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[Field Research]

IKEA and Corporate Social Responsibility: A Case Study

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Abstract

Purpose - The purpose of this paper is to examine IKEA in the context of corporate social responsibility to determine the reasons, if any, as to why IKEA has had more success in the implementation of its CSR policies and Code of Conduct where many other multinational companies seem to have failed.

Research Design and Methodology - This is a case study, an analytical approach, which focuses on exploring and analyzing the CSR policies to measure IKEA's ethical behavior in a business environment.

Results - IKEA stands out as a multinational company whose CSR policies are ingrained into the business itself as a part of its ethical operations, rather than a marketing event.

Conclusion - Beyond profit, IKEA actively works together with its suppliers and the nation states to eradicate the harmful social causes of the various challenges it faces in the global business environment.

Keywords: IKEA, Corporate Social Responsibility, Business Ethics

JEL Classifications: D2, K2, L1, M1.

1. Introduction

Resolution of global ethical issues such as environmental and human rights violations are not as simple as they seem. Imposition of ethnocentric standards by developed countries upon emerging or undeveloped countries are often inappropriate and do more harm than good. In the realm of corporate social responsibility, more needs to be done by multinational companies than perfunctory show of performance of audits and cursory enhancement of monitoring controls. With global world-wide competition and proliferation of multi-media communication technology, multinational companies are under pressure more than ever to place strategic significance on corporate social responsi-

bility ("CSR"). In an effort to avoid criticism and negative publicity, these organizations have adopted codes of conduct and policies addressing issues ranging from environmental sustainability to child labor to human rights and dangerous working conditions. Even so, the adoption of CSR policies by the multinational companies often seem to be just a marketing event, and comparatively very few global companies seem to consider their CSR policies as an ethical operational issue of the business itself. This perception, albeit correct, is due to numerous incidences of violations, which have surfaced and publicized by the media over the past decades such as Nike, Wal-Mart, Gap, Mattel (see Brown, 2006), and Apple (see Hahn, Kim, & Park, 2012), to name a few.

In their defense, often the human rights and other serious-ethical violations are not committed directly by the multinational companies but their contractors in supply chain, and the resolution of those issues in supply chain management are not simple, to say the least. Yet, the global entities, whose size can be analogous to a country itself and whose multi-billion dollar industries have higher turnover than gross national product of many countries (Scherer & Smid, 2000), are held accountable because multinational organizations, with their economic superiority and immense power and influence over government and other entities, have a significant social impact and, more so, considerable and extensive leverage over their suppliers. They have unquestionable power to dictate the terms of their contract and control and oversee their supply chain management. Still, the standard response of the majority of the multinational companies to the discovery and promulgation of violations seem to be mere performance of an audit and then cursory enhancement of monitoring controls. After the initial perfunctory show of effort to appease the critics and the ethical-minded public, businesses seem to go back to the usual of doing relatively nothing about the violations (see Brown, 2006).

In the midst of the apparent lack of committed adherence to CSR by much of the multinational companies, one company, IKEA, seems to stand out "as inspiration for other companies" (Andersen & Skjoett-Larsen, 2009). In fact, some have characterized IKEA as "known to be one of the global front-runners within work on CSR" (Morsing & Roepstorff, 2015). IKEA has even been named "one of the 'World's Most Ethical Companies' for Fourth Consecutive Year in 2010" by Ethisphere Institute, a research based international think-tank comprised of over 200

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leading corporations, universities, and institutions, for "going the extra mile, implementing upright business practices and initiatives that are instrumental to the company's success, benefit the community, and raise the bar for ethical standards within the industry" (Conshohocken, 2010). Despite these and other accolades, however, IKEA has not been immune to allegations of human rights labor violations. One in particular and what seems to be the most egregious accusation against IKEA has to do with child labor in the supply chain. This case study examines legal and ethical aspects of child labor and IKEA's response to the allegation thereof to determine what sets IKEA apart from other multinational companies.

