



UNIVERSITY OF GOTHENBURG
SCHOOL OF BUSINESS, ECONOMICS AND LAW

**Sustainable Corporate Social Responsibility & Innovation through
Partnership Development and Continuous Communication**
-A case study of IKEA Trading Area South East Asia (TASEA)
and its Vietnamese Suppliers

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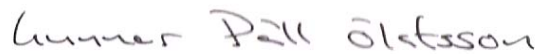
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Abstract

Due to pressures from consumers and activists, multinational retailers are assuming more responsibilities in managing their supply chains—ensuring ethical production, fair employment, elimination of child labor, and reduction of environmental destructions. Considerable resources have been invested in monitoring compliance with codes of conduct and capacity building among suppliers and sub-suppliers in order to maintain sustainable value chains. This Master Degree Project intends to answer *how can a multinational corporation demonstrate and communicate the potential benefits of implementing its code of conduct to its suppliers in developing countries?* A multidisciplinary approach and a field research study in Vietnam allow the researchers to verify that mutual trust and long-term commitment are essential to the success of integrating corporate social responsibility and innovation practices into the core operation. By emphasizing on finding solutions through hands-on approach and strategic investment, businesses can improve economic, environmental and social performance. However, this is not easy to achieve without having strong alliance partners committed to long-term change, sharing accountabilities, and focusing on activities that create positive results with measurable outcomes.

Keywords: Corporate Social Responsibility, Corporate Social Innovation, Ethical Trade, Strategic Management, Business Linkages, Management Systems, Sustainability and Developing Countries.

List of Abbreviations

ASEAN	The Association of Southeast Asian Nations
CBAs	Collective Bargaining Agreements
CMG	Compliance Monitoring Group
CSR	Corporate Social Responsibility
CSI	Corporate Social Innovation
CSR (+I)	Corporate Social Responsibility and Innovation
GPC	General Purchasing Condition
HCMC	Ho Chi Minh City
HR	Human Resources
ICFTU	International Confederation of Free Trade Unions
ILO	International Labour Organization
ISO	International Organization for Standardization
ISQAP	IKEA Supplier Quality Assurance Program
IWAY	IKEA The Way on Purchasing Home Furnishing Products
LDCs	Least Developed Countries
LO	The Swedish Trade Union Confederation (Landsorganisationen i Sverige)
MNC	Multinational Corporation
NGO	Non-Governmental Organization
PPE	Personal Protective Equipment
Q-T-D	Quality-Timeliness-Development
QWAY	IKEA Quality Management System
R&D	Research and Development
SOE	State Owned Enterprise
TASEA	Trading Area South East Asia
UN GSCP	United Nations Global Social Compliance Programme
UNGC	United Nations Global Compact
USD	United States Dollar
VGCL	Vietnam General Confederation of Labor
VND	Vietnamese Dong
WTO	World Trade Organization

Table of Contents

Figures and Tables	vii
Chapter 1: Introduction.....	1
1.1 Background and Problematization.....	1
1.2 Research Purpose and Question	2
1.3 Research Limitations	2
1.3.1 Research Scope.....	2
1.3.2 Predetermined Case Study.....	3
1.3.3 Research Process and Duration of Field Research Study.....	3
1.4 Report Structure.....	3
Chapter 2: Methodology	6
2.1 Research Design and Approach.....	6
2.2 Data Collection.....	6
2.2.1 Primary Data.....	7
2.2.1.1 Interview Structure	7
2.2.1.2 Sample	8
2.2.1.3 Field Research and Interviews.....	8
2.2.1.4 Supplier Interviews and Factory Tours.....	9
2.2.1.5 MNC Interviews	10
2.2.2 Secondary Data.....	10
2.2.2.1 Facts & Figure Questionnaires and Company Internal Documents	10
2.3 Research Verification	10
Chapter 3: Theoretical Frameworks	12
3.1 Definition of CSR (+I) in Developing Countries	12
3.1.1 Corporate Social Innovation.....	13
3.2 Ethical Trade.....	13
3.2.1 Management of Ethical Supply Chain.....	14
3.2.2 Roles of Training.....	15
3.2.3 Roles of Monitoring and Auditing	15
3.3 Strategic Management	16
3.3.1 Strategic Alliances.....	16
3.3.1.1 Strategic Intent.....	16
3.3.1.2 Appropriability of the Contribution.....	17
3.3.1.3 Receptivity of the Company	17
3.3.1.4 Trust and Commitment.....	17



3.4 Business Linkages	18
3.4.1 Backward Linkages	19
3.4.1.1 Technology Transfer.....	19
3.4.1.2 Training and Information Sharing	19
3.4.1.3 Financial Support.....	20
3.4.2 Opportunities and Challenges of Business Linkages	20
Chapter 4: Empirical Findings.....	21
4.1 Pre-Departure Preparations and Findings	21
4.1.1 The Socialist Republic of Vietnam.....	22
4.1.1.1 Social and Demographic Background	22
4.1.1.2 Labor Rules and Regulations.....	22
4.1.2 Case Company: IKEA	23
4.2 Field Research Findings	24
4.2.1 IKEA Trading Area South East Asia (TASEA)	24
4.2.1.1 Paths toward Effective Implementation.....	25
4.2.1.2 CSR (+I) Management Systems	26
4.2.2 The Suppliers.....	35
4.2.2.1 Natural Fiber Supplier	35
4.2.2.2 Plush Toy Supplier	38
4.2.2.3 Ceramic Supplier	41
4.2.3 Comparative Analysis of Suppliers	45
Chapter 5: Analysis	48
5.1 Drivers and Barriers.....	48
5.2 Comparative Analysis of Theoretical Frameworks and Empirical Findings.....	48
5.2.1 Strategic Management and Alliances	48
5.2.1.1 Strategic Intent.....	49
5.2.1.2 Appropriability of the Contribution.....	50
5.2.1.3 Receptivity of the Company	50
5.2.1.4 Trust and Commitment.....	51
5.2.2 Business Linkages	52
5.2.3 Conceptual Model Analysis	53
5.2.3.1 Strengths of the Model	55
5.2.3.2 Limitations of the Model	56
Chapter 6: Conclusion and Summary	57
Chapter 7: Future Research and Discussion.....	60
7.1 Predetermined Case Study	60

7.2 The Global Social Compliance Programme- A Standardized Code.....	60
7.3 Sustainability of Vietnam	61
Bibliography.....	62
Appendices	69
Appendix 1: Interview Guide for Sustainability Manager	69
Appendix 2: Interview Guide for IKEA Trading Office Management, Introductory Interview	70
Appendix 3: Interview Guide for Suppliers	72
Appendix 4: Interview Guide for Quality Specialist, Business Developer , Auditor/Environmental Specialist and Quality Coordinator.....	73
Appendix 5: Interview Guide IWAY Compliance Manager.....	74
Appendix 6: Interview Guide for IKEA Material Area Manager and Site Manager.....	75
Appendix 7: Interview Guide for IKEA Trading Office Management, Feedback Interview	76
Appendix 8: Visitor Log-Book	77
Appendix 9: Details on Field Research and Formal Interviews	78
Appendix 10: Visitor IWAY Checkpoint.....	81
Appendix 11: Facts and Figures Questionnaire.....	82
Appendix 12: IWAY Initial Assessment Checklist.....	85
Appendix 13: IKEA Staircase Model.....	91
Appendix 14: Audit Report and Non-Conformance Report.....	92
Appendix 15: Photographs from Suppliers	97

Figures and Tables

Figure 4.1: Map of Southeast Vietnam, Asia.....	21
Figure 4.2: Organizational Structure of IKEA HCMC (TASEA).....	24
Figure 4.3: CSR (+I) Management Systems	26
Figure 4.4: IWAY Auditing Process	27
Figure 4.5: National Export- Rattan, bamboo and rush products.....	35
Figure 4.6: National Export- Textile, sewing products.....	38
Figure 4.7: National Export for Pottery and glassware.....	42
Figure 5.1: Conceptual Model.....	54
Figure 5.2: Demonstration of Conceptual Model (Application to Selected Suppliers)	54
Table 4.1: Methods and Intensity of Communication	34
Table 4.2: Comparative Analysis of Suppliers.....	46
Table 4.3: Realized Benefits of Ethical Trading Practices	47
Table 5.1: Drivers and Barriers of CSR (+I) Initiatives	48

1. Introduction

The subject of Corporate Social Responsibility (CSR) and Corporate Social Innovation (CSI) have received a great deal of attention in the past decades as multinational corporations (MNCs) began relocating factories and shifting their purchasing organizations to low costs and less developed nations. First and foremost, it is important to distinct the differences between CSR and CSI. According to Carroll (1983), “*CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time, and talent.*” (Carroll, 1983, p.608; Found in Visser, 2006, p. 32) While CSI is defined as social innovation which motivates the contribution of finding innovative solutions to meet societal challenges as new field of opportunity for developing businesses in less-developed communities (Krull, 2007). For the simplicity of reference, the researchers have combined corporate social responsibilities and corporate social innovation as CSR (+I).

The dispersion of supply chains have provoked corporations and their partners to redefine their strategies and assume more responsibilities in the assurance of ethical production, fair employment, zero tolerance on child labor, and the reduction of environmental destructions. (Locke et al., 2007a) In order to address and minimize these sensitive production conditions and to push forward social and economic progress in developing countries, MNCs have employed voluntary codes of conduct, among other management techniques to protect their reputation and legitimize operations. The empirical findings in this report are results from a geographical field research study conducted in the southern region of Vietnam in early April 2009 with IKEA as a case company. The empirical findings are derived from examining the management approaches of implementing The IKEA Way on Purchasing Home Furnishing Products (IWAY).

1.1. Background and problematization

CSR disbelievers predicted that the current economic recession would end talks of corporate social responsibility as many large global corporations reported falling earnings at the end of 2008 and first quarter 2009. The logical reasoning behind it was if consumers are faced with losing their jobs and/or homes, they would stop buying “ethically produced” goods (hence the assumption of higher prices) and instead look for “bargain buys”. Subsequently, retailers would then concentrate on minimizing production costs in whichever way possible rather than saving the planet or workers in developing countries. However, companies like Wal-Mart, Marks and Spencer (M&S), and the world’s biggest confectionery company, Mars, have done just the opposite. Last year, Wal-Mart announced in a supplier meeting that the company will enforce stricter environmental and social standards within its supply chain; Mars has made a commitment that its entire cocoa supply will be “produced in a sustainable manner” by 2020 with the co-operation with the Rainforest Alliance; while M&S continues to give more shelf space to Fairtrade products (Skapinker, 2009). Substantial business reasons are behind these actions because companies are realizing the potential future earnings may be dependent on how they operate and behave today. For instance, what will happen to the chocolate manufacturers if cocoa farming is no longer considered as an attractive occupation for the future generation due to compromising labor practices? Or what will happen to the environment if delivery trucks continue to release unburned hydrocarbons, carbon monoxide (CO), sulfur oxides, nitrogen oxides (NO_x), and other toxic compounds into the atmosphere? It boils down to the question of *sustainability* or the implication

of survival based on the willingness and capacity to learn and adapt quickly as circumstances change (Jones & Blunt, 1998).

Many researchers have analyzed the role of codes of conduct and discuss their interactions with other management systems, national laws and enforcement regimes, and employee representation by unions and/or other NGO's (Locke, 2007a). However, the implementation of codes of conduct has failed to live up to the expectations of being the solution to the environmental and social problems stemming from MNCs operations (Locke et al., 2007a). There have been cases where suppliers have been in breach of codes of conduct despite of having passed audits conducted by MNCs and/or third-party auditors—indicating that the current set-up is insufficient. As a result, many researchers are shifting the focus and stating that codes of conduct should be only one part of a more comprehensive approach involving pressure from external actors and providing additional support to those within the supply chain. This support can be in the form of management systems (Locke et al., 2007a) and business teams which provide assistance to suppliers in implementing the code of conduct (Frenkel & Scott, 2002), requiring companies to work closely together.

1.2. Research Purpose and Question

The purpose of the research is to offer scholars and corporate manager's insights into what management systems and methods are employed in the implementation of CSR (+I) initiatives. The research intends to illustrate the importance of strategic alliances and business linkages in the development of ethical supply chain with suppliers in developing nations.

Through fieldwork strategies and participant observation, the researchers embark on a field research study where interactions between the MNC and its suppliers occur. Direct personal observations and communications with the actors in their natural environments allow the researchers to capture and evaluate the on-going activities, which are essential to a holistic perspective.

The research aims to answer the key question of:

How can a multinational corporation demonstrate (proof by process) and communicate the potential benefits of implementing its code of conduct to its suppliers in developing countries?

1.3. Research Limitations

Due to the nature of any research, there are three prominent boundaries of the study- research scope, case study selection and research process.

1.3.1. Research Scope

The scope of the research was limited to the research question which emphasis on the management of CSR (+I) and how it should be integrated into the core operations of those involved in the supply chain. The intended focus was not on how the subject matter is perceived by the second-tier suppliers or factory workers, rather on the actual implementation processes and procedures, and the types of management systems adopted to ensure social, economic and environmental sustainability.

1.3.2. Predetermined Case Study

The case company, IKEA, is chosen specifically for this research by the faculty of the university. However, the participated suppliers were pre-selected by the management of IKEA Trading Area South East Asia (TASEA) based on suitable characteristics of their operations (product types, ownership structures, age of the firm, relationship with the MNC, and most importantly, the commitments to enforce CSR (+I) initiatives). This greatly affects the research samples in the direction of better practices and preconceived notion of reality. Naturally, the question of potential biasness in the analysis section is apprehensive, but because the focus is on successful implementation of a CSR (+I) policy supported by strategic communication and demonstration within the supply chain by the MNC, the researchers conclude the selected samples are fitting for the purpose of deepening the understanding of methods and approaches of CSR (+I) management in developing countries.

1.3.3. Research Process and Duration of Field Research Study

The research process is constrained by the project funding and duration, as well as the full-understanding of the proprietary nature of some requested documents. The latter plays a significant role in the interpretation process where the researchers are able to identify gaps in comparative findings and analysis. In order to compensate for the lack of knowledge in the proprietary documentations, many researchers and experts in the field increase their sample size and broaden geographical coverage. This was however not applicable for this project. Additionally, during some of the conducted interviews, the assistance of an interpreter was needed, which may result in the loss of some detail nuances of information being conveyed.

1.4. Report Structure

Chapter 1: Introduction

The introductory chapter is to present the overall objective and background of this Master Degree Project concerning Corporate Social Responsibility and Innovation (CSR (+I)) driven by the private business sector. Furthermore, the research purpose and question are stated and research limitations are assessed.

