Changing Corporate Social Responsibility (CSR) in China

A Case Study of Svenska Kullagerfabriken (SKF) in China

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Abstract

Corporate social responsibility (CSR) and multinational companies (MNCs) landed in China almost at the same time. However, the Chinese market where the governmental role is always influential provides a specific setting for the CSR development in China. The purpose of this thesis is to analyze the governmental role in the CSR engagement of Svenska Kullagerfabriken (SKF) in China based on a literature review, qualitative case study, semi-structured interview and three mini-cases study. By adopting these methods, it is found that the Chinese government is trying to provide a more CSR-friendly policy and stricter legislation in order to guide the Chinese business towards a sustainable direction. Besides, in recent years, the Chinese government is also re-orienting the social values that are claiming the return of the traditional business ethics and promoting the level of CSR in the Chinese society. A triangulated model is developed in this thesis to analyze the case company. The experience of SKF indicates that the company’s CSR strategy is universal, whereas its CSR engagement has changed along with the Chinese development. It is found that there are four phases of SKF’s CSR development in China, and each phase is associated with and stimulated by the specific scheme during the Chinese social and economic development. Among the variables in Chinese changing society, the macro-policy is deemed by SKF as the key factor that has the largest impact on the CSR engagement of the company. After this research, the research gap will be filled in with an empirical case. Yet, the future efforts in empirically investigating more companies are suggested to enrich the research on the correlation between the Chinese government, CSR development and MNCs in China.

Key Words: corporate social responsibility (CSR), China, socialistic market, government, state-owned corporations (SOEs), changing business environment, social values, legislation, globalization, multinational corporations (MNCs)
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1 Introduction

1.1 Background

It is revealed by United Nations Global Compact (UNGC), the pioneer CSR initiative worldwide, that currently around 8,700 corporate signatories have endorsed to this initiative, by complying with the 10 principles highlighting human rights, labor, environment and anti-corruption (www.unglobalcompact.org). This explicitly indicates the fact that CSR has attracted more attention from the business sector, as the corporate performance on the fiscal aspect is no longer the only concern to evaluate the quality of corporate entities (Carroll 1991, Idowu 2009). The concept of CSR first originated in the western companies since the 1950s (Carroll and Buchholtz 1999), and became popular in the 1990s (Sun, Stewart and Pollard 2010). The role of corporations has changed from a sole wealth creator to a better corporate citizen (Jongh 2008, Idowu 2009). Some researchers argue that a major incentive for corporations’ decision makers to embrace the stakeholders’ perception (e.g. employees, consumers, suppliers, communities, governments and non-government organizations), change their business in a sustainable direction, and employ the specific CSR strategy is the social reputation that can be earned by doing good (Vonwil and Wreschniok 2009, Hermann 2008).

Although CSR originated in the western world with the setting of free market, the trend spread to socialist economic world, e.g. China, during the 1990s due to the economic globalization. A survey conducted in 2007 by China Enterprise Survey System, involving 4586 companies, shows their overwhelming identification with CSR (China CSR 2007). It is also interesting that the CSR engagement level of domestic state-owned enterprises (SOEs) is much higher according to the research by Zu and Song (2009). As the government is the most powerful shareholder of SOEs, this result somewhat reflects the governmental attitude towards CSR in China. It is also interesting to find that the Chinese government has also directly participated in the CSR projects conducted by multinational companies as well, for instance, in 2010 Chinese Forestry Administration and SKF signed a five-year framework agreement to plant new forests in remote areas of the country (www.skf.com). Therefore, in this sense, it seems that in China the government is becoming a major actor in CSR. Actually, as the policy-maker, the role of government is very influential in CSR development and it is actively promoting the level of CSR in China, for instance, the recently raised Harmonious Society Plan and passed New Labor Contract Law has claimed that the social environment is
changing to be more adaptive to the CSR development, which will provide a CSR-friendly social environment for all sorts of enterprises, such as SOEs, domestic private enterprises and multinational corporations (MNCs).

In China’s changing society, the domestic enterprises, both SOEs and private enterprises, are very sensitive to the governmental macro-policy, legislation and regulation in China. However, in order to operate successfully in China, MNCs also need to pay attention to domestic variables associated with the Chinese government which have the potential to change the business environment in China. Therefore, to understand the Chinese governmental role in CSR from the perspective of MNCs may be very interesting. Thus, this thesis is to conduct a case study, i.e. the SKF case, to investigate the governmental role in CSR in Chinese changing society. The literature review section will be provided first, followed by the qualitative case study of SKF with three mini-cases presented and analyzed. Then the thesis will conclude based on the literature review and case study results.

1.2 Research Issue

Abundant research has already been conducted in the conceptual construct of CSR (Bowen 1953; Davis 1960; Eells and Walton 1961; Friedman 1970; Freeman 1984; Carroll 1991; Elkington 1997; Hopkins 2007; Kotler and Lee 2005; Werther and Chandler 2006; Mullerat 2009), which leads to the prosperity of CSR theory, still, the theoretical standardization seems impossible to achieve (Dahlsrud 2006; Berger and Luckmann 1966; Van Marrewijk 2003; Zu 2008). As a result of the difficulty in constructing a universal definition of CSR, more and more scholars have turned to investigating CSR in different contexts (Van Marrewijk 2003; Dahlsrud 2006; Sun, Stewart and Pollard 2010; Sinzig 2010; Den Hond, De Bakker and Neergaard 2007). It is often argued that CSR should be adapted case by case, and it is inadvisable and impossible to find one solution that fits all (Van Marrewijk 2003). There are many scholars highlighting the stakeholder perspective in the previous CSR research (Freeman 1984; Segerlund 2010; Sun, Stewart and Pollard 2010; Donaldson and Preston 1995; Cramer and Bergmans 2003; Crane and Matten 2004; Bendell 2005; Carroll 1991; Frederick 1994; Clarkson 1995; Keinert 2008; Hermann 2008). It is widely accepted that multiple stakeholders do have influence on corporations’ profitability through e.g. boycott, strike, investment withdraw and penalization. Therefore, corporations should reflect the
stakeholders will in their CSR strategies and practices, and it is quite common to put
government into the social dimension of stakeholder group (Hermann 2008).

Despite the numerous studies on CSR, especially from the stakeholder perspective, most
researches have shared the same setting of the liberal market economy in developed western
countries. However, as an emerging market with a high speed of economic development, the
socialistic market-oriented economy in China is quite different although the market has been
liberated to some extent since the Economic Reform occurring in the late 1970s (Hu 2005; Ip
2009; Gao 2009). Therefore, many scholars have doubted whether the western CSR will
adapt well in a Chinese context, considering the peculiar culture and governmental
intervention (Moon and Shen 2010; Xu and Yang 2010; Wang and Justin 2009). However,
many researchers have taken the macro-perspective to investigate the increasing
identification with CSR in China by surveying domestic enterprises (Zu and Song 2009; Xu
and Yang 2010) or reviewing existing CSR literatures (Moon and Shen 2010).

As there is no doubt that the government of one party determines the direction of the social
and economic development in China by e.g. policy-making, which has a strong effect on the
business actions of domestic enterprises, both state-owned and private. When it comes to
CSR issues, many scholars argue that the role of the government should not be overlooked
when discussing CSR in the Chinese context, and the government actively pushes the level of
CSR among domestic enterprises in recent years (See 2009; Darigan and Post 2009; Moon
and Shen 2010; Lin 2010; Zu and Song 2009; Moon, Crane and Matten 2005; Fang,
Gunterberg and Larsson 2010). Yet, the role of government as the major actor in CSR
development has not been studied in contemporary CSR research conducted in the setting of
market economy.

As foreign investment has gradually become a significant part of Chinese economy since the
Economic Reform, the empirical study on the role of the government in MNCs’ CSR
engagement in China is relatively rare. In this sense, this thesis is trying to take an empirical
study on SKF to provide some pragmatic evidence in this research gap. On the other hand, to
study whether the MNCs’ CSR is influenced by Chinese government is also interesting and
pragmatic for MNCs to take effective response.
1.3 Purpose of this Thesis

This thesis has the main purpose to discover the Chinese governmental role in CSR by investigating the SKF’s CSR engagement in the Chinese changing society. The second purpose expected to be achieved is to find whether MNCs’ CSR is adapted to governmental related incentives for CSR in China. With this purpose, the literature review is conducted to provide the theoretical basis for readers to have an understanding of the role of the government in Chinese social and economic development in China, followed by the case study of SKF which aims to find representative CSR projects in different stages of the Chinese social and economic development.

The previous research mainly emphasizes the trendy CSR and the governmental intervention in China in general, however the empirical research of the specific case is rare and the MNCs’ CSR response to the Chinese changing society has seldom been studied. Thus, the outcome of this thesis is expected to fill in the research gap with some pragmatic evidence of whether and how the Chinese government influences MNCs’ CSR engagement. The evidence can help us better understand the CSR adaptation in contexts as well by studying how the case company adapts its CSR along with the Chinese changing society. In addition, I also hope the outcome of this thesis will somewhat provide an example and inspiration for other MNCs’ managers willing to engage in CSR in China.

