the largest companies in Malaysia, of course has the largest possibilities to take a wide CSR.

Even if all the interest organisations can be considered as having a modern view of CSR, the model visualises a split between the four different actors within this group. While FOMCA's and MASBA's thought styles include an intense focus on benefits from CSR action, MEF and FMM have a limited view of CSR. It is interesting to note that FMM, being a representative of the manufacturing companies in Malaysia, has the narrowest perspective of CSR among the external stakeholders. Also noticeable are the both governmental authorities' very broad perspective regarding to what extent companies should take on a social responsibility. The difference in opinions between MITI and MIDA might be explained by the fact that MIDA operates closer to the companies, while MITI has a more distant relation.

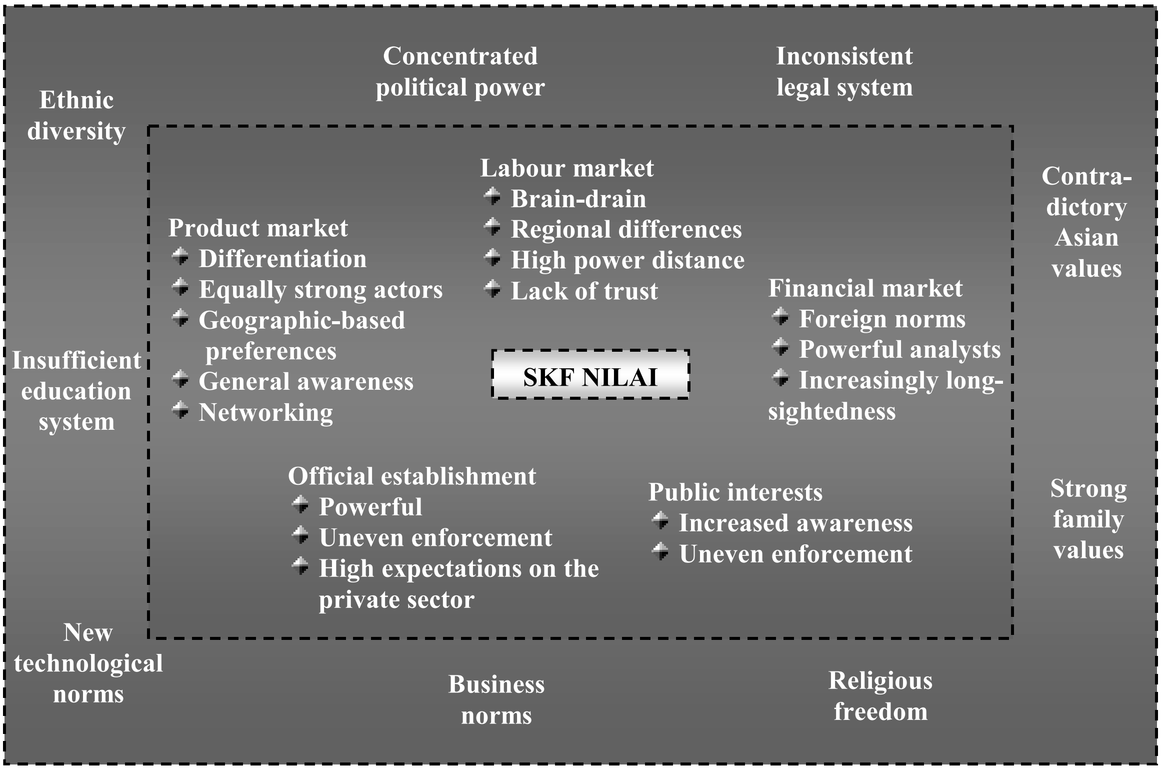
Hence, the organisations and companies directly in contact with the industry have a more cautious approach towards the benefits that can be gained from taking on CSR. Since MIDA, FMM and MEF further are strong players, their opinions are the most influential and the more cautious approach is thus the most dominant rule system. Looking at the positioning of the reference companies and the interest organisation together, shows that the private sector definitely has the norm of taking a wide social responsibility.

Since the employees' perspective of CSR was analysed in the internal institutional setting, we will not provide such an analysis again, but refer to paragraph 6.7.1. In summary, we can see that there is no cohesive norm among the employees at SKF Nilai. There are large differences in opinions, looking both at the SKF Group level and for the employees at SKF Nilai,. These differences might be a result of within which company or division they are active. SKF Malaysia is the sales office and has direct contact with more of the stakeholders than SKF Nilai, which only is a production plant. Hence, the MD at SKF Malaysia can see the benefits from engaging in CSR more directly and has also greater possibilities in taking a wider responsibility. At the SKF headquarters, it is reasonable to believe that it is easier to have a complete picture of the entire SKF Group, whereby also the perspective of CSR can be wider.

Finally, the general public could, as we argued above, be represented by all the respondents since they have answered our questions from a personal perspective. Hence, the general public has a rather large span. Nevertheless, most of Malaysia's general public has a modern view of CSR, where the general norm is that companies should take on their social responsibility to a rather large extent.

In summary, the view of CSR in SKF Nilai's microenvironment is rather diverse. However, most stakeholders have the modern view and hence expect SKF Nilai to take a wide social responsibility. Looking at which effects the perceptions of CSR have on the organisational fields, not much can be added to what has been said before. The perceptions of CSR do hence not give any specific rule systems, norms, values or thought styles; rather they strengthen the institutional patterns that already have been described. That CSR is viewed in a modern way does for instance relate to the norm within the product market that there is a need of differentiation in not only the product but also in the services and related activities, which might be CSR. It has further also been shown previously that the product market is well aware about social and environmental issues and that networking is an important approach, both which refer to the concept of CSR. In the organisational field of the official establishment, the perception of CSR reflects the norm that private companies are supposed to take a large responsibility without governmental interference. Please see figure 8.2 for a summary of the characteristics of the institutions in the macro and microenvironments.

Figure 8.2 – The external institutional setting of SKF Nilai



Source: Own elaboration

9 HARMONISING THE INSTITUTIONAL SETTINGS

Having analysed the internal and external institutional settings, in this Chapter we provide the analysis of SKF Nilai's achievements in finding a harmony between these two institutional settings. Hence, there will be an answer to the first research problem. The link between the internal and external institutional settings is determined by a company's strategies, whereby the strategies of SKF Nilai are the main focus in this Chapter. First, there will be an analysis of to which extent SKF uses strategic innovation and thereafter follows an analysis of which matching strategies SKF Nilai has pursued. However, since SKF Nilai is not participating in the whole value chain of SKF, it is also necessary to analyse the general SKF strategies in those cases. Finally, there is a summarising paragraph about how SKF has created harmony between the internal and external institutional settings, based on to which extent CSR is utilised in this process.

9.1 STRATEGIC INNOVATION

So-called strategic innovation becomes important in mature industries, and the rolling bearing industry must be considered mature. The products, independent on which the manufacturer is, have a high degree of similarity, the competition is fierce and even though SKF has been able to make product innovations, the opportunities are rather limited. Further, the majority of customers operate in mature industries. Strategic innovation means that companies seek to innovate and differentiate in their strategies, which is achieved through including people from further down the organisation in the strategy formulation; new approaches in structuring the operations; creating customer value through "conflicting" approaches, for instance lean production; and formulating new strategies by identifying the company's resources and capabilities.

Looking at SKF Nilai, they do not have many possibilities to formulate any strategies on their own since they are closely related to the SKF Group and the Electrical Division. Therefore, the strategic innovation mainly occurs at Group level. Due to the above-mentioned fact, the possibilities to include people from further down the organisation are small. Regarding new approaches in structuring operations, SKF has restructured their organisation several times, especially at SKF Nilai. Initially, SKF Nilai was structured to exclusively supply the Asian market with products, which was a new approach of structuring the operations. However, due to difficulties in maintaining the flexibility, the new structure had to be abandoned. Hence, being such a large company involving in traditional operations does not give room for much new approaches in the structuring. The company is today structured after ABB as a model.

Regarding the creation of customer value through approaches that formally were seen as conflicting, SKF has succeeded in its achievements. The products are of a high quality and have a strong brand name, there are good capabilities in after-sales services and the company provides a broad product range. Simultaneously, SKF has reached economies of scale and is good at cost management. Being a traditional engineering company, SKF is very focused on its products and processes, which by definition does not imply strategic innovation. However, SKF has a good resource in its product, processes and has a strong capability in product development and has for instance developed the successful Explorer bearing. They are well aware of these resources and focus on them when formulating new strategies. Conclusively, SKF has a certain degree of strategic innovation but is normally more traditional in its strategy formulations, and where there is strategic innovation, it is generally directly related to the products.

9.2 MATCHING STRATEGIES

A company's specific strategies of how to connect its internal institutional setting to the external are called matching strategies. There is a wide range of strategies and tactics to pursue, from passive to pro-active. (Figure 3.5)

9.2.1 MATCHING THE SOCIETAL SECTORS

9.2.1.1 Ethnic diversity

The complicated formal and informal rule systems deriving from the ethnic diversity in Malaysia where each ethnic group has its own particular norms and values are deeply rooted in the society and are difficult to understand for a foreigner. Hence, foreign MNCs need to take a rather passive matching strategy since there is little possibility of changing such strong beliefs and perceptions. Since SKF has Swedish values, which do not include differentiation of different ethnic groups, it might have been difficult initially to comply with the Malaysian ethnic diversity. SKF Nilai therefore pursued a matching strategy of *compromise*. The Swedish values were *balanced* with the norms of ethnic diversity, which is exemplified by the fact that the Human Resource Manager is a Malaysian who probably has an understanding of the ethnic diversity. It might however be a disadvantage since there might be risks of the employees accusing him of being subjective, unfair and favouring people from his own ethnic group.

Since there are no formal tensions between the ethnic groups, there is no risk of open conflicts within the company. However, and as is implied by some of the employees, there is an informal segregation. Internally, SKF Nilai has tried to *defy* this segregation by arranging family days and encourage teamwork.

9.2.1.2 Concentrated political power

The Malaysian political power is strongly concentrated on the Prime Minister and his formal rule system towards foreign companies is contradictory. However, the contradictory approach was *avoided* by SKF through the company's *escape* from the governments' suspiciousness. SKF chose to establish in Nilai because of the incentives given by the government, which implies that they clearly *complied* with the political system, and have therefore been well received. Being located in one of the "cooperative" states, SKF Nilai has not had any further problems with discriminatory policies and has easily been able to pursue its matching strategies. For the requirements on local content, SKF Nilai *compromised* with the policy. The company successfully *bargained* with the government and is today exempted from the rules of physical local content in the products since the working force constitutes the "local content" in form of value added. For the technology transfer SKF Nilai has used its quality and product focus, utilised a manipulative matching strategy, and *influenced* the Malaysian industry sector, since the company was, and still is, one of few companies within its branch to have such a high degree of refinement in the processes. For the other formal policies, such as the Bumiputera policy and the Vision 2020, SKF has used *acquiesce* matching strategies.

As stated in Vision 2020 and as can be seen in the privatisation process, the government downsizes its role, which leads to an expectation on the private sector to engage in social security services. There are different opinions regarding to how large extent social responsibility is taken within SKF Nilai, but generally, there is a *compromise* strategy, which is much in line with SKF's own rules and values. SKF Nilai lies a bit above average regarding social and economical benefits to the employees. They have a pension fund, health care insurance, reduced working week, offer summer employment for the employees' children, and give loans to the employees for cars, houses and studies. However, more could be done, which is seen by the respondent's suggestions for increased CSR activities, and there has accordingly been a *bargain* tactics. Being a huge company with rather powerful functions at corporate Group lever, there is further little room for the individual companies to take action, whereby there might have been a *habit* tactic involved. SKF Nilai has done what is the habit within the Group. Some norms have also been *avoided* since SKF Nilai often receives requests for charity but does not obey these demands each time, which results in SKF being a low-profile company with strong focus on internal matters and cost management.

9.2.1.3 Inconsistent legal system

In Malaysia, there are formal laws and regulations that are built on a solid basis but there is a lack of enforcement, especially for punishing companies that are not obeying the law, and certain laws are difficult to understand and follow. SKF Nilai *complies* with the national and state law to the largest possible extent but for certain laws, the tactic has been to *dismiss* the parts that are difficult to impose. In order to still appear as a good corporate citizen, SKF has therefore, despite its value of openness, for certain legal matters *avoided* the regulations by *concealing* the real actions. Finally, for the strict laws on employee dismissal, SKF had to *defy* the law and created the so-called voluntary separation schemes, which can be seen as a *challenge* to the established system and as a result of an intensive cost and employee focus.

9.2.1.4 Contradictory Asian values

The contradictory Asian values of course affect SKF and other foreign MNC's. That human rights are culturally specific is *defied* within SKF since they are of the belief that all employees should have the same rights. The value that the community takes precedence over individuals was *challenged* since the employees were given empowerment and possibilities to contribute in the decision-making. The company is also focusing on individual education and development, which derives from the fact that SKF is employee focused. Simultaneously, teamwork is encouraged, which can be seen as an *imitation* from SKF's side. However, the teamwork value is well established at all levels within the SKF Group and might therefore constitute a *habit*.

Initially, the *influence* SKF tried to put on the employees was not very successful since many found it difficult to work at SKF. Today, however, the situation is changed and SKF has actually *caused a change* in thought styles among the employees, at least internally. The beliefs about social and economic rights taking precedence over civil and political rights, and human rights as a matter of national sovereignty have been *complied* with.

The ambiguous values about the West have not really affected SKF since the company has been well received and there has not been any problems internally with having expatriates working at the plant.

9.2.1.5 Strong family values

The strong Malaysian family values have been *complied* with at SKF Nilai. If an employee for instance has an ill relative, the company will let her or him take the day off. However, some respondents claim that there is segregation between different groups, levels and departments at SKF Nilai, which implies that there is no family culture present. The company has *avoided* the importance of creating a familiar culture where all employees feel they are proud and part of the company. These problems are however probably not too severe since the workforce is rather young and the strong family values are beginning to erode among young people.

9.2.1.6 Religious freedom

SKF Nilai has utilised an *acquiesce* strategy regarding religious freedom and ceremonies since it has *imitated* the structure of the different religions holidays and celebrates those. They also provide a praying room for the Muslims and there have not been any conflicts or problems based in religious matters, which implies that the religious freedom is *complied* with.

9.2.1.7 Business norms

There has been a *compromising* strategy at SKF Nilai regarding the Malaysian business norms. The respondents believe there is a healthy *balance* between Malaysian and Swedish norms and values. Further, SKF Nilai also had to *balance* the different norms, values and thought styles of the different ethnic groups in order to retain an efficient production and follow their own rule system of treating all employees equally.

9.2.1.8 New technological norms

Since SKF Nilai is not located in the MSC or given MSC status, they are not directly affected by the corridor. Further, SKF Nilai is not operating in the IT industry whereby the MSC concept to a certain extent is *escaped*. However, new rule systems will also follow for companies outside the corridor but not in the near future.