Chapter 2: Methodology

The methodology chapter explains the employed research design and approach. This research is qualitative in nature and contains both explanatory and exploratory features. Descriptions of primary and secondary data collection methods are clarified in order to ensure research validity and reliability.

Chapter 3: Theoretical Frameworks

The purpose of the chapter is to familiarize the readers with the theoretical frameworks that are suitable for deepening the understanding of methods and approaches of CSR (+I) management in developing countries. The researchers believe that it is important to define Corporate Social Responsibility and Corporate Social Innovation as the combination of the two concepts forms the research foundation. The implementation methods of establishing Ethical Supply Chain are explained through different management theories in Ethical Trade. However, sustainability of Ethical Supply Chain requires additional Strategic Management instruments facilitated by forming Strategic Alliances and establishing Business Linkages.

Chapter 4: Empirical Findings

The empirical findings chapter is divided into two sections: 1) Pre-departure Preparation and Findings and 2) Field Research Findings. In the first section, readers have the opportunity to increase their knowledge about the Socialist Republic of Vietnam with focus on its Social and Demographic Backgrounds, as well as Labor Rules and Regulations. A brief description of the case company, IKEA, is also presented on a general level. In the second section, Field Research Findings, information on IKEA Trading Area South East Asia (TASEA) business operations and CSR (+I) Management Systems are explored in-depth. In order to provide insights and capture actualities of IKEA's path toward effective implementation, quotations from field research interviews are extensively used. With the opportunity to meet and interview three suppliers, additional data is gathered for illustrating the adoption, implementation and maintenance of CSR (+I) activities at supplier sites. The chapter ends with a comparative analysis of the suppliers and their realized benefits of Ethical Trading practices.

Chapter 5: Analysis

The analysis chapter allows the opportunity to compare the theoretical and conceptual framework with the empirical findings from the field research study. The comparative analysis is based on the systematic approach to the implementation process of CSR (+I) in a developing country whereby the sustainability of Ethical Trading and production is heavily reliant upon both financial and non-financial supports of the MNCs. The degree of CSR (+I) implementation and communication success are primarily determined by the *strengths* of specific driving forces and barriers that are related to 1) the supportive attitudes of managers, 2) proactive, inquisitive and collaborative organizational environment, and 3) the interaction of organizational and behavioral variables fostering commitment, self-direction, and active participation.

Further, an analysis of comparing theoretical framework to empirical findings is done with the essential concepts in enhancing the management of CSR (+I) initiatives in developing countries: 1) capacity building and 2) creation of business foundation where trust and commitment drive strategic change and support backward linkages. Lastly, the researchers combined the theoretical frameworks with the empirical findings of practical management systems and methods for sustainable Ethical Trade in order to create a conceptual model. The framework is then analyzed and limitations are discussed.

Chapter 6: Summary and Conclusion

This chapter allows the reader to evaluate and reflect on the empirical findings and the dynamic of how the chosen theoretical and conceptual frameworks are interlinked. As declared by other researchers, the complexity of implementing and integrating CSR (+I) policy into the core operations of any organizations demand a systematic communication and hands-on approach initiated by the management and the business development teams of the MNCs. The commitment and support must be demonstrated in actions through active and strategic engagements from the early stage of partnership building with external suppliers. It is also important to express the importance of responsibility sharing and creating new methods to solve urgent problems that may arise within the supply chain.

Chapter 7: Future Research and Discussion

Based on the empirical and theoretical findings possible areas of future research and gaps are detected that would be of interest to future research. Furthermore, discussions regarding related areas that emerged during the field research study are reviewed. As the topic of standardized codes resurfaced

both in the pre-departure preparations and during the field research itself, the researchers contemplate the possible changes a standardized code will bring to the current set-up of CSR. The paper concludes with a discussion regarding sustainability of Vietnam and what can be done to improve the situation.

2. Methodology

This chapter is intended to ensure readers that the collected and analyzed data are valid and reliable. The research contains both explanatory and exploratory features. The latter feature allows the researchers to investigate behind the scene activities involving literature reviews and the use of multiple data sources— particularly interviews with experts, managers and employees who are involved with the subject matter on a regular basis. Through the conducted interviews, the researchers increase knowledge capacity as theories are tested in practice. With compliments of the explanatory feature, the researchers establish a causal relationship between the case company and its suppliers. (Saunders et al., 2003)

2.1. Research Design and Approach

As the research purpose demands in-depth knowledge and understanding of the subject containing soft elements such as communication, strategic alliance and business linkages, rather than hard quantifiable elements, the researchers believe the qualitative research design is most suitable (Patton, 1990, Saunders et al. 2003). According to Merriam (2005), there are eight common qualitative research methods, however the case study method is selected for this study because it is “*an intensive description and analysis of a phenomenon or social unit such as an individual, group, institution, or community*” (p. 8). Furthermore, while a case study allows researchers to analyze the subject matter in great details, it also permits the maintenance of neutral view-points without disturbing the natural setting. A case study is also the preferred method when the researchers have minimal influence over the research setting (Yin, 1994).

This research employs an abductive research approach or a combination of the inductive and deductive approaches whereby analysis are described as “*Immersion in the details and specifics of the data to discover important categories, dimensions, and interrelationships; begin by exploring genuinely open questions rather than testing theoretically derived (deductive) hypotheses*” (Patton, 1990, p. 40). The selected approach allows the researchers to continuously shift between the theoretical levels (idealism) and the empirical level (reality) (Yin, 1994). The deductive approach assisted in the examination and discussion process of mainstream CSR theories in order to develop a theoretical framework. These theories were then tested during the field research study in conjunction with interviews and observations— the inductive elements of the research. Upon the completion of the field research study, the researchers detected a gap in the proposed theoretical framework which prevented a thorough analysis and interpretation of the collected data. In order to bridge this gap more theories from other disciplines, namely strategic management and business linkages, were included to complete the analysis of the data and help bring forward the findings. The research approach has therefore alternated from the theoretical level to the empirical level in order to come up with valid findings.

2.2. Data Collection

The primary data source for the research is gathered in the context of field research interviews with managers and co-workers within the MNC and suppliers as well as a sub-supplier visit in a remote village. Prior to conducting the field research study, the researchers designed two separate interview guides— one for the MNC and the other for the suppliers. (See Appendix 1 to 7) These guides determined the directions of the interviews; however they were certainly influenced by the pre-conceptualization of the research through extensive literature reviews on the subject of CSR, supply chain management, ethical trading practices, organizational and partnership development, etc.

2.2.1. Primary Data

Saunders et al. (2003) define primary data as data which is exclusively gathered for the research, while secondary data has already been gathered for another research, but reanalyzed for a different purpose. As mentioned earlier, the main primary data source is gathered in the context of field research interviews as they are designed specifically to answer the research purpose and questions. When conducting a qualitative research it is essential to make use of field work as it increases the researchers' understanding of the subject in its natural environment (Patton, 1990). Through fieldwork strategies and employing participant observation method, the researchers embark on geographical study where interactions between the MNC and its suppliers occur. Direct personal observations and communications are the primary sources of data for the purpose of making a qualitative analysis (ibid).

The researchers were surprised as IKEA personnel gave unrestricted access to the internal company database and documents, thus increasing the pool of information about the suppliers and internal processes. Being present in the daily business environment of IKEA and the selected suppliers, the researchers were able to capture and evaluate the on-going activities, which are essential to a holistic perspective. Although pre-conceptualized dimensions of the research topic had been formed during the pre-departure study, first-hand experience could be described as exciting, discovery oriented, and heartfelt. Due to the fact that the researchers were in unfamiliar environments, the degree of alertness was high. The researchers kept watchful eyes for detecting features of peculiarity overlooked by the people who face the situations on a routine basis. Examples of the situations occurred at the natural fiber and ceramic supplier factories where workers working with laminated chemicals and metal welding did not have proper personal protective equipments (PPE) on. By not wearing PPEs' the workers and suppliers are considered in violation of codes of conduct set by the buyers. These violations were consulted and communicated to the field research assistant advisor who further forwarded the concerns to managers in charge and noted in the Visitor Log-book. (See Appendix 8) As these direct observations and encounters are the researchers' own, they are considered primary.

2.2.1.1. Interview Structure

In order to analyze whether the empirical world correlates with the conceptualized models, it is necessary to examine if there is a relationship between different studied variables. To achieve this, interviews are necessary as it allows the authors to accumulate the data needed to answer the research purpose and question (Saunders et al. 2003). Further, interviews enable the authors to gain insight into the mind of the people who have either witnessed, participated in, or have been directly affected by the subject matter (Patton 1990).

According to Patton (1990), there are three different methods when conducting an interview for qualitative purposes, each with its own strengths and weaknesses. The selected interview method for this research is the semi-structured interview guide, as it ensures that the information collected from various sources correlate with each other, while giving the flexibility to explore on-the-spot topic of interests. Semi-structured interviews combine aspects from both explanatory and exploratory research categories (Saunders et al. 2003). By using multiple research methods, triangulation occurs where disadvantages of one method is offset by advantages of another method.

The intention of the questions is to be as open ended as possible, allowing the interviewees the chance to formulate his/her own answers without limitations posed within the question. Presupposition questions are used when possible as they increase the probability that the interviewee has something to

say. Furthermore, each question contains only one idea to prevent confusion on behalf of the interviewee. At last, dichotomous questions are avoided since they only expect a yes or no answer by the interviewee and can make the interviewee feel interrogated. (Patton 1990)

The sequencing of questions follows the format suggested by Patton (1990) where the interview begins with relatively noncontroversial questions on present behaviors, activities and experiences, setting a stage for questions about interpretations, opinions and feelings. Patton argues that opinions and feelings are more precise just after describing the experience since the interviewee has recently relived it. Questions regarding knowledge and skills require trust between the interviewees and the interviewers and they were therefore asked in conjunction with specific question concerning activities and experiences in order to make them context related. Demographic and background questions were scattered in the interviews in order to not to bore the interviewers or to make them uncomfortable as they are often perceived as tiresome and disliked. (Patton 1990)

2.2.1.2. Sample

The three chosen suppliers operate in three different industries, namely natural fibers, textiles and earthenware. However, all must abide to the operational and ethical requirements set by their foreign customers, MNCs. Due to the specific nature of each industry, the relationships between MNCs and the suppliers are unique as the establishments of partnerships are tailored to industrial and organizational cultures. The suppliers are considered to have reached a satisfactory level of compliance and their approaches in codes of conduct implementation are exemplary in their own ways. The chosen suppliers therefore form an extreme case sampling, representing the best case scenarios— appropriate for this research because it provides vast information within a limited research timeframe and resources. (Patton, 1990)

During the field research, a network sampling mode is also used where participants are identified through a chain of recommended informants (Patton, 1990). Subsequently, after the contacts between the researchers, key business actors and scholars are established, a case study is specified on a basis of suitability and interests. In addition, in order to simultaneously collect and filter data, the researchers maintain a daily working journal and progress reports for the purpose of substantiating the reflection process of ideas, experiences, and thoughts throughout the research cycle.

The field research was conducted over a two week period in beginning of April 2009 in several provinces located in Southeast and Mekong River Delta of Vietnam. The names of the suppliers and IKEA personnel will not be disclosed and they will only be referred to by their working title. A number of IKEA Trading Area South East Asia (TASEA) personnel and senior managers of suppliers were interviewed to increase the depth of understanding why the selected communication approach and techniques were employed during the implementation process of CSR (+I) initiatives.

2.2.1.3. Field Research and Interviews

The researchers were appointed a field study advisor, Mr. Leif Carlson (Manager of Production and Technique Development) and an assistant advisor, Mrs. Thu Hong Pham (Quality Coordinator). These two people were the key informants providing internal database access, network resources and insights into the operations of IKEA (TASEA). Mr. Carlson has been stationed in Vietnam for four years, but prior to his post, he worked in several management positions in the company's headquarter in Älmhult, Sweden for more than 10 years. Although Mrs. Pham's current position is Quality Coordinator, she has had many roles within TASEA during her four years in service, e.g. Business Developer and Business

Facilitator for Free Range Products. It was also Mrs. Pham who assisted in the scheduling of interviews, both with supplier managers and IKEA co-workers. Details on Field Research and Formal Interviews can be found in Appendix 9.

According to the pre-departure interview schedules, only six formal interviews¹ had been arranged, however a total of fourteen were conducted which include 4 feedback sessions per the researchers' requests. At the beginning of each interview, the researchers stated the research purpose and stressed the anonymity of the interviewees in order to make them feel more comfortable in sharing information. To further increase the interviewees trust, the researchers actively shared personal information in order to create a friendlier and more open atmosphere. The purpose of the feedback sessions allowed the researchers to openly discuss their observations during factory tours and interview processes. Any uncertainties or issues requiring clarifications were brought up for achieving full understanding.

2.2.1.4. Supplier Interviews and Factory Tours

The interviewees at all of the selected supplier sites were staff holding senior management positions within the different organizations. The experience and insights of these managers in respect to working with foreign buyers and their codes of conduct are reflected upon the well-operated factories they help run. The interview and feedback session with the natural fiber supplier was the longest— approximately 2 hours and 25 minutes (including 50 minutes of feedback session), plus the 1 hour and 30 minutes factory tour. It is worth noting that one of the interviewees, the sales manager, was formerly employed by IKEA TASEA for nearly ten years prior to the return to her home province. Due the 5-6 hour journey by car from Ho Chi Minh City to the factory (one-way), it was not possible to revisit. However, it would have not made a difference as the researchers are content with the gathered information. Furthermore, the researchers were also given the opportunity to visit sub-suppliers in a remote village where the *Soaré* placemats are hand-woven. The generosity and kindness of the home-workers is indescribable. The researchers learned that when families' incomes are insufficient to cover household expenses, they often use the placemats for barter.

The second supplier interview took place at the representative office and factory of the plush toy supplier. The interview lasted approximately 2 hours, plus 1 hour factory tour and 30 minutes feedback session. One of the interviewees was an expat manager who has good commands in both English and Vietnamese, but is not from the firm's home country. This is rather unique as it indicates that this supplier is not only foreign-owned, but understands the importance of employing senior managers with diverse-cultural experiences to balance the host-home countries relations. The final supplier interview took place at one of IKEA's ceramic supplier head-office and factory. At the time the interview, the factory was undergoing a major renovation and conversion of a traditional ceramic factory into an automated one. The interview, factory tour and feedback session lasted approximately, 1hour and 15 minutes, 45 minute and 30 minutes, respectively.