1.4 Research Questions

With the research purpose, to answer the following two questions can serve this purpose well:

1. *How does the Chinese government influence the CSR development?*

2. *How does SKF adapt its CSR engagement to the Chinese changing society?*

Through answering the first question, the possible measures of the Chinese government that may influence the company’s CSR engagement may be found. Then, to answer the second question can help achieve the second purpose stated earlier and provide some suggestion for other MNCs with regards the CSR performance in the Chinese society.
2 Literature Review

2.1 Understanding CSR in Market Economy
The conceptualization of modern CSR commenced in the 1950s (Carroll and Buchholtz 1999). It is widely accepted that the book “Social Responsibilities of Businessman” by Bowen (1953) is the considerable symbol for the development of modern CSR theories (Figure 1). Looking back on the process of CSR development, although there are different schools of CSR, this study divides them into two major schools based on the stances with regard to the social responsibility of business. The first theoretical school discusses CSR only from the economic angle under the legal regulations, i.e. the classical CSR, while the second reaches the ethical dimension beyond laws, i.e. the modern CSR (Figure 1). In order to build a comprehensive theoretical basis for this study, Figure 1 below has been developed for mapping the CSR research.

![Figure 1: CSR Theoretical Mapping (developed with the help of Prof. Tony Fang)](image)

The first camp of CSR theorists sees this issue largely from the economic angle by connecting CSR with the corporate profits from either the short-term or long-term perspective, which reflects a narrow social responsibility of business (Quazi and O’Brien 2000; Zu 2008; Figure 1). In this camp, the first approach to identify the social responsibility of business is
based on the classical economic theory. Friedman (1970), the leader of classical economic school, argues that social responsibility makes no sense to corporation which is an artificial person in the society. Just as Friedman formerly confirmed in his book Capitalism and Freedom (1962), the only one responsibility of business is to pursue the increase of profits within the ‘rules’ of the game. In Friedman’s (1970) point of view, a corporate executive, as the agent of the business owners, may have his/her responsibility to the society, yet, the direct and primary responsibility of the executive is to maximize the owners’ wealth. This view of social responsibility of business implies the only success of a corporation depends solely on its business performance, for instance profit maximization, in terms of satisfying the needs of consumers in the market. In some sense, the role of corporations indicated in Friedman’s view is isolated from the vast society as long as no potential profits may be perceived in the short term (Quazi and O’Brien 2000). On the other hand, Friedman (1970) places the CSR in the scope of the governmental functions, and he asserts that the business leaders should not be expected by the society to be the experts and professionals in CSR, otherwise, the efficiency of the business will be decreased (Van Marrewijk 2003; Zu 2008; Sun, Stewart and Pollard 2010). It can be seen from Friedman’s (1962, 1970) view that CSR represents a single dimensional nature of corporate responsibility, which only makes sense to shareholders (Quazi and O’Brien 2000; Zu 2008; Bhide and Stevenson 1990; Gaski 1985; Hass 1979). In identifying CSR this way, a boundary between the business and society can be formed (Quazi and O’Brien 2000; Carroll and Buchholtz 1999; Zu 2008).

Based on the consideration of the complex correlation between business and society, the social-economic view was adopted to broaden the dimension of social responsibility of business, and the macro-social institutions have become theoretical focus of CSR research (Bowen 1953). The social-economic view claims the inherent and close link between the business and society, and the corresponding responsibilities of business are supposed and expected to be fulfilled towards the social interests (Bowen 1953). From this broader perspective, the business must be discussed as a part of the greater social environment and their power to control a mass of social resource should be justified by exercising the responsibility towards the society (Quazi and O’Brien 2000; Menon and Menon 1997; Burke and Logsdon 1996), and the social responsibility should be commensurate with the social power of the company (Davis 1960). In taking social responsibility, it is believed that “businesses recognize that for-profit entities do not exist in a vacuum” and their success largely comes from both “actions that are congruent with societal values” and “factors
internal to the company” (Werther and Chandler 2006, pp16), therefore the social responsibility of business should reach beyond sole profit maximization in the short term and take the social concern into their strategic account (Quazi and O’Brien 2000; Carroll 1979; Quazi and Cook 1996; Abratt and Sacks 1988). Most researchers holding the social-economic stance insist that net benefits can be rewarded by taking social responsibility associated with the strong and long-term relationship between the company and multiple societal stakeholders (Carroll 1991; Frederick 1994; Clarkson 1995; Zu 2008; Keinert 2008; Hermann 2008; Vonwil and Wreschniok 2009). Figure 2 shows the stakeholder identification in three systems associated with a company by Hermann (2008). The stakeholders’ perception of a company reflects the overall market sentiment towards the company, which thereby influences the corporate reputation and wealth creation (Hermann 2008; Clarkson 1995; Carlson, Grove and Kangun 1993; Menon and Menon 1997), in terms of “work, capital, resources, buying power, word-of-mouth, et cetera” (Hermann 2008, pp53). It can be learnt that the relationship between companies and stakeholders indicates a two-way interaction, which means stakeholders can substantially affect and be affected by the achievement of a company’s purpose, and their needs must be satisfied (Freeman 1984; Donaldson and Preston 1995; Cramer and Bergmans 2003; Crane and Matten 2004). Some see the net benefits from the perspective of cost savings and differentiation, indicating that the company’s action of social responsibility under the legal regulations will avoid even higher direct or indirect costs in terms of, for instance, “fines, workers’ compensation, poor labor relation and public hostility” (Quazi and O’Brien 2000, pp35; Waddock and Graves 1997).
The other camp of CSR theorists extends the dimension of social responsibility of business beyond the legal requirements to the ethical level, which forms the broad and modern view of CSR (Figure 1). The modern view with regard to the social responsibility of business embeds ethical values into the relationship between business and the greater society, and advocates companies to do the right thing for achieving a good society (Garriga and Mele 2004). Some scholars see a moral imperative for managers to protect and promote stakeholders’ rights regardless the influence to their companies (Freeman 1984; Donaldson and Davis 1991; Bowie 1991), largely because of managers’ fiduciary relationship to not only the stockholders but also the stakeholders (Freeman 1984) and stakeholders exist both inside and outside a firm (Hopkins 2007). In other words, there exists a social contract between the company and society and the social contract requires companies to behave above a moral baseline and respect individual rights and social justice (Bowie 1991; Freeman 1994). Some use the classical concept of common good to describe the aim of the social responsibility of corporations because of it being a part of the society. The business should be a contributor to the social well-being instead of doing harm to the society (Garriga and Mele 2004). The imperative of managers is interpreted by Hopkins (2007, pp16-17) in another way as a “wider
aim of social responsibility…to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation”. Such an argument is largely based on the normative attribute of the stakeholder theory. The interests of stakeholders identified in the companies’ activities are legitimate and of intrinsic value (Donaldson and Preston 1995). Therefore, in this sense, CSR means treating the stakeholders who have the interests in a corporation in an ethical and responsible way (Hopkins 2007). By exercising the social responsibility in an ethical manner, the multiple interests of numerous stakeholder groups, including the stockholders, are possible to be balanced by the companies (Garriga and Mele 2004). On the other hand, doing business in an ethical manner can also help corporations govern and manage a good relationship between the firm and society, which is beneficial to the firm in the long run (Eells and Walton 1961; Jones 1995; Bowie 1991). Based on the social contract theory and the stakeholder approach, grounded in the ethical theories, Carroll (1991) has advanced the ethical theory of the social responsibility of business by formulating a four-part pyramid CSR model (Figure 3), which is probably the most widely accepted CSR theory (Vonwil and Wreschik 2009). In Carroll’s model, the economic and legal requirements are basic for business to achieve, furthermore, the ethical requirement is deemed as the moral expectations sourced from the society. Carroll (1991) also identifies the philanthropic responsibility on the top layer, which is a must for those companies overwhelming the powerful government and desiring to be a good citizen in the society.

![Figure 3: Four-Part Pyramid CSR. Source: Carroll (1991, pp42)](image_url)
2.2 Understanding CSR in China

It is worth noting that the given different schools of CSR theories usually place CSR in the setting of a free market, while the governmental function has been overlooked. Both the narrow and broad views of CSR indicate a self-regulation of the corporations to respond to the social concerns in the market economy with the final goal to achieve corporate profitability. However, more scholars have argued that, especially when putting CSR issues in the socialistic settings, e.g. China, the governmental role should not be excluded from the CSR framework (See 2009; Darigan and Post 2009; Moon and Shen 2010; Lin 2010; Zu and Song 2009). In socialistic China, the government has become the active actor in CSR (Moon, Crane and Matten 2005). In ancient China, the social values and cultural philosophy was the main driving force for the businessmen to contribute to society (Chan 2008; Zhu and Yao 2008; Wang and Juslin 2009). In recent years, the Chinese government provides incentives for the CSR development, e.g. the Harmonious Society Plan, New Labor Contract Law, and China Social Compliance (CSC) 9000 standards for CSR in the textile industry (See 2009; Fang, Gunterberg and Larsson 2010; Wang and Juslin 2009; Birkin, Cashman, Koh and Liu 2009; Welford and Hills 2009; Lin 2010). In the late 2010s, due to the internal and external environmental stress and energy issues in China, especially the greenhouse gas (GHG) emissions, the concept of Low Carbon Economy was raised in the Twelfth Five-Year Plan for the domestic social and economic development. This policy indicates the strategy of Chinese economic transition and highlights the significance of low carbon technology and policy for achieving the goal of sustainable development (Xinhua 2011).