9.2.1.9 Insufficient education system

Since SKF was the first foreign company in Nilai and one of the first to have such an advanced refinement process, it experienced the difficulties of finding skilled labour. SKF Nilai has then been *innovative* and has itself given the employees the appropriate education. Hence, SKF has *complied* with the demand on increased participation from the private sector in the educational system.

9.2.2 MATCHING THE ORGANISATIONAL FIELDS

9.2.2.1 Product market

Being the largest rolling bearing producer in the world, SKF has clearly had a large impact on the product market. Since the market is rather mature it has been a prerequisite to *move fast* and *cause changes* in order to stay competitive, which SKF also has done. Together with the customers and competitors, SKF has driven a development where the focus in the product market is not only on the actual product anymore. Hence, SKF has *complied* with the rule system of driving the development together with the customers and competitors. Since rolling bearings are relatively simple and have a low profile, differentiation would have to be done in other areas than the physical product, such as in related services and brand name. SKF has been very pro-active in this development, especially regarding customer education, which can be seen as an *innovative* matching strategy that has *caused changes* in the institution. SKF has also been innovative in product development and quality and has therefore been able to create a strong brand name. The fact that SKF was one of the earliest large-scale companies in the industry and made an early move outside its home country, has of course also led to the strong brand name. Hence, SKF's ability to *move fast* has enabled them to become the world-leading manufacturer of rolling bearings.

The SKF Group has also contributed to *manipulating* the rule system. They have strict rules for which suppliers to cooperate with and need to approve all main suppliers for the individual subsidiaries. Hence, SKF is to a large extent *controlling* the suppliers.

SKF in general and SKF Nilai also have a strong customer focus where the company tries to listen to the customers and obey their demands, such as for high quality, strong brand name and responsible manners. Hence, SKF has simultaneously taken on an *acquiesce* strategy. However, the Asian customers do not emphasise the brand name as much as European and American customers do, and since SKF Nilai is controlled by the SKF Group and Electrical Division, which give little room for national or regional differences in preferences, SKF Nilai has not been able to comply with this preference. Hence, SKF Nilai has *avoided* this rule system and produces the products that are required at Group level. Regarding the responsibility towards the customers, no one at SKF Nilai mentioned the customers as part of the company's CSR, which implies a *buffer* matching tactics. SKF Nilai hardly has any direct contact with the customers and therefore mainly seems engaged in their specific operation of manufacturing rolling bearings.

The high level of networking within the market has partly been *imitated* by SKF, which increasingly engages in total customer solutions and services, and has tried to build networks. There are also, as in the Keiretsu systems, internal supply and distribution chains within SKF. Looking at these matters from SKF Nilai's point of view, the company does not have any own decision-making power, whereby there is a *comply* strategy with the SKF Group's instructions.

9.2.2.2 Official establishment

Even though SKF Nilai is a member in many of the non-governmental interest organisations and has good contact with the governmental authorities, it is a rather inactive participant. Hence, the general matching strategy towards the official establishment has been to *acquiesce*. However, for certain rule systems, SKF Nilai has been more pro-active. SKF has for instance come far in environmental care, which could be seen as a *manipulative* matching strategy where the company *co-opts* the governmental authorities. The company for instance performed an internal investigation after the oil leakage although the governmental authorities did not require it. Such a strategy might be a result of the difference in enforcement between domestic and foreign MNCs, which means that SKF has a higher pressure to be a good corporate citizen than domestic companies. Simultaneously, SKF has *dismissed* parts of the environmental norms and values since they are difficult to impose.

The governmental authorities and non-governmental interest organisations believe that foreign MNCs should be pro-active and self-regulating without governmental interference. SKF Nilai does reach further with its activities than what is mandated by law in most cases, whereby there is a *comply* strategy present. However, given the internal rule system of SKF Nilai having a low profile image, the efforts cannot be considered radical and the company can therefore be argued to pursue a *habit* or *balance* tactic. The company is hence rather *compromising* than being innovative and pro-active.

9.2.2.3 Public interests

Being a low profile business-to-business company with merely production responsibility, SKF Nilai does not appear in the media on a day-to-day basis and is not particularly affected by the norms and values of FOMCA. Therefore, the public interests do not work as an enforcement mechanism on SKF Nilai. However, the awareness among common people increases and SKF Nilai tries to find the best way in obeying the public interests, hence taking on a *compromise* strategy by finding the right *balance*.

Since Nilai at the time of SKF's establishment was a small, rather undeveloped town, SKF Nilai has had a fairly high level of impact on the community, for instance by employing the inhabitants, improving the infrastructure, engaging in the education and in cooperations with other companies in the area. Thus, SKF Nilai has taken on a *manipulative* strategy, and due to the low bargaining power of the community, the company was able to *control* the rule systems, at least initially. Today however, there are many foreign companies in the area and SKF Nilai has had to *comply* with the new values and norms created by their presence.

9.2.2.4 Financial market

The fact that SKF is one of 230 companies at the Dow Jones Sustainability Index and that it has been successful for many decades shows that the company has *complied* with the rule system of becoming increasingly long sighted. However, there are signs of shortsightedness, such as an increased focus on cost cuttings and rapid profit maximisation, which implies that SKF has utilised an *avoid* matching strategy. It might also have been done by *habit* since SKF is a traditional engineering company, where cost focusing and profit maximisation are natural elements in the operations.

9.2.2.5 Labour market

The difficulty of finding skilled labour has also affected SKF Nilai, which had immense problems initially. In such a situation it is imperative to be pro-active, which was not any problem for SKF Nilai since the company is employee focused. SKF Nilai was *innovative* and provided its own education and on-the-job training. The company's mere existence has therefore *caused a change* on the labour market.

The high power distance reflected in the labour markets has not been complied with within SKF Nilai since there is high reciprocity in the company. SKF Nilai, being part of a Swedish company pursuing Swedish values, has acted like the Group usually does and has hence used a *habit* tactic. SKF Nilai has however also *influenced* the employees who today are used to the low power distance, and therefore the labour market in the area.

Lacking a general trust, Malaysians sometimes have difficulties working with non-familiars and therefore become less loyal and efficient. Initially, SKF Nilai had problems of this kind but today has a loyal and efficient workforce. Hence, SKF Nilai succeeded to *manipulate* the lack of trust for non-family members through its open-door policy, teamwork encouragement and compliance to the family values.

9.2.3 MATCHING PRINCIPLE

The matching of the internal institutional setting with the external can be done from two principles: the efficiency based and the legitimacy based. Pursuing strategies in order to seek cost-efficiency and profit maximisation means that the company uses the efficiency based principle. The legitimacy based matching principle means that the company pursues strategies in order to gain support from the actors in the microenvironment, involving following the institutions or developing them in a positive way. The three sub groups, technical legitimacy, regulative-/procedural legitimacy and social legitimacy refer to the economic performance; the adherence and respect for the country's laws, procedures and bureaucracy; and a behaviour that is in accordance with fundamental values and attitudes in the society respectively.

The SKF Group and SKF Nilai do not pursue pure efficiency based or legitimacy based matching principles; there are elements of both principles. Having the goal of attaining long-term and sustained profitability, it is natural that the company pursues its matching strategies according to the efficiency-based principle. Seeking cost efficiency and profit maximisation has for instance led SKF Nilai to make employee dismissals, even though the laws strictly opposed such dismissals. The SKF Group further has to approve all major suppliers and the company complies with the financial markets. Technical legitimacy matching has been made for the rule systems in the community. Nilai has gained from SKF's mere presence in the area and is somewhat dependent on the company's economic performance. The regulative-/procedural legitimacy principle has mainly been used in the matching of the formal policies and legal system.

According to the theory about matching strategies, the social legitimacy matching principle is expressed through the company's Corporate Social Responsibility. Hence, by looking more specifically into how SKF Nilai has matched the norms, values, thought styles and enforcement mechanisms regarding CSR and what they actually are doing within the area, we can determine to which extent SKF Nilai uses the social legitimacy matching principle. Such a matching analysis can be accomplished through utilising the CSR matrix. According to this model, the essence of CSR is a valuable stakeholder dialogue and the importance of building relations and networks with the actors in the microenvironment. Therefore, the main focus of the analysis has to be on the stakeholders and the company's relations with those.

Firstly, there is a need to detect the most important stakeholders, the actors according to the institutional network approach, which is done through evaluating the surrounding actors according to three issues:

4. Authority
5. Contribution/influence
6. Outcome of relation

Secondly, there needs to be an analysis of what the dialogue with and activities for the key stakeholders (actors) should contain; that is, which are the key issues of CSR. In other words, the rule systems, norms, values among the institutions and actors. We hence believe these key issues can be determined through looking at what our respondents said concerning CSR but also through looking at the general rules, norms, values, thought styles and enforcement mechanisms of SKF Nilai and their key stakeholders.

9.2.3.1 Key stakeholders

After using the three questions we were able to screen the actors of SKF Nilai and we have found the following key stakeholders to be the most important. Some stakeholders are not direct stakeholders to SKF Nilai but still very important since they are stakeholders to the SKF Group.

A. SKF Group & Electrical Division

There is a clear dependence between SKF Nilai and the group, which must be considered a stakeholder with authority. Even if the geographical distance between the electrical division in Italy and SKF Nilai is huge, the electrical division controls more or less everything of SKF Nilai's business. Therefore, they could be a great influence over SKF Nilai.

B. Shareholders

The company owners and shareholders must be considered as a key shareholder or an authority, since they in fact have a genuine interest in the company – their investment, on which they expect a return. They also have a significant influence on the company given that without their capital the company would not exist or that in bad times being able influencing the decision to decrease the workforce.

C. Stock analysts

The major stock analysts today have an immense power, affecting the economy of whole countries and not only are they an authority to SKF Nilai; they certainly have great indirect influence on other stakeholders as well. This stakeholder group also has a direct influence over the investors in SKF and the trustees handling the pension funds, which owns SKF. With the creation of Dow Jones Sustainability Index, where not only financial performance is measured, the stock analysts can influence SKF's to be more responsible in environmental and social issues.

D. Employees

Due to their work, the employees make a very important contribution to the company's performance and have a profound influence on the company, being the core of the organisation. The employees will always constitute an important stakeholder for SKF, especially since they still rely on relatively high manual labour. The employees' request for even more openness and information sharing is a good sign for a productive outcome in the future.

E. Customers & distributors

The customers are definitely to be seen as an authority and have a great influence on SKF, due to the sales and demands on environmental care (ISO 14001). However, SKF's customers are not really engaged in SKF's operations in the same way as customers to business-to-consumer companies, due to a low profile product.

The customers cannot influence SKF Nilai directly, since they have no direct contact with the customers, but have of course more direct impact on the distributors and thereby SKF's internal distribution level.

F. Suppliers

With part of the supply chain being internal, the suppliers have no real authority, however is SKF dependent on their suppliers to contribute with very high quality on the raw materiel and delivery times.

G. Competitors

The competitors to SKF have a strong influence on SKF, even if SKF is the overall market leader. SKF's Japanese competitors are blocking SKF at the Japanese market, through their Keiretsus, which has a significant impact on SKF's sales in Japan. However are they extremely important for SKF for the future, and not only for the sales, but for the progress of the whole industry.

H. Governmental authorities

In Malaysia there is no doubt that the government acts as an authority, and to gain governmental legitimacy is vital in order to conduct business in the country. If SKF Nilai engages in an active dialogue with the governmental authorities it is more likely to lead to a positive and efficient outcome that SKF Nilai could gain from in the long run.

I. MEF & FMM

MEF and FMM have both direct and indirect influence over SKF Nilai. If not acting as an authority, these organisations function more like partners working in their interest and are highly influential on the government.

J. Community of Nilai

The community has a direct influence over SKF Nilai, since most of their employees lives in the community or nearby. The families of the employees are also part of the community and have great influence on SKF Nilai due to the fact that personal and business life are closely integrated. With private houses near the factory and the community's influence on the local authorities, a positive dialogue is furthermore important to achieve a productive outcome. Part of the general community is SKF Nilai's neighbours or the business community, which also influence the business of SKF Nilai.

K. Media & general public

The media's influence is growing in general, but cannot be considered an authority in SKF's industry. However, media does have significant influence on the other stakeholders, especially the general public, hence a positive dialogue is important for future results.

9.2.3.2 Key issues of CSR

Following the empirical results and the analysis of these we found the following key issues (norms, values, thought styles and enforcement mechanisms) of CSR.

1. Environmental care

Environmental care is the most frequent issue of CSR in our empirical material and includes many norms such as adjustments to the ISO 14001, discharge systems for industrial waste and education of the employees and their families.

2. Making profit

Many of the interviewees believe making profit is necessary in order for a company to conduct CSR. Others believe that making profit is to take CSR, both by generating a return the company's shareholders and by paying tax on the revenue to the government.

3. Creation of employment opportunities

Some believe that a company's possibilities to create employment opportunities might be the foreign MNC's greatest contribution to the country, the community and the people.

4. Employee and Employees' family benefits

Most of those asked specifically relate CSR to the benefits of the employees. Further, with the family being of such importance in Malaysia and an inadequate social security system, many of the respondents value benefits that are extended to the families of the employees and not only cover the employee.

5. Education, training and personal development

Every interviewee, regardless of company, position or background, valued education, training and personal development much and the majority considered it a norm.

6. Working conditions

Also the working conditions were often mentioned as an important issue of CSR. The extent of each action to improve the working conditions varied between different companies, but in general most focus were put on health and safety.

7. Measurement and reporting

A universal measurement or auditing tool does still not exist, even though highly requested by many. Some believe that the initiative has to come from the largest actors on the market, in order to gain the status and enforcement necessary to have an efficient effect regarding CSR. After establishing better laws and rules, enforcement, monitoring, measuring and reporting by the companies themselves are thereafter imperative.

8. Community interaction

Community interaction is regarded as important and CSR towards the community does not necessarily have to imply large, costly projects, but could also mean a new road toll or a dialysis machine to a local hospitals.

9. Customer development

It is claimed that customer development is vital for a company's business. In order for the customer to exploit a product in the most efficient way, the company can upgrade their knowledge.

10. Supplier development

Supplier development is by some interviewees regarded as important for the sake of developing the country, while others believe it is also beneficial for the company.

11. Technology transfer and develop the market

Technology transfer is a formal rule set by the government, but can also be viewed as CSR, even though it is compulsory.