2. Child Labor: A Legal Review

When doing business globally, issues, such as child labor, which, on their faces seem simple to resolve, are not always that simple but intricately complex. In the early 1990s when U.S. Senator Tom Harkin proposed a ban of all imports of goods made by children, that proposal alone caused garment manufacturers in Bangladesh to fire tens of thousands of children that were working in their garment factories. UNICEF later found that some of these tens of thousands of children, having no alternative source of income, were forced to work in worse jobs or become prostitutes. Shocked, the activists behind the Harkin Bill put new pressures on the garment manufacturers to stop firing the children (Bachman, 2000). As this and other similar cases demonstrate, imposition of ethnocentric standards by developed countries upon emerging or undeveloped countries and careless enforcement thereof, often make the life of a child worker worse, and it can be said that blanket prohibition of child labor in such instances is unethical.

Legally, the question of child labor is not "what constitutes a child labor?" More accurate question should be, "what constitutes illegal child labor?" After all, child labor in the U.S. was legal until the late 1930s when Fair Labor Standard Act ("FLSA") of 1938 was passed, finally making it illegal for children under 14 to work "for most non-agricultural work" (see FLSA 1938, 29 CFR, Part 570). Even then, under the law, a child in the U.S. can "at any age . . . deliver newspapers; perform in radio, television, movie, or theatrical productions; work in businesses owned by their parents (except in mining, manufacturing or hazardous jobs); and perform babysitting or perform minor chores around a private home" (United States Department of Labor, elaws; see FLSA 1938, 29 CFR, Part 570). This law, as applied, results in contradictions because under this law, children, at any age, can be subjected to harsh workload at the family farm when they would not be allowed to make copies at a non-family owned office (Bachman, 2000). Hence, complete eradication of child labor is unrealistic, and the answer to "what constitutes illegal child labor?" in the international context is a complex one, encompassing an examination of not only the international standards but also the laws of the host country, cultural practices, and social expectations.

Of the several international standards dealing with child labor, discussion of only one of the standards seems to be all that is needed, for purposes of this paper, to demonstrate the complexities involved and inadequacies of the laws alone in finding appropriate resolutions for the ethical issues faced by multinational companies in the global environment. Article 2 of United Nation's International Labour Organization ("ILO") C138-Minimum Age Convention, 1973, Convention concerning Minimum Age for Admission to Employment, adopted by 58th ILC session in Geneva on June 26, 1973, states, in relevant part, as follows:

3. The minimum age specified . . . shall not be less than the age of completion of compulsory schooling and, in any case, shall not be less than 15 years.

4. Notwithstanding the provisions of paragraph 3 of this Article, a Member whose economy and educational facilities are insufficiently developed may . . . initially specify a minimum age of 14 years.

(ILO C138, Article 2, Paragraphs 3 & 4). According to this standard, a child 15 and older are generally allowed to work in developed countries and 14 and older in developing countries.

Article 7 of Convention 138 allows children as young as 13 to 15 to work on "light work which is—(a) not likely to be harmful to their health or development; and (b) not such as to prejudice their attendance at school, their participation in vocational orientation or training programmes [sic] approved by the competent authority or their capacity to benefit from the instruction received" (ILO C138, Article 7, Paragraph 1). For undeveloped or developing countries, the age under Article 7 is made even lower by allowing substitution of ages 12 and 14 for ages 13 and 15 in paragraph 1 (ILO C138, Article 7 Paragraph 4).

One caveat that needs to be noted here is that United Nation's ILO standards are dependent upon ratification by the nation states. Unless a particular country ratifies Convention 138, the minimum age requirements of Convention 138 does not become a legally binding obligation for that country. Of 195 sovereign states in the world (U.S. Department of State, 2014), 167 countries have ratified the Convention (ILO Ratification of C138). It needs mentioning here that Bangladesh and India, along with the United States, are among those that have not ratified Convention 138 (ILO Ratification of C138, Countries that have not ratified this Convention).