Although, the market in China has been liberalized to some extent and the society has become more open, the role of the government as a regulator and social provider has not changed significantly (Moon and Shen 2010), which still provides Chinese government with the capacity to take actions and use tools, such as legislation, regulation, policy and industrial standards, for influencing the other institutions and increase the level of CSR (See 2009). The legal instrument is a powerful and direct one that Chinese government has employed to achieve this goal. A noteworthy case is the New Labor Contract Law having taken effect since 1st of January 2008, which is regarded as a landmark of the CSR development in China (Fang, Gunterberg and Larsson 2010). One of the major purposes embedded into this new law is to protect the employees’ rights and interests (Baker and McKenzie 2007; Fang, Gunterberg and Larsson 2010). The birth of this new labor contract law is based on the consideration of the urgent labor market comprising of three major groups, namely the large
amount of laid-off workers due to the privatization of state-owned enterprises (SOEs), increasing rural migrant workers and numerous newly added labor force (Fang, Gunterberg and Larsson 2010). Employment has gradually become a peculiar dimension in Chinese CSR, which requires domestic corporations to provide more job opportunities (Xu and Yang 2010). This phenomenon can be traced to the transition of SOEs in the history of China.

The economic reform began in the late 1970s in China and the former centrally planned economy was transformed into a socialist market-oriented economy. This unprecedented economic development has made China gradually become a significant player in the global economy (Hu 2005; Ip 2009; Gao 2009). During this economic reform, the privatization of the SOEs was taken as the significant way to incite the economy (Ip 2009; Gao 2009) and stimulate the development of private and joint-venture enterprises (Wang and Juslin 2009, Ip 2009). However, the side effect was the huge number of laid-off workers and missing social welfare (Xu and Yang 2010; Fang, Gunterberg and Larsson 2010). Before this reform, the centrally planned economy had dominated the nation and the enterprises were all state-owned under the planned economy (Hu 2005; Wang and Juslin 2009) in which the government controlled all major economic sectors and decided on their use and income distribution (Myers 2004). The SOEs in the planned economy functioned as a part of the government, which means the enterprises were taking the responsibilities for their members guaranteeing the job security, housing, retirement pension and free education and medication on behalf of the government (Wang and Juslin 2009; CSR Europe 2006; Fang, Gunterberg and Larsson 2010; Lin 2010) in order to ensure the just allocation and social stability. Yet, in the setting of Chinese economic reform, the major orientation is to pursue profit maximization, and the enterprises would rather take any shortcut to increase profits even by sacrificing the environment and ethics (Ip 2009, Rarick 2009, Wang and Juslin 2009, Gao 2009). Also, many other problems have appeared in Chinese enterprises (Xu and Yang 2010). The most serious problem may be the absence of the system to protect legal rights and interests, especially of the labor force.

To understand the role of the Chinese government in CSR motivation, it is significant to take a look at the function of SOEs, because the corporate structures have an impact on CSR level, which means the ownership of the company, private or public held, do affects the perceptions of the legitimacy and form of CSR engagement by the company (Robertson 2007; See 2009). It is found that the CSR engagement by a company with concentrated ownership much more reflects the personal preferences of the owner (Robertson 2007). In China, since the era of
planned economy, the SOEs have always been the most influential business entity whose ownership is largely in the hands of the Chinese government. The high level state’s ownership of SOEs empowers the direct intervenes from the government to promote CSR in these companies (Xu and Yang 2010). Due to the special role in the society, the combination of public and private interests is burdened on SOEs (See 2009). It is found by some scholars that some non-financial objectives have been assigned to SOEs by the government, for instance their provision of social services (Bai and Xu 2005; Mako 2006; Lin 2010). Therefore, the SOEs, as the governmental agency in some sense, are more favorable to non-financial activities, e.g. CSR, employment security and discretionary donation, to assist government in achieving its social and political goals (Liu 2005; See 2009; Lin 2010). This can well explain the phenomenon that Chinese SOEs’ CEOs value the CSR much more than private ones and the CSR is likely to develop among SOEs first (See 2009). This implies that the CSR in China will be largely concentrated in SOEs in the near future. See (2009) argues that the discretionary response is the most likely measure taken by companies, because the constrained surrounding institutional factors will still exist for a long time and their response is directly derived from the governmental policy.

Apart from the legal instrument, the changing macro-policy as another measure is a signal for Chinese government’s promotion of CSR is the Harmonious Society Plan raised in 2005 (See 2009; Wang and Juslin 2009; Birkin, Cashman, Koh and Liu 2009; Welford and Hills 2009). In Chinese society, the enterprises’ sensitivity to macro-policy is very high, because the government is the sole policy-maker and any decision made by the government will influence the business environment and societal atmosphere on one hand, on the other hand, it is believed among the domestic entrepreneurs that the good relationship with the government will bring more freedom from restrictions and avoid additional regulations (Zu and Song 2009). Thus the changing macro-policy for future development is the most powerful institutional impetus for a higher level CSR in China, and will very likely be advocated by both enterprises and societal members. This policy also helps form the societal perception of the role of business in China (See 2009). It is often argued that China’s society, especially the business sector, has lost its ethics and integrity, and many business scandals prove this point. However, looking back into the history, China does have a cultural basis for ethical and responsible business, which has been crystallized in the Confucianism. The Confucianism used to be accepted by businessmen as the ethical and moral doctrine for their business practice (Chan 2008; Zhu and Yao 2008; Wang and Juslin 2009). The key elements of
Confucianism are Benevolence, Righteousness, Etiquette, Wisdom and Trustworthiness and these virtues are regarded as the core human morality that need to be consciously cultivated (Ip 2009). The harmonious state that Confucian philosophy advocates can represents the ideal balance between corporate interests and societal interests, which is named Guanxi (Zhu and Yao 2008). However, the social values rooted in the Confucianism have suffered a significant change during the era of economic reform started since the late 1970s in China and replaced by the ideology of profit maximization (Ip 2009; Rarick 2009; Wang and Juslin 2009; Gao 2009). The side effect of the rapid economic growth during the era of economic reform is signified by the low level of social trust and public identity for enterprises. In this context, corporate relationship, especially with the employees and consumers has been degraded, for instance the reported labor dispute cases has increased sharply over past ten years, and the crisis of food quality has also erupted in recent years (Lin 2010). Another problem, due to the immoral and irresponsible business, is the environmental deterioration, for instance the low air and water quality (Lin 2010). The Chinese policy makers have realized that the missing business ethics and distorted social values could seriously harm China’s long-term development and social stability, even the legitimacy crisis of the party. Thus, the Harmonious Society Plan has been raised to respond to the social and environmental challenges (Woo 2006) and claim the return of Confucianism (Ip 2009, Wang and Juslin 2009).

There exist some external drivers, the economic globalization being the most influential. In 2001, China’s entry into WTO has been the symbol of its increased integrating in the global economy. Some see the correlation between the CSR demand and the level of economic globalization, and they assume that the higher the level of the international transaction or foreign ownership of companies is, the more extensive domestic CSR engagement will be (Moon and Chapple 2005; Robertson 2007; See 2009). Increasing foreign investment has turned to China’s market for more profits since its Economic Reform which has made China successful in its fast economic development, largely by means of providing cheap goods and labor to the world (Fang, Gunterberg and Larsson 2010, Welford and Hills 2009). During the progress of China’s involvement in the global market, multinational corporations (MNCs) have taken a positive role to increase the CSR level in China not only by requiring their local subsidiaries to adopt the same CSR practices as the host companies, e.g. codes of conducts and environmental management system (EMS), but also by placing pressure on the local suppliers to meet the higher international CSR related standards, e.g. the ISO 14000...
Environmental Management Standards and Social Accountability 8000 Certification (Ip 2009; Lu 2009; See 2009; Lin 2010). The presence of MNCs in China has also given Chinese enterprises a chance to get informed about the novel concept of CSR and start their CSR engagements (Wang and Juslin 2009; Lin 2010), mainly through global supply chains. It is not until the early 2000s, when China became a member of WTO, that the Chinese government, enterprises and society altogether began to achieve the consensus of the positive effect of CSR for the economic and social development in the global trend of CSR (Wang and Juslin 2009). For one thing, China, as a part of the global market, must obey the international trading rules including CSR related standards. Also, the internal and external pressures on the social and environmental problems in China have increased, e.g. natural resources, human health, employment and human rights (Welford and Hills 2009; Lu 2009). However, it is often argued that the economic globalization is unlikely to be the major source for the significant increase level of CSR in China, because CSR from foreign investment is probably limited among the subsidiaries of MNCs (See 2009).