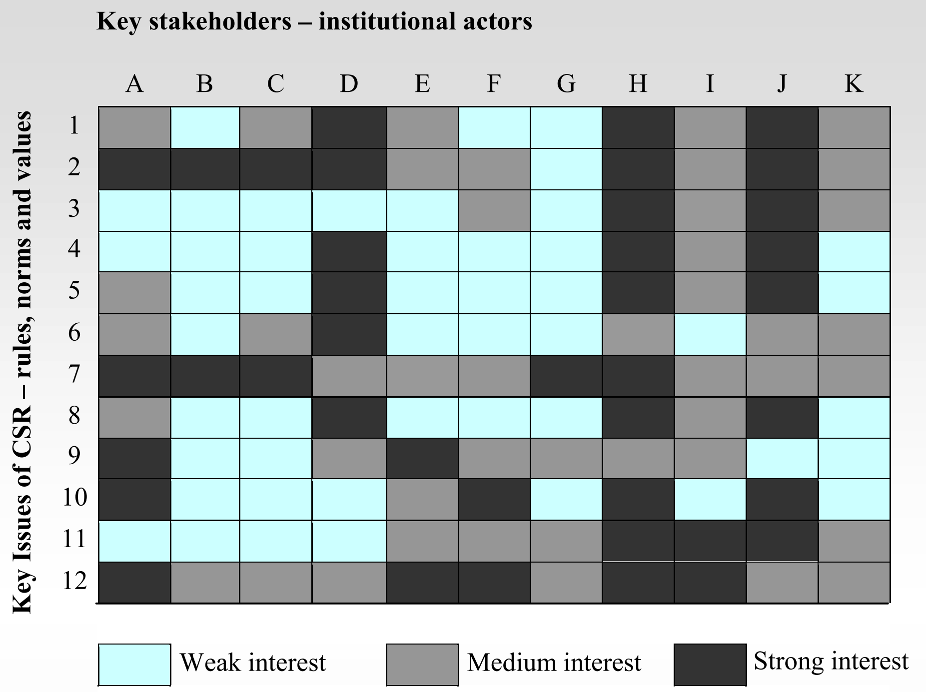
12. Setting standards

Some interviewees believe that the foreign MNCs should apply the same standards in the host country as in the home country and that it is their duty to set new standards.

9.2.3.3 The CSR matrix

As described in the theoretical framework, the key stakeholders (the institutional actors) are connected with the key issues of CSR (the institutional norms and values) through plotting the level of importance each key issue gives rise to for each stakeholder. Given the previous empirical findings and analyses, the following CSR matrix is valid for SKF Nilai. The letters refer to the key stakeholders and the numbers to the key issues of CSR presented above.

Figure 9.1 – The CSR matrix of SKF Nilai



1. Environmental care
2. Making profit
3. Creation of employment opportunities
4. Employee and employees' family benefits
5. Education, training and personal development
6. Working conditions
7. Measurement and reporting
8. Community interaction
9. Customer development
10. Supplier development
11. Technology transfer and develop the market
12. Setting standards

A. SKF Group & Electrical Division
B. Shareholders
C. Stock analysts
D. Employees
E. Customers & distributors
F. Suppliers
G. Competitors
H. Governmental authorities
I. MEF & FMM
J. Community of Nilai
K. Media & general public

Source: Own elaboration

Although all stakeholders and issues presented in the matrix are important, there are certain differences. The most important squares are then those with strong interest for the stakeholders with most interest in SKF Nilai. Consequently, the most important fields to focus on for SKF Nilai are the darkest squares for the SKF Group and Electrical Division, the employees, the governmental authorities, MEF, FMM and the community of Nilai. Even though SKF Nilai does not have much direct contact with them, also the customers, distributors, suppliers, media and general public have fairly much interest in the factory.

In order analyse the social legitimacy based matching principle at SKF Nilai, there is a need to look at how the company actually has responded to the CSR matrix, that is, how the squares with medium or strong interests have been matched and what these squares actually contain. Let us however start by saying a few words about the internal and external two-dimensional models, figures 7.2 and 8.1, since they are part of the thought styles, norms and values regarding CSR.

By combining the internal and external two-dimensional models, it is possible to see how well SKF Nilai lies in line with the external conditions as regards to which extent CSR should be taken and which benefits/costs it implies. However, since there is no universal perception at SKF Nilai about CSR it is difficult to compare the internal and external views. In general, the views of the employees at SKF Nilai are tilting more towards the classical school than the views of the external stakeholders, which might imply that SKF Nilai has taken on a *compromise* strategy. The external thought styles are *balanced* with the internal thought styles. Hence, the social legitimacy matching principle is not utilised to its full extent. However, it is not enough to regard the two dimensions of CSR that appear in the two dimensional model since CSR is a complex issue and since the personal opinions provided by the interviewees most likely are relatively subjective. Rather, we need to look at which activities SKF Nilai actually performs in comparison with the CSR matrix. Since the light squares characterise a weak interest, they will not be regarded. The rest of the matrix will be analysed by starting at the top left corner, moving rightwards and downwards, analysing one key issue of CSR at a time.

1. Environmental care

Environmental care is one of the largest areas for activities within both the SKF Group and SKF Nilai. The company is quite pro-active, has specific environmental policies and reports and is certified according to ISO 14 001 standard. In Malaysia, SKF Nilai is at the cutting edge regarding environmental issues and the majority of respondents at SKF mentioned environmental care as an important issue.

The three stakeholder groups with the strongest interest in SKF Nilai's environmental care are the employees (D), the governmental authorities (H) and the community of Nilai (J). SKF Nilai largely *complies* with the expectations of these stakeholders since they nowadays are in the forefront of environmental issues and applies rules that are above average. Simultaneously, since the company is pro-active in the field, they have used *manipulate* strategies where there has been an *influence* on the immediate surroundings. SKF Nilai has for instance invited the companies in Nilai to educate them in environmental issues and the employees, who mainly originate from the area, are also educated in environmental care.

Looking at the SKF Group and Electrical division (A), SKF Nilai, as in most other issues, *complies* with the norms and rules. There is relatively little room for own initiatives and the annual environmental report is made for the whole Group, not specifically for SKF Nilai. The increased interest of environmental care among the stock analysts (C), customers and distributors (D) are also *complied* with, which is shown by the implementation of the ISO 14 001 standard, which was initiated as a demand from the major customers, and the membership in Dow Jones Sustainability Index. All together, SKF Nilai further *complies* with the expectations of FMM and MEF (I), and media and the general public (K) by their environmental friendly approach and environmental reports.

2. Making profit

Since SKF Nilai had immense problems initially, the requirement of making profit has until recently been *avoided*. Since the company still belongs to a strong Group (A) and the owners and shareholders (B) have been patient, the lack of profit has however not been of any severe damage for the company. Furthermore, to make profit is the main goal of SKF Nilai and of the entire SKF Group, and the stakeholders interested in the profitability of SKF Nilai are well aware of this fact. SKF Nilai is also moving towards greater profitability and is obliged to do so in order to stay in business, since both the external and internal competition is fierce. The governmental authorities (H) would further not extend the tax exemption if they did not believe SKF Nilai would be profitable in the future.

3. Creation of employment opportunities

Being the first foreign MNC in the area, SKF Nilai clearly has created lots of employment opportunities. The factory had to employ almost 500 locals when establishing and the number of expatriates has decreased constantly since the establishment. Hence, the strong interests of the governmental authorities (H) and the community of Nilai (J) to increase the employment rate in the area have been *complied* with. However, during the financial crisis, SKF Nilai had to retrench its work force and the company is not utilising many local suppliers (F). Such tactics are clearly a result of the general norms within the SKF Group and SKF Nilai has therefore used a *habit*. The interests of MEF and FMM (I), and media and the general public (K) in SKF Nilai's creation of employment opportunities are more of a general nature where the expectations are that the company should contribute to an increased overall welfare in the country. Thus, SKF Nilai has *complied* with these expectations.

4. Employee and employees' family benefits

The employees (D) at SKF Nilai, especially the workers, have high expectations on the company to provide them and their families with benefits, such as appropriate salaries, medical care, pensions, loans for houses and social activities. Even though SKF Nilai lies above average regarding salaries, economical and social benefits; the focus mainly is put internally; and most of the respondents claim that most of SKF Nilai's CSR related activities regard the employees, there are many requests of improvements, such as increased number of social activities, better health care and increased transfers to the pension funds. The company has hence utilised a *compromise* strategy where the expectations of the different stakeholders have been *balanced*.

Regarding the governmental authorities (H), SKF Nilai has pursued a *acquiesce* strategy where the norm of larger benefits for the employees than regulated by law has been *complied* with. The pension system and health insurances are typical examples of what the governmental authorities expect from a company such as SKF Nilai. Also the FMM and MEF (I) have the same kinds of expectations and argue that CSR has to start internally with the employees, whereby the families of the employees and the whole community can be regarded for certain activities.

Finally, the community of Nilai (J), being a rather small community with limited resources, largely depends on SKF Nilai. Since most of the employees come from the area, benefits directed towards the employees and their families will promote the community. The health care system, summer employment for the employees' children and the yearly family day are signs of that SKF Nilai has not only complied with the expectations but also *innovated* and *caused a change* in the community.

5. Education, training and personal development

Since SKF highly values education, training and personal development, activities related to these issues have often been taken as *innovative* and *manipulative* strategies. The employees at SKF Nilai (D) and the community of Nilai (J) highly value education and personal development since many are rather uneducated and dependent on the large companies. Many of the employees also mention these issues as the main reason for choosing SKF as an employer. However, these norms and values have not always been true in Nilai and SKF Nilai can therefore be claimed to have *caused a change* among the employees and in the community. It was necessary to provide education since there were no people with the right skills initially. However, the large extent of education and training might also be a result of that it is the norm within the SKF Group (A). Hence, there might have been a *habit* tactic as well and a need to *comply* with the SKF Group.

The governmental authorities (H) and MEF and FMM (I) have the expectations on SKF Nilai to develop the labour market through their education, training and personal development, which also is done. SKF Nilai does hence pursue an *acquiesce* strategy.

6. Working conditions

Having a long tradition of operating production plants, the providing of good working conditions is a natural part of SKF. SKF Nilai is further relatively newly established and equipped with good facilities and working environment. Hence, SKF Nilai has *complied* with the issue of providing good working conditions, which lie in the interest of the Group (A), which cares for the image of the company and the well being of the employees; the stock analysts (C), who increasingly value companies according to for instance internal working conditions; the governmental authorities (H), media and general public (K), which become increasingly aware of companies' internal working conditions.

Towards the employees (D), there have also been more pro-active strategies. The zero-accident program can be seen as an *innovative* strategy that has had large impact on the working conditions. However, the employees have a couple of requests that yet not have been fulfilled and that entail a lack in the working conditions and therefore a *compromise* strategy pursued by SKF Nilai. These requests involve a lower level of noise in the factory and more and better facilities. There is also an idea that the facilities could be used by the Nilai community (J), but since this is not done today, SKF Nilai has taken on an *avoid* strategy towards the community in this issue.

7. Measurement and reporting

All the key stakeholders find it important that SKF Nilai measures and reports on their operations. SKF being a company where measurements are immense, SKF Nilai clearly *complies* with the rule systems of measurements towards the SKF Group and the Electrical Division (A). Since SKF Nilai further is closely integrated with the Group, which decides upon the standards of measurements and reporting, and applies double communication channels, the reporting is also *complied* with.

Regarding shareholders (B), stock analysts (C), customers & distributors (E), suppliers (F) and competitors (G), SKF Nilai does not release any reports individually, but forms part of the entire Group, which provide the material. It is difficult to say whether it is sufficient to match these stakeholders' expectations but they are most likely in general *complied* with. There is a specific section for the shareholders on SKF's homepage; the stock analysts must have correct information in order to appoint SKF membership in the Dow Jones Sustainability Index; the customers' requirements on measurements and reports on environmental and quality issues were complied with; the strategies towards the suppliers are clear and they are well aware of the requirements SKF has on them; and SKF actively pursues the value of openness, which facilitates the information searching and collection for all stakeholders, also for the competitors.

Regarding the employees (D), there seems to be different opinions about what should be measured and what should be reported. In general, there are requests on more information from many of the employees, which implies that there is an *avoid* strategy at SKF Nilai. It is however not certain that such a strategy is deliberate, or that SKF Nilai wants to *conceal* their performance, but rather that, as mentioned previously, there is a miscommunication within the company.

The Malaysian governmental authorities (H) and interest associations (I) are especially keen on foreign MNCs measurements and reporting on social and environmental issues since they expect a lot from them and are in need of their commitment to the Malaysian society. SKF Nilai does not provide special reports to these stakeholders whereby the rule system partly has been *avoided*. Further, SKF Nilai is a rather passive member in MEF and FMM. Nevertheless, there have not been any real problems in SKF Nilai's relations with neither the government nor the interest associations and when a problem pops up, such as the oil leakage; SKF Nilai *complies* with the expectations.

Also the community of Nilai (J), the media and the general public (K) increasingly demand appropriate measurements and reports of the operations since there has been a movement from a "trust me" to "show me" approach. SKF Nilai, pursuing the openness policy, shows what they are doing but do not take on a very pro-active strategy. Since there have not been any complaints, the *comply* strategy still has to be presumed.

Nevertheless, there is no specific measurement within the company on CSR related issues, which means that SKF has *avoided* the requirements from all stakeholders to a certain extent. There are further different opinions among the respondents about to how large extent the specific matters related to CSR are reported within the SKF Group and SKF Nilai. The mere existence of differences in opinions implies that the reporting on CSR cannot be very good. SKF is further a low profile company and the performance is therefore not highlighted externally, whereby the strategies towards the stakeholders regarding measurements and reporting rather can be considered a *habit*.

8. Community interaction

The community interaction is most important for the employees (D), who mainly comes from the Nilai area; the governmental authorities (H), which want to develop the Nilai area; and of course the community (J) itself, which is rather dependent on the large companies. SKF Nilai's mere presence in the area has had a great *influence* on the community. Hence, there has been a *manipulate* strategy and the company can even be argued to have a *control* over the community. The company for instance provides employment; gives benefits to the employees' families; engages in community projects together with other companies, such as fire protection and road tolls; gives smaller donations; and invites the surrounding companies to educate them in environmental care.

It is clear that it further is important for the SKF Group (A) with smooth community interactions, wherever in the world they choose to establish. Almost all respondents mention the community as important to regard when engaging in CSR activities and community development is mentioned as one of the company's achievements. Thus, SKF Nilai has *complied* with the norms and values regarding community interaction within the SKF Group. The pioneer status further signifies a smooth integration into the Malaysian society and the governmental authorities' (H) satisfaction with SKF Nilai's establishment and operations in Nilai. SKF Nilai was the first foreign company in Nilai, which means that the company *complied* with the government's norms of attracting companies to the area. Also MEF and FMM's rule systems have hence been *complied* with since SKF's presence in Nilai can develop not only the area but also the industry and other manufacturers.

Some respondents however believe that there could be more facilities at the factory that can be utilised by the people in the area and that SKF Nilai could contribute with more donations, social activities etc.

9. Customer development

SKF's activities towards the customers and distributors (E), such as education of how to use the products and practical training, have *influenced* the market where it today increasingly becomes the norm to provide training for the customers. Even though SKF Nilai hardly has any direct contact with the customers, they sometimes visit the customer when an error occurs, which implies a pro-active approach. Hence, the norm within the SKF Group (A) of paying much importance to the customers is *complied* with at SKF Nilai even though there presently is little room for such activities. The other stakeholder groups with an interest in customer development have consequently also been matched with *innovativeness*. SKF and SKF Nilai have exceeded the expectations of customer development.