During the factory tours at all three supplier sites, it is visible that these suppliers are aware of Visitor IWAY Checkpoints (See Appendix 10), although observers/ researchers noticed minor non-compliance. Additional spontaneous questions were asked throughout tours concerning production, labor, community involvement, product design development, factory layout and topics alike. The researchers were free to record interviews and film factory tours as memory enhancements. By recording the events which took place during the fieldwork, the researchers were free to discuss and ask questions without

¹ For the purpose of this research, formal interviews are defined as recorded discussions with specific source of information.

wasting time transcribing the interviews or falsely describe different occurrences. In some cases where translations were needed, the field research assistant advisor and other IKEA co-workers acted as translators. However, in most cases, the interviewees have good command of the English language. As agreed upon, the recordings and films are to be kept confidential and are only released to the involved parties.

After each supplier visit, the researchers discussed the findings and issues derived from the interviews with IKEA personnel— namely the IWAY Auditor, field research assistant advisor (Quality Coordinator), and one of the three members of the Business Team responsible for the particular supplier. The findings of the interviews were discussed and verified by accessing IKEA’s audit reports and log books of the suppliers.

2.2.1.5. MNC Interviews

Formal interviews of IKEA TASEA personnel were conducted whereby many similar questions were asked to the suppliers, but are geared towards the buyer’s perspectives in order to get a more holistic view. Similar interview techniques were employed when conducting the interviews with IKEA personnel for the purpose of achieving consistency of the primary sources.

2.2.2. Secondary Data

The main sources of secondary data used throughout this report are academic books and periodic journals concerning organizational behavior, CSR in developing countries, supply chain, and international strategic management. However, the single most important secondary source used in Chapter 4: Empirical Findings are the internal documentations of the IWAY management, including sample audit reports, Supplier Facts and Figure questionnaires, IWAY initial checklist, etc. These internal documents add tremendous value to the analysis of IKEA’s processes and performance. The internet, journals and local newspaper articles were also used to increase the understanding of the business environment.

2.2.2.1. Facts & Figure Questionnaires and Company Internal Documents

One and a half month prior to conducting the fieldwork, the researchers sent out a standard questionnaire, called Facts & Figures (See Appendix 11) for selected suppliers to complete. It contains a set of questions regarding the suppliers operations and its relationship with IKEA. The completed questionnaires were not returned to the researchers until the day before the fieldwork, which resulted in the delay in data analysis during the pre-departure stage. Prior to the actual interview with the suppliers, these facts and figures were reviewed in order to create customized questions for the purpose of increasing the researchers understanding about the supplier. In addition to these customized questions, all three suppliers were asked a different set of standardized questions in order to compare certain issues within the sample. These standardized questions were constructed after reviewing academic literature.

2.3. Verification

As Merriam et al. (2005) suggests, research method shows the audit trail or transparency of the conducted study, thus enhances the value of it. One of the research strategy promoting the validity and reliability used is triangulation where “*using multiple investigators, sources of data, or data collection methods to confirm emerging findings*” (ibid., p. 31). Triangulation is not to be seen as a solution to all data collection problems, rather a technique to enhance the researcher’s ability to create meaningful

propositions from the data. (Mathison, 1998) The researchers employed several methods to triangulate. Throughout the research process, the researchers actively performed a comparative analysis on the internal database/documents, interview transcripts, and reviewed literatures to substantiate the empirical data. The researchers also checked for consistencies in answers over time, by rephrasing questions for IKEA TASEA personnel during the field research. However, it was not possible to do the same with supplier managers due to limited interactions. Finally, by basing the interview guides on similar structure and questions the researchers were able to compare participants' answers to establish common grounds on specific subjects.

Reliability tries to answer whether the same conclusion can be drawn by other researchers, in other occasions and whether there is transparency in the data processing. According to Robson (2002; found in Saunders et al. 2003), there are several threats to reliability, of which some are applicable for this research. In order to ensure the full concentration of interviewees, the interviews were conducted in the middle of the week (Tuesdays, Wednesdays and/or Thursdays). Robson (2002) states that if an interview is conducted too close or after the weekend as the mind of the individual might be fixated on personal issues rather than the research. As the researchers have stated before, the interviewees were assured anonymity to make them feel more at ease in sharing information. However, as the management of the supplier knows who were interviewed, the researchers cannot guarantee whether the answers are truthful or in line with what the management would deem acceptable. The researchers tried to conduct the interviews as structured and consistent as possible by using the interview guide in the same manner for all interviews.

Validity tries to answer if the conclusion is valid, that is the established causal relationships between the variables are right. Robson (2002, found in Saunders et al, 2003) constructed several threats to validity. Some of these threats were addressed in the field research. One of the threats is history, where the opinions on a subject can be tainted by a dramatic event just prior to the interview. According to this research, no dramatic events transpired at the suppliers prior to the interviews that could have affected their replies. To ease the interviewees' fear of potential negative impacts resulting from participating in the research, the researchers ensured that their contributions would not affect them in any way, as their identities are protected. During the interviews, whenever the interviewees explained a causal relationship the researchers rephrased and repeated their replies in order to minimize loss in translations or misunderstandings. However, any causal relations constructed by the researchers in the findings are harder to verify. (Saunders et al. 2003)

Note

It is important to note that the researchers purposely used quotations from interviews throughout this report in order to provide insights into the mentality of the interviewees as they relive and explain their individual experience and thoughts.

3. Theoretical Frameworks

The purpose of this chapter is to familiarize the readers with the theoretical frameworks that are suitable for deepening the understanding of methods and approaches of CSR (+I) management in developing countries. The topic in itself is regarded as an interrelation branch of social science, from the impact of political, legal, and economic systems on social and economic welfare to human rights and security. (University of Oxford, 2009)

“The social sciences do not enjoy such a level of consensus. A fundamental disagreement lies at the heart of social science about whether social phenomena can be subject to the same kinds of explanatory goals as physical phenomena. [...] Doubters maintain that social phenomena are distinct enough to require not just different standards, but a distinctive conceptual framework upon which social investigation can be based. For those who believe there can be a “unity of method”, there are not just the difficulties of justification and verification to be faced, but how to deal with the very obvious differences that social phenomena present in comparison to physical phenomena.” (Williams & May, 1996, p. 47)

In order to answer the key research question: *How can a multinational corporation demonstrate and communicate the potential benefits of implementing its code of conduct to its suppliers in developing countries?*, the researchers first begin with defining what is CSR versus CSR in developing countries, according to other researchers in the field. The specification of a particular group of nations limits the scope of suitable frameworks for the study.

In correlation with the retail industry, the study would be inaccurate if Ethical Trade dilemmas and challenges are not reviewed or discussed as it is a part of the industry nature. The subsequent and logical stage is to identify the possible solutions to the challenges when developing a closer relationship with suppliers. Hence, there is a need to determine what the components of Ethical Supply Chain are.

Further, theories from Strategic Management are reviewed in order to bring forward more practical elements in how to build successful alliances between the MNC and its suppliers in the implementation process of CSR initiatives or codes of conduct. However, it takes more than just a handshake and legalized documents for a partnership to flourish— especially when one partner has a higher degree of negotiating/purchasing power, while the other struggle with building competence and knowledge to increase productivity and competitiveness in the global market. To truly build a strong and long-term partnership in a business environment, it is critical to examine the strengths and weaknesses of the partners and create a systematic framework supported by Business Linkages for the purpose of facilitating change whereby sustainable social condition, economic prosperity, and environmental protection are equally balanced.

3.1. Definition of CSR (+I) in Developing Countries

The CSR definition used for this research is specifically targeted towards the special needs of the developing countries. The reason that the definition is differentiated is due to the fact that developing countries are:

- Becoming attractive markets for MNCs with their rapidly growing economies and demographic structure.

- Struggling to address social and environmental problems due to lack of knowledge and infrastructures.
- Positively and negatively affected by social and environmental changes caused by globalization, rapid growth in investment and business activity (Visser, 2008).

As a result, CSR in developing countries demands more development and capacity building in order to combat poverty, pollution and corruption (Pedersen, 2006). Further, Visser et al. (2007) suggests CSR in developing countries as *“the formal and informal ways in which business makes a contribution to improving the governance, social, ethical, labor and environmental condition of the developing countries in which they operate, while remaining sensitive to prevailing religious, historical and cultural contexts”* (Visser et al., 2007; found in Visser, 2008, p. 474). Whereas according to Carroll (1983, p. 608) CSR in developed countries, *“[...] involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm’s ethics and the extent to which it supports the society in which it exists with contributions of money, time, and talent.”* (Found in Visser, 2006, p. 32) The researchers make use of the CSR definition suggested by Visser et al., as the case study is in a developing country.

3.1.1. Corporate Social Innovation

The private sector has taken a leading role in the development process. Corporations are now more eager to become part of the solution rather than the root of the problem (Blowfield, 2005, Prieto-Carrón et al., 2006). By embracing the challenges faced by developing countries, the private sector has become more innovative within the global arena by allocating core competences to serve new markets (Kanter, 1999). This is reflected in the comparable resource allocations, e.g. competent and skillful staff and financial budgets, between social projects and “normal” business ventures. Instead of providing solely charitable contributions (CSR), the companies are now making serious strategic investments through capacity building and finding new way of approaching and maintaining responsibility within local communities and thus, creating a platform for sustainable change (ibid.). The notion of innovation is changing as it is *“[...] understood as society innovation, that is, innovations that on top of creating value for the individual social entrepreneur or a specific organization also create value for all stakeholders and for society at large.”* (Krull, 2007, p. 1)

3.2. Ethical Trade

There are different ways MNCs can go about in conducting Ethical Trade, however the adoption of a code of conduct to communicate the minimum requirements demanded from the suppliers has been the preferred method (ETI, 2009). The number of codes of conduct is growing, each with different goals and policies employing different implementation and monitoring schemes (Locke et al., 2007a; Jenkins, 2001; Garriga and Méle, 2004). As codes of conduct are voluntary they have no legal or regulatory obligations but they do have legal ramifications for the MNCs once they are adopted (Urmitsky, 2001; found in Mamic, 2004). In general, codes of conducts only adhere to first-tier suppliers and not further down in the supply chain. Often codes do not cover all the workers as they leave out home-workers and sub-contractors (Jenkins, 2001). The implementation of the code is of great importance as without it, the code is only a piece of paper. According to The International Organization of Employers, around 80 percent of codes of conduct are only statements of business practices without any implementation methods or guidelines (quoted in ILO, 1998:7; found in Jenkins, 2002). Many companies that do have

guidelines have very specific requirements that often contradict other codes, placing the suppliers in a dilemma (Locke et al., 2007a). A vital aspect of assuring compliance is gaining top-management commitments as they provide resources and drive implementation— *top-down approach* (ibid.). Furthermore, empowering the employees to voice their concerns at the workplace supports the implementation process of the code, hence improving workplace conditions— *bottom-up approach* (Locke et al., 2007b). This form of Ethical Trade only affects a small portion of companies.

There have been discussions on finding ways to scale up CSR initiatives in order to reach a wider audience, thus increasing the impact on the community (UNRISD, 2004; Utting, 2005a; Utting, 2005b; Utting, 2000; Nelson & Zadek, 2000). The most common methods mentioned regarding scaling up are voluntary initiatives, partnerships and stakeholder dialogue (Utting, 2005a; Utting, 2005b; Utting 2000). However, the results have been inconclusive due to the size of MNC operations and limited capabilities of NGOs' (UNRISD, 2004). There have been calls for setting international standards supported by intergovernmental agencies in order to increase the scope of CSR activities and decrease auditing fatigue at the suppliers (FitzGerald, 2001).

3.2.1. Management of Ethical Supply Chain

In order for MNCs to provide the support needed by suppliers, as stressed by Locke et al. (2007) and Frenkel & Scott (2002), the communication and collaboration between the two parties must be strengthened and continuous. Management of supply chains has usually consisted of arms-length negotiations, short-term contracts, multiple partners and evaluations based on purchasing price. Often times, suppliers are played against each other in a bidding war and usually, the one offering the lowest price wins. However, companies are beginning to manage their supply chains differently. They are forming closer relationships with suppliers and developing new tactics based on “[...] *understanding the elements of sourcing strategy, information flows (internal and external), new product co-ordination, concurrent procurement, teaming arrangements, commodity/component strategies, long-term requirements planning, industry collaboration and staff development*” (Spekman et al., 1998, p.54). Ethical Supply Chain extends these tactics even further by adding on responsibilities where a company: “[...] *takes responsibility for the social and/or environmental performance at other stages of the [supply] chain*” (Blowfield, 2004, p. 16). The more information and knowledge MNCs have about the supplier's capabilities and capacities, the higher chances they have in preventing quality and production defects.

Investors, customers and activists hold MNCs accountable for the entire supply chain. The corporations must assure that those within the chain adopt and follow higher environmental and social standards set by companies, thereby increasing the need for vertical integration (Neef, 2004). Furthermore, Supplier Management is a prerequisite to setting up an Ethical Supply Chain which is a “*formal program that incorporates much more than just quality, price, and delivery dependability— the standard criteria for judging vendors in the past. As companies become more and more dependent upon suppliers in developing nations, it means a much closer relationship in every way-collaborative design, education, training and supervision*” (ibid., p. 181).

As previously mentioned, the implementation of a corporate code of conduct is one feature of Ethical Trade, therefore as Mamic (2004) suggests, the company must first alter its strategic direction and integrate the code into the organizational structure prior to communicating it to its suppliers. The MNC needs to categorize its suppliers in accordance to the value they provide within the supply chain in order to maximize the effectiveness of applied resources and align with business priorities. Once again, it is

important to reiterate the importance of suppliers' top management support and commitment to assume responsibility for their actions. This could be difficult as other studies suggest that the view and interest of MNCs and their suppliers normally differ from each other (Spekman et al., 1998).

In order to facilitate relationship building and collaborations between MNCs and suppliers, full-time staff and resources are needed to facilitate two-way communications (Mamic, 2004; Krause & Ellram, 1997). However, different actors in the supply chain may require different communication channels and sophistication levels in order to create full understanding of the codes' objectives (Mamic, 2004). Various management systems are needed to facilitate the implementation of codes of conduct. However, the key question remains of whether MNCs and its suppliers have proper organizational structures to implement the codes (Mamic, 2004).

3.2.2. Roles of Training

The integration of IT systems is essential for MNCs to increase collaboration and learning with its suppliers (Spekman et al., 1998). The communication is further enhanced by integrating the suppliers into the Supply Chain Management System so that productivity increases and commitment on behalf of the MNCs is displayed. If the suppliers do not get the right training and communications are limited, they could lag behind and the collaboration process could potentially be jeopardized. It is important that the training is tailored to individual supplier's needs for optimal performance realization (Mamic, 2004). However, if the MNCs lack buying power, effective communication channels structure and credibility, these factors could hinder supplier development (Krause & Ellram, 1997).