2.3 Summary of Literature Review

Based on the literature review, it can be seen that CSR, both classical and modern (Figure 1), has been researched in the free market context. In this context, the governmental role in CSR has its restriction in promoting CSR, because the governmental direct intervention to the market is less than that in socialistic countries. While in China, in the setting of socialistic market economy, the governmental regulation and the market economy coexist, which means that the government maintains its strong power to regulate and control the market through macro-instruments. In this sense, the corporate behavior is influenced and guided by the government. Rooted in socialism, CSR in the Chinese society has its mission to serve the greater society, which is also expected by the Chinese government to assist its social and political objectives. Therefore, the theoretical contribution of this thesis can be placed in somewhere in the theoretical mapping. Considering the characteristic of Chinese economy where the market is liberated to some extent, the contribution may cover some part of the Market-Modern CSR quadrant, but only a small portion (Figure 5).
3 Methodology

3.1 The Model Developed

The literature review provides the evidence that the government plays a key role in Chinese CSR development by setting the new policy direction, putting the legislation, regulation and standards to effect, and guiding the social values, which altogether form the incentives to change the business environment in China. On the other hand, the external factor of economic globalization is also pushing the CSR development in China to some extent, although the effect is largely limited among the subsidiaries of MNCs. Considering the unique environment for increasing CSR level in China and based on literature review, a model was developed and used to analyze the SKF case (Figure 4). In Figure 4, the factor of economic globalization, as an external driver, indicates that foreign investments, e.g. MNCs, to a great extent has stimulated the Chinese economy and first introduced CSR to the Chinese society, however, their influence on Chinese CSR is limited. The internal factor, i.e. the changing business society influenced by the government, legislation and social values, is promoting the CSR level in China. The domestic impetus now is becoming the most influential to the CSR development in China.
3.2 Case Study Description

The SKF Group was founded by Sven Wingquist in Gothenburg in 1907 and grew at a rapid rate to become a global company. From the global perspective, the company has well expanded its business to Europe, North and Latin America, Asia and Africa and established 140 companies since 1920. SKF is currently represented in more than 130 countries and there are 44,742 registered employees and 15,000 distributors worldwide, in addition to more than 100 manufacturing and operational sites. The business of SKF is combined of industrial, automotive and service divisions involving five technology platforms, namely bearings and units, seals, mechatronics, services, and lubrication systems. In fiscal terms, the net sale is 61,029 million Swedish Kronor in 2010.

SKF always seriously takes China as a promising market for the company’s business development. Since 1912, SKF Group had expanded its market in China and operated the business until the 1950s. After the interval of roughly three decades, due to political reasons, in 1986, shortly after the occurrence of China’s Economic Reform, SKF’s business again...
found its way back to China and formally established SKF China Ltd. in Hong Kong in 1988. Since 1994, SKF has experienced a highly rapid development and begun to set up factories in China. With the purpose of long-term development in China, SKF (China) Investment Co., Ltd. was established in Shanghai as the head office in China. So far, SKF has established 11 manufacturing plants and service units, 150 distributors, and sales teams nationwide. Currently, there are more than 4,000 employees working for SKF in China, and the business covers the industrial and automotive sectors whose scope comprises all five technology platforms.

3.3 Selection of Methodology

This thesis applies the qualitative research method because the purpose is to investigate the governmental role in CSR by studying SKF’s CSR engagement in Chinese changing society. Since the outcome of this research may be of multiplicity and uncertainty as well as that the data is dominantly sourced from the personal perception and corporate documents, there are no hypotheses, and no treatments and restrictions on the outcome (Merriam 1988). Accordingly, the qualitative case study is determined as the methodology used in this research and relies on inductive reasoning.

3.4 Case Study Approach

Given that the purpose of this thesis is to resolve the “How” questions related to the contemporary issue of the relationship between the government and CSR in China by analyzing SKF’s CSR engagement in Chinese changing society, the case study approach is chosen as a second to none qualitative research method to find the potential answer to such phenomenal questions (Yin 1994) as stated in the Section 1.4.

The qualitative case study with in-depth look into the SKF case is selected, because this case study is suitable for an intensive and holistic description as well as the analysis of a single entity, phenomenon or social unit (Yin 2003). However, as the single case study may have a less convincing conclusions and more vulnerability than the multiple case study (Yin 2003), under the SKF case study, three representative and separate mini-cases in terms of SKF’s CSR projects in different phases of Chinese social and economic development will be given
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Fei Tong

and analyzed to find how SKF has responded to the governmental instruments. These mini-cases are also expected to make up the deficiency of single case study in this thesis.

The qualitative case study approach applied in this thesis has its advantage. As this thesis has the aim to investigate the phenomenon of the governmental role in CSR and SKF’s CSR engagement in China, the case study method is a unique form of collecting empirical information which can be analyzed in depth accordingly. By using the case study method, the purpose of understanding how SKF has engaged in CSR in the Chinese setting can be achieved. However, the qualitative case study method also has some disadvantages. The outcome of this research has its limit to be applied to other companies, and the collection of empirical data is subjective and reflects the interviewees’ own perception.

3.5 Semi-structure Interview

The qualitative case study has been conducted mainly through two semi-structured interviews which have been conducted in May, 2011, and each interview lasts 30-60 minutes in the form of tele-meeting (Skype) considering the geographical factor. The in-depth semi-structured interviews aim to encourage the interviewees to provide as much and deep information as possible in response to the open-ended questions, and the pragmatic examples are also requested to be given through telling stories. The memorandum of the main questions and the study instruction has been sent to the interviewees at least one week in advance. The purpose of doing so is to give the interviewees a clue of the upcoming interviews and ensure the interviews to go smoothly. The whole process of the interviews has been recorded. Besides the interviews, the data has, as well, been collected through document review, including SKF Sustainability Report, Code of Conduct, Environmental Report and official website, to enhance the objectivity of the data.

The selection of interview participators is based on the organizational structure of SKF’s corporate sustainability management. Within SKF Group, a Corporate Sustainability Department is set up to monitor and support the overall sustainability programs and CSR performance. When it comes to countries where the manufacturing or logistics units have been established, a country coordinator is appointed to oversee the site implementation of sustainability and CSR. Therefore, the departments of Corporate Sustainability in Sweden and China respectively have been contacted.
The actual interviewees are the Project Manager (PM) of SKF Corporate Sustainability department in Gothenburg and the Country Sustainability Manager (CSM) in China. Considering their abundant academic knowledge and practical experience, they are regarded as the experts in CSR field. Though subjective, their perception is still constructive for this study. In this thesis their names are anonymous for personal privacy. The brief background of the interviewees is described as follows:

The PM started to work for SKF Nova, the Business Consulting Service operated by SKF, in 1997, as the Project Manager of Business Development. Years after, he worked in Accenture for one year as a management consultant. In 2002, he returned to SKF and worked for SKF Aero and Steel Division as the Director of Business Development. During his career, he also became an expert in the integration of environmental issues into business strategy through PhD studies.

The CSM started his career at SKF as a Sustainability Trainee in Sweden in 2006 when he graduated from Chalmers Tekniska Högskolan in Gothenburg. Since 2008, he has successively become the Sustainability Project Manager and Area Risk Manager in SKF (China). Now he is the Country Sustainability Manager of SKF (China) leading the Corporate Sustainability Department, and responsible for sustainability and CSR management in China. Also, he has participated and led many CSR projects of SKF in China. He also has substantial knowledge and experience in the area of environmental engineering and management.

3.6 Limitations

This research is weak on some points. First, this research follows only one case company’s CSR development in Chinese society, therefore the empirical study is hard to achieve a conclusion which can apply to all other companies. However, three mini-cases have been analyzed, which can to some extent make up the deficiency of the single case study; second, the achieved outcome of this research largely relies on the interviewees’ perception and company’s experience as the primary source of data. SKF has a high ambition and standard in CSR engagement that may influence their attitude and response to Chinese changing CSR. However, the outcome can be used as an example for other companies, especially MNCs, concerning how to adapt their CSR in Chinese changing society where governmental role is very influential; third, the model applied in this research can hardly generalize all internal and external factors that may have impacts on the level of CSR in China. As the research has the
4 Empirical Findings

4.1 SKF’s CSR in General
SKF has always paid a great attention to its social responsibility towards the society and “the social dimension of sustainable development has always been a part of the corporate culture since a century ago” (www.skf.com). The PM explained that “In SKF, we don’t talk so much about CSR, we don’t talk so much about sustainability, but we do talk about it in our own language, which is SKF Care. This is how SKF defines these words.” The concept of SKF Care comprises four cornerstones, namely Business Care, Environmental Care, Employee Care and Community Care. According to the interviewees, SKF’s CSR strategy is applied to its companies globally as the principles to guide CSR practices in different countries. The PM stressed that, “the major driving force of SKF is due to this company being an actor in the greater environment and the inter-dependence among other stakeholders always exists”. He also added that, “the legal standards are the minimum requirement for SKF to do business, but the company doesn’t satisfy to just follow the laws.”

According to the company’s official documents, SKF’s CSR started with the responsibility for caring for the employees, including employee welfare, working safety, labor equality and vocational development. In the early 2000s, employees’ rights were included in SKF’s Code of Conduct, such as labor equality, eliminating labor abuse and child labor, collective bargain, wage standard, working hours, working safety, vocational training, job competition, and employees’ data confidentiality. Some tools are also used to achieve the group’s commitment to employees, for instance, the Zero Accidents initiative and OHSAS 18001 standards were in use to eliminate all workplace accidents.