10. Supplier development

Since many of the suppliers (F) are internal they are developed in an appropriate way and SKF Nilai further follows the requirements set by the SKF Group (A) on suppliers. There is hence an *acquiesce* strategy present towards the suppliers and the SKF Group. There is however a lack in utilisation of local suppliers. This fact is a result of that SKF Nilai has to follow the requirements set up by the SKF Group and can therefore be seen as a *habit* or *balance* tactic towards the governmental authorities (H) and the community of Nilai (J). Moreover, the government has not put any restrictions on SKF Nilai on local content in the products, which implies the rule system has been *compromised* with.

11. Technology transfer and develop the market

The governmental authorities (H), the interest organisations (I) and the community of Nilai (J) find technology transfer very important and it is part of their formal rule systems. As described earlier in this Chapter, SKF Nilai has utilised a *manipulative* matching strategy and *influenced* the Malaysian industry sector, since their technology and processes are rather unusual in Malaysia. SKF has also *complied* with the norms of the customers and distributors (E), the suppliers (F) and the competitors (G) that the development within the product market should be driven by all parties.

12. Setting standards

Setting standards are important for all the stakeholders. If the subsidiaries are able to set standards where they operate, the whole Group (A) will be strengthened. If a company is able to set standards, it further shows that the company is powerful on the market, which enhances its value and give rise to positive perceptions among shareholders (B) and stock analysts (C). The employees at SKF Nilai also have a large interest in the company's ability to set standards regarding salaries, benefits, working environment etc since the standards in Malaysia is lower than in Sweden. For the market actors, customers and distributors (E), suppliers (F) and competitors (G), new standards will lead to a developed market and new business opportunities. Finally, the Malaysian government (H), the interest organisations (I), the community of Nilai (J) and the media and general public (K) have an interest in SKF Nilai's ability to set standards since it might develop the whole country.

Since SKF Nilai is the only foreign rolling bearing producer in Malaysia, it has set some standards and therefore *complied* with the norms and values. The company also has the ability to move early, at least in the field of product development and related issues. However, part of the reason for the establishment in Nilai was the low costs of labour and the Swedish standards regarding salaries etc have not been followed. Hence, SKF Nilai has *compromised* with the Malaysian stakeholders in this issue. Furthermore, SKF Nilai does not have large possibilities to take own decisions, whereby their actions are much influenced by a *habit* of doing what the Group does.

9.3 CREATING HARMONY

The social legitimacy matching principle means that the company pursues a behaviour that is in accordance with fundamental values and attitudes in the society. In summary, SKF Nilai's behaviour has not totally been characterised by such compliance and the social legitimacy matching principle is hence not utilised in every situation where harmony is created, even thought there are areas characterised by the social legitimacy matching principle, such as environmental care; education, training and personal development; community interaction; and customer development. Rather, the company compromises in many of the cases and balances the expectations of the different stakeholders. Examples of important issues that not have been complied with to a full extent is employee and employees' family benefits; working conditions, such as the noise level; measurement and reporting on CSR; local supplier development; and setting standards as regards issues not directly related to the product or processes.

The internal institutional setting of SKF Nilai is moreover not entirely consistent with CSR. The company has to comply with the Group, whereby local CSR activities are more difficult to practise. The traditional approach with measurements, internal focus, cost focus and product focus in combination with a low-profile image does further not give much room for CSR more than internally. Moreover, SKF Nilai is merely a production plant and does not have much contact with the external stakeholders, such as customers, suppliers and media. It is also a fact that many of the employees at SKF Nilai have a more classical view than what would be the case if the social legitimacy matching principle were utilised to a full extent. There is further not a common thought style regarding CSR and the enforcement mechanisms are therefore weak. There are even disagreements within the company regarding whether there is a global CSR strategy or not.

There are however several rule systems present within SKF Nilai that can be seen as good bases for CSR. The conformity with the Group implies that a strategy or policy regarding CSR easily would be implemented. The Swedish values are also facilitating the undertaking of CSR, equally to the employee and customer focus. Finally, SKF has proven to be an early mover and a company that has been able to find sources of differentiation in a mature industry, whereby the possibilities of engaging in CSR are present.

To conclude, SKF Nilai uses a mix of efficiency and legitimacy based matching principles when trying to create a harmony between the internal and external institutional settings and is not specifically focused on CSR, which much is a result of the thought styles, norms, values and enforcement mechanisms within the SKF Group and the Electrical Division.

10 IMPLICATIONS OF CSR

Exactly what will happen when a company undertakes CSR is difficult to foresee since the issue clearly gives rise to a large extent of subjectivity. Looking at the two dimensional models of CSR for instance, figures 7.2 and 8.1, some people can see great opportunities while others primarily see difficulties. Nevertheless, it is essential to assess the implications, both at subsidiary and group level, in order to give the subject the needed influence and attention. The Chapter is initiated with the practical implications, showed by the six phase process of CSR whereby the benefits are presented.

10.1 THE SIX PHASE PROCESS OF CSR

We were not able to find any theories directly related to the implications of CSR for a MNC, but to visualise the practical implications we believe that the six phase process of CSR, figure 3.8, where the commitment to CSR is viewed as a constant process involving six phases, is applicable. In our approach, we would therefore like to emphasise that all the six phases can be viewed as implications for a company to undertake CSR, not only, as stated in the model, the second phase, consequences of CSR. We will use what SKF Nilai and the three reference companies have done and said regarding CSR as a basis, and analyse the implications of these activities, but also analyse the model itself.

10.1.1 INTRODUCTION OF CSR

According to the six phase process of CSR, CSR must be initiated by an introduction of the issue in order to obtain the necessary engagement among the employees. This is however not a simple task due to several reasons. CSR is sometimes associated with high costs, which can deter managers, investors and others with a shortsighted approach to engage in the subject. CSR is in itself also characterised by complexity, vagueness and subjectivity, and any proponent might face great resistance from many stakeholders, which show scepticism and criticism towards the issue and specific activities. The first and most important task in this phase is for the proponent to convince the board of directors to go ahead with the CSR process. Of the four companies investigated only two, Danone and Ericsson, have introduced or will within a few months introduce CSR as a deliberate strategy, with wide implications for their companies and their environment.

The very core of Danone, its culture and values, includes social responsibility, whereby the CSR strategy, to care for the children of the world, came natural for the company. With CSR coming as a strategy from the top management at Group level, CSR is deeply embedded in the daily operations of the subsidiaries of and rooted in the minds of their employees. Ericsson is just about to introduce CSR as part of a global strategy, where an environmental management system will make CSR embedded in its operations. Looking at SKF, it is at Group level claimed that the company has introduced CSR as a global strategy, but the opinions about this issue differ. However, individual programs have been introduced, such as the environmental policy, TQM and the zero-accident programs, but they cannot be equalised to a CSR strategy since they seem to be limited in time. Finally, Volvo has, like Danone, social responsibility embedded in the organisation by the fact that safety is one of the main characteristics of Volvo, but does not seem to have a clearly specified CSR strategy.

Nevertheless, most respondents believe that a proper introduction of CSR is important and the results witness of that companies with a specific introduction are more successful in their attempts. Further, the introduction of CSR should begin at top level in the mother company as a strategy and then spread to the subsidiaries in order to gain the necessary influence in the organisation. It has shown difficult to succeed without a genuine engagement and commitment to CSR. Hence, as implied by the six phase process model, introduction of CSR is an important implication of CSR, both at Group and subsidiary level.

10.1.2 IDENTIFICATION OF CONSEQUENCES

Phase two in the model can in our approach not be regarded an individual step, since we see the entire model as consequences (implications) of CSR. This thought style is also partly reflected in the model since it by the lighter arrows visualises that the identifications of consequences not necessarily have to reoccur after phase six in the process, but that it instead is possible to neglect once it is done. Hence, the implications of CSR are more general and do not need to be re-made until there is an extensive change in within or outside the company. Further, we believe it is important to assess the consequences of CSR before the concept is introduced.

10.1.3 POSITIONING OF THE ORGANISATION

As maintained in the six phase process of CSR, the company must create a profile that shows where they stand regarding CSR. All of the Swedish companies in Malaysia, SKF, Volvo and Ericsson, seem to have some idea of their position in relation to other MNCs commitment to CSR, but mostly regarding internal issues. All three claim that they are positioned above average regarding employee benefits and that they are well received in the Malaysian society because of that. Danone is clearly positioned and has been exposed to other companies' efforts regarding CSR through their involvement in the project "Children's hour" and should therefore have had the opportunity to evaluate themselves in relation to other companies regarding external CSR activities as well. Also Ericsson must be aware of other companies' status in this issue, since their external CSR mainly consists of activities related to the telecom industry.

Without knowing the position of the company, it will be difficult to take all aspects into consideration and to get a comprehensive picture. Positioning of the company can also be used to eliminate much of the vagueness connected with the subject. Consequently, also the positioning of the company has to be initiated at a high level, preferable at top management level within the mother company, to be adjusted by each subsidiary later, depending on the specific external institutional settings. It is important that the company position itself in this issue and decides what it means specifically for them and what perspective the company should have, narrow or wide. Since no company operates in isolations it is vital to also consider the position of other companies, not only to compare, but also to see what one can learn from each other. For the subsidiaries operating in a totally different environment than the mother company, other aspects must be taken into account.

In summary, external CSR has shown to be most common among the companies in the business to consumer sector, that is Danone, Ericsson and Volvo, which for instance can be viewed in the two-dimensional models. Positioning is therefore easier for these companies. Consequently, companies in the business-to-business sector, such as SKF, might have difficulties in positioning the company, which can be shown by the belief that the company cannot benefit much form undertaking CSR. There are also problems in the interaction between the subsidiaries and the Group. If the management in the local subsidiary is incapable of position the company in a larger context, it can imply difficulties in comprehending all implications of CSR. For example, taking CSR, as well as acting unethically, in one country or subsidiary might cause effects in other countries, which is an important fact in today's global business reality.

10.1.4 DEVELOPMENT OF ACTION PLANS

In the fourth phase, companies should develop action plans. Ericsson's environmental program can be perceived as such an action plan, likewise SKF's zero-accident program. This phase can according to the empirical findings be initiated in the mother company, as in the case of mentioned plans of Ericsson and SKF, but should also be encouraged at subsidiary level, such as Volvo's World Music Festival, where the specific local knowledge can be taken advantage of. According to the model, the action plans will assist in defining the objectives with the CSR activities, but these objectives should however also be reflected in the company's overall goals, values and company culture, if to achieve the best result. Some companies only develop internal action plans while others include external activities, such as Danone. With their "Children's hour", Danone has not only made a contribution to charity, but has also committed themselves to long-term projects, other related programs and internal engagement.

There is no standard in developing action plans; they must be individually created to suit each company's specific objectives and environments, both internally and externally, which can be detected in for instance a CSR matrix. So what is the meaning with specific action plans? Well, the empirical findings and analyses show that they lead to engagement and concrete action, which otherwise is difficult to obtain due to the subject's complexity and subjectivity. Further, few companies have clear CSR strategies, whereby action plans become especially important since they can be viewed as existing of guidelines that will help the company integrate CSR. In consequence, development of action plans is an obvious implementation of CSR.

10.1.5 IMPLEMENTATION OF ACTION PLANS

Implementing the action plans is a highly natural implication of CSR, but it is nonetheless associated with certain difficulties. Most evidently, a company can face both internal and external resistance when implementing the action plans. If the plan involves activities or stakeholders over which the company has no complete authority, it can sometimes be difficult to receive the needed engagement and participation. Hence, it is vital that the subsidiaries are given strong support from the mother company, even if the implementation itself is a task for the subsidiary. It is therefore important that the proponents (management) are able to transfer their plans and viewpoints to the rest of the organisation both internally and externally. Good communication capabilities and mutual trust is then imperative to make the action plans reality.

Danone handled their implementation of the action plan of the Children's hour very well. Despite the fact that their plan involved participation not only from themselves and all their employees, but also from other companies, their customers and non-profit organisations, the management succeeded in transferring their vision and the goals with the action plan, and the project was very successful, both internally and externally.

10.1.6 MONITORING OF THE PERFORMANCE

Monitoring CSR is a natural consequence, just as for instance the economic performance is monitored. If not, it is impossible to see whether the activities are correct or whether they should be developed, changed or dismissed. Further, it is clear that CSR has to be measured and reported as well, since it is shown in the CSR matrix of SKF Nilai, figure 9.1, that this is a key issue that all key stakeholders of SKF Nilai have a medium or strong interest in. However, both our theoretical and empirical findings show that it is more difficult to measure and report on the implications of CSR than the implications of economical activities. The reasons are that the opinions about CSR are very subjective, there is even a difference in opinions about whether SKF measures and reports on its CSR activities at all, and that there are no international or commonly accepted standards on the issue. Furthermore, it might take years until any result, positive or negative, will be visible and therefore measurable at all, since the activities are supposed to be initiated with a long-term perspective in mind.

It is nevertheless essential that the company can find appropriate tools for monitoring, measuring, and reporting on CSR, since that for instance will help companies convey how their business is being managed; raise the awareness of the issues both inside and outside the company; and therefore facilitate the engagement and enhance the relations with and the understanding among the external stakeholders as well as within the company. For the mother company to be able to report on their CSR, each subsidiary must monitor, measure and report their findings to the mother company as well as to other key stakeholders. One tool mentioned in the theoretical part is SEAAR, Social and Ethical Accounting, Auditing, and Reporting, which should be used in order to facilitate the information transfer to the stakeholders, both at subsidiary and Group level. SEAAR implies that there are certain indicators that must be included, which should show what the company is doing, what the trends look like and enable the communication with the key stakeholders.

Looking at the guidelines of SEAAR, appendix 3, there are however lacks of the social monitoring, measuring and reporting in all four companies studied. It is also clear that there are misunderstandings and misinterpretations within SKF Nilai, which could be the result of such lacking monitoring, measuring and reporting.

10.1.7 STAKEHOLDER ENGAGEMENT

An implication of engaging in CSR is stakeholder engagement, since the core of CSR is to adjust the operations to what is demanded or wished by the stakeholders. The empirical findings and previous analysis further show that many of the stakeholders are strong and therefore have to be regarded, see for instance paragraph 9.2.3.3 the CSR Matrix, and that the thought styles, norms and values differ widely both between the different stakeholder groups. Another implication from taking CSR related to the stakeholders is the possible appearance of new key stakeholders. The mother company and its subsidiaries might however not have the same stakeholders, but there must be an understanding from both parties regarding the importance of not neglecting each other's key stakeholders.

One difficulty remains however, even if the company takes a broad responsibility and reports its achievements to all stakeholders, the stakeholders might not appreciate the result anyway. The reason for this is that since CSR is a highly subjective issue, it does not imply the same meaning for everybody, not even for people within the same organisation or company. What CSR is for one person might have a completely different meaning for other persons. The key stakeholders might also possess contradictory values and demands of the company, which can make it difficult for the company to choose what should be included in each of the phases. However, it is then even clearer that stakeholder engagement is an implication of CSR.