As part of training procedures, it is necessary that internal monitors are well-trained and have deep-knowledge of the codes and its implementation methods in order to effectively support the suppliers. The transference of knowledge will better equip the suppliers with necessary tools for changes and confident self-monitoring.

3.2.3. Roles of Monitoring and Auditing

In order for MNCs to increase their understanding and knowledge about the supplier, surveys and self assessment questionnaires have proven to be effective monitoring tools. Furthermore, the audit procedures should consist of pre-audit visits and the audit itself. Pre-audit visits can further emphasize the importance of codes compliance, explain the key performance indicators and identify areas needed for improvements (Neef, 2004). Anticipated problems or concerns should be commented and communicated to the persons who are authorized to take appropriate corrective actions. The results of the audits should be available and communicated both internally and externally. Internal monitoring systems increase the consistency of the code of conduct management, while continuous dialogue with workers and their representatives helps detect areas of improvement. External dialogues with stakeholders allow MNCs to be more proactive in driving changes within and outside of the operating environment (Mamic, 2004). Blowfield (2005) states that in order to increase the sustainability in the Ethical Supply Chain, a stakeholder engagement is required to prevent biasness of one particular actor. All actors must negotiate on finding a common definition for sustainability as businesses are accountable for the needs of developing countries in order to realize potential benefits.

The Ethical Supply Chain Management including training, monitoring, and auditing, provides directions on how to set up an Ethical Supply Chain, but for close relationships to develop, long-term commitments are needed. This can be achieved by applying Strategic Management instruments facilitated by joining alliance and creating linkages.

3.3. Strategic Management

Strategic management represents the actions taken by a company in order to create and sustain competitive advantages where operational activities are guided by strategies, leading it to a unified growth path. Porter (1996) indicates that well-formulated strategies allow companies to operate differently than their competitors, thus gaining competitive advantage. The four factors necessary in creating successful strategies are: 1) consistent and comprehensive goals; 2) keen understanding of the external environment; 3) appreciation and knowledge of internal strengths and weaknesses; and 4) effective implementation. (Grant, 2008) One method of building competitive advantage is through strategic alliances. (Peng, 2006)

3.3.1. Strategic Alliances

International alliances allow MNCs to access local capabilities and knowledge, while exposing local companies to new technology and product development (Grant, 2008). Gulati (1998) defines strategic alliances “*as voluntary arrangements between firms involving exchange, sharing, or co-development of products, technologies, or services*” (p. 293). Generally, strategic alliances refer to the partnerships of two or more companies in developing new strategies (Grant, 2008; Dicken, 2007). However, Peng (2006) states that there are a variety of different strategic alliances, which he classifies into two groups, contractual or equity-based alliances. The contractual alliances contain strategic suppliers, also known as upstream vertical alliance. As stated in the section Management of Ethical Supply Chain, buyer-supplier relationship is transforming from the traditional arms-length relationship based on short-term contracts to a more collaborative long-term relationships. Dicken (2007) suggests that MNCs have created external networks with other firms and these networks are extremely complex and are becoming increasingly more difficult to detect boundaries drawn by MNCs. Due to this transformation, the traditional definition of buyer-supplier relationship is insufficient; therefore this research employs Peng’s definition as it is more suitable for analyzing ethical supply chains. Knowledge sharing and mutual assistance between MNCs and suppliers are distinctive in long-term upstream vertical alliances. By making long-term commitments, the two parties are given the opportunities to align their interest, “*transforming a zero-sum game into a win-win proposition*” (Peng, 2006, p. 258). Therefore, the MNCs competences in managing their upstream vertical alliances are essential in implementing and sustaining CSR (+I) initiatives.

According to Hamel et al. (1998) the management of international alliances is reliant upon 1) the strategic intent of the partners, 2) appropriability of the contribution, and 3) receptivity of the company (found in Grant, 2008). However, Cullen et al. (2000) and Frenkel et al. (1996) state that formal mechanisms are mainly used in order to initiate the alliance, specify roles and set performance measures. The true commitment of the partners is evident in their cooperative behaviors, dedication, trust and loyalty— features of informal mechanism.

3.3.1.1. Strategic Intent

The motives of companies when initiating alliances are considered to be of great importance for achieving both the companies’ own objectives and common goals (Frankel et al., 1996). According to the article *A network comparison of alliance motives and achievements* by Whipple & Gentry (2000), there are four motives for entering into an alliance— financial, technological, managerial and strategic. These motives are derived from the syntheses of existing literatures by Ellram (1991); Ellram (1990); Ellram & Cooper (1990); Hendrick & Ellram (1993).

- *Financial- focusing on motives that reduce costs and increase profit in the supply process (e.g. joint investment, reduce inventory, stable supply prices).*
- *Technological- focusing on motives that facilitate the supply process (e.g. sharing technology, joint new product development)*
- *Management- focusing on motives that simplify the supply process (e.g. supply base reduction, interdependence, loyalty).*
- *Strategic- focusing on motives that competitively position the supply process (e.g. future direction, achieving core competency).*

The likelihood of forming successful partnerships is increased if the partners are sincere and forthcoming about their motives of the alliance (Grant, 2008).

3.3.1.2. Appropriability of the Contribution

Appropriability is the capability to capture and adopt skills and knowledge required by the other partner (Grant, 2008). Many suppliers in developing countries are at a disadvantage because their skills, knowledge and financial strength are less in comparison to their counterparts in developed countries (UNCTAD, 2001). Without the capacity and/or willingness to learn, MNCs and suppliers cannot maximize the full potential of the alliance. Knowledge can be categorized into explicit and tacit knowledge. Explicit knowledge is easily transferable as it can be codified in forms of guidelines and rules. The latter type of knowledge is often defined as knowledge which lies within people and hard to articulate or codify. The most effective way to transfer tacit knowledge is through imitating or performing activities continuously for learning purposes and incorporating it into the recipient company's routines (Lagerström & Andersson, 2003; Levitt & March, 1988; found in Grant, 1996). Szulanski (1996) suggests, the most common barriers of knowledge transfer are the limited absorptive capacity of the recipient, causal ambiguity of the knowledge and a strenuous relationship between the actors involved. These barriers can be resolved through 1) training and education, 2) systematically increase understanding and communication of practices, and 3) nurturing the relationship (ibid.). Past studies indicate that the knowledge flows from external actors has positive effect on the company's innovation and development (Yamin & Otto, 2004).

3.3.1.3. Receptivity of the Company

Receptivity refers to the company's ability to know what it wants from its partner, obtain it and incorporate it into the company (Grant, 2008). Both partners in the alliance need to state their individual goals and how they intend to measure the alliance performance. Through this information, the partners need to create common goals for the purpose of fulfilling their own individual needs, while maximizing the learning potentials of the collaboration. (Whipple & Gentry, 2000)

3.3.1.4. Trust and Commitment

Cullen et al. (2000) focus on the development of relationship capital as "*it involves the pattern of interaction between partner firms that facilitates and allows for the effective functioning of the alliance on a day-to-day basis. It is through relationship capital that the alliance is actually enacted and implemented.*" (p. 224) Local alliance managers must have the autonomy, resources and time in order to build positive feelings and interactions between the partners, creating a strong and secure relationship.

Relationship capital includes trust, commitment, norms of reciprocity, information exchange and cultural sensitivity. Trust and commitment are extremely important as no formal contract can account for unanticipated incidents that may require modification of the allocated resources or strategies. As all companies differ in their cultures, goals and procedures, conflicts may arise and without trust and commitment, the likelihood of conflict resolutions is lowered. Furthermore, trust is a prerequisite for a learning organization and the transference of tacit knowledge between firms. (ibid.)

According to Cullen et al. (2000), trust and commitment each have two classifications. Trust is divided into credibility trust that is built upon the evaluation of whether the other partner has the capabilities and intent to fulfill its obligations. The second type of trust is benevolent trust or the belief of whether the other partner behaves properly and shows goodwill towards the alliance. The two classifications of commitment are calculative and attitudinal commitments. The former assess what are the potential cost return and switching costs of the alliance. The latter takes into account of the willingness to make the alliance work by going beyond the content of written contracts, while putting extra efforts into the alliance. These four components form a circle which begins with credibility trust, leading to benevolent trust, followed by calculative commitment and finally, attitudinal commitment.

3.4. Business Linkages

Luetkenhorst (2004) argues that in order for CSR practices to be sustainable in the developing countries MNCs need to provide their suppliers with technical and management support to complement codes of conduct. It is insufficient to command compliance without providing the suppliers with proper tools and knowledge to monitor, report, and continuously improve their CSR performance. The potential supplier benefits with business linkages are, but not limited to, productivity gains, technology upgrading, innovation and market access through social and environmental performance improvements. In order to succeed, suppliers in developing countries need mentoring and support from the MNCs by forming business linkages. (ibid)

The importance of business linkages for sustainable CSR (+I) practices is increasing. According to Jenkins et al. (2007), there are both CSR (+I) and competitive arguments for establishing business linkages in developing countries. Business linkages not only provide procurement, distribution and sales benefits for MNCs, but also bring with it social and economic prosperities for the community by increasing the development and growth of local industries. A joint research project established by UNIDO and Harvard Kennedy School has identified six partnership mechanisms. The development of business linkages is one of the mechanisms which combat poverty, promote enterprise development and establish competitive and responsible practices in the supply chain (Bekefi, 2006). Several MNCs are providing linkages programs outside their own supply chains as they acknowledge the importance of local community and industries developments (Jenkins et al. 2007). It is difficult to distinguish business linkages made specifically for CSR (+I) activities and those in general. By introducing and integrating CSR (+I) initiatives to local firms, business models are changing as new management systems become standardized in terms of procedures and organized behavior (Tencati, 2008).

Supply chains are categorized into producer-driven and buyer-driven chains (Gereffi, 2001; Luetkenhorst, 2004). Producer-driven chains normally involve large MNCs maintaining close control over their suppliers in production network coordination. It is normally present in capital and technology intensive industries located in developed or advanced transition economies where technological sophistications are available. On the other hand, buyer-driven chains involve large retailers controlling decentralized networks with independent suppliers. It is normally in labor intensive industries located in

the developing economies with low cost advantages. (Luetkenhorst, 2004) Often times, the governments of developing nations are influential to the formation of linkages by acting as intermediaries in introducing the MNCs to local suppliers and setting policies to ensure stable linkages (UNCTAD, 2001). The government can also affect the education level and R&D intensity in the host country, thus increasing the attractiveness of host economies for investments (Kawai & Urata, 2003). Depending on the nature of the industries, business linkages are considered more important in producer-driven chains; however they can increase employment, address social and environmental issues, and gradually upgrade the capabilities of the participating suppliers in buyer-driven chains (Luetkenhorst, 2004). Business linkages are classified as forward, horizontal or backward. Emphasis will be on backward linkages as they exist when foreign affiliates source products or services from domestic companies (UNCTAD, 2001).

3.4.1. Backward Linkages

Backward linkages are defined as “*transactions that go beyond arm’s length, one-off relations (as in buying standardized products off the shelf) and involve longer-term relations between firms.*” (UNCTAD, 2001, p.127) These types of linkages involve finding local suppliers, securing product supply through technology transfer, providing training, sharing information, and making financial support available. (Ivarsson & Alvstam, 2005; Ivarsson & Alvstam, 2009; UNCTAD, 2001)

3.4.1.1. Technology Transfer

In comparison to developed nations, technology transfer is more common in developing countries as suppliers often have insufficient/limited technological knowledge and capabilities. The technology transference can be in the form of internalized knowledge transfer where the headquarter/mother company’s capabilities and expertise create a spillover effect on the foreign invested subsidiary/daughter company in the host country. While externalized transfer occurs when MNCs establish relations with independent local suppliers, thereby increase their competence (Ivarsson & Alvstam, 2005; Ivarsson & Alvstam, 2009). There is a positive correlation between the duration of relationships between the MNC and its suppliers, with escalating technical complementarities and customization, and the extent to which technology is transferred. The transfer is classified into product technology, process technology, and organizational and managerial know-how (Ivarsson & Alvstam, 2005; Ivarsson & Alvstam, 2009; UNCTAD, 2001). Some features of product technology include product designs and technical specifications transfer or technical consultations which assist in the learning process of new technologies. Process technology could be in the form of distant or on-site technical support on production planning, quality management, inspection and testing, and/or factory layout and design. Finally, the last classification of technology transfer is organizational and managerial know-how which assist in implementing quality assurance systems, inventory management systems, just-in-time and other management systems. (UNCTAD, 2001)

3.4.1.2. Training and Information Sharing

An essential attribute in sustaining and improving the linkages is supplier training. Training is necessary for knowledge and capabilities development. Possible knowledge gaps could be identified between MNCs and suppliers; therefore by initiating in-house (at the MNCs) and/or in-plant (at suppliers’ sites) training programs, these gaps are bridged or lessened. These training programs may be formal or informal, depending on the size of the knowledge gaps and absorptive capacities. (UNCTAD, 2001)

In order to evaluate whether the suppliers are capable in fulfilling the requirements set by the MNCs, information sharing process between the parties concerning production, delivery and investment plans must be in place. Several methods of information sharing are market information or business plans and future requirements. Furthermore, suppliers have access to a wider range of technical, market and business knowledge, both locally and globally. (UNCTAD, 2001)

3.4.1.3. Financial Support

The lack of strong financial foundation could hinder the development of suppliers in developing countries. However, through favorable pricing and forward payments, MNCs indirectly provide financial support by increasing cash flow. According to research conducted by Lall (1980), Halbach (1989), Battet et al. (1996) and Carrillo (2001) this form of backward linkages has not been extensively used. In general, backward linkages are preferred if MNCs are expected to yield favorable return on investments at a reasonable period of time. (UNCTAD, 2001)

3.4.2. Opportunities and Challenges of Business Linkages

On a macro level, business linkages are important for developing countries as they assist in the development of local industries by introducing new technologies and processes. (UNCTAD, 2001; Ivarsson & Alvstam, 2005). MNCs serve not only as a source of product output and employment for the supplier as they have the potential to increase competences for comparative advantage in the global arena. The possible benefits incur by host countries are productivity and market spillovers (Blomström & Kokko, 1998).