SKF embraces the responsibility towards the environment in CSR, including “the external environment and the internal working conditions as well as health and safety” (SKF Environmental Report 1997, pp4). The Environmental Policy was first issued in 1989, and
later in 1994 SKF published the first separate Environmental Report. SKF achieved the certificate for ISO 14001 in 1997 and all SKF companies worldwide were certified during 1998. “SKF Group-wide certificate consisted of 98 sites in 29 countries at the end of 2010” (SKF Sustainability Report 2010, pp130). Since the 1990s, the SKF Group has further and rapidly optimized its environmental performance and reduced the environmental impacts in technological manners as well. In recent years, the former scope of environmental aspects, such as environmental pollution, health and safety, energy use, and waste management, has been enlarged to embrace more detailed aspects, such as climate change, sustainable design and construction, material consumption, chemical use, ozone depleting substances, water consumption and discharge, packaging materials and biodiversity.

SKF also wants to be “a responsible corporate citizen in local communities” (SKF Sustainability Report 2010, pp141). In 2006, the SKF Social Policy was first issued to encourage SKF’s management to “find ways and activities by which SKF and its employees can make positive and lasting impact in the society and communities” (SKF Code of Conduct 2010). The community initiatives launched by SKF aim at providing personal development for less privileged people, supporting educational and vocational training, funding local sports and health initiatives, and stimulating other voluntary work in the community. In fiscal terms, in 2010, “out of a total contribution of SEK 21 million, SEK 16 million was made up of financial sponsorship to various local charity organizations as well as for sports, cultural or educational events”, and “more than SEK 4 million was donated to help underprivileged people or victims of natural disasters” (SKF Sustainability Report 2010, pp141).

In addition, SKF emphasizes its responsibility towards stakeholders. The stakeholder group defined by SKF includes shareholders, investors, customers, analysts, employees, national and local authorities and local communities. The foremost and elementary task defined by SKF is to create a strong and sustainable return on shareholders’ investment. The responsibility to other stakeholders is also emphasized by SKF. In 2002, the group’s business ethics were first introduced in the SKF Code of Conduct to maintain good relations and reputation with stakeholders, such as customers, distributors, suppliers, partners and agents. Also, SKF reflects CSR in the supply chain procedure, for instance the SKF Purchasing Policy requires all SKF suppliers to demonstrate high standards of responsibility. Since 2006, all major suppliers need to comply with SKF’s Code of Conduct and ISO 14001. Later in 2009, a Responsible Demand Chain System was also introduced. “At the end of 2010, out of
156 major suppliers, 121 ha(d) developed their own code of conduct and 109 were ISO 14001 certified” (SKF Sustainability Report 2010, pp127).

4.2 SKF’s CSR Engagement in China

According to the PM, “the CSR development of SKF should be achieved step by step, and there are a lot differences between SKF’s CSR projects in Sweden and China.” The interviewees also stressed that there are some initiatives and projects which are global, e.g. the Code of Conduct, the Responsible Supply Chain Project. However, many projects should be conducted at the local level, which are planned and implemented by the Country Corporate Sustainability Department.

As introduced by the CSM, there are generally four phases of SKF’s CSR development in China. SKF started the business in China in 1912. The CSR engagement of SKF in China formally started with environmental issues after the production factory was established in 1994. At that time, the Environment Management System (EMS) was established in line with ISO 14001 standards. The second phase of SKF’s CSR engagement was to look after the employees and other major stakeholders by initiating the Zero Accidents Plan, Code of Conduct and OHSAS 18001 in 2000, 2002 and 2005 respectively. The third phase started in around 2005. SKF began to organize and participate in more community projects. It is in 2007 that SKF began to emphasize CSR-related business market in China. More environmental solution plans and eco-friendly products have been provided to Chinese market and adapted to Chinese customers. As the PM presented, “SKF wants to integrate CSR into everything that they do in order to be really successful.” Figure 6, about SKF’s CSR development in China, is generalized based on the interview with the CSM. These phases are respectively corresponding to the different phases of the Chinese social and economic development (Figure 6).
There are many local CSR related projects of SKF in China. Table 1 based on the CSM’s instruction is to generalize SKF’s CSR practices in China since the 1990s. Some representative projects are to be illustrated in the latter section.

<table>
<thead>
<tr>
<th>Starting Year</th>
<th>CSR Field</th>
<th>Domestic Setting</th>
<th>CSR Engagement in China</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994</td>
<td>Environment</td>
<td>Economic Reform</td>
<td>Environmental Management System (EMS), ISO 14001</td>
</tr>
<tr>
<td>2000</td>
<td>Employees/Business Stakeholders</td>
<td>WTO</td>
<td>Zero Accidents Initiative, OHSAS 18001, Code of Conduct</td>
</tr>
<tr>
<td>2005</td>
<td>Community</td>
<td>Harmonious Society Plan</td>
<td>SKF Hope School Project, Youth Soccer Game</td>
</tr>
<tr>
<td>2007</td>
<td>Business Products/Solutions</td>
<td>Advocacy of Low Carbon</td>
<td>Strategic Partnership with Baosteel Corporation, Green Energy Supplier for Beijing Olympic Games, Green Vehicle Project, SKF E2 Solution to Mining Industry, Energy Optimization at SKF Dalian, Five-Year Forestation Project, Responsible Demand Chain Project</td>
</tr>
</tbody>
</table>

Table 1: SKF’s CSR Engagement in China since the 1990s
The PM and CSM both stressed that CSR engagement in China should take many local factors into account, e.g. policies, laws, economy, social values, cultures and customs, in order to find the best ways to conduct CSR in the country. The macro-policy is the most influential factor to CSR in Chinese society, according to the CSM. He added that, “if the government highlights some areas, the whole society will form the trend to develop towards this direction. The governmental policy will affect our way of practicing CSR and the field we will focus on”. He explained further with some examples, “it is impossible and forbidden for companies to organize public fundraising in China. Our company can only donate money via specific channels or organizations, the Red Cross and the Hope Project for instance.” The second example given by the CSM is about Chinese legislation and regulation. Recently, the chemical and restricted substances for manufacturing automotive components are required to be registered.

The CSM also confirmed the positive role of the Chinese government in promoting CSR. SKF is often regarded as a good example in this field considering its continual CSR performance in China. “Many government authorities actively contact us and invite us to participate in many CSR related events organized by them. And we often also give speeches or trainings in different events to introduce how we practice CSR. We have shared our experience with many other Chinese companies in this field”, the CSM proudly said. Also, SKF has built a good relationship with the Chinese government by the means of CSR engagement, e.g. the forestation project in collaboration with the National Forestry Administration. The CSM said that, “this project has the purpose of preventing desertification and strengthening the soil in the local area, which is beneficial for the regional environment and indigenous people”. He also stressed the meaning of this project by stating that, “we also build a bridge between Swedish and Chinese governments through this project. The advanced knowledge of forest management will be handed over to help the National Forestry Administration to better manage its forest in the future”.

4.3 Three CSR Projects of SKF in China

This section highlights three representative CSR projects of SKF in China as the mini-case study. These projects have been emphasized by the CSM when he described the SKF’s CSR development in China in the interview. According to the CSM, these projects represent the
changing trend of SKF’s CSR engagement in China along with Chinese social and economic development.

4.3.1 Environment, Health and Safety (EHS) Project

As the leader of the Corporate Sustainability Department at SKF and expert in the field of EHS, he takes full responsibility for the implementation and management of this project. In the interview, the CSM recalled and elaborated the development of the EHS project in the company. Also, he regarded the project as the starting point of the CSR development of SKF in China. Historically, since its establishment in the 1900s, SKF has paid a great attention to the interests of employees. The CSM explained that “by doing employee related CSR, their sense of ownership and pride will be highly promoted. We can build a better, safer and healthier working environment for our employees.” Furthermore, SKF also sees the benefit of fulfilling the responsibility to internal employees. The most significant payback is that the company can attract much more and better potential employees willing to work for SKF, which is good for the company’s image and competitiveness, according to the interviewees.

SKF has been taking the ambitious initiative to make progressive efforts to ensure the interests of the employees and environment. As the current leader of EHS project in the company, the CSM introduced the overall development of the EHS project at SKF, “the EHS project is SKF’s global initiative which applies to all its units worldwide. In 1994, when the first production factory in China was established, the EMS was already in use. In 1998 SKF was certified to ISO 14001 in order to maintain a high standard of environmental performance. In 2000, the Zero Accidents initiative was launched with the purpose of eliminating the accidents and injuries at workplaces worldwide. In 2005, SKF was certified to OHSAS 18001, which reinforced SKF’s objective to ensure effective and proactive health and safety management, and help all the units around the world to achieve zero accidents. An integrated EHS system was built by 2005”.

The CSM expressed that “at the early stage of SKF’s business in China, it was hard for us to seek any partnership in CSR in the Chinese society”. He also added that “during the Economic Reform not so many Chinese companies worked on CSR issues in China”. The CSM used to witness donation events in China, and he recalled one that was organized by the National Environmental Protection Agency. The donation activity aimed to donate books and construct a library to help students in the impoverished and remote areas in China. “A
company donated 100,000 RMB at the event, but that was all”, said the CSM. “When I talked with them, the donator never thought about the follow-up action after the donation”. “It is also very interesting that I used to see some special subjects in the newspaper reporting that ‘who donates what’ instead of ‘which company does what’, so before 2005 the CSR was usually regarded as a pure individual behavior and the level of long-term contribution and partnership was very low”, added the CSM. He was convinced that the CSR level of those companies at that time was pretty low or even not well recognized.