10.1.8 VALIDITY OF THE PROCESS

The six phase process of CSR is applicable on any company and does not vary to a large extent between different countries. However, it is vital to understand that implications might occur on other markets then the one where the activity is executed, and also that implications on one market might give implications in other parts of the world. Consequently the management at each subsidiary must have a holistic approach to CSR and their business, and be able to view the subsidiary as an interdependent part of a larger context. It is simultaneously also equally important that the management at Group level realises that what is happening within one subsidiary might give implications within the whole company.

10.2 THE BENEFITS OF CSR

Having looked at the practical implications for a MNC of making a commitment to CSR, we also need to look more specifically into the actual benefits resulting from engaging in CSR. To foresee such benefits is very difficult, since the effects might take years until visible and since the general awareness in Malaysia about social and environmental corporate behaviour still is rather limited. There are further still not any commonly accepted tools in foreseeing such benefits.

Many of our interviewees have however been very positive regarding undertaking of CSR and the majority believed that different benefits could arise from engaging in the issue. Some benefits have also become evident without having been directly pinpointed during our interviews. It is also of greatest importance to visualise that taking CSR can have effects and give benefits, not only to the subsidiary performing the activities but also to the mother company and to other companies within the same concern. In a small country like Malaysia, where the subsidiary cannot reap the same benefits as in a larger market, it is even more important that the mother company also benefits from the subsidiary undertaking CSR. The subsidiary could also benefit if the mother company or any of the other subsidiaries undertook CSR.

10.2.1 ENHANCED RELATIONSHIPS WITH THE STAKEHOLDERS

At the core of the implications of CSR are stakeholder engagement, whereby enhanced relationships with a company's stakeholders becomes a clear benefit. CSR involves a more constructive dialogue with a broad range of stakeholders, where the company creates an understanding of its own views and activities, and thereby receives enhanced relationships with the stakeholders. If there are no such benefits as enhanced stakeholder relations, the company is clearly not making the right efforts in its CSR engagement and will not come to the expected results. If handled right however, enhanced stakeholder relationships will lead to the occurrence of a number of related benefits. As in the case of Danone, each national management was free to adapt the “children’s hour” project according to their own conditions and lead to the benefit of the employees becoming more committed and united.

10.2.2 INCREASED GOVERNMENTAL INFLUENCE

CSR has a profound influence on companies’ roles in society. In a developing country like Malaysia, where social order and issues that in many other parts of the world are dealt with by the government or already ingrained in society cannot be taken for granted, CSR gives the private sector more influence over governmental issues. Companies are given the power to bring stability in society together with the government, since taking CSR also implies to follow laws, regulations, rules, norms and values, although they might not be specifically or clearly articulated. Many times, the foreign MNCs also take a social responsibility that goes beyond the rule systems of the government, which has been shown in all the companies studied, and are therefore able to not only supply an extended social security net and a social stability, but also a general development of the country.

Consequently, the subsidiaries of the foreign MNCs often play an extremely important role in the society, and they will also have more influence over common people’s everyday life and an increased bargaining power towards the government. By positioning the company above average concerning CSR, it will be acknowledged by the government. One example of this is that SKF Nilai’s received an extension on their tax exemption for the reason of its good status in Malaysia. Such an extension would not have been possible if SKF Nilai were socially irresponsible. If times would change, which is not impossible with the fragile political situation present in Malaysia, governmental legitimacy and trust will be crucial for any foreign business operations. By taking precaution and take CSR, companies can avoid restrictions on operations, such as new legislation and regulation or obstacles in raising finance and insurance.

10.2.3 UPGRADED CUSTOMERS

Through customer development both the mother company and the subsidiaries of foreign MNCs can gain very important benefits. Developed customers are often very demanding regarding quality and latest technique, hence it might not only lead to increased sales to the subsidiary but also as a push on the R&D company in the concern. By the customer development of SKF Malaysia, SKF is developing the market and the industry, from being a pure heavy machinery industry to be more focused on service. SKF Nilai has in turn benefited from increased domestic sales. In the business-to-consumer sector, companies taking CSR can avoid consumer boycotts due to bad management of stakeholder relationships or from environmental mismanagement.

10.2.4 BETTER WORKFORCE

By performing internal CSR, SKF Nilai and the other MNC's subsidiaries have been able to create a win-win situation, which is necessary in order to attract a productive, motivated, secure and stable workforce. Employees working for socially responsive firms compared to less responsive counterparts will gain higher self-images and increased motivation according to "The social identity theory". Danone's commitment to CSR has given them an advantage in attracting the right employee and thereby won benefits like a united and more committed work force. Their employees are proud to work for them and are now functioning as the company's principal ambassadors, which show that our empirical findings correlate in an appropriate way with the theories in the theoretical framework.

Through several factors, such as good economical benefits, reduced working week, education and training, SKF Nilai has attracted a rather loyal workforce, who enable them to keep the core knowledge within the company and has no longer the problems with a high workforce turnover as during the beginning of the 90's. A safe and healthy working environment is also considered as a very important factor by the employees while choosing employer and is especially important in a country like Malaysia where the social security net is insufficient and is very much in line with "The signalling theory". That the employees are content and satisfied also outside the working environment is particularly important in cultures where the boarder between business life and private life is very limited.

10.2.5 HELPS CONVEY HOW THE BUSINESS IS MANAGED

When committing to the issue, CSR functions as a force making the company to institute a strong purpose and vision, which benefits first the mother company where the implementation should start and then the subsidiaries to which the purpose and vision should be transferred. CSR facilitates that the culture of the corporation actually reflects its values and that its code of conduct contains the interests and needs of various stakeholders. In other words, CSR can be viewed as an opportunity both for the mother company and for the subsidiaries to express how they manage their business and gives a rich complement to the usual purely economical figures. This is also necessary when engaging in CSR, since it implies stakeholder engagement, where different stakeholders might demand different approaches and methods to how the company operates.

10.2.6 OPPORTUNITIES FOR LEGITIMATE SOLUTIONS

Engaging in CSR helps the company to avoid mistakes, such as environmental pollution, which later would have to be paid for. Undertaking CSR will also reduce a company's fear or uncertainty of having a negative impact of its international operations on the local life – the businesses get a human face, which is necessary in order to work against the negative perceptions of globalisation or western behaviour that have appeared, and will hence lead to a legitimate position in society. Engaging in CSR thus gives both the mother company and the subsidiaries an opportunity to come up with legitimate solutions, strategies and operations, without exploiting the local life in developing countries.

10.2.7 IMPROVED REPUTATION

In today's information society, a company's reputation in one market can affect its reputation in other markets; hence there exists interdependence between the reputation of the mother company and its subsidiaries and between the subsidiaries as well. One benefit with a superior reputation is that it develops a company's long-term ability to create added value.

Performing CSR further gives a company credibility and trustworthiness among the stakeholders, which is imperative for the reputation of the company. Indirectly can the company benefit not only from an improved reputation but also from price concessions, reduced risks, increased strategic flexibility and better marketing opportunities. Hence, CSR can lead to an enhanced positive reputation and image among stakeholders such as the general public, which in turn for instance has helped Ericsson to attract superior employees. The same benefit is gained through Ericsson's participation in research projects with state-owned universities and thereby attracts the best high-skilled labour directly from the universities. Ericsson also managed to turn an initial disadvantage to a benefit, by addressing a pollution problem affecting the health of the employees' families with CSR activities and gained positive promotion in the media. Ericsson did thereby gained enhanced credibility and improved reputation, just as in the case of Danon's engagement for children. Volvo Car Malaysia executed "Volvo World Music Festival" a happening, not only for potential customers but also for their employees and the general public. This activity gave, apart from an enhanced corporate image and increased sales through attention from the media, reinforced corporate culture and proud employees, which further enhances the brand of Volvo.

The subsidiaries good reputation will benefit their mother companies and enhance their global corporate image and brands. A good reputation will initiate positive effects on the market value of the company. Nevertheless is a good reputation not only important for the customers but should also be encouraged for the sake of other companies and organisations, which take CSR into account when selecting future alliance partners or value their business. The above-mentioned examples from the reference companies verifies "The reputational advantage theory", that companies that have the ability to match the internal institutional setting with the external, will also be able to develop a positive reputation.

10.2.8 INCREASED PRODUCTIVITY

With a safe and healthy working environment, the workers at the local subsidiaries can concentrate on their tasks without being distracted by hazardous situations where their health and safety is at risk. At SKF Nilai, the very successful zero-accident program lead to an improved working environment in the factory with fewer accidents and it benefited both the employees and the employer. One of the benefits has been a smoother and more efficient production, with fewer stops due to no accidents. At Volvo, the health care includes a doctor and a nurse at the plant; hence the employees can get medical consulting and care immediately if necessary, and Volvo decreases their cost for sick leave and loss in manpower while visiting external doctors.

10.2.9 EFFICIENT RESOURCE ALLOCATION AND COST SAVING

External CSR put in a larger context can also mean a more efficient resource allocation in general, for example does environmental protection require that companies are innovative in order to raise resource productivity. Ericsson is for example using its technical knowledge in projects with universities, which gives a general efficient resource allocation for the society, while the company gains fresh inputs, which can lead to technical benefits later. A cleaner natural environment and a developed community will at the same time create a better general environment for the company. Taking internal CSR often involves development of employees, through education and training, which can lead to increased productivity and cost savings.

SKF Nilai has been involved in structuring the resource allocation of the business community closest to them. For example, in case of a fire, the companies benefit from participating in the fire protection program in the community. The meaning of efficient resource allocation has become wider and when involving CSR, it implies benefits for the local subsidiaries as well for the mother company.

10.2.10 INCREASED SHAREHOLDER VALUE

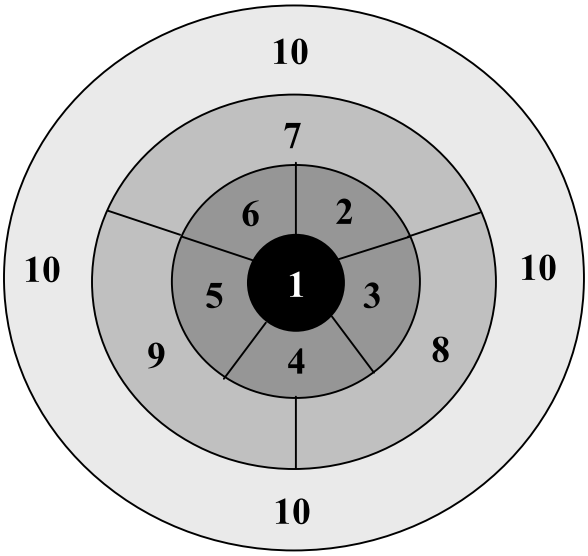
Earlier there were few proponents arguing that it is possible to increase shareholder value while contributing to the society. Today, however, analysts and investors increasingly incorporate environmental and social issues into their assessments of a company's value. Moreover, according to Dow Jones, the companies admitted to the Sustainability Index are higher valued than other companies. Hence, undertaking CSR must be seen as an engagement that leads to increased shareholder value. With the younger generation, who emphasises environmental and social issues more strongly, organisations will further be exposed to tougher requirements from their future shareholders. All the above-mentioned benefits will imply an increased shareholder value, even if the increase might not show immediately.

10.2.11 VALIDITY OF THE BENEFITS

Which benefits a company will gain specifically depend on the particular institutional settings the company faces and its ability to match the external with the internal institutional settings. They can also vary from country to country and from industry to industry. Among the benefits described above, most of them can still be regarded rather general and they relate to each other in a specific way. All the other benefits are related to *enhanced relationship with the stakeholders*. It can be viewed as the direct origin of five other benefits, which are *increased governmental influence, upgraded customers and a better workforce*, which all are important stakeholders to the company. Moreover does enhanced relationships with the stakeholders affect how the company chooses to *convey how the business is managed* and also the benefit of *legitimate solutions*, since it is the stakeholders who decide what is legitimate or not.

These five mentioned benefits will in turn develop the benefits of *improved reputation, increased productivity* and *efficient resource allocation and cost saving*. Directly or indirectly, all the nine benefits contribute to *increased shareholder value,* a benefit that even the most fanatic hardcore financial analysts appreciate. See figure 10.1 for a summary of the benefits of CSR and how they are related.

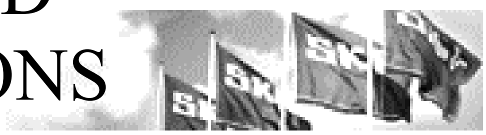
Figure 10.1 – The benefits of CSR



1. Enhanced relationships with the stakeholders
2. Increased governmental influence
3. Upgraded customers
4. Better workforce
5. Convey how the business is managed
6. Legitimate solutions
7. Improved reputation
8. Increased productivity
9. Efficient resource allocation and cost saving
10. Increased shareholder value

Source: Own elaboration

PART V – CONCLUSIONS AND RECOMMENDATIONS



11 CONCLUSIONS

*In this Chapter, we will bring the previous parts to a close, mainly by giving an answer to our main problem, "*How can a Multinational Corporation establish and sustain a competitive advantage by undertaking Corporate Social Responsibility in its subsidiaries in South East Asia?*" The Chapter is however initiated with two paragraphs that provide theoretical conclusions. Thereafter follows the conclusions related to the main problem. The Chapter is finished with some future scenarios and general thoughts about the subject CSR. The results are mainly based on the analysis Chapters, but in order to facilitate the solving, we have also used the theories and models directly related to competitive advantage.*

11.1 THE SIGNIFICATION OF COMPETITIVE ADVANTAGE

Competitive advantage is a commonly used expression in the business world but we believe that the expression can have many different meanings, whereby it is necessary to define its signification in our context. As stated in the theoretical framework, competitive advantage traditionally refers to a company's dominant position on the market, which conventionally implies a dominant position, vis-à-vis its competitors, among the customers in a specific industry or segment. However, we believe that competitive advantage cannot only be focused on the value of customers and the operations of competitors and that the word "market" does not merely imply these two stakeholder groups. In a globalising, commercialising and privatising world, with an increasing access and exposure to information, a company needs to regard others than the customers and competitors. To operate in a prosperous way a company must hence gain recognition and acceptance, or in terms of the institutional network approach; legitimacy, also from other stakeholders such as the government, interest associations, employees, distributors and the general public, and therefore also competes with other companies for these stakeholder groups. Consequently, competitive advantage is not only about dominating the product/service market, it is also about receiving a dominant position in all markets, for instance the labour and financial markets, and among all actors, such as governmental authorities and media.

Having a dominant position on the different markets and among different actors, competitive advantage further implies abovenormal economic returns, but as mentioned in one of the theories, competitive advantage does not always give instant revenues. Rather, the increased profits may not show until in the future. To conclude, our main problem concerns how a MNC can establish and sustain a dominant position in all its main markets and how it simultaneously can receive higher than average economic returns through engaging in CSR.