One of the key challenges when forming effective linkages is the recipient's ability to make use of the new knowledge and capabilities. The tacit elements of the knowledge need to be developed in the local environment (Ivarsson & Alvstam, 2005; Ivarsson & Alvstam, 2009). With the disadvantage in their bargaining position against large MNCs, local suppliers must adapt to the changes within the external environment whereby market fluctuations and increase competition force regular price-cuts, resulting in lower revenue and wages. However, this situation can arise anywhere, regardless of countries development. Despite these risks, the benefits of capacity building, knowledge diffusion, and increase competitiveness through business linkages are possible when allowing the MNCs to enter the host economies. (UNCTAD, 2001)

Strategic alliance literature is examined as the MNCs relationship with suppliers is changing from being distant and competitive to close and collaborative, which means that MNCs need to develop core competences in developing and maintaining alliances with multiple actors. The MNCs need to develop goals with the suppliers to make them willingly adopt the added responsibility and workload in the long term. As this research focuses on suppliers in developing countries who have lower competences and knowledge than that of MNCs, business linkages are of great importance. Business linkages can prove to be an important facilitator for the MNCs in building an Ethical Supply Chain by upgrading their supplier's competences and knowledge so they are able to fulfill to the requirements of the CSR initiative.

4. Empirical Findings

The purpose of this chapter is to present the empirical findings prior to and during the field research study which took place in several provinces located in Southeast and Mekong River Delta of Vietnam (See Figure 4.1). The authors have had the opportunity to gather field research data via in-depth interviews with a number of IKEA staff both in Helsingborg (Sweden) and the Trading Area in Southeast Asia (TASEA) in Ho Chi Minh City (Vietnam), as well as members of the management teams of three different product-type manufacturers/suppliers— Natural Fiber, Plush Toy, and Ceramics. As agreed, the names of the interviewed staff are kept confidential and will not be disclosed in this report. It is necessary to note that all direct quotations in this report are referenced as the interviewees' job titles. Further, factory tours and sub-supplier visits allowed the researchers to observe factory and home-workers in their daily working environments as well as the opportunity to discuss their knowledge of their basic employment rights and benefits, although this would not be the primary focus of the study. This chapter is divided into two sections: 1) Pre-departure Preparation and Findings and 2) Field Research Findings.

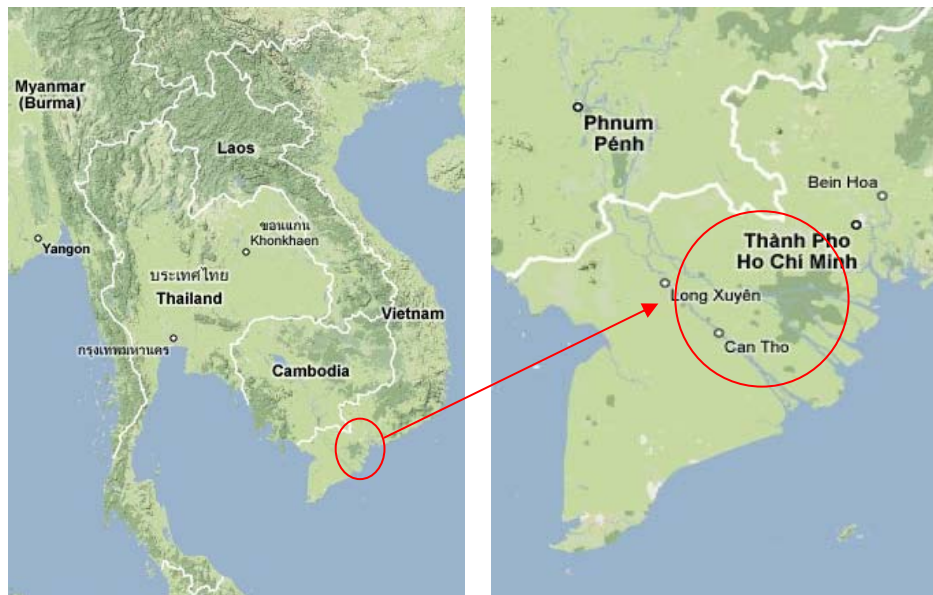


Figure 4.1: Map of Southeast Vietnam, Asia
Source: Travelblog

4.1. Pre-Departure Preparations and Findings

The researchers would like to emphasize on the importance of the pre-departure preparation prior to conducting the field research study for knowledge saturation in 1) relevant social, political, historical, and economical developments, including labor related laws of the country, in this case, Vietnam; 2) local industrial developments of the business sectors which the chosen suppliers operate in; and 3) the chosen case company, IKEA, and its corporate social responsibility and innovation initiative, IWAY. Prior knowledge and experience within any of the four aforementioned divisions of studies will prove valuable and constructive due to the complexity of social science. Throughout the pre-departure preparation process, the authors extensively discussed research methodology, reviewed literatures, and continuously reformulated and redefined research purpose and questions. The two critical factors are time and the availability of relevant literatures on theoretical frameworks of *Corporate Social Responsibility & Innovation with focus on Partnership Development and Communication through Mutual Agreement* as described in the previous chapter.

4.1.1. The Socialist Republic of Vietnam

The knowledge about the country is necessary for the understanding of current business environment and insights on how responsible MNCs and suppliers work together in order to create a better living condition and a more sustainable environment.

4.1.1.1. Social and Demographic Background

Vietnam is a country endowed with an abundance of natural resources including offshore oil, iron ore, gold, tin, anthracite, and bauxite. However, the benefits of resource outputs are not distributed equally among the 85.1 million people (The World Bank, 2008; IMF, 2007; GSO, 2009) as 29 percent of the population are presently living below the national poverty line in 2007 (The World Bank, 2008). In that same year, the country reported GNI per capita of USD 790 (The World Bank, 2008) — an amount slightly higher than that of countries considered Least Developed Countries (LDCs) by the UN with GNI per capita of USD 750 or less. Inequalities remain between the urban areas and the rural areas, since extreme poverty is still detectable in the rural areas where the ethnic minority groups are most populous (UN, 2004; Sweden Ministry for Foreign Affairs, 2002). The enforced minimum wages per month for foreign invested corporations vary at approximately between USD 40 and USD 50 (VND 710,000 and VND 870,000), depending on the location of the enterprises (The U.S.-Vietnam Trade Council (USVTC), 2006)¹. However, the minimum wages are not considered enough to cover basic needs as the cost of living has been increasing around the industrial trade zones and major cities (Smith, 2006). Most migrant workers have difficulties making ends meet because portions of their monthly wages are sent as remittances to their families (ibid.). This lack of financial security creates “*a situation that leads to considerable inefficiency, absenteeism, moonlighting, and serious corruption. It also contributes to a rise in crime and creates an underlying resentment that could turn to social unrest if allowed to fester.*” (Joei, B.T.K, 2005, pp. 166-7)

4.1.1.2. Labor Rules and Regulations

The launch of *Doi Moi* economic reforms in 1987 marks a significant landmark for Vietnam as it initiates the transition from a centrally planned economy to market economy (UN, 2004). With economic reforms, The Labor Code of Vietnam was drafted by the Ministry of Labor, Invalids and Social Affairs (MOLISA) in co-ordination with other agencies in 1995 and later revised in 2002. The principle function of the code is to provide protection of workers, aligning the national law with International Labor Organization (ILO) Convention. The effectiveness of labor law enforcement is considered weak, “*due in part to the lack of human resources in the labor inspectorate at both central and local levels.*” (Smith, 2006, p. 9)

Further, labor unions and Collective Bargaining Agreements (CBAs) are permitted under the Vietnamese law, although they are not yet fully enforced by non-state enterprises. Historically, trade unions are associated with State Owned Enterprises (SOEs) where the rules and regulations fall under the umbrella of the Vietnam General Confederation of Labor (VGCL) — a part of the communist run state and not considered independent by the International Confederation of Free Trade Unions (ICFTU). (Smith, 2006) In the private sectors, workers have very little experience in the organization of unions;

¹ The rate of VND 870,000 per month is applicable to employees of enterprises located in districts of Hanoi and Ho Chi Minh City; The rate of VND 790,000 per month is applicable to employees of enterprises located in suburb districts of Hanoi, Ho Chi Minh City; districts of Hai Phong City, Ha Long City of Quang Ninh Province, Bien Hoa City of Dong Nai Province, Vung Tau City of Baria-Vung Tau Province, Thu Dau Mot Town and Districts of Thuan An, Di An, Ben Cat and Tan Uyen of Binh Duong Province; The rate of VND 710,000 per month is applicable to employees of enterprises located in the other areas.

however there are no laws that forbid organized strikes when labor issues go unresolved peacefully. The most effective means of disseminating workers rights abuse is through media as it provides some safeguards and quick resolutions in order to avoid negative press for the government and the companies (ibid).

4.1.2. Case Company: IKEA

“Low prices are the cornerstone of the IKEA vision and our business idea - but not at any price. At the IKEA Group, we believe that taking responsibility for people and the environment is a prerequisite for doing good business.” – IKEA, 2009

IKEA is perhaps one of the most recognizable household brand names today for its “flat-packaging” and assemble-it-yourself furniture (Esty & Winston, 2006). In 2008, this privately-owned home furnishing corporation had an estimated 565 million visiting-customers in 285² stores around the world (Dagens Industri, 2009). The reported sales turnover increased by 7 percent from 2007, totalling EUR 21.2 billion (IKEA Group, 2009a). The company continues to fulfil its vision *“to create a better everyday life for the many people- our customers, co-workers and the people who produce our products”* (IKEA Group, 2008, p. 2) as the company employs nearly 130,000 employees (co-workers) in 39 countries³. Most of the company’s sales operations and activities are in Europe⁴, however in 2008, 30 percent of the total purchasing and sourcing operations took place in Asia where 21 percent of the manufactured products came from China (IKEA Group, 2009a). Although business operation continues to expand in Asia and Australia with 7,650 employees, regional sales turnover accounted for only 3 percent of the total sales in 2008 (Ibid.)

The company keeps a low-profile and operates its business quietly, but the fact of the matter is, IKEA is one of the highly ranked environmental leaders among other well-known multi-national corporations such as Toyota, Unilever, AstraZeneca, and ABB (Esty & Winston, 2006). Similar to the other global players, IKEA supply-chain management is not perfect and *“much remains to be accomplished”*⁵, especially in Asia where IWAY fulfilment rate is below 75 percent— a rate significantly below that of the European and American counterparts (over 95 percent) in 2007 (Bergmark, 2007). It should be noted that the breakdown of Asia’s fulfilment rate is a combination of the rates of China, South East Asia, and South Asia. With China’s fulfilment rate of 67 percent, this brings down the regional performance as the other two have above 85 percent (ibid). According to the field research interview with Leif Carlson (2009), *“these numbers are soon three years old and do not show the level we have today in Asia.”* Due to the delay in data publishing, the researchers are not able to confirm the current situation.

As IKEA is determined to build long-term relationships with its suppliers, the corporation holds its partners and sub-contractors highly accountable for implementing its corporate code of conduct, IWAY, as well as following local legislations (IKEA Group, 2005). All partnering suppliers undergo the IMUST and QMUST screening process whereby suppliers are categorized by their level of operational developments, evaluated in accordance to the IWAY Initial Assessment Checklist. (See Appendix 12)

² 253 stores are IKEA owned and operated in 24 countries

³ 41 trading offices in 30 countries; 27 distribution centers; and 11 customer distribution centers in 16 countries

⁴ 72 percent of the stores; 81 percent of the employees; 82 percent of the sales; and 67 percent of purchasing

⁵ “De mesta är ännu ogjort”- Ingvar Kamprad (2008)

4.2. Field Research Findings

4.2.1 IKEA Trading Area South East Asia (TASEA)

According to The Swedish Trade Union Confederation (LO), IKEA directly and indirectly employs nearly 250,000 employees of suppliers and sub-suppliers in Vietnam as of the end of 2008 (Jacobsson, 2008). The current regional management team of IKEA Trading Area Southeast Asia (TASEA) is led by Mikael Demitz-Helin as the Regional Manager, Leif Carlson as the Manager of Production and Technique Development, and Lena Sörmon as the Trading Area Manager, who are responsible for four trading offices in Ho Chi Minh City, Hanoi, Bangkok, and Jakarta. Mr. Demitz-Helin has commented in the interview with Jacobsson (2008), *“It is the raw material acacia, rattan, bamboo and ceramics [that] attracted IKEA to Vietnam. The company is trying to be where the raw material and production experience is... [The company] has been in Vietnam for 15 years and now the headquarters for Southeast Asia is located in Ho Chi Minh City... Labor is still cheap in Vietnam [and]... Vietnamese are curious, sustained and relatively well-educated. 70 percent of the labor force is under 35 years and people are interested in improving the quality of life.”* He continued, *“Although IKEA routinely inspects the working conditions/environment of suppliers; we continue to discover that workers may not be entitled to salary and working environment is poor.”* (ibid)

The organizational structure of IKEA Resident Representative Office in Ho Chi Minh City (HCMC) is as illustrated in Figure 4.2. The lightly shaded units represent individuals and/or departments actively involved in the field research study. The uniqueness in this structure is the existence of the Compliance Monitoring Group (CMG), responsible for calibrating auditing standards in different trading areas around the world, performing unannounced audits, developing and implementing training procedures for local internal auditors. *“Due to the fact that auditors in different parts of the world may have different perceptions and judgment levels concerning CSR related matters, it is the task of the CMG to ensure IWAY standards are monitored and the consistency is maintained.”* (CMG IWAY Compliance Manager, 2009).