The CSM and PM insisted that the local situation should be taken fully into account especially when doing external CSR activities. However, SKF’s global projects, e.g. the EHS project, are applicable in every country, which reflects the self-regulation of SKF in CSR, asserted both the interviewees. The PM said “we should find some CSR related projects and initiatives that can be universal among our companies, for example labor standards, human rights, vocational safety and health, environmental management, and so on”. By defining such universal standards related to CSR, SKF is able to maintain its basic social performance which is much less influenced by different local situations.

4.3.2 SKF Hope School Project
SKF has been involved in many community projects, e.g. the Hope School Project, since 2005 when Chinese macro-policy shifted from reforming the economic system to building the harmonious society. The Hope School Project is a part of Chinese Hope Project launched by the China Youth Development Foundation (CYDF) (http://www.cydf.org.cn/index.asp). Although the CYDF initiated the Hope Project in 1989, aiming to help the students in impoverished and remote areas to access basic schooling, donations had been the major measure to support CYDF until 2007. In 2007, the mode of Hope School Project was upgraded to focus on the comprehensive and long-term development of schools and students (http://www.cydf.org.cn/index.asp). SKF focuses on long-term CSR projects and initiatives. Therefore, SKF seemed to find the opportunity to engage in community projects as well as stick to its long-term CSR strategy through supporting the new-style Hope Project. The ideological unity stemming from sustainability is a potential reason for SKF to keep the collaboration with CYDF since 2007. As the CSM has participated in the SKF Hope School Project, he described that “successively, SKF has built three Hope Schools” in Yuexi County in Anhui Province, Lancang County in Yunnan Province, and Zhuanglang County in Gansu
Province. All SKF units in China have participated in the reconstruction of the schools and comprehensive packages were supplied, such as computers, remote teaching rooms, libraries, meeting rooms and teacher’s dorms. At present, more than 750 students and teachers are now studying and living in these three SKF Hope Schools.

The follow-up and interactivity of CSR activities has been given a great attention by SKF. In the construction process of SKF Hope School Project, SKF kept a close eye on the progress of construction with the help of local governmental officials. For instance, before the first SKF Hope School was completed, in March of 2007, the local officials often went to the construction site to oversee the progress and also had meetings with the representatives in charge of the construction in to receive the feedbacks regarding the construction. In addition, when the third SKF Hope School was completed, the CEO of SKF attended the opening ceremony and even brought new school bags, stationary and clothes to the students.

As having experienced in such community projects as the Hope School Project, the CSM highly recognized the influence of the governmental macro-policy, e.g. the Harmonious Society Plan, on SKF’s CSR development in China. He agreed that such a policy has pushed the whole Chinese society to change the social values from the profit-oriented ideology formed during the Economic Reform to a sustainable ideology. The CSM pointed that, when he communicated with other managers at some CSR related events, he found more and more Chinese companies are realizing the importance of their social performance which can also affect their profits. And many managers often asked him for some suggestions in e.g. the EHS area. He believed that this means the concept of CSR is accepted by Chinese society. He also presented a phenomenon that, “the governmental authorities, SOEs and listed companies have been more involved in CSR related activities than before”. The CSM was convinced that the participation of SOEs and governmental authorities in the community projects reflects the positive intervention of the Chinese government in CSR.

The CSM stressed that the Chinese environment now is better for promoting CSR partly due to the Harmonious Society policy. The CSM said with smile that, “our company has been selected as the candidate for some CSR related award ceremony organized by the government”. Since 2007, the Dalian Personnel Bureau and the Municipal Labor and Social Security Bureau have launched the Best Employer Campaign. SKF was awarded the title of Best Employer separately in 2007 and 2009, due to its consistent employee care even in the economic crisis. The CSM agreed that the government wishes to employ the reward
mechanism to motivate and guide companies to perform ethically and responsibly in the society.

4.3.3 Strategic Partnership with Baosteel Corporation

The background for SKF’s partnership with Baosteel Corporation is the Low Carbon Economy policy raised in the Twelfth Five-Year Plan. The CSM believed that the macro-policy of Twelfth Five-Year Plan for Chinese social and economic development influences the company’s CSR engagement without any doubt. He further explained that, “the Twelfth Five-Year Plan will motivate our company to pay more attention to the low carbon aspect and put more strength and resource in energy and environment”. The CSM asserted that “the Low Carbon Economy has provided SKF a huge opportunity in strategic partnerships with CSR and sustainability as a significant element”. The low carbon economy was raised with the purpose of mitigating GHG emissions due to the economic growth. The CSM already saw the influence of this policy. He explained that, “now in China there are a lot of car manufacturers that are making efforts towards the direction of low carbon development”. He further stated that, “SKF has participated in many green vehicle projects, and to be mentioned, the car industry leads the way in low carbon path in China”. As a matter of fact, energy intensive SOEs are actively responding to the call of the low carbon policy, and the advanced low carbon technology is sought by them to reach their financial and non-financial goals.

The World Expo 2010 in Shanghai reflects the direction of the future development of Chinese society, which has the theme of “Better City, Better Life”. “SKF has also attended the expo”, said the CSM. At this event, SKF had a good platform to present its initiatives and efforts towards CSR and sustainability to other Chinese companies. And this expo also has given SKF and Chinese companies a wonderful opportunity to build strategic partnerships. During the SKF VIP Day at the expo, SKF and Baosteel found a potential of intensive partnership, because SKF’s sustainability focus can help Baosteel to achieve its ambition to become a green steel company. Later at the SKF and Baosteel Senior Management Meeting 2010 in Shanghai, the chairman of Baosteel announced that “Baosteel really wishes to benefit human lives and the environment through its corporate actions”. He also stressed that “the ideas of future development of SKF and Baosteel are alike”.

Baosteel Corporation is the largest iron and steel SOE in China, as well as one of the Fortune 500 corporations. The headquarters of Baosteel is located in Shanghai. Historically, SKF and
Baosteel have built the long-term business partnership since 1997. In 2008, the two companies established a joint venture company providing the industrial service to Baosteel. Most recently, the partnership between SKF and Baosteel extended to the field of sustainability. In 2009, a strategic partnership agreement between these two companies was reached and signed, aiming to provide a platform for SKF and Baosteel to establish the preferred supplier and customer relationship. According to the agreement, on top of deepening the existing business cooperation, strengthening the operation management and building the new cooperative project, SKF will supply specific business solutions to help Baosteel achieve the sustainable and green development. The CSM stated that “by such a means of the strategic agreement we will share our experience, knowledge and technology with our strategic partners”. He was also convinced that, “this is probably different from other companies”. The strategic partnerships between SKF and Chinese companies are mainly in the industrial and energy sectors which are almost dominated by SOEs. The CSM agreed that, “this situation reflects the phenomenon of CSR participation in China. SOEs have a high initiative and enthusiasm to engage in CSR and sustainability”.

4.4 Answers to Research Questions

4.4.1 How does the Chinese government influence the CSR development?
SKF is convinced that the domestic factors related to the Chinese government have the influence on its CSR engagement in China. SKF believes that Chinese government has the power and ability to change social values by making policy, e.g. Economic Reform policy, Harmonious Society policy and Low Carbon Economy policy. The macro-policy is able to form a domestic environment for companies to understand and practice CSR, and make the society more open to accept CSR. According to SKF, now the Chinese government is encouraging companies to improve their social performance, and some companies with good social performance are highly appraised by the government in the form of, e.g. the award ceremony. The Chinese government is trying to using some model companies, e.g. SKF, to encourage more companies to be involved in CSR. In addition, the macro-policy also builds a potential market for companies in China, such as the huge low carbon technology. In most recent years, the green vehicle projects are promoted by the government with the purpose of mitigating the emissions and improving the energy efficiency.
According to SKF, the relationship with the government is always important for enterprises in China. The compliance with the governmental policy is beneficial for building a good relationship with and obtaining supports from the government, which can potentially bring more profits to companies. The strategic partnership with SOEs, e.g. Baosteel Corporation and national wind power companies, is deemed by SKF as the benefit from the good relationship with the Chinese government. Based on SKF’s experience, the social performance of business is closely connected with its corporate image and reputation which can influence its competitiveness in Chinese market. In the area of CSR and sustainability, SKF has already been recognized by the government, other companies and common public as a leading company.

SKF also highlights that the legal instrument used by the government can assist the implementation of the macro-policy. The regulation of chemical registration in the automotive industry mentioned by the case company can also reflect the environmental aspect of the governmental policy. The higher standards of legislation and regulation to a large extent reflect the government’s strong will to promote the level of CSR in Chinese society.

4.4.2 How does SKF adapt its CSR engagement to the Chinese changing society?
SKF has proactively responded to the governmental instruments that promote the CSR in Chinese society. Before the governmental participation in CSR, SKF could hardly find the opportunity to build partnerships with other organizations and companies, and the support from the government is also missing. However, the company still kept its global CSR strategy.