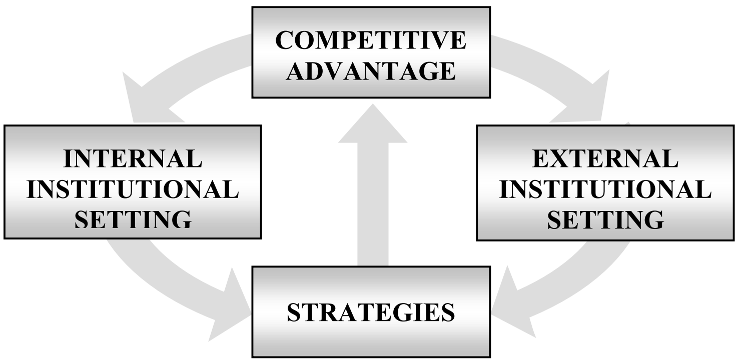
11.2 THE PROCESS OF COMPETITIVE ADVANTAGE

Looking at the theories related to competitive advantage, see figure 3.9 Competitive advantage, it is seen as the final step of a process. The internal resources and capabilities do together with the external conditions give rise to the necessity of a company formulating and implementing strategies, which should be attempts of finding the right harmony. Consequently, if the company has the ability to match the internal institutional setting with the external, it will succeed with its strategies and hence establish a competitive advantage, meaning a dominant position and above-normal economic returns.

However, as we see it, establishing a competitive advantage is a continuous process, it does not end with the establishing of a competitive advantage. A competitive advantage will in turn cause changes both in the internal and external environments. By gaining a dominant position on the markets and by receiving increased economic returns, new resources and capabilities will be gained internally and the surroundings might change since no company operates in isolation. For example, increased economic returns will lead to enhanced financial resources and, in accordance with the institutional network approach, therefore a changed internal institutional setting. A dominant position on for instance the product market will lead to changed conditions and therefore new rule systems, norms and values among the actors in the external institutional setting.

When the internal and external conditions change, also the conditions for finding a harmony between the internal and external environments change, signifying that there is a need to revise the strategies. Revised strategies will then lead to new competitive advantages, and the circle is closed. Thus, establishing a competitive advantage will not only require specific conditions but also give rise to changed conditions both internally and externally. See figure 11.1.

Figure 11.1 – The process of competitive advantage



Source: Own elaboration

A competitive advantage also needs to be sustained in order to be valuable. In our process of competitive advantage, the ability to sustain a competitive advantage will accordingly be reflected in what kind of changed conditions the competitive advantage gives rise to and how well the company can manage and take advantage of these new circumstances. If it gives rise to sustainable resources, capabilities, thought styles etc, the chance of sustaining the competitive advantage is greater. Hence, attention must be paid both to the specific requirements for establishing a competitive advantage in the first place and the changed conditions it gives rise to, in order to evaluate the sustainability.

11.3 CSR AS A WAY TO COMPETITIVE ADVANTAGE

So where does CSR fit into the process of competitive advantage? As stated in the theoretical framework, there are two types of competitive advantage, cost advantage and differentiation advantage. Drawing parallels with the institutional network approach, the cost advantage refers to the efficiency based matching principle, whereas the differentiation advantage can be related to the legitimacy based matching principle. According to the institutional network approach, CSR is further equivalent to the social legitimacy matching principle, whereby we can conclude that CSR constitutes a differentiation advantage. Taking the discussion further, the matching principles are different ways of finding harmony between the internal and external institutional settings, whereby they can be seen as the "strategies"-square in the process of competitive advantage, and can consequently lead to a competitive advantage. In other words, CSR, which is the same as the social legitimacy matching principle, must be looked upon as a strategy in this context.

Theoretically, CSR can then give rise to competitive advantage. Looking at our theoretical and empirical findings and the subsequent analyses, it is possible to claim that CSR generates both a dominant position and higher economic returns, at least in the long run, whereby we can conclude that CSR can lead to a competitive advantage also empirically speaking. CSR can for instance be seen as a new, innovative way of creating a differentiation advantage.

11.3.1 ESTABLISHING A COMPETITIVE ADVANTAGE

Following the discussion above, whether a company can establish a competitive advantage through undertaking CSR in its subsidiaries in South East Asia is dependent on to which extent the subsidiary behaves according to basic values and attitudes in society and how it contributes to the social needs. Consequently, the possibilities for using the social legitimacy matching principle and undertaking CSR, and to thereby establish a competitive advantage in the first place, require that specific conditions both internally and externally be fulfilled. This viewpoint is also shown in the process of competitive advantage through the squares "internal institutional setting" and "external institutional setting". By highlighting the requirements in the internal and external environments we will thus be able to give an answer to how to establish a competitive advantage through undertaking CSR.

11.3.1.1 Requirements in the internal institutional setting

Since our main problem concerns CSR engagement in a subsidiary, it should not be necessary to look at the internal conditions at Group level. However, the subsidiaries are often very much connected to the mother company and depending on its internal institutional setting, whereby we also need to pinpoint certain requirements within the mother company.

Long-term perspective

Clearly, CSR will involve initial costs and it might take a long time until any results of the activities are visual. Therefore, there needs to be a long-term focus within both the mother company and the subsidiaries.

Genuine commitment

CSR demands a genuine commitment and it has to be well embedded in the company in order to bring about a competitive advantage. A half-hearted effort or a false attempt to give an impression of taking CSR would soon be brought into the light in today's information-dense society. Further, without a genuine devotion, it will be difficult to make all stakeholders agree to the company undertaking CSR.

Clear and focused goals, values, visions and missions

In order to reach a genuine commitment, one of the most important requirements is that the company has clear goals, values, visions and missions, and that they are consistent both with each other and with the undertaking of CSR. To make CSR, as well as other projects or issues, meaningful and sources of competitive advantage, the company will need to relate it to strong purposes. This requirement is much a task of the mother company, which then have to transfer the views to the subsidiaries.

Unity and common thought style about CSR

Apart from a genuine commitment and clear and focused goals, values, visions and missions, there needs to be unity and a common thought style about CSR in itself. It has to be ingrained into the company culture where all employees are well aware of, agrees to and works actively with CSR. If not, there will not be a genuine commitment. There is hence a need of close collaboration between the mother company and the subsidiaries.

Strong support from the mother company

Regardless of whether the subsidiary is relatively independent, a strong support from the mother company is always essential and enhances the commitment and the unity within the company. Such support might for example consist of economical resources, ideas and research, but also, most importantly of an understanding of the specific needs and requirements of the subsidiaries.

Openness

Since stakeholder engagement is at the core of CSR, it is necessary that the organisation possess a high degree of openness, both internally towards the employees and externally towards the other stakeholders.

Communication skills

It is however not enough with openness; a company seeking competitive advantage from undertaking CSR also needs to have the right communication skills, both internally and externally, since most actors demand the company to provide them with information and since there is a need of unity and common norms and values within the company. It is especially vital that the mother company and the subsidiaries can communicate with each other. Useful tools for increasing the communication skills are the so-called SEAAR.

Responsiveness to demands and changes in demands

Apart from being transparent and possessing good communication skills, a company undertaking CSR also needs to be a good listener. Any effort will be worthless if it does not provide satisfaction in a specific stakeholder group. Hence, the company has to be responsive to demands and changes in these, which can be achieved for instance through the CSR matrix.

Innovativeness and creativity encouragement

When engaging in CSR, demands that previously have been contradictory have to be combined. For example, there is a need of both good financial and social performance simultaneously. Thus, there is a requirement of a large extent of innovativeness, which in turn requires that creativity is encouraged at all levels within the company, especially in the individual subsidiaries.

Flat and team-based organisational structure

In order to reach the highest possible degree of innovativeness and creativity, the organisational structure needs to be flat and team based. Such a structure will enhance that people feel free to come with suggestions and hence give rise to an outlet of the creativity and innovativeness.

Qualitative management

As can be seen in the previous internal requirements, many of them will be a result of qualitative management. Although the organisation should be flat and have a team-based structure, there is always a need of a skilled top management team, both at Group and subsidiary level. The good management theory also put forward that companies need competent and innovative managers in order to establish a competitive advantage through alternative sources, of which CSR must be considered part. In general, we believe that the most important skills involve engagement, innovativeness, responsiveness, pro-activeness, ethical behaviour, ability to gain respect and understanding of the internal as well as external circumstances. Hence, the top managers should have education and experience in multi cultural and multi industrial matters. It is also a good idea to rotate the top management in order to get a constant inflow of new ideas. There must however be a consistency in the top management team, otherwise it will lead to confusion for the employees, and the goals, values, vision and mission will be difficult to communicate and implement.

CSR as a strategy

As implied earlier, and perhaps most importantly, CSR needs to be regarded and implemented as a strategy in order to establish a competitive advantage. It should be initiated at Group level, whereby guidelines should be transmitted to the subsidiaries. However, since each subsidiary faces different and specific internal and external environments, the Group strategy has to be revised in order to suit each subsidiary's specific conditions. Further, a strategy is of no use if it cannot be implemented, whereby specific activities, some general for the whole company and some specific for each subsidiary, have to be designed and implemented. A successful implementation should however follow from the requirements mentioned above.

Table 11.1 – The internal requirements

- Long-term perspective
- Genuine commitment
- Clear and focused goals, values, visions and missions
- Unity and common thought style about CSR
- Strong support from the mother company
- Openness
- Communication skills
- Responsiveness to demand and changes in demands
- Innovativeness and creativity encouragement
- Flat and team-based organisational structure
- Qualitative management
- CSR as a strategy

Source: Own elaboration

11.3.1.2 Requirements in the external institutional setting

Given the stated problem, it is not enough to look into the external institutional settings of the individual subsidiaries, but also of the MNC as a whole. Consequently, the external environment might be almost the entire globe. However, the immediate surroundings of the subsidiaries are the most important when considering CSR since much of the issue regards the closeby environment.

Firstly, the country and states in where the subsidiaries are situated need to be FDI friendly, otherwise the company might not be able to establish in a smooth way and the efforts of the company might not be accredited. Consequently, the company cannot gain a dominant position in the various markets and hence not a competitive advantage. Today, the countries in South East Asia can be considered transition countries and do also work their way back from the financial crisis. Therefore, they are in need of immense investments. There is also the requirement of a general need in the society of companies engaging in social and environmental activities, which must be considered the case in more or less all countries in the world, although they might not always be clearly and specifically stated or expressed. It is a fact that the companies have become more powerful and that they have an impact on the surroundings, both positive and negative. Such a need in turn requires that the general awareness about these issues is fairly high.

Apart from a general need of socially and environmentally responsible companies, also the key stakeholders need to appreciate the subsidiary's engagement in CSR and must have the patient to wait for the results. A company cannot establish a competitive advantage in isolation from its close stakeholders. If the company has key stakeholders outside the country in which it operates, such as SKF Nilai, also those need to be aware of and value CSR. Today, an increasingly amount of stakeholders do value CSR, many larger companies for instance require that their suppliers are certified according to ISO 14001. A company can of course take CSR without gaining a dominant position or above-normal economic returns, there are for instance charitable and philanthropic organisations, but in view of the fact that our thesis is focused on competitive advantage and not on the ethical aspects, it is a requirement that the key stakeholders care about social issues.

Finally, there must be possibilities to show the external actors what the subsidiary does within the field, such as free media. However, even though that might not be the case in the particular country in which the subsidiary operates, there are today possibilities to use tools of worldwide coverage, such as the World Wide Web and many larger media companies to spread the information about a particular subsidiary.

Table 11.2 – The external requirements

- FDI friendliness
- General need of CSR in society
- General awareness about companies' impact
- Key stakeholders appreciate CSR and have a long-termed perspective
- Possibility to show what is done

Source: Own elaboration

11.3.2 SUSTAINING A COMPETITIVE ADVANTAGE

It is not enough to establish a competitive advantage, or more accurately, a dominant position and higher than normal economic returns; it also needs to be sustained, otherwise it will soon be lost to other companies. A company's ability to sustain an established competitive advantage will as stated earlier be reflected in the changed conditions the competitive advantage gives rise to and the company's abilities to take advantage of these. According to the theoretical framework, a competitive advantage gives certain resources and capabilities and these need to be valuable, scarce, durable, immobile, difficult to replicate, non-substitutable and heterogeneously distributed among the competing companies in order to sustain the competitive advantage. Consequently, how a company can sustain a competitive advantage that has been established through CSR depends on the resources and capabilities it induces; on the degree of sustainability each such resource and capability possesses; and on the company's ability to take advantage of these.

Looking at the benefits that arise from undertaking CSR, they will undoubtedly lead to certain resources and capabilities. Starting with the tangible resources, there will in the long term be enhanced financial resources since CSR implies a more efficient resource allocation, cost savings, increased productivity and increased shareholder value. The tangible resources do usually not posses the necessary characteristics for sustainability in today's society, but if the increased economic returns are reinvested in activities that lead to sustainable resources, the process of sustainability will be secured. However, the possibility of a more directly sustained competitive advantage through CSR lies within the intangible and human resources, and these are quite immense.

Intangible resources that will arise are a special company culture, good relations with many of the key stakeholders and above all an enhanced reputation, which according to the reputational advantage theory, paragraph 3.6.1, at large is truly sustainable. It also yields other resources and capabilities, such as increased flexibility, which also can be considered sustainable. Stakeholders are also more concerned with corporation's overall reputation today than before, which enhances its sustainability. Within this theory, social and environmental responsibility is also in themselves regarded as giving a sustained competitive advantage. Also the other two intangible resources possess the required characteristics of sustainability. Nevertheless, although good relations and a good reputation are sustainable resources; they can be impoverished if the company does not safeguard them.

The human resources in a company are becoming increasingly important, and in accordance with the quality workforce and knowledge management theory, paragraph 3.6.3, CSR can clearly help attracting and retain a loyal, skilful and satisfied workforce. We must not forget that companies constitute people and if a company is built on the best people, it must be considered a resource that is most valuable. However, people are fairly mobile and it they are not treated they way they wish, they will leave the company.

Also a number of capabilities evolve from undertaking CSR. The communication capabilities will be enhanced; there are opportunities for better and more diversified marketing; the production capability increases since people are loyal and committed, and there are fewer stops in the production; and the human resource and cost management capabilities are enhanced. Since capabilities are based on several resources and other factors within a company, they are more complex and therefore more sustainable.

When companies undertake CSR, there will naturally also be external consequences, which is the idea with CSR. However, such implications will according to the delimitations not be dealt with in our thesis.