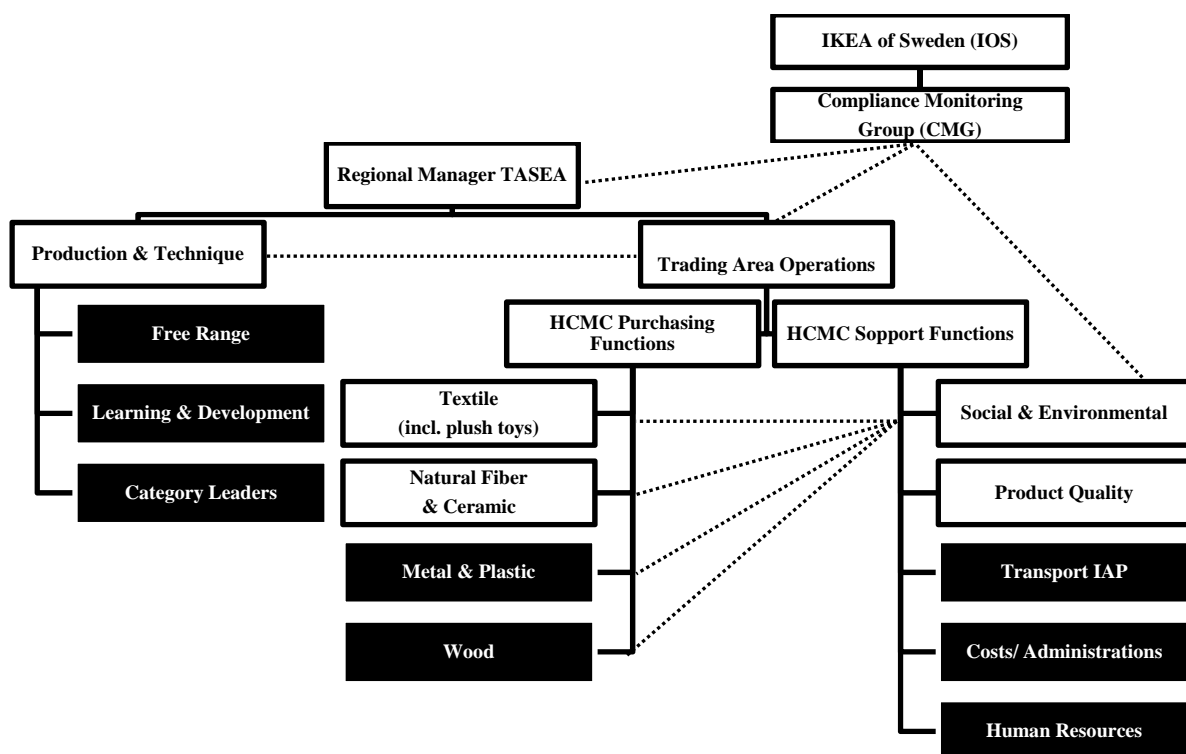


Figure 4.2: Organizational Structure of IKEA HCMC (TASEA)

Source: Researchers' own (Confirmed by TASEA, Trading Area Manager)

The role of the CMG has great impacts on the trading area operations due to the group's autonomous characteristic and the lack of involvement in the daily business operation. The regional IWAY Compliance Manager (a member of the CMG) exchanges constant and direct dialogues with local auditors, regional managers, and the management of IKEA of Sweden (IOS). However periodical communications between the manager and the Business Teams (CSR field personnel) are often via the direct contacts. As previously mentioned, a crucial task of the CMG is as a calibration unit of audits performed by third-party auditors such as KPMG, Intertek Testing Services (ITS) and PricewaterhouseCoopers, and IWAY internal auditors. This calibration process verifies that IKEA working methods are of high standards. (TASEA IWAY Auditor/ Environmental Specialist, 2009)

4.2.1.1 Paths toward Effective Implementation

During the time this field research study is conducted, corporate social responsibility and capacity building agendas (Innovation) remain on the high priority list of IKEA sourcing and purchasing operations in both South (India, Pakistan, and Bangladesh) and Southeast Asia (Thailand, Malaysia, Indonesia, and Vietnam). In the interview with the IWAY Compliance Manager, he stated that working and safety conditions are the main concerns in Vietnam because the country is in its development stage where people are eager to work, the costs of living are increasing, and highly developed regulatory structure is absent. He also confirms that according to independent third-party audits, Compliance Monitoring Group (CMG) and IWAY audits, workers abuse and child labor have not been detected in the factories of IKEA's suppliers in Vietnam. The devoted resources is on capacity building—teaching and supporting IWAY implementations, installing and maintaining management systems, and shifting the responsibilities to the suppliers.

The following citations of the IWAY Compliance Manager (2009) and the TASEA Quality Specialist (2009) capture the essence of IKEA's CSR (+I) initiatives and the implications these initiatives have in the context of Vietnam, respectively.

“[CSR initiatives] would not be sustainable if only IKEA assumes the responsibilities. It is the reasons why we have to make sure that the suppliers are aware of business consequences of noncompliance. Their precondition should meet our minimal standard and the right management systems should be in place in order to maintain IWAY overtime. But this is difficult and everyone must work together to improve the current situation. It is not as simple as just going in to conduct audits— we must be proactive in the evaluation of preconditions. Because when the suppliers are more mature and there are systems in place, then they are keener on maintaining ethical practices in between audit periods. To ensure “good practices”, both the IKEA CMG and independent third-party auditors conduct unannounced audits. We later calibrate our compliance audits and inform our co-workers of any deviations. CSR is a difficult topic. There must be a balance between the cultures of the home and host countries. The local people may think what we are doing is a big step, but from the IKEA point of view, we are just doing the minimum.”(CMG IWAY Compliance Manager, 2009)

“The challenges and opportunities of implementing IWAY or any code of conduct arise from the fact that Vietnam's industrial level is low, but the opportunities to develop communities are high. Because the country's starting point is lower than some of its neighboring countries, time must be given for system developments. It takes time to secure competence of the people because knowledge cannot be obtained overnight. There are suppliers [foreign-invested and local] who are already at the head of the game, meaning at a higher point in the staircase model (See Appendix 13), but many local-

private suppliers are still struggling. IKEA supports these suppliers by showing and providing support. The staircase model is very specific because it is a constant support system and hands-on monitoring concept. CSR initiative is not about babysitting because the suppliers would be dependent, weak and less confident if knowledge and responsibilities are not transfer to them. IKEA wants its suppliers to reach higher levels by actively working on the social and environmental issues as much as they focus on the economic benefits. The factor of success is the precondition attitudes and behaviors of the management. It is important for partners to share and align their visions and strategies in order for the business relationship to be sustainable. Since IWAY is IKEA standard, its partners should respect and share the responsibilities.” (TASEA Quality Specialist, 2009)

From the explanations provided by the CMG IWAY Compliance Manager and TASEA Quality Specialist, the researchers are able to identify the company’s path towards effective CSR (+I) implementations by incorporating: 1) internal compliance departments devoted to pursuing the social and environmental goals of the firm, 2) labor practice goals into already existed corporate structures devoted to quality control and purchasing, 3) suitable partner selection procedures based on preconditions, and 4) knowledge of accredited independent third-party auditors into the calibration process to enhance understanding and assist in building long-term CSR (+I) development. A good example of this is the Natural Fiber supplier selected for this research. When the supplier relocated its factory, a new quality team was set up and trained by IKEA. New management systems were installed, including maintenance plan, clear and realistic output goals, and most importantly, identified and bridged knowledge gaps by becoming a supportive partner. With commitment and tolerance, after the forth month of re-organization, the supplier is stronger and competitive. The hands-on implementation approach may not be the most common practice of all the buyers, but it is necessary according to the TASEA Quality Specialist (2009).

4.2.1.2 CSR (+I) Management Systems

In order to answer the main research question, the researchers are forced to retrace the trail of *observed*⁶ communication methods and management systems used by IKEA and its suppliers in order to ensure ethical business operations and practices. There are five visible and interrelated CSR (+I) Management Systems: 1) Internal Monitoring, Reporting and Disclosure; 2) Education and Training; 3) Building Internal Capacity; 4) Giving Feedback, Improvement, and Remediation; and 5) Interrelation, Integration, and Dialogue. These five systems standardize IKEA’s CSR (+I) initiatives and systematically create sustainability once they are integrated into the core supply chain management and operations. These systems are not mutually exclusive with respect to each other and therefore a holistic approach must be taken to minimize of unethical supply chain practices. (See Figure 4.3)



Figure 4.3: CSR (+I) Management Systems
Source: Researchers’ own

⁶ This is the researchers’ observed communication methods. These methods partially reflect IKEA’s methods of communication.

Internal Monitoring, Reporting, and Disclosure

For the purpose of deepening the researchers understanding of how managers and co-coworkers influencing in the decision making process identify problematic areas and develop improvement strategies, a number of interviewees were asked to outline IKEA’s auditing procedures, as well as the reporting and disclosure programs. The auditing process is seen as one component of an overall monitoring system that includes verification, feedback and remediation and improvement (Mamic, 2004). As clearly demonstrated in Figure 4.4, the audit system supports the continuous improvement agenda and maintenance of IWAY.

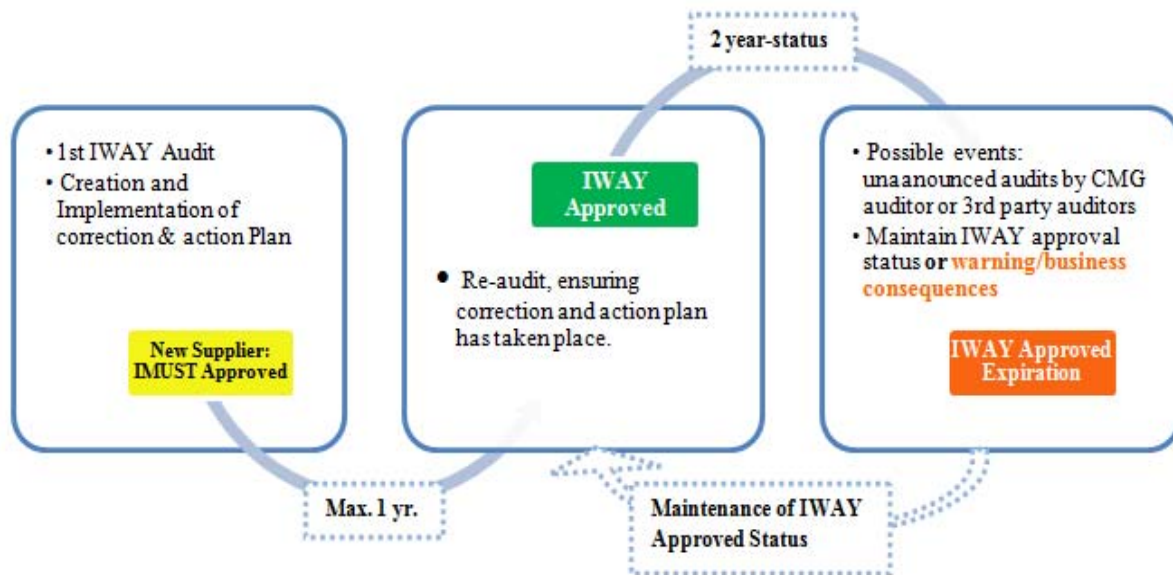


Figure 4.4: IWAY Auditing Process
Source: Researchers’ own (Confirmed by TASEA, IWAY Auditor)

As a new supplier, the precondition characteristics are evaluated based on the IMUST requirements as shown in Appendix 12. In order to proceed in the process of becoming IKEA’s supplier, the supplier management team must create and implement correction and action plan to resolve any unfulfilled requirements. Full compliance with IMUST needs to be secured at first-tier suppliers, prior to formal business initiations. Consequently, the first-tier suppliers are responsible for ensuring ethical production at their critical sub-suppliers.⁷ The task is assigned to a Business Team whom is asked to assess each approved and new supplier and confirm that all conditions are met. Thereafter, new suppliers are required to sign the IWAY Compliance Commitment (ICC). The following quotation of a TASEA Business Developer (2009) further explains the importance of the IWAY ICC and its legal implications.

“As a Business Developer, I have to be clear with the supplier managers. Signing the IWAY Compliance Commitment is required for us to proceed with the business. Since the implementation of IWAY is one of my highest job responsibilities; I make it very clear from the beginning with the suppliers that there is no negotiation about it. Yes, many suppliers try to hide and keep secrets, but the truth comes out eventually. Business Developers must make judgments, be on a look out during the factory tour and while interviewing the factory workers.” (TASEA Business Developer, 2009)

⁷ Critical sub-suppliers are those suppliers not directly linked to the MNCs, however to the first-tier suppliers. They are essential to the sourcing process of production inputs. Their capabilities and skills are difficult to replace by others in the industry. (Author’s own definition)

Once the supplier is IMUST approved and has carried out the correction and action plan, its status changes to *New Supplier*. In a period of one year, the supplier is re-audited before the first shipment of goods is delivered to IKEA outlets. It is a full-audit where all 91 IWAY criteria are evaluated. The results are approved or rejected by the IWAY auditor/ Environmental Specialist. If approved, the supplier becomes an IWAY Approved status, which is granted for 2 years period. During the two years in between IWAY audits, unannounced audits by the CMG or third-party auditors could take place at the supplier site. All of the audit results are then compared and calibrated. In order to maintain its IWAY Approved status, minimal noncompliance is expected and the degree of severity is determined. Serious and repetitive violations could result in IKEA pursuing business consequences. In the interview with TASEA IWAY Auditor/ Environmental Specialist, an auditor's role and mindset are described in the following quotation.

“IWAY Auditors’ job is to act as an independent eye [for the organization]. Annually, I conduct between 50 to 60 audits and it takes three days to complete one audit. I have to be organize and creative with the methodology of each audit. Two weeks before the audit, I would ask the suppliers to submit some paperwork, for example, required licenses or a list of chemical to register with the authority. If all of the requested documents are delivered in time, then at least I know they are making progress and internal controls are in place. It also allows the suppliers to have the time to evaluate and reflect on its operation [the IWAY approved suppliers]. When I visit the supplier factory, I can then focus on the site tour, speak to the workers, and actively engage in giving feedback on my findings and suggest improvements...As an auditor, I have to think logically about the facts and figures because an argumentative case is difficult to build if it violates the national laws and any of the IWAY chapters. I have to be critical of my personal judgments and be willing to openly discuss them with the supplier or the Business Teams. Audit results depend on the day of the audit— it is a snapshot of the situation which may be influenced by personal ideas and experience on that day. That is also why it is important for the Business Developer of that particular supplier [and sometimes the entire Business Team] to be at the audit site. They interact with their suppliers on a regular or weekly basis. The role of the Business Developer is important because she or he has the authority to ultimately stop product deliveries and development.” (TASEA IWAY Auditor/ Environmental Specialist, 2009)

Education and Training

Throughout the field research study process, IKEA TASEA staff repeatedly mentioned the importance of educating and training in order to build understanding that meets the needs of various levels of the organization and across the supplier chain. As pointed out earlier, management commitment at various points in the supply chain directly affects the success of the implementation of the code of conduct, IWAY; hence an initial investment must be made in top-and middle- management training. The central objective of education and training programs is to build ability and capacity through communication. The perceptions and realized benefits of education and training at IKEA TASEA are illustrated through the words of TASEA Material Area Manager (2009) and The TASEA Business Developer (2009).