Before the 2000s, SKF mainly focused on its own CSR related projects, e.g. the EHS project and Code of Conduct. By this means, SKF has obtained the advantage of management and technology in CSR in China, which also helped SKF to build a positive image and maintain a strong competitiveness in Chinese market. Since the 2000s, the governmental promotion gave the companies in China an opportunity to further know and conduct CSR. The social base for CSR development in China was gradually formed and the level of partnership in CSR also increased. In response to this social change, SKF began to conduct more community projects related to CSR, e.g. the Hope School project. As the collaboration in CSR is always emphasized by SKF, the higher level of CSR partnership in Chinese society has enabled SKF to fulfill its utmost social responsibility. Later when the low carbon economy was advocated
by the government in the late 2000s, the CSR related technological innovation was highlighted in Chinese society. The advocacy of CSR has also developed to an unprecedented level recently, which leads the companies to seek strategic partnership in sustainable development. In this context, SKF has not only focused on the energy optimization and emission reduction among its Chinese units, e.g. energy optimization project at SKF in Dalian, but also built partnerships with Chinese government and enterprises, e.g. supplying green energy for Olympic Games in Beijing, partnership with wind power corporations, providing green solution and products for Baosteel, and launching the forestation project with National Forestry Administration.

It can be learnt from the changing CSR engagement of SKF in China that, as the rising level of governmental and social advocacy of CSR, SKF has been proactively engaging in a deeper and broader field of CSR. The SKF case also reveals that the continual CSR engagement in Chinese society can lead to a good relationship with the government and society.

5 Discussion
This section evaluates the findings including the mini-cases by using the model (Figure 4) raised earlier so as to understand the governmental role in CSR development in China. The discussion will be linked to the previous theoretical framework.

5.1 Economic Globalization and CSR in China
Since the late 1970s, China has gradually opened its domestic market to foreign investment, which has attracted more and more MNCs to expand their business to China (Fang, Gunterberg and Larsson 2010; Welford and Hills 2009). For instance, SKF also saw the great business potential in China and formally integrated Chinese market into its global business strategy by establishing the company in the late 1980s. The active participation of foreign investment in Chinese market has broken the monopoly of SOEs and increased the level of market activity. During the era of the Economic Reform, the economic body in China has become multiple (Ip 2009; Gao 2009; Wang and Juslin 2009). Apart from the SOEs, the private and joint venture companies have emerged as well.
When the MNCs arrived in China, the western CSR was brought to this land as well. It is undeniable that the involvement of foreign investment has created the opportunity and condition for Chinese society to touch the CSR area (Wang and Juslin 2009; Lin 2010). For instance, as MNCs source materials from China for production, the Chinese suppliers were required to comply with the companies’ codes of conducts. As the higher level of international transaction increases proportionately the domestic CSR engagement (Moon and Chapple 2005; Robertson 2007; See 2009), the coexistence of multiple economic bodies has given the western CSR the chance to play a positive role in the Chinese society. However, the ownership of the company affects the perception and form of the CSR (Robertson 2007; See 2009). Therefore, at the early stage of CSR development in China, the CSR was dominated by western ideology, which might have some problems to fit in Chinese context dominated by the indigenous culture. It can be seen from the case study that the CSR strategy of SKF is rooted in the western CSR theory and its ambition to involve all the stakeholders is in line with the argument that CSR should reflect the interests of multiple stakeholders (Freeman 1984; Donaldson and Davis 1991; Bowie 1991). Furthermore, the CSR projects targeting different stakeholder groups launched by SKF also reflect the viewpoint of CSR being to fulfill the needs of specific stakeholders (Freeman 1984; Donaldson and Preston 1995; Cramer and Bergmans 2003; Crane and Matten 2004; Garriga and Mele 2004). However, the CSR practice usually has first taken place in the MNCs’ subsidiaries in China (See 2009), which can be explained by SKF’s statement of low social awareness and governmental intervention in this area.

The economy is the basis for a company to engage in CSR (Carroll 1991). This doesn’t mean that the economy alone is able to spontaneously lead to the high level of CSR engagement in China. Historically, from the planned economy to socialistic market economy, from the profit maximization ideology to harmonious society ideology, the governmental macro-policy has played a crucial role in both the economic and ideological shift. Although the economic globalization has yielded a wealth accumulation in China, the Chinese society could not form an environment for CSR without the participation of the government.

5.2 Changing Business Environment and CSR in China

The Chinese business environment is largely influenced and regulated by the governmental instruments, e.g. macro-policy, legislation and regulation. The governmental policy is the
most influential factor that guides the development of society and business towards a sustainable direction (Xinhua 2011), e.g. the Harmonious Society Plan and Low Carbon Economy policy. Influenced by the macro-policy, the society has begun to focus on the social performance of business instead of the economic performance only. The macro-policy has also provided the institutional support for enterprises in China to engage in CSR, as well as the business opportunity in sustainability, such as the huge low carbon market according to SKF. This situation is different from that before 2000s when the Chinese enterprises, e.g. Chinese suppliers, passively accepted the CSR related standards required by foreign companies. The motive of such governmental actions is multiple, but mainly originates in the concern of social stability, legitimacy of the party, and environmental challenges, which potentially affect Chinese long-term development (Woo 2006).

The legal instrument is also having an effect on its CSR. The macro-policy basically provides the general direction of future social and economic development, while the legislation and regulation can be used as the substantial measure to serve the policy. For instance, the New Labor Contract Law has the aim to protect the legitimate rights of employees in China, which is able to mitigate the social contradiction and ensure the social stability (Baker and McKenzie 2007; Fang, Gunterberg and Larsson 2010). Another example is given by SKF, which is the restriction and registration of the chemical use in manufacturing of auto components, which will have a positive impact on the environment and consumers. In this sense, it can be assumed that the government has changed the attitude to the former extreme laissez-faire economy mode, which solely emphasized the profit maximization (Ip 2009; Rarick 2009; Wang and Juslin 2009; Gao 2009). The government expects to employ a stricter and more concrete legislation to assist the implementation of its macro-policy.

The policy and legislation can obviously show the ambition and standpoint of the Chinese government in the social and economic development. In China, the good relationship with the government brings more freedom from restrictions and avoids additional regulations (Zu and Song 2009). This can be reasonably believed as an important motive for companies in China to comply with the macro-policy and legislation made by the government.

Additionally, the Chinese society is becoming more open to advocate CSR. Some reasons that may explain the changing social values. First, the Harmonious Society Plan has created a social environment for people to rethink about the role of business in the society (See 2009). At that time, the attitude towards business environment was pessimistic due to the e.g. labor
dispute, food quality crisis and environmental deterioration (Lin 2010); second, the traditional Confucianism had claimed its return into Chinese society with the support of the existing Harmonious Society Plan policy (Ip 2009, Wang and Juslin 2009), which helped rebuild the ethical benchmark for society and business; third, the former rapid economic development in China had provided the economic basis for many enterprises to engage in social activities; and fourth, some Chinese enterprises need to find a way to rebuild or maintain the corporate image during the business trust crisis resulted from the overemphasis on profits during the Economic Reform (Lin 2010).

5.3 Three Mini-cases in the Chinese Changing Society

5.3.1 EHS Project during the Economic Reform

This case reflects that during the 1990s, SKF’s CSR engagement mainly focused on the environment and employees. SKF believes that the level of CSR partnership in Chinese society was very low at that time, which has largely restricted SKF’s CSR engagement in Chinese society, because the collaboration with other stakeholders in CSR is deemed of great significance by SKF. In this sense, it is difficult for a company willing to fulfill its social responsibility to extend its CSR dimension to greater society in China.

There are some potential reasons leading to the low level of CSR participation in Chinese society at that time. First, as the economic goal was the major task in China, the profit maximization was still dominant in Chinese society during that period, which caused the missing ethics and morality of business in the society (Ip 2009; Rarick 2009; Wang and Juslin 2009; Gao 2009). Therefore, the basis of social values was not ready for CSR. Second, although the SOEs were privatized to some extent, the Chinese market was still largely regulated by macro-policy of the government (Moon and Shen 2010). Before the Economic Reform, the social responsibility was deemed as belonging to the government and SOEs (See 2009; Bai and Xu 2005; Mako 2006; Lin 2010; Liu 2005). Thus, it is reasonable to believe that in the 1990s, around 10 years after the Economic Reform, the social responsibility was still placed by the greater society in the dimension of SOEs social and political goals (Liu 2005; See 2009; Lin 2010). Third, the lack of governmental intervention through institutional measures in the field of CSR failed to guide the economic development in a socially
responsible manner. Thus, the social, political and economic basis was still weak for nationwide CSR development in China.

5.3.2 SKF Hope School Project in the Harmonious Society

This project started shortly after the Harmonious Society Plan was raised in 2005. According to the experience of SKF, fundraising organized by companies is forbidden in China, the donation must be conducted through specific channels, e.g. the Hope Project. Such a constrained institution and channels may increase the cost of companies to do other CSR related activities than charity. The combination of rebuilding ethical benchmark and constrained institutional factors easily make donation to be the second to none measure for Chinese companies to contribute to the community. In such a shifting context, companies sees a good opportunity to expand the CSR to the community, and it can be assumed that the partnership with Hope Project is a reasonable and secure way for companies, such as SKF, to take the first formal step to expand their responsibilities to the community.