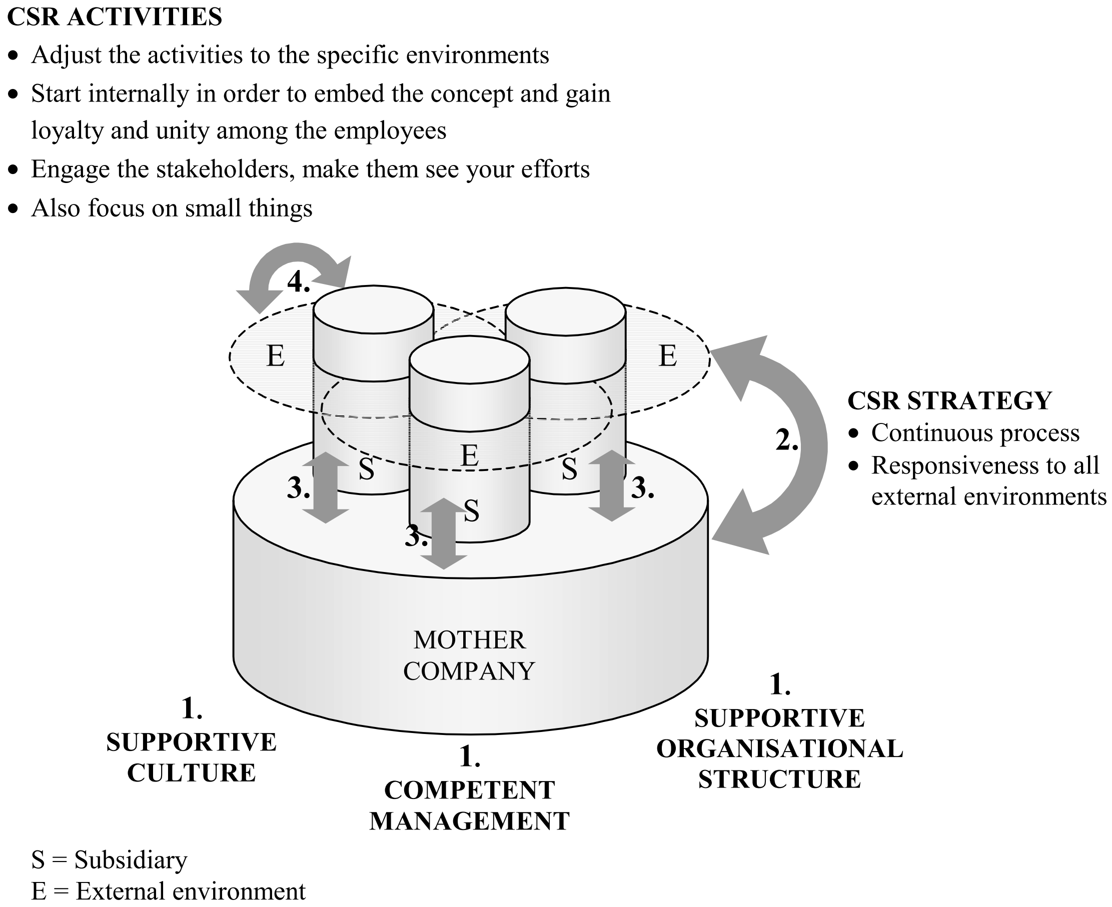
11.3.3 ESTABLISHING AND SUSTAINING A COMPETITIVE ADVANTAGE

In conclusion, the question of how a MNC can establish and sustain a competitive advantage through undertaking CSR in its subsidiaries in South East Asia cannot be answered in one or a couple of sentences, which underline the complexity and subjectivity of the issue. It is also clear that the answer will depend on which particular company is being regarded, due to the great importance of both the internal and external institutional settings.

We have above all been able to see a clear difference in opportunities of establishing and sustaining a competitive advantage through CSR between business-to-consumer companies and business-to-business companies. Business-to-consumer companies are more exposed to common people, whereby their attributes and activities more easily can be pinpointed, especially their brand name. So far, the debate on social and environmental responsibility and MNCs cause of problems in media has further mostly regarded business-to-consumer companies, for instance IKEA's use of child labour and NIKE's exploiting of cheap labour in sweatshops in developing countries. It is also possible that the customer behaviours between the two groups of companies differ. It might for instance be easier for the individual consumer to take a decision about changing "supplier" and instead buying from a company taking CSR, than for the customer of a business-to-business company, which is another company, since such a decision will engage more people, take longer time and therefore involve more financial resources.

Nevertheless, most MNCs can establish and sustain a competitive advantage through undertaking CSR in its subsidiaries and the question of how to accomplish it has some general answers. Please see figure 11.2 below.

Figure 11.2 – How a company can establish and sustain a competitive advantage through undertaking CSR



Source: Own elaboration

The essence of gaining and sustaining a competitive advantage through undertaking CSR in subsidiaries lies within the mother company (number 1 in the figure) and is built on three cornerstones, the culture, the management and the organisational structure, which interact and give rise to the necessary conditions. Through a CSR supportive culture, there will be a long-term perspective where CSR is ingrained in the goals, values, visions and missions. A common thought-style about CSR will then emerge, there will be a genuine commitment and it can be embedded in the entire organisation. A competent management will enhance the necessary communication skills, innovativeness and creativity and a supportive organisational structure will facilitate such factors as openness and strong support from the mother company.

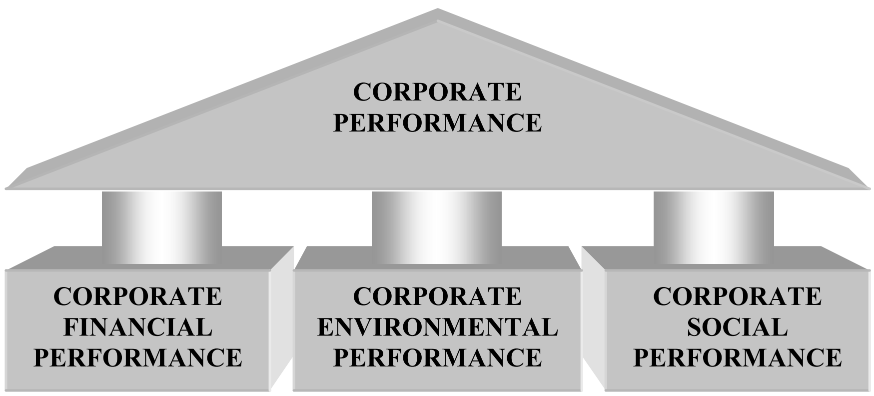
With the three cornerstones as a foundation, the mother company must formulate and implement a specific CSR strategy (number 2), which corresponds to the various external environments (E) that each of the subsidiaries faces. Hence, the mother company must have good knowledge about all its subsidiaries' surroundings. It should however not be viewed as a plan, which the subsidiaries must follow blindly. Instead, it should constitute guidelines, a common thought style and an emphasis on the importance of CSR for the entire company. The strategy must further be based on the belief that CSR is a continuous process where the economic return is reinvested in CSR related activities and there is responsiveness to changing demands. There by, the dialogue with the key stakeholders can be maintained, and the good relations and reputation sustained.

Through the three cornerstones of the company, the CSR strategy can then successfully be transferred (number 3) to the subsidiaries (S), which must be regarded important parts of the whole since the subsidiaries are the advocates of the mother company on the world market. The common thought style of CSR, the value of openness, the good management and the most important, a genuine commitment will efficiently be ingrained also in the subsidiaries where CSR will receive the needed attention and commitment in order to implement the CSR strategy decided at Group level. It is then up to each subsidiary to adjust the common strategy to the specific external environments by undertaking particular activities, (number 4). Most important is to start the activities internally, whereby the concept will be internalised and the employees will gain respect, loyalty and unity. It is also important to engage the stakeholders and create a meaningful dialogue. For a successful development and sustained competitive advantage, the subsidiaries must also report their experiences back to the mother company (number 3).

11.3.4 FINAL THOUGHTS

There are many approaches in how to view the performance of private companies. According to our view, corporate performance can be divided into three main pillars, financial, environmental and social performance, of which all are equally important and interdependent. See figure 11.3 below. For a long period of time, only the corporate financial performance (the first pillar) was of interest for the business world and not too long ago, environmental performance (the second pillar) was considered rather unconventional. Lately, the situation has begun to change and the majority of all MNCs have some sort of environmental policy today. They would not manage very well without it, simply because there is a general demand of it and an increased awareness about the importance of environmental care. Regarding social performance (the third pillar) however, the process has just started, nonetheless are we sure of that we have only seen the beginning. There will be a paradigm shift in the way companies conduct business and the next wave after the "greening of the world", will be about social responsibility. More and more people realise that it is the only way to go if we want to live in a decent world and the debate about globalisation, social differences and the power of the corporate world is gaining a grip.

Figure 11.3 – The three pillars of corporate performance



Source: Own elaboration

Consequently, it is our strong belief that CSR more than anything else is a way of thinking, a way of viewing business and that it should be lifted up to a strategic level. The required change of thought style will however not appear evenly throughout the world; our own experiences tell us that the industrialised countries have come much further than the developing countries. Social issues are very subjecttive and many developing countries have not yet reached the same high level as developed countries regarding this issue, neither physically nor mentally. This, however, does not imply that the situation in these countries is a lost case, quite the opposite do we believe that it is in the developing countries where CSR will have the most impact and there is an awakening also in the developing countries. South East Asian people will for instance become more conscious about social and environmental issues when the countries have become fully developed. However, as long as the companies in South East Asia and in other developing countries operate under different terms than the companies in the fully developed countries, a worldwide standardisation of how to deal with CSR is unfeasible. Such a standard would imply difficulties for products from the developing countries to compete on the global market.

Lastly, we would like to convey our beliefs that CSR will become increasingly important and must not be viewed as a temporary trend. The foundation is at this moment being laid within this issue and the companies taking advantage of CSR will be the winners of tomorrow. The companies unwilling to understand or respond to the need and demand of an increased social responsibility will not last in a long-term perspective. The combination of a demand of social responsibility and profitability will require the discovery of new opportunities, the competence to evaluate risks, and the courage to bear responsibilities, dilemmas to which CSR is the solution.

12 RECOMMENDATIONS

In accordance with our accumulated knowledge, which we have gained writing this thesis, we will here give SKF some recommendations. They are sometimes for the SKF Group and sometimes for SKF Nilai, implied when necessary. These recommendations should not be interpreted as instructions, but merely as our humble suggestions.

- ***Position the company with a mission;*** SKF has rather well developed goals, values and vision, but could benefit from positioning the company with a mission, while using CSR. This must be initiated at Group level to be further transferred to the subsidiaries. Moreover, SKF must also work according to their goals, values and vision, and make sure they are communicated and embedded in the daily operations. The top management at both group level and subsidiary level must show commitment to the values, vision and mission.

- ***Improve communication skills;*** CSR involves closer relationships and thereby a need for more and better communication. Improved communication skills are necessary within the Group and within SKF Nilai, but also to external stakeholders in order to be able to build strong relationships with its key stakeholders.

- ***Evaluate key stakeholders to SKF Nilai;*** The plant needs to evaluate which their key stakeholders are, and also regard the unconventional stakeholders. Furthermore, the plant should be informed about the key stakeholders of the SKF Group, since it is vital that the management of SKF Nilai has a holistic approach in viewing their business.

- ***More active in the relationships with stakeholders;*** SKF Nilai should be more active in their relationships and think more pro-active. Both MEF and FMM are very powerful organisations and stronger relationship with them could give many benefits. By sharing their experiences and sit in the board of the organisations, their opinions would be respected and they would have enough power to influence other companies and organisations.

- ***Individual stakeholder reporting;*** SKF Nilai should start individual stakeholder reporting, where each stakeholder group can obtain information that is of interest for them and in a preferable form. For example, SKF Nilai could give out an internal magazine for the employees, which also could be distri-buted in the community. SKF Sverige and the SKF Group today have special web pages for shareholders. They could also have web pages for employees, customers, suppliers etc, which all should be open to everyone.

- ***A customer care function at SKF Nilai;*** One of the most important stakeholder groups are the customers; therefore it is necessary that SKF Nilai sets up a customer service department that has the direct contact with the customers. There is also a need for a more pro-active customer policy. The ideal scenario is to develop partnerships with the customers. Through working together with and being involved early in the processes of the customers, SKF and SKF Nilai can create a win-win situation.

- ***Reinstate TQM;*** Previously, SKF was very focused on TQM and innovation schemes. As somebody expressed it, "a culture for continuous improvement" was present. Today, the company has become more volume driven and there is no real time to develop the processes and organisation. Nevertheless, we agree with some of the management staff that SKF needs to reinstate the focus on TQM in order to be successful in the long run.

- ***Improve organisational flexibility;*** SKF has the ability to adjust to external changes, but can be even more flexible, which is necessary since the environment is changing faster and faster.

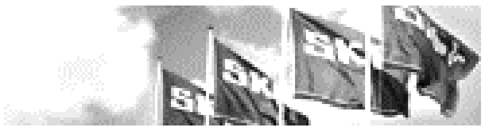
- ***Change of thought-style;*** Product-wise SKF is very innovative, but in general SKF has a rather conventional way of thinking. Hence, both the Group and its subsidiaries must become more innovative, encouraging creativity and different solutions to be able to benefit from the opportunities that arise with the challenges of CSR.

- ***Develop a higher profile;*** In order to obtain maximum benefits from taking CSR, SKF needs a higher profile, both at Group level and at subsidiary level. One suggestion could be to do promotion projects together with customers that have a high profile, for example Volvo.

- ***More focus on social activities;*** In a country like Malaysia where business and private life are closely related, social activities are very important. Enhancing the feeling of group belonging can benefit SKF Nilai with a more committed workforce. SKF Nilai could for instance have a Swedish styled open house during Christmas with typical Swedish food and gifts.

- ***Small things count;*** SKF Nilai must take the workers suggestions seriously; it is important to remember that also the small things counts. The employees have been complaining about the noise level at the plant, but nothing has been done. A temporary solution could be to supply the workers with real ear defenders.

PART VI – CLOSING PART



13 SUGGESTIONS FOR FURTHER RESEARCH

As we have mentioned earlier, the interest for social performance has just started, and there is still much to do within the field of measurement, auditing and reporting. We have not looked at this specific angle when approaching the subject of CSR, but according to our own experiences and the requests of the companies in our research, this issue is imperative for the continuing of the development of CSR. The appearance of a larger commitment to CSR will depend on appropriate tools for the companies to use.

Another interesting area for research is different standards that presently are being developed. One perspective on the issue of standardisation is how the effect of a world standard (like the environmental standard ISO) regarding social issues would affect the business of MNCs operating in developing countries. According to our research, companies can gain a competitive advantage by undertaking CSR.

We have also pointed out the shift of responsibility towards corporations taking over many duties formerly managed by the state governments. Hence, an important question is whether this implies that the companies are gaining excessively power in the society and over common people.

To summarise we believe further research would be most interesting to conduct regarding:

- What kinds of tools can companies use when willing to engage in CSR?
- What kind of implications would different standards and measurement tools lead to?
- How would a world standard considering social issues affect the MNCs and local companies operating in developing countries?
- How far can companies go in taking CSR, without gaining too much power in society and over common people?