“Education is the key to success [in the implementation of CSR initiative]. People, both internal staff and at our supplier sites, have to see the benefits to believe it and they must feel that they are part of the process, making contribution— whether it be improving the community or saving the environment. When most of us come into the office, we are part of IKEA [a global enterprise], but we are also Vietnamese who seek development in our country. For me, who has been part of IKEA for six years, I know that education and

training of our suppliers or newly recruited staff on CSR issues enhance their understanding by making them aware of their personal social responsibilities. Once they are convinced and committed to the causes, they can play it forward because they believe. It does not take much to see the immediate benefits when one visits a family in a village on a regular basis and see that people have money to send their children to school. We must train, explain, interact and promote.” (TASEA Material Area Manager, 2009)

“There are a lot of training programs here at IKEA, but a lot depends on personal initiatives. We learn on the job where we test our “classroom theories”. I’ve been in purchasing for nearly ten years, but during the five years with the company, my personal belief is reflected in my job responsibilities. To me, IWAY is about improving my country. It is about the workers. I feel good when my knowledge and beliefs are welcomed among the suppliers and my co-workers. For example, it makes me feel good to talk to a pregnant woman working in a factory and know that after the birth of her child, she has a job to come back to because she is protected by the employment contract.” (TASEA Business Developer, 2009)

The important element mentioned several times was the importance of making the implementation of the code personal and actual. However, through conversation, the researchers discovered that between 50 to 60 percent of the staff is relatively new to IKEA TASEA. By no means that the assumption that these co-workers do not have a full understanding of what IWAY represents or how it is implemented in reality holds true. It simply raises the question of how knowledge is retained in the organization where there is a high turnover among the Business Teams⁸ as relationships are built based on constant interactions between the representatives of the companies. When the researchers inquired about the turnover, the respond received from TASEA Material Area Manager was explicit and positive.

“Our turnover is a challenge but according to Mercer, a HR consultant company, the industry average is around 18 percent versus IKEA’s 14 percent for last year. The challenge is keeping the energy up and provide adequate and balance knowledge to the newcomers. Although trainings are expensive and it creates a lot of work load for other co-workers and relationship development process with our suppliers, our business strategies are straightforward and comprehensible— positive attributes to the stability of the day-to-day operations. Our Social and Environmental co-workers have been helpful and supportive due to their vast knowledge about our long-term suppliers, our standards and auditing measures. Perhaps we are not functioning 100 percent, but the reality of 90 to 95 percent is acceptable.” (TASEA Material Area Manager, 2009)

Building Internal Capacity

A successful implementation of codes of conduct depends on generating and sustaining commitment not only from MNCs but also from suppliers, sub-suppliers, and workers. The primary challenge is getting the people involved to understand the intent and requirement of any social and environmental policy; that is, what is driving the changes the company is undertaking. Mamic (2004) specified the following four major points that needed to be communicated to all levels for capacity building:

- What the code and the CSR policy is, what it will do and what it will not do.

⁸ IKEA Business Teams consist of 3 individuals per team, a Business Developer (BD), a Technician, and a Business Support. The key individuals are the BD’s who must secure the best-buy concept for IKEA, balancing the triangle of low cost and price, suitable working condition, and quality assurance. In addition, BD’s, on the behalf of IKEA, are in charge of communicating, implementing, and following up on IWAY related issues. They are the ones to inform the suppliers of any changes, improvements, and current order status. The Business Teams have the most interactions with their suppliers, categorized by products and materials.

- Why the code is important in today's market.
- What is the purpose and intent of the code in their particular location and its function.
- What is senior management's vision of and commitment to the objectives embodied in the code.

Once again, the emphasis is on effective communication and sending clear standards with a common voice.

IKEA TASEA ensures competence and training both internally and externally regarding the theoretical implementation and development of IWAY in two ways: co-worker seminars and Supplier Day. IKEA co-workers are required to attend revision seminars when a new IWAY Standard is released (the latest version 4.0 was internally released on April 1, 2009), however the practical on-the-job training is said to be the most effective training method for skill improvement as learning is conducted systematically through experience.

On the external front, the suppliers of IKEA TASEA are invited to the annual "Supplier Day" for seminars and the opportunity to network with other suppliers. All new and IWAY Approved suppliers are encouraged to participate in the event. IKEA *Supplier Day* is described as

"Supplier Day is created for the suppliers to share the best practices, concerns, and experiences, however in the reality; the perceived benefits are the different workshops we offer. From a cultural perspective, Vietnamese suppliers see one another as potential competitors and that is why they have hard time sharing information. The most popular workshops are 1) IWAY quality management systems and its maintenance and 2) QWAY product improvements. When we see that the product return rate is increasing, we know that our customers are not satisfied. Therefore the suppliers must be informed about how to increase the quality of their products in order to avoid manufacturing defects that negatively affect time and cost savings. They [the suppliers] are working hard to meet our requirements because, in most cases, we remain as one of their solid buyers even in the current financial crisis." (TASEA Trading Area Manager, 2009)

Giving Feedback, Improvement, and Remediation

The role of feedback, improvement and remediation system in supporting the management systems that have been discussed in the previous sections is an important one. An example of a recent Audit and Non Conformance Reports are as shown in Appendix 14: Audit Report and Non Conformance Report. In the interview with TASEA Quality Coordinator (2009), the researchers were uncertain about how audit results are distributed and who have access to them. The feedback and improvement procedures are as specified in the following quotations.

"Once the IWAY audit is completed, an audit report is circulated, published, and reviewed via the Global Supplier Review Database. The benefits of these "after-audit" procedures are to ensure knowledge sharing among co-workers. The audited supplier would also receive a copy of the audit report and return it with corrective action plans and deadlines. The audit report is seen as a mean of written feedback communication between the buyer and supplier as well as a measurable component of effective implementation process enforced by the business teams. The role that corrective action plans play in the continuous improvement process of the supplier factories." (TASEA Quality Coordinator, 2009)

“A part of the supplier improvement process, besides the audit reports, we have implemented the use of IKEA Visitors IWAY Log-book just about a month ago in order to support the business teams with simple, useful checkpoints for IWAY follow-up, and to improve IWAY maintenance level at suppliers. The Log-book can offer us fresh ideas and get other people’s perspectives on things— things that we might have missed due to familiarities. Yes, the Business Teams are responsible for supporting the suppliers with any IWAY issues; however we want everyone, IKEA representatives to be responsible.” (TASEA Site Manager for HCMC, 2009)

In addition, the researchers came across multiple discussions on the need for uniform compliance standards and auditing procedures among buyers and directed a question to TASEA IWAY Auditor/ Environmental Specialist regarding the benefits of having more than one audits per supplier site.

“Regarding the benefits of multiple overlapping audits [conducted by third-party, CMG, and IWAY Auditors], I think both of the third-party auditors and CMG auditors have great competence and I trust their results although it may be different because, like I said earlier, audit results depend on the day of the audit— it is a snapshot. The auditors at KPMG might see something I did not and I have to admit, they do have more knowledge about salary calculations, taxes, and social insurance issues.” (TASEA IWAY Auditor/ Environmental Specialist, 2009)

While overlapping audits may provide some level of added assurance, however it draws into question the effectiveness of the auditing process. As stated by the TASEA Site Manager for HCMC (2009),

“From a maintenance perspective, multiple audits are good. We use to do audits only by ourselves, but now there are third-party announced and unannounced audits— which help in terms of creating higher awareness. But the only concern I have is the calibration of the results that, at times, are very different.” (TASEA Site Manager for HCMC, 2009)

Although there remain discrepancies in the auditing processes, the one area the IKEA suppliers can be sure on is the company’s willingness to support their suppliers on improving operations and practices because of the belief in building long-term relationships.

“IKEA does not break off relations due to non-compliance. As long as there is a willingness to improve in the right direction with an agreed plan of action to comply with the IKEA requirements within an agreed time frame. Repeated violations of the IKEA requirements will result in the termination of business with the supplier.” (IKEA Services AB Sustainability Manager IKEA Group, 2009)

“Our suppliers have expressed major benefits of IWAY because it adds value to their operations. It is easier to explain to the local supplier why they must take corrective actions seriously. We give them free marketing for simply being IWAY Approved suppliers because other international companies know our policy. Both sides, the suppliers and IKEA must gain trust by doing things and that process takes time. But if you show the suppliers that you are committed, often times, they will do the right thing.” (TASEA Business Developer, 2009)

Interrelation, Integration, and Dialogue

The task to integrate roles and responsibilities into the total operational structure is complex and challenging, especially when they are imposed across diverse and culturally dissimilar organizations. (Mamic, 2004) The interviewed IKEA co-workers pointed out that in order for any codes of conduct to be sustainable among the Vietnamese suppliers, the objective must be not only be consistent and transparent, but also integrated at the earliest stage of business planning or during the precondition evaluation stage so that expectations are clearly communicated. An effective integration implies that ethical trading practices become parts of management systems and threaded from the managers at IKEA to the factory workers at the suppliers. The most challenging element of integration is when IWAY requirements are not inline with and/or more stringent than the local law and legal standards. This is further explained by the TASEA Site Manager of HCMC.

“IWAY standard is one of the most demanding codes of conduct out there. The toughest and highest [standards] in the world are picked to create IWAY. Suppliers have difficulties to comply 100 percent because some rules are not required by the law. Three examples— IWAY specified a max. 60 hour work week and all workers are entitled to employment contracts from the first day of service. While in the legislation, 66 hour are permitted and employment contracts do not have to be signed during the first two month of employment as it is considered a probation period. The most recent change in IWAY is the demand that every individual employee has accidental insurance. Again, the government does not require it and this will result in a tremendous increase in expenses for the suppliers. Remember, the workforce of our suppliers ranges from 1,000 to 68,000 workers.” (TASEA Site Manager HCMC, 2009)

The discrepancies in requirements are an obvious hindrance in the implementation process; however the interest remains on the solutions to the problems. Based on the knowledge of supply chain management, the researchers reflected upon the concept of business linkages whereby the use of technology enhances production scheduling/planning based on seasonal sales statistics and proceeded to question, *what specific technical systems IKEA provides in order to support the suppliers’ production planning processes in order to avoid extreme overtime or labor shortage during the peak season?* The respond of the TASEA Quality Coordinator was:

“All of our suppliers and co-workers have access into our GPS or Global Purchasing System which is a statistical database for all products we carry in our stores. The suppliers can see weekly sales volume of their products and they can anticipate the future production capacity. Of course there have been times where our purchasing teams increase the volume of orders not anticipated by TASEA or the suppliers because of higher demands or product campaigns. It is just the reality of retail and sometimes we cannot avoid it. We keep open dialogues with our suppliers and if they feel they cannot fulfill the orders without demanding additional overtime, then we will do our best to resolve the situation to minimize the impact on the workers. But in all fairness, the




















workers are happy with more overtime because they have the potential to earn more money to send it to their families in the villages. In Vietnam, workers do not see overtime as a punishment if they get compensation for it even if it is in excess according to the European standard.” (TASEA Quality Coordinator, 2009)

As the researchers went through how IKEA and its co-workers incorporate the five management systems into the daily operations, information about the methods and intensity of communication emerged. As noted and illustrated in Table 4.1: Methods and Intensity of Communication, it is visible that the level of interaction between the different auditing groups are limited to audit calibration processes. However, the interaction between the CMG Group and IWAY auditors extends beyond calibration as trainings of new audit methods and knowledge development ensure and secure IKEA working methods are of high standards. The relationships and interactions between the TASEA Business Teams and IKEA suppliers on the other hand is considered high as weekly face-to-face meetings are rituals for the exchange of information, training and supplier development.

It was learned that the five management systems and methods are not mutually exclusive. If effective implementation of IWAY is the ultimate common goal between the supplier and buyer, then a higher resource allocation for one system will always affect the resource allocations of the other, given the fact that there are limited resources, e.g., absorption capacity of knowledge and competence of co-workers and suppliers. The critical task of the business teams is the precondition assessment process whereby the identification of areas of improvements must be suitable and achievable by the supplier. However, this also depends on the supplier's stage of development and the intensity of the alliance and business linkages it has with the MNC.



Table 4.1: Methods and Intensity of Communication

Limited Interaction  Low Interaction  High Interaction  Calibration 	Third-party Auditors	Global Compliance Monitoring Group (CMG)	IWAY Auditors	IKEA TASEA Business Teams	Suppliers & Critical Sub-Supplier	Factory Workers & Sub-suppliers
Third-party Auditors						
Compliance Monitoring Group (CMG)	Calibration process Discussions of unannounced audits 					
IWAY Auditors	Calibration process Discussions of unannounced audits 	Audit reports Calibration process + training Discussions of unannounced audits 				
IKEA TASEA Business Teams	Discussions of unannounced audits VIA CMG or IWAY auditors 	Audit reports Discussions of unannounced audits 	IKEA Visitor Log-book Audit Report 			
Suppliers & Critical Sub-Suppliers	According to the GPC – permission to conduct Unannounced audits IKEA Visitor Log-book 	According to the GPC – permission to conduct Unannounced audits IKEA Visitor Log-book 	Pre- IWAY approval audit Action & correction plan report Biennial audit for IWAY approval Internal supplier audit report 	Initial supplier evaluation process (IWAY staircase model) General Purchasing Condition (GPC) – Legal documentation Pre- IWAY approval audit reports Action & correction plans /reports IKEA visitor log-book Audit reports Internal supplier audit reports Regular/weekly meetings/visits 		
Factory Workers & Sub-suppliers	According to the GPC – permission to conduct Unannounced audits & interviews Employment contracts and salary records 	According to the GPC – permission to conduct unannounced audits & interviews Employment contracts and salary records 	Employment contracts and salary records Random interviews 	Employment contracts and salary records Random interviews 	Employment contracts and salary records Labor, social and environmental conditions and rights information session/training/announcements 	

Source: Researchers' own



4.2.2 The Suppliers

The following sections provide readers with information about the interviewed suppliers, their management approach to CSR (+I) initiatives, and the realized benefits of IWAY implementation. The section is summarized by a comparative analysis of the three suppliers.

4.2.2.1 Natural Fiber Supplier

Sector Size & Trends

Similar to many other developing countries, the generated export revenue of natural fiber products contribute significantly to the employment, income and food security of the Vietnamese poor farmers and those working in natural fibers processing industry. According to the figures from Vietnam's General Statistics Office (2009), the exportation of rattan, bamboo, and rush products more than doubled from USD 103 million in 2001 to USD 221 million in 2007 (See, Figure 4.5). No statistics on the exact number of workers within the natural fiber production sector were found since the supply chain includes informally employed home-workers and farmers.

The Supplier

The buyer-supplier relationship between the chosen Natural Fiber supplier and IKEA began in 1997; however it was not until 2003 when the first IWAY audit took place. The supplier is categorized as IWAY Approved with a compliance rate between 90-100 percent at Level 2. The company is a locally-owned joint stock trading and manufacturer of weaving products, such as placemats, carpets, and baskets. The core operation of the organization is located in a single factory within an industrial zone providing favorable tax incentive for reinvestments. There are approximately 500 employees— a majority is originally from the local province. According to the Facts and Figures Questionnaire, approximately 85 percent of the total sale is allocated to IKEA in 2008 (USD 9.2 million); however, other buyers include Williams- Sonoma and Saigon Co.op.