CSR in some sense shares similar idea with the macro-policy of the Harmonious Society Plan. Therefore, CSR has attracted attention from the government, companies and society. The government and business began to consider using CSR to achieve different goals. At the early stage of CSR prevalence in Chinese society, CSR was often connected with philanthropy. This phenomenon is related to the return of Confucianism and the constrained surrounding institutional factors (See 2009). The foremost element of Confucian ethics is Benevolence, which can equal charity or philanthropy. And the domestic institution is not integrated and robust enough to provide a strong legal and administrative foundation for companies to engage in CSR.

5.3.3 Strategic Partnership with Baosteel Corporation in the Low Carbon Economy

According to SKF, since around 2007 SKF has placed a great focus on providing the energy-efficient and eco-friendly business products and solutions in Chinese market where the low carbon concept has been advocated unprecedentedly. In most recent years when the Low Carbon Economy policy was raised to assist the ambition of building a harmonious Chinese society, the channels are even multiple for companies to engage in CSR in China. This policy highlights the responsibility of energy intensive industries, e.g. automotive industry, power
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industry, steel industry, etc. In these industries, technological innovation is highly emphasized as the important in CSR and sustainability, especially in mitigating the environmental and energy constraints. On the other hand, the policy probably has its social objective as well. The emphasis on and development of technological innovation can also provide more job opportunities in China (Xu and Yang 2010), which can help the government mitigate the pressure of domestic labor market to some extent (Xu and Yang 2010; Fang, Gunterberg and Larsson 2010).

The SOEs participation in CSR has developed rapidly and risen to the strategic level. It can be seen from the phenomenon presented by SKF that, more and more SOEs begin to seek long-term strategic partnerships in CSR and sustainability, e.g. the five-year strategic partnership between SKF and Baosteel. Events, e.g. the World Expo 2010 in Shanghai, also provide a better platform for numerous Chinese companies, especially SOEs, to build strategic partnership with companies which have advanced knowledge, experience and technology in CSR and sustainability. The social and political function of SOEs seems to be strengthened and also somewhat changed. Historically, the social and political objectives instead of non-financial objective assigned by the government should be achieved by SOEs (Liu 2005; See 2009; Bai and Xu 2005; Mako 2006; Lin 2010). The SOEs today in China have a more diverse objective which focuses on both self-development and social development at the strategic level. The major goal of SOEs remains almost the same as in the history, which is to achieve public and private interests (See 2009). The difference is that the interests defined today refer to the long-term interests and the technological measure begins to be employed by SOEs to fulfill their responsibility to economy and society.

6 Conclusion
As the Chinese society is changing in terms of governmental policy, social values and legislation, the level of CSR is rising rapidly. Based on SKF’s CSR development in China, an important conclusion can be achieved that the government is playing a significant and active role for causing the prosperity of CSR in Chinese society. The governmental role in China is distinctive considering that the government regulates the market and orients the social values. Based on the literature review and case study in this thesis, there are different ways of the governmental intervention in CSR in China, i.e. the CSR-friendly macro-policy, institutional
support and harsher legislation. The changing social values in China are also positively influenced by the government, which helps the Chinese society rebuild the ethical benchmark for the business. In addition, the most recent macro-policy, i.e. the Low Carbon Economy, implies that the Chinese government is trying to use the eco-friendly technology to mitigate the pressure of the energy and environment.

It can also be concluded that the governmental promotion of CSR leads to the intensive strategic partnership in CSR and sustainability between companies as well as between the companies and government, which can be proved to some extent by the partnership projects of SKF in recent years. SKF’s partnerships with the government and SOEs can tell a fact that, now in China the economic performance of companies can’t overwhelm all other interests as during Economic Reform. The government and common public require companies to behave responsibly in the society as well. As return, a good relationship with the government and a sound reputation in the society will bring further benefits, e.g. the potential business opportunity, to the responsible companies. Therefore, taking the correct and positive response to the governmental promotion in CSR in China is a win-win strategy for companies to maintain a success in both finance and society. It can be also concluded from the SKF case that the accumulated experience and knowledge in CSR can bring a huge advantage to the company in Chinese market where the CSR level is rapidly rising.

Apart from the conclusions achieved in this thesis, some suggestions could be given to the future research. First, further multiple case studies could be conducted to investigate the governmental positive intervention on CSR in China; second, it would be interesting to analyze to what extent the government influences the companies’ CSR engagement in China; third, every coin has two sides. The powerful governmental intervention may also have some drawbacks, thus, the restriction of the government on CSR could also be studied so as to enrich the comprehensive research of the governmental role in CSR in the Chinese society.
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Appendixes

Appendix 1: Interview Guideline

How do you perceive CSR and its significance to SKF?

What factors may influence the CSR engagement of SKF in China?

How do you perceive the relationship with the Chinese government regarding the CSR engagement?

How is the process of the CSR development of SKF in China?

How do you divide the CSR development of SKF in China into different phases?

How do you perceive the link between the CSR development of SKF and Chinese social and economic development?

How do you perceive the influence of the government and macro-policy on the CSR engagement in China?

Could you please give examples of the CSR engagement of SKF in China?

How does SKF adapt the CSR engagement to the Chinese society?

How do you perceive the motivation for SKF to adapt the CSR engagement to the Chinese changing society?

How do you perceive the problems of fitting the CSR of SKF in the Chinese society?

Appendix 2: SKF’s Awards and Recognition in CSR (Part)

2005 Member of Ethibel PIONEER & EXCELLENCE Investment Registers

2007 Best CSR Company Global Award, Global Forum

2007 Best Employer Award, Dalian, China

2008 Score 4.8 out of 5 in Human Rights Index, Amnesty International

2008 Second place of Carbon Disclosure Leadership Index, Scandinavia
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2008 Best Employer Award, Universum, Sweden

2009 Best CSR Company in Sweden, Hallvarsson & Halvarsson, Sweden

2009 Top of Folksam Corporate Responsibility Index for Environmental Performance for 4th year in succession

2010 Member of Dow Jones Sustainability World Indexes for 11th year in succession

2010 Member of FTSE4 Good Index Series for 9th year in succession

Appendix 3: SKF’s Endorsement to International CSR Related Initiatives

United Nations Global Compact Principles

International Chamber of Commerce Business Charter for Sustainable Development

International Labor Organization Declaration on Fundamental Principles and Rights at Work

Organization for Economic Cooperation and Development Guidelines for Multinational Enterprises

Appendix 4: SKF’s Business Expansion in China

1912 Entered China and established the first SKF agent in Shanghai

1916 Established the first sales subsidiary in Shanghai

1951 Moved out of China

1986 Established the first consignment center in Shanghai

1988 Established SKF China Co., Ltd. in Hong Kong

1989 Established an office of SKF China Co., Ltd. in Shanghai

1991 Established the first distributor in Wuxi

1992 Established two offices of SKF China Co., Ltd. in Beijing and Guangzhou respectively

1993 Established an office of SKF China Co., Ltd. in Shenyang
1994 Established SKF SMM Textile Component Co., Ltd. and SKF Automotive Bearings Co., Ltd. in Shanghai

1995 Established an office of SKF China Co., Ltd. in Chengdu

1996 Established SKF Nankou Railway Bearings Co., Ltd. in Beijing

1997 Moved the office of SKF China Co., Ltd. from Shenyang to Dalian, established SKF (China) Investment Co. Ltd. and CR Seals Co., Ltd., purchased 19.7% share of Wafangdian Bearing Co., Ltd.

1998 Established SKF Wazhou Bearings Co., Ltd. in Dalian, and established two offices of SKF China Co. Ltd. in Nanjing and Xi’an respectively

1999 Dissolved and liquidated SKF SMM Textile Component Co., Ltd. in Shanghai

2001 Established SKF (Shanghai) Bearings Co., Ltd. and SKF Bearings (Shanghai) Trade Co., Ltd.

2003 Relocated Anhui CR Seals Co. Ltd. from Ningguo to Wuhu

2004 Renamed SKF Bearings (Shanghai) Trade Co., Ltd. to SKF Reliability Systems (Shanghai) Co., Ltd., established an office of SKF China Co., Ltd. in Wuhan, SKF AB acquired the shares of Asian Strategic Investment Co., Ltd., transferred Anhui Hill Sealing Co., Ltd. from joint venture to wholly ownership, and established SKF (Shanghai) Investment Consultancy Co., Ltd.

2005 Established SKF (Dalian) Bearings and Precision Technologies Co., Ltd. and SKF (China) Sales Co., Ltd., established two offices of SKF China Co., Ltd. in Shenyang and Chongqing respectively, renamed Anhui CR Seals Co., Ltd. to SKF Sealing Solutions (Wuhu) Co., Ltd., and SKF AB acquired Jaeger Co., Ltd. in Taiwan

2006 Established an office of SKF China Co., Ltd. in Qingdao, established SKF Precision Machinery (Shanghai) Co., Ltd. and SKF (Shanghai) Automotive Technologies Co., Ltd., and established Shanghai Campus of SKF College in Pinghu, Zhejiang

2007 Established offices of SKF China in Taiyuan, Tianjin, Ningbo, Urumqi, Zhengzhou, Changsha and Baotou respectively
2008 Established SKF (Shanghai) Industrial Service Co., Ltd., SKF (Shanghai) Solution Factory Co., Ltd. and SKF (Shanghai) Automotive Technology Co., Ltd., and established two offices of SKF China Co., Ltd. in Harbin and Kunming respectively.

2009 Established SKF Solution Factory in Tianjin