Whether ratified or not, however, the legal analysis does not stop here with international standards. What makes the issue more complex is the fact that uniform implementation of the international standards is not possible and the laws of individual countries are different, with different age requirements and different definition of what a child-appropriate work is for a specific age of the child. For example, in India, child labor laws only cover children up to age 14 (Agarwal, 2014), and by prohibiting only the hazardous work as listed under India's Child Labor-Prohibition and Regulation Act of 1986, the law allows children 14 and below to work in occupations not listed under the Act (See Part II of Child Labor-Prohibition and Regulation Act of 1986). The occupations listed under The Schedule, Part A-Occupations include "any occupation connected with:"

- 1) Transport of passengers, goods or mails by railway;
- 2) Cinder picking, clearing of an ash pit or building operation in the railway premises;
- 3) Work in a catering establishment at a railway station. . . ;
- 4) Work relating to the construction of a railway station or with any other work . . . close in proximity to or between the railway lines;
- 5) A port authority within the limits of any port;
- 6) Work relating to selling of crackers and fireworks in shops with temporary license;
- 7) Abattoirs/Slaughter Houses.

(Id.) Presumably, then, children 14 and below are permitted to work in any area except the above, "including in agriculture and in the worst forms of child labor in the manufacturing of a number of products in the informal economy" (U.S. Department of Labor).

As can be seen, there is no single uniform legal definition of what constitutes acceptable child labor, and to add to these legal complexities, non-legal requirements of cultural practices and social expectations need to be considered to avoid harmful results from good intentions. An illustration of this would be that when European anti-child labor activists objected to imports of rugs made by children working in horrible conditions in Pakistan, India, and Nepal, they found that some of the children were simply learning traditional skills passed down through their families (Bachman 2000). Passing down of the traditional skills of a family was a cultural practice, and the children were socially expected to learn those skills as a necessity for family survival.

3. IKEA

3.1. Background

IKEA is a multinational company based in Almhult, Sweden, which, as of August of 2014, operates 315 stores in 27 countries with 147,000 employees who are called "co-workers" and 1,002 suppliers from all over the world (IKEA Group FY14 Yearly Summary). With sales totaling €27.9 billion for 2013 and €28.7 billion for 2014 (Id.), IKEA is considered the world's largest furniture retailer (Barthélemy, 2006). IKEA was founded in 1943 by Ingvar Kamprad, a 17 year-old, whose father had given him a reward for doing well in school. Born in Smaland, Sweden and raised on a farm called Elmtaryd near Agunnaryd, Kamprad came up with the name IKEA by first taking his initials (I.K.) then first letters of Elmtaryd and Agunnaryd. Having worked from age 5 selling matches (IKEA United Kingdom), Kamprad started his business selling a variety of goods such as greeting cards, wallets, and jewelry, and expanded to a delivery operation by hiring the local milk van for the deliveries and then to the furniture business in 1947, opening up the first IKEA store in Almhult Sweden in 1953 (Barthélemy, 2006).

Organizationally, IKEA is a part of IKEA Group of Companies, which is owned by Stichting INGKA Foundation in the

Netherlands (IKEA Group FY14 Yearly Summary). This is unlike almost any other global company, and it is worth noting that any funds Stichting INGKA Foundation receives can only be used in 2 ways: reinvest in the IKEA Group or donate for charitable purposes through Stichting IKEA Foundation (Id.).

3.2. IWAY

By the end of the 1990s, after having been criticized for the use of child labor, among others, IKEA realized that it needed to actively relate to the environmental and social conditions of its suppliers and decided to develop a code of conduct in relation to its suppliers (Andersen & Skjoett-Larsen, 2009). Considering it to be crucial, IKEA engaged in extensive internal process involving many employees and the founder himself, and took about 2 years to develop its code of conduct, referred to as "IWAY", "The IKEA Way on Purchasing Home Furnishing Products". In so doing, IKEA also established IWAY Council, which handles all questions regarding IWAY (Id.).

IWAY Standard, the "Minimum Requirements for Environment and Social & Working Conditions when Purchasing Products, Materials and Services," starts with the guiding principles which recognizes that IKEA "has an impact on people and the planet, in particular people's working conditions, as well as the environment, both locally and globally" (IWAY Standard, 2012). With this recognition, IWAY addresses the minimum requirements relating to environment and social and working conditions, including child labor. The summary, in relevant part, of the IWAY is as follows:

1. Legal Compliance: The supplier must always comply with applicable laws and IWAY specific requirements. National laws or regulations shall be followed if there is any contradiction between IKEA requirement and national law

2. Working conditions: IKEA expects the suppliers to respect fundamental humanrights, treating their workforce fairly and with respect. Suppliers must not make use of child labor or forced labor, discriminate, use illegal overtime, prevent workers from associating freely or collective bargaining, or accept any form of mental or physical disciplinary action, including harassment.