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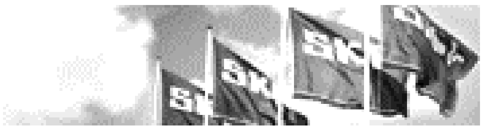
APPENDIXES



APPENDIX 1 – INTERVIEW GUIDE

BACKGROUND INFORMATION

1. Could you please start by giving a general description of your organisation/company/ position/profession?

2. For how long have you had this position?

THE EXTERNAL MALAYSIAN ENVIRONMENT

MACRO-ENVIRONMENTAL FACTORS

3. In what way would you say that Malaysia is a transition country?

4. Could you please describe "The Vision 2020" and its implications for foreign MNCs in Malaysia?

Political/Legal Structure:

5. Please describe the political system of Malaysia and how Swedish MNCs must adjust to the Malaysian political structure?

6. Please describe the legal system and its implications on your MNCs' operations in Malaysia?

National Economy:

7. Could you please describe the economic situation in Malaysia and its implications for you/foreign MNCs in Malaysia? What do you think about the future?

International Economy:

8. In an international context, how can Malaysia withstand major negative impact from external economic phenomenon? (E.g. the Asian crisis in 1997.) Has this changed over time? What do you think about the future?

Technology:

9. Could you please describe what the Multimedia Super Corridor (MSC) is and how it affects foreign MNCs? Which were the reasons behind this project? What do you think about the future? How will it affect foreign MNCs?

10. Is the technological development evenly spread throughout Malaysia? What is done to spread it evenly? Are there more technology projects, such as MSC, to come?
11. To which extent do foreign MNCs contribute to the technological development in Malaysia? Are they required to do so and how? How could the technological transfer be improved? Has this changed over time? What do you think about the future?

Business Norms:

12. How do foreign and in particular Swedish MNCs perceive and adapt to the local business norms and values? Is the adaptation in general perceived as complicated and complex or simple? Has this changed over time? What do you think about the future?

13. How would you describe the differences between Western/Swedish and Malaysian business norms?

14. What can foreign MNCs gain from adapting to local norms and values?

Social and Demographic Structure:

15. What is characteristic for the Malaysian demography?
16. How does the education-system work, is higher education free for all citizens? What is the availability of labor force both unskilled and with

higher education? Has this changed over time? What do you think about the future?

17. Could you describe the multi-ethnical structure of Malaysia? Are there any hostilities between different ethnic groups? How does the multi-ethnical structure of the population affect foreign MNCs? Are there any differences for foreign and domestic MNCs in this matter? Has this changed over time? What do you think about the future?

18. What role does the family play in Malaysian society and in what ways is it affecting daily operations of companies? Will this role change in the future?

19. What role does the religion have in Malaysia and in what way is it affecting companies?

20. Are there any other cultural factors affecting the daily operations of a foreign MNC, such as for example language barriers?

The Natural Environment:

21. Is the natural environment in good condition? If not, what kinds of environmental destruction are the most severe? Pollution, too high degree of infrastructural development etc.

22. How would you describe the awareness of the public/people regarding environmental friendliness?

MICROENVIRONMENTAL FACTORS

All stakeholders

23. What do you or the organisation/institution/company expect from foreign MNCs in general and SKF in particular?

24. Which is your most important stakeholder and why? Could you please mention some other stakeholders that you find important and the reasons for that?

25. How is your relation to media, government, customers, distributors, shareholders and employees?

26. How are you perceived by your stakeholders? Do you have/aim at a global image? Do you believe that what is happening in one country might affect the image of SKF in a completely different country?

27. What do you think they expect from you?

Government

28. How is the relationship between the state and federal governments? Do the states have a high or low degree of autonomy?

29. In what ways does the federal government influence the operations of foreign MNCs? Would you describe the relations as cooperative or competitive? Has this changed over time? What do you think about the future?

30. In what ways do the state governments influence the operations of foreign MNCs? Would you describe the relations as cooperative or competitive? Has this changed over time? What do you think about the future?

31. Are there any specific regulations for foreign MNCs regarding the matter of the natural environment and social responsibility? Is there any governmental encouragement for foreign and domestic MNCs to care for the environment and social matters? Has this changed over time? What do you think about the future?

32. In which ways are the contacts between the governmental authorities and the foreign companies conducted? (Personal meetings, social events, conferences, telephone contacts etc.) Has this changed over time? What do you think about the future?

33. Which is the most difficult part to handle for foreign companies in their relations with the governments? Has this changed over time? What do you think about the future?

34. What characterized the negotiations with the Malaysian government at federal and state level respectively, when SKF was established in Malaysia?

35. What actions did SKF/your company/the company take, when establishing in Malaysia in order to gain acceptance with the Malaysian government both at federal and state level?

36. Could you give a brief description of the so-called "Bumiputra-policy" and its policy implications for SKF/foreign companies/the Malaysian society?

Customers

37. Which are your customers? Do you export your products to other foreign markets, to your home markets or do you supply the Malaysian market?

38. What do you /the consumers expect from MNCs in general and SKF in particular? Do they have any particular requirements? (No child labour, environmental friendly, treat the employees good, technological, social and economical development in the country)

39. What actions have the companies taken in order to gain acceptance among the consumers? Has this changed over time? What do you think about the future?

40. Do consumers pay attention to the fact that the companies take a social responsibility? Will it make them loyal to the company, buy more products, recommend the company, chose the company or give other effects for the company? Does this also count for business-to-business companies, where the end-consumers are not equal to the customers? Will the consumers of a car care about how the car manufacturer behaves or how the part manufacturers/ suppliers behave?

Suppliers

41. Do you/foreign companies usually utilize domestic suppliers? Are there any requirements on foreign companies? Has this changed over time? What do you think about the future?

42. Which are your suppliers?

43. Are there any specific requirements on the suppliers regarding social issus?

44. Do SKF have a policy of building close supplier relations and help develop the suppliers to make them more competitive/more suitable for SKF's processes?

Employees

45. How can employees express their interests? Are labour unions allowed and in that case common and efficient? Has this changed over time? What do you think about the future?

46. How easy/difficult is it to source skilled labour and manpower in Malaysia? What is the number of applicants per vacancy?
47. How high is the employee turnover?

48. Why did you choose SKF/this company as your employer?

Interest associations

49. What role do professional/interest organisations in Malaysia have? What level of influence do they have on your operations in Malaysia?

50. How important are the various interest associations in the relation to the government?

51. How large is your influence over the government and your members?

THE INTERNAL ENVIRONMENT OF A COMPANY

SKF AND OTHER COMPANIES, ORGANISATIONS AND INSTITUTIONS

52. Could you please describe the core values, mission and vision of your company?

53. What are the goals of SKF? On long term basis? On short term basis? Are there any conflicting goals? Are the goals, values, missions and visions well communicated? How are they communicated? (Goals should be simple, consistent and formulated on long term)

54. Do you aim at profit maximisation in the short run or long run?

55. What does the organisational structure look like, regarding hierarchy and centralisation?

56. How does the decision-making process work? How is the information communicated, formally or informally? How influential is the electrical division on SKF Nilai?

57. Describe the information systems of the company! How do you receive info about external and internal matters?

58. How would you describe the company culture?

59. How would you describe SKF in comparison with other MNCs regarding:
- The contribution to the technological development of Malaysia
- Environmental protection
- Stakeholder treatment
- Employee issues, such as education, pension, wages, labour unions etc
- Customer relations
- Supplier relations
- Relations with the media
- Relations with the government

60. In your relation with SKF, what do you find most valuable? Which other factors affect your decision to maintain that relation (other than price)? Why have you chosen SKF as your supplier/distributor/partner etc.?
61. Which where the reasons behind SKF's decisions to locate the manufacturing plant in Nilai?

62. How do the core values of SKF influence its operations in Malaysia? How do SKF's core values "fit" with the Malaysian market and culture?

63. Do SKF cooperate with any local interest organizations in Malaysia?

64. How much is exported respectively sold on the domestic market?

Resources

Tangible resources

65. Could you describe the tangible resources of SKF:
- The financial performance over the years
- Financial figures
- Physical resources, buildings, machines etc

Intangible resources

66. Could you describe the intangible resources of SKF:
- Technological level, patents, know-how
- Reputation, image, brand name, brand awareness, quality products
- Company culture
- Employee satisfaction

67. How do you create customer value, since your products are rather expensive?

Human resources

68. Could you describe the human resources of SKF:
- Special knowledge, skills, management
- Communication, participation
- Embeddedness

Capabilities

69. How would you describe the capabilities of SKF according to the following functions:
- Product development
- Production, costs, quality
- Marketing
- Distribution
- After-sales services
- Finance
- R&D

70. How are strategies implemented and revised? Would you say that the strategic approach is dynamic and flexible? Have you accomplished some strategic innovation? (pursuing strategies that other companies don’t have)

71. Do you believe that the company is flexible and able to respond quickly to changing circumstances? Examples! (changing demand, new policies, employees quitting)

72. Would you consider the company as innovative? In products, doing business, strategies. Give examples! (imagination, intuition, creativity)

73. Which are the competitive advantages of SKF? Are they sustainable and in that case why?

ACTIVITIES AND EFFECTS OF CSR

74. In what way can a foreign company assist in increasing the living standard of common people, for employees as well as for the society in general? Has this changed over time? What do you think about the future?

75. Is it common that foreign MNCs take the initiative to improve the natural environment, or at least prevent the destruction?

76. Do you believe that MNCs take CSR? Could it be improved and in that case how?

77. Should the initiatives to CSR come from the government, general public, the company itself or other initiator?

78. Is there a contradiction between profit maximization and taking CSR?

79. Which activities have been undertaken in accordance with CSR?

80. Which activities would you like SKF/other company to accomplish?

81. What are the effects of implementing CSR for SKF/for others? Positive/negative effects?

82. Could MNCs' presence in Malaysia help develop the awareness regarding social and environmental issues among consumers? Has this changed over time? What do you think about the future?

83. Does SKF function as opinion builders regarding social issues/CSR in Malaysia? Could SKF's presence in Nilai help develop the social situation in the area and in the country?
84. How do SKF handle the issues of social responsibility when entering a new market?
85. Has SKF caused any social problems? If yea, how were they solved?

CSR AS STRATEGY

86. Do you see CSR as a strategic issue?

87. Is CSR internalised? That is; used as strategy, social or ethical objective, embedded in the organisation?

88. Do the managers transfer a CSR view to the rest of the staff/employees?

89. Has there been a formal decision on pursuing CSR? Is there anything documented about this matter? Who decides to which extent CSR will be executed?

90. Would you describe you/the company, as taking a wide or a narrow responsibility? Why?

COMPETITIVE ADVANTAGE DERIVED FROM CSR

91. What has SKF done to show CSR? Internally and externally?

92. Which are the costs and benefits of CSR? Which are the ones having most impact, on both a short and long term?

93. How do you prevent competitors from creating the same resources and capabilities in order to sustain your competitive advantage? (obscure superior performance, signal aggressive, exploit investments opportunities, rely on multiple sources, embed the resources and capabilities, move early)

94. Do you believe that foreign companies can gain a competitive advantage through taking a corporate social responsibility?

CONCLUDING QUESTIONS

95. How would you define CSR?

96. Can you recommend other people that would be interesting for us to interview in Malaysia regarding this subject?

APPENDIX 2 – INTERVIEW GUIDE MINISTRY OF INTERNATIONAL TRADE AND INDUSTRY (MITI)

QUESTIONS

1. Could you please start by giving a general description of MITI and the industry policy department?

2. In what way would you say that Malaysia is a transition country?

3. Is the technological development evenly spread throughout Malaysia? What is done to spread it evenly? Are there any differences in the industry policies in the various states? Are there more technology projects, such as MSC, to come?

4. To which extent do foreign companies contribute to the technological, social and economical development in Malaysia? (In comparison with domestic contributions.) Are they required to do so and how? How could the technological transfer and the contribution to social and economical development be improved? Has this changed over time? What do you think about the future?

5. How would you describe SKF in comparison with other MNCs regarding:
   - environmental proctection
   - stakeholder treatment
   - the contribution to the development of Malaysia
   - employee issues, such as education, pension, wages, labour unions etc
   - customer/supplier relations
   - relations with government and media

6. What do you expect from MNCs in general and SKF in particular? Has this changed over time? What do you think about the future?

7. Are there any specific regulations for foreign companies in the matter of the natural environment and social responsibility? Is there any other governmental encouragement for foreign firms in these matters? Do you believe that the initiative in these matters should come from the

government, the foreign MNCs or the public in general? Has this changed over time? What do you think about the future?

8. In what ways do MITI and the industry policy department influence the daily operations of foreign companies? Would you describe the relations as cooperative or competitive? Has this changed over time? What do you think about the future?

9. What characterise your negotiations with MNCs in general and SKF in particular when they establish in Malaysia? What actions did the companies take in order to gain acceptance? Has this changed over time? What do you think about the future?

10. In which ways are the contacts between MITI (the industry policy department) and the MNCs/SKF conducted? (Personal meetings, social events, conferences, telephone contacts etc.) Has this changed over time? What do you think about the future?

11. Do you believe that MNCs/SKF take Corporate Social Responsibility? Could it be improved and if yes, how? Has this changed over time? What do you think about the future?

12. Could MNCs/SKF's presence in Malaysia help develop the social situation and the living standard in both the region in which they are active and in the country as a whole? Has this changed over time? What do you think about the future?

13. How would you define CSR according to following variables:

    - Extent: wide or narrow responsibility? Why?
    - Effect for the company: costs or benefits? Why?

14. Do you believe that foreign companies can gain a competitive advantage through taking CSR?

15. How would you define CSR, what does it mean to you? (personal opinion)

Thank you for your participation!

APPENDIX 3 – KEY CHARACTERISTICS OF SOCIAL REPORTS

Source: Holme, Rickard. & Watts, Phil, (Januari 2000), Corporate social responsibility: making good business sense, report from World Business Council for Sustainable Development (WBCSD), Geneva, Switzerland, p. 29

1. Organisation Profile

- Information providing a context for the report
  - Number of employees
  - number of locations
  - countries in which company operates
  - main lines of activity

2. CSR Approach

- the impact of the business on society
- the scope and status of the company's CSR policy
- what objectives?
- what key commitments? Example: to UN Conventions
- Board involvement and commitment
- accountability
- systems to implement policies, including business ethics
- training/awareness raising
- key CSR issues for the company – and progress made in addressing these
- relationship to environmental/sustainable development policy
- bench marking performance

3. Employees

- Policies and actions on:
  - diversity/equal opportunities
  - training
  - freedom of association/collective bargaining
  - wages

- hours of work
- job security
- contract labour
- health and safety

4. Communities

- Approach to community involvement
- Spending on community projects
- Criteria
- Partners

5. COMPLIANCE

- compliance record on: accidents, equal opportunities, training

6. Business Relationships

- Approach to engaging business partners in CSR
- Results

7. Stakeholder Involvement

- Processes eg community committees, meetings, research, participation, key partners