3. Environment and forestry: In an effort to always strive to minimize any possible damaging effects to the environment, IKEA and its suppliers shall continuously reduce the environmental impacts of operations.

(IWAY Standard, 2012; IISD). Notwithstanding the very short synopsis of IWAY above, IWAY addresses 19 different areas, divided into more than 90 specific issues, clearly defining sets of procedures to be followed (Andersen & Skjoett-Larsen, 2009). IWAY also warns suppliers that repeated violations of the requirements will "result in the termination of co-operation" (IISD).

IWAY standard is reviewed and revised every second year (Andersen & Skjoett-Larsen, 2009).

3.3. Implementation

In 2007, IKEA came under fire for child labor and illegal logging by its contractors in supply chain. In an interview by BBC, IKEA was criticized for refusing to join Rugmark, now known as Good Weave International, which guarantees with a mark that child labor has not been used in the manufacture of its products. In response, by stating that signatories to Rugmark, which include multinational companies, were either "ignorant or naïve," Dahlgren, then CEO of IKEA, explained that if rugs are made in countries like India and "*if you have been there* then you will know that many of these rugs are produced in the homes of individuals. So, how can anyone guarantee that at any given time a child is not sitting behind a loom in their homes?" (Wadsworth, 2007) (Emphasis added). Dahlgren was then asked why IKEA didn't move its production elsewhere, and Dahlgren answered, "No, I think it would be irresponsible to do that. Just because it is difficult to be somewhere we shouldn't get out of there." In stating that there is also a business case for being there, Dahlgren added, "I think all multinational companies going to developing countries and producing could make a difference from an environmental and social perspective. Because if we are there we can influence and change how people produce and how things get done and through that we speed up the development" (Id.).

This interview is very telling about the philosophies and implementation of IKEA. Many multinational companies do not go beyond trying to avoid bad publicities and take the easy way out by carelessly associating with organizations that sound good to the public. IKEA seems to be different in this respect. It actually goes out and investigates what the causes to the problems are and actually takes the initiative to solve the problem. IKEA, through IKEA Foundation which "focuses on protecting children from child labor, providing a better life for refugee children, and empowering girls and women," donated €104 million in 2014 (IKEA Group FY14 Yearly Summary). This amount is in addition to the funds spent on environmental initiatives. In 2012, the foundation pledged \$10 million to Save the Children, India to end child labor in India's cotton industry, which employs more than 3 million children. This was an expansion effort into 3 more Indian states of Punjab, Haryana, and Rajasthan, in addition to the work that was already being done in Gujarat and Maharashtra, where more than 65,000 children ages 6 to 14 have been moved out of child labor and into classrooms, 89,000 children ages 3 to 6 have been given pre-school education, and 16,000 15 to 18 year olds have been provided vocational skills (Pravasi Herald, 2012). Study commissioned by IKEA Foundation estimated that there are about 500,000 child laborers in Punjab, 350,000 in Haryana, and 440,000 in Rajasthan (Id.). These programs are not new but is indicative of the work that IKEA has been doing for years and involves more than just giving of money or plucking the children out of child labor into classrooms. IKEA actually investigates and works to raise the standard of living and provide a total environment, wherein the children and their families can afford not to rely on child labor for survival. By IKEA's fiscal year 2015, it is esti-

mated that 100 million children will benefit from programs funded by IKEA Foundation (IKEA Group FY14 Yearly Summary). Hence, it seems that IKEA does not just give lip service to CSR but seems to walk the talk.

Further, IKEA spends a lot of time and effort to make sure that IWAY is implemented. On the employee side, extensive internal training programs make sure employees are educated with the necessary knowledge to undertake their tasks under IWAY. On the supplier side, IKEA places great effort into making sure all suppliers understand its IWAY requirements and goes through an extensive process before a supplier is chosen. Once chosen, audits are conducted, using a checklist covering over 90 issues of the IWAY code and interviewing randomly selected employees. IKEA values long-term relationships with its suppliers so does not easily or lightly break off relationship even with non-complying suppliers. It spends extra time and effort visiting the non-complying suppliers on a continuous basis during the implementation process, working with them to correct the problems as long as they show a willingness to improve their conditions. Once the corrections are made, final audit is conducted (Andersen & Skjoett-Larsen, 2009). "Once a supplier is IWAY approved, the purchasing teams follow up continuously on the IWAY maintenance to ensure that IWAY remains a high priority for the suppliers" (Id.). In order to ensure implementation of IWAY requirements by its suppliers, IKEA has built its image as a "tough customer" (Id.). IKEA's commitment to CSR is seen at every level of its operations.

4. Discussion

With the emergence of multinational companies doing business in a global environment, CSR of a company has come to encompass the entire supply chain, holding multinational companies responsible for the environmental and labor practices of their providers and partners, over which they have no ownership, in the entire global supply chain. CSR calls for the large multinational companies to "take responsibility for the inter-firm division of labour and specific participants' capacities to upgrade their activities," thus enabling control over production without exercising ownership (Andersen & Skjoett-Larsen, 2009). Because these global corporations have immense market power, they are able to control key resources and specify what should be produced, how, by whom, and by when. They are also able to provide and do provide technical support to their suppliers to manufacture the product to their specification (Id.). It is not a big stretch, then, for the CSR to call for these multinational companies to take responsibility for the working conditions and environmental impacts of their suppliers in addition to the quality of the products produced.

In response to pressures for CSR, multinational companies instituted codes of conduct in their contract with their suppliers, specifying social and environmental standards and principles often taken from the United Nations such as the ILO. However, these codes of conduct are "often adopted to prevent pressure

from different stakeholder groups," and "empirical evidence has shown that many multinational corporations have struggled with the issue of how to implement their codes of conduct in their global supply chains" (Andersen & Skjoett-Larsen, 2009). It is apparent from the above examination that utilization of the law and the UN standards such as the ILO is not enough to resolve the labor or environmental issues faced by multinational companies in the global environment. Far from it, in the global business environment, what seems ethically simple to resolve requires complex legal, cultural, political, and socio-economic analysis. There is no one-size-fits-all solution, and hasty ethno-centric decisions can bring devastating results. Corporate code of conduct is meaningless if the environment and the ability for compliance do not exist, and there will always be a gap between the ethical standards as contained in the Code of Conduct and the actual conditions in the supply chain.

What distinguishes IKEA from some of the other multinational companies is that IKEA has integrated its CSR objectives more systematically into its management philosophy and business operations (Maon, Swaen, & Lindgreen, 2007). While not immune from criticisms of violations, IKEA does not succumb to ignorant pressures for empty quick solutions and publicity but takes thoughtful proactive steps to actually remedy the problems by devoting time, resources, effort, and funds. While continuously developing CSR policies, its willingness to go beyond mere codes of conduct can be seen in their effort and time spent to work together with the suppliers to provide an environment that enables compliance. IKEA's long-term relationship strategy with its suppliers help to develop quality, service, price, as well as environmental and social responsibility together with its suppliers while helping them to create optimal conditions in producing the goods efficiently. By engaging in a continuous development process with its suppliers instead of short-term relationships, IKEA is able to demand specified quality, price, and social responsibility from its supply chain (Anderson & Skjoett-Larsen, 2009).

5. Conclusion

The case of IKEA demonstrates that a multinational company can be a multi-billion dollar company while being committed to its CSR policies. While other multi-billion dollar companies place nets in response to suicides committed due to horrendous working conditions in their supply chain (see Hahn, Kim, & Park, 2012), IKEA proactively works to eradicate harmful social and environmental issues it faces in its global business by putting its funds, energy, and time into doing "good business while being a good business" (IWAY Standard). In recognizing that it "has an impact on people and the planet, in particular people's working conditions, as well as the environment, both locally and globally" (Id.), IKEA has embraced its CSR objectives and ingrained them into the management and operations of the business itself. While IKEA cannot control all aspects of its supply chain and is not completely immune to criticisms of violations, it serves as an example for other multinational companies to follow.

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