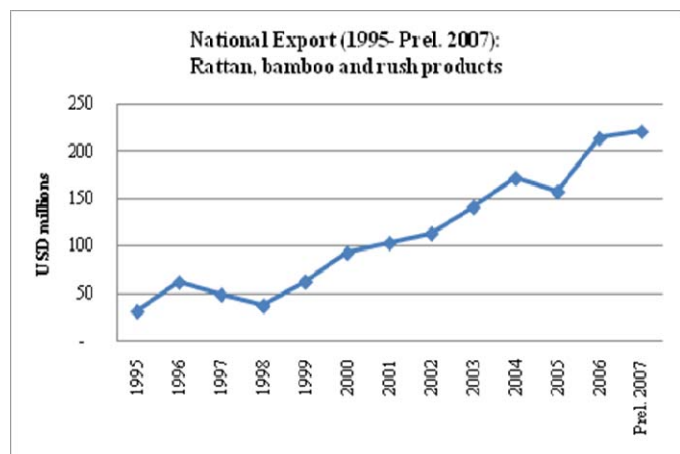


Figure 4.5: National Export- Rattan, bamboo and rush products
 Source: Vietnam's General Statistics Office (2009)

The annual sales turnover has increased from USD 5.2 million in 2004 to USD 10.8 million in 2008. The management stated in the interview that the increase is largely due to higher demands with long-term purchasing commitment made by IKEA and increased in production efficiency. One of the most obvious connections between the buyer (IKEA) and supplier is their business-linkages with close collaboration in new product range development, material inputs modification, innovative equipments, and quality management improvements. Naturally new product development and requirements increase production and operation costs, however due to the customer's purchasing power and support, the supplier regards new investments as part of its growth strategy (Chief of Representative Office, Natural Fiber Supplier, 2009).

Management Profile & Approach

According to the Chairman and General Director of the firm, her company shares a common vision with IKEA to create a better life for people in her community through employment with consistent income and build awareness that everyone can be an agent of change. She further explained that since 30 years ago, when she began the business, she had made a wholehearted commitment to help rebuild Vietnam with clear business conscience and fairness. The journey has not been easy, but the partnership with IKEA has given her company structure and knowledge on how to systematically implement changes within and outside of the organization. An example of it is the sub-supplier selection process. The process is similar to that of IKEA's stair-case model where the sub-supplier are given time to fulfill business requirements (production capacity and standardization) prior to progressing to the next level as business partners with long-term agenda. She stressed the importance of establishing clear and precise business agreements along with regular face-to-face meetings. The partnerships are maintained as communications and information are unrestrained. The company has also introduced sub-supplier annual meetings in order for them to share knowledge and extend their networks.

The entire management group is Vietnamese, including a sales manager who was previously employed by IKEA TASEA for nearly ten years. The sales manager acknowledged that she is influenced by the IKEA culture where corporate decisions are rarely made in isolation or without the consensus of the entire management group. Similar democratic approach is also applicable on the factory floor where workers are empowered to express any job related concerns to their unit representatives/line supervisors in charge of communicating suggestions and feedback to the management. As the Chief of Representative Office in Ho Chi Minh stated in the interview, *"We try to make everything transparent to everyone, so they know where we're headed and what we expect from our workers and vice versa"*. She added that *"the labor turnover is relative low, about 2 percent for office workers and 5 percent for factory workers, because the employees are satisfied with the working condition and regardless of job titles. There are no corner offices, no air conditioning, or preferential treatments."*

Codes of Conduct Management

The management admitted that the implementation of codes of conduct, especially IWAY, can be of a challenging in the context of Vietnamese business environment and mindset where CSR policies and practices are imported concepts. However, in the year 2000, the company created its own code of conduct called "Quality-Timeliness-Development" (Q-T-D), which utilized IWAY and IKEA Supplier Quality Assurance Program (ISQAP) as benchmarks. With the adoption of the code and embracing IWAY, the managers believe their company has a stable and sustainable foundation, hence the strict policy on unrestricted information flow.

Factory workers are informed of any changes in the codes of conduct via their unit representatives/ line supervisors and announcement board postings where both IWAY and Q-T-D were spotted during the factory tour. In the case of demonstrating its commitment to create a safe and healthy working environment for its workers, the supplier installed drinking water fountains and hygienic toilets throughout the facility with unlimited access rule. Evacuation plans and required personal protective equipment signs were also visible during the tour; however, some workers did not observe the requirements and the managers were warned to take corrective action (See Appendix 15: Photographs from Suppliers)

Due to the fact that buyers are free to conduct unannounced audits at anytime, the managers are aware that it is their responsibilities to ensure compliance. Although the implementations of any codes are voluntary, not complying may have detrimental business consequences. The management is certain about their ability to maintain their above average compliance rate with IKEA, but also stated that the support of the workforce will be the key to success. As confirmed by the Chief of Representative, *“Codes of conduct are not just paperwork; they help us develop in our operations. We are doing our own internal audits as well as our sub-suppliers. And IKEA has access to the names and locations of all of our sub-suppliers... IWAY is our priority because the demands are high; however we do plan to become ISO certified for the legitimacy in the international market.”*

Realized Benefits of IWAY Implementation

The most obvious benefit of IWAY implementation for this Natural Fiber supplier lies within its sales figures and low labor turnover. According to the Chairman and General Director, the company's well-structured management systems are built on the acquired knowledge provided by its Swedish partner, IKEA. The business relationship is simple because both parties engage in mutual trust, commitment and respect in collaborative product development process. For example, when the buyer wanted to increase the natural fiber product range, the designer and product developer suggested making placemats out of banana leaves. The product in itself has great shelf and sales potentials, however according to the supplier, the cost of production with banana leaves would be higher than the locally available natural fiber, water hyacinth. With local knowledge, proactive attitude, and freedom to make suggestions, the supplier created a prototype which was well-received by the buyer and subsequently by the global consumers.

The other obvious benefit of IWAY implementation concerns working environment and worker's efficiency. According to the sales manager, the implementation of IWAY has significantly change the working environment and workers' efficiency in connection to their well-being and fair labor practices. With happier, healthier and more enthusiastic workers, the company greatly benefits from their devoted energy in driving performance. The supplier has minimized the recruiting expenses as it becomes a sought after employer with high application rate of qualified workers. The Chairman and General Director expressed her desire to increase the factory wages up to USD 113 per month (VND 2,000,000) — a more than doubled the current minimum wage, but this will not be possible until the company reaches its sales goal of USD 16 million in 2009.

The third benefit mentioned in relations to community development. With well-structured and transparent labor management systems, authority interventions are kept at minimal, however supportive to the reinvestment of profits into the community for building schools for local children and expanding the business. Consequently, the commitment of improving and building a more sustainable community sends positive signals to the surrounding areas, thus creating a positive image of the production and protection of its own brand. The supplier managers expressed in the interview that although their community involvement is not mandated by IWAY, they are greatly influenced by the IKEA culture of being a responsible corporation.

Finally, although the supplier is extremely dependent on IKEA, the work with IWAY attracts new business opportunities in relations to other buyers. By assuring ethical trading practices, potential customers are at ease in initiating new business ventures with minimal efforts and allocated resources in the verification process of operational transparency and legal compliance.

4.2.2.2 Plush Toy Supplier

Sector Size & Trends

As seen in Figure 4.6, the national export of the textile sector in Vietnam has grown tremendously from USD 766 million in 1995 to USD 7,750 million in 2007 (General Statistics Office, 2009). With its ASEAN accession in 1995, Vietnam began the integration process into the global and regional economy, while its government created new rules and regulations to encourage investments and initiate projects to increase technological sophistication in this sector (Thin, 2003). Moreover, as members of the WTO, accession in 2007, Vietnam has further increased the development of the textile industry which is expected to reach USD 9.55 billion in 2009— nearly USD 2 billion less than the anticipated figure prior to the financial crisis (Ministry of Foreign Affairs of Denmark, 2009). Currently, there are around 2,000 companies⁹ operating in this sector, employing over 2 million workers with 100,000 new jobs created every year. Around 55 percent of these companies are located within the vicinity of Ho Chi Minh City and 30 percent in Hanoi. The Vietnamese government considers the textile industry among the country’s prioritized industries.

The Supplier

The selected Plush Toy supplier is a large foreign-owned toy manufacturer which has been producing children products for IKEA since 1999. Established in 1989, the company’s headquarter is located in one of Asia’s advanced economies, hence the production sophistication and knowledge. It entered Vietnam in 1996 and currently has two factories operating in export processing zones in two different provinces. Due to an increase in product demand, the second factory opened in 2006. The TASEA IWAY Auditor mentioned that the supplier also works closely with three critical sub-suppliers responsible for producing IKEA children products and therefore are subjected to both announced and unannounced audits. The annual sales turnover was USD 13 million in 2008, decreasing from approximately USD 17 million in 2007 and 2006. According to the management, this decrease in sales is positively correlated to the 2008 financial crisis and the reduction of employment from 1,900 employees in 2007 to 1,550 employees in 2008. The reported labor turnover ranges from 16 percent to 22 percent over the period of 2004 to 2008, respectively. The company struggles with workers’ retention as 100,000 new jobs are created in this industry, resulting in the high demand for workers with sewing skills. Around 1,300 factory workers in the original factory come from distant provinces in Vietnam; however the company does not provide these workers with housing assistance or allowance as the factory is located in an urbanized and well-developed area with affordable dormitories.

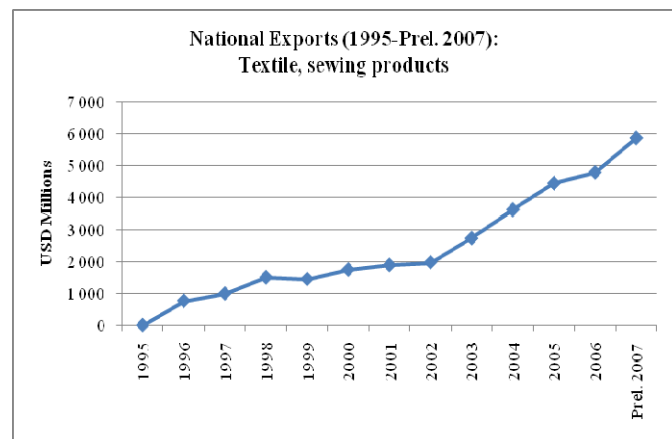


Figure 4.6: National Export- Textile, sewing products
Source: Vietnam General Statistics Office (2009)

According to the Facts and Figure and confirmed by IKEA’s personnel, the supplier also produces children toys and accessories for The Walt Disney Company, Toys “R” Us, William Lamb and Baby “R” Us. IKEA is currently the largest buyer as reflected in the USD 6 million or nearly half of 2008

⁹ Of these 2,000 companies, 1,500 are privately owned, 25 state-owned and 450 foreign owned.

turnover in sales. The supplier and IKEA have agreed and secured a USD 10 million in long-term contracts for the year 2009.

According to the management, because operations are within the Export Processing Zones, the company enjoys provided on-site supporting services, e.g. transporting and forwarding cargoes, handling import-export procedures and customs clearance, treatment of trash and toxic waste, dormitory, sport facilities, consultation service (free of charge) in license application, fuel supply, and labor service. In addition, as a foreign invested company, the supplier also receives financial incentives such as reduced income tax; tax holiday for both import and export commodities; excluded VAT on imported goods; and tax holiday is granted upon earning profits.

Due to the foreign-ownership corporation status, the supplier benefits from sophisticated R&D knowledge and management techniques, provided by headquarter— two important contributions of product quality and manufacturing assurance. However, as IKEA partner, the supplier admits to have acquired new knowledge concerning innovative product designs and advice on how to increase production efficiency. The Business Manager stated during the factory tour, *“Because of our partnership with IKEA our product designs are changing. We use to make toys for children to play with, but now they are also served as tools for child learning development. Take an example of one of our products— instead of producing a soft toy in a shape of a flower, we now make a soft book with illustrations of different stages of the pollination process up until a flower becomes a full-bloom.”*

Management Profile & Approach

The senior management group consists of a majority of managers from the home country and foreign managers who speak the local language. There are approximately 100 office personnel working within R&D, sales, technical and shared service departments. The language on the factory floor is Vietnamese, but because foreign managers are involved in the running of the daily business and communicating with colleagues stationed around the world, the adopted corporate language is English. The usage of dual languages is noticeable throughout the factory and office areas as signs and announcements are appropriately created for both the internal employees and external visitors.

This supplier, along with other manufacturers/ exporters operating in the same Export Processing Zone where the original factory is located, encountered wildcat strikes in 2006 as workers expressed their discontentment to low salary and poor working conditions. (Glantz & Nguyen, 2006). According to the Business Manager, these strikes were results of the sluggish implementing process of new labor law and minimum wage adjustments by the Vietnamese government and impatience on behalf of the workers. Consequently, the strikes left the management in a difficult position whereby the government postponed the decision on the new minimum wage and its execution date by four months, while workers impatiently fought for what they considered rightfully owed to them. It was clearly expressed in the interview that the management felt they were caught in a middle of a dispute between the Vietnamese government and the workers— not because they were breaking the law or treating the workers poorly.

As a result of these strikes, the supplier designed and implemented its own code of conduct on October 8th, 2007. The code is based on the local labor laws and the combined minimum requirements of buyer’s codes of conduct. The internal code of conduct has increased and improved the communication between the management and the workers. Prior to the strikes and the implementation of the newly adopted code, workers were unsure of how they could communicate their concerns to the management and what the consequences may be if they express themselves. Now that the workers are informed about the purpose

of the code, safety and health issues and the general legal rights, the management believes that the relationship between managers and workers has improved due to a more open communication channel—a preventative method of future strikes. The internal company code is posted side-by-side to IKEA IWAY Standards document and training schedules on announcement boards, visible throughout the factory. In addition, workers are encouraged by their line representatives to write anonymous comments and place them in the suggestion box located around the factory. According to the Chief of Administration and Human Resources, by educating the workers about rights and fair treatments, the company benefits from having happy employees who are willing to work hard.

Codes of Conduct Management

There are three different departments in close contact with IKEA business team and one of them is responsible for IWAY. The departments are independent of each other in order to prevent internal conflict of interest, e.g. overriding IWAY or QWAY standards for on-time delivery. External conflicts on the other hand, such as the difficulties when local laws deviate substantially from IWAY requirements, are more difficult to assess and control. As an example of the deviation is when the local law permits workers to work without signed contracts during the training period, however as stated as one of IWAY conditions, all workers must have signed labor contract from the first day of employment (IKEA Services AB, 2005; National Assembly of Vietnam, 2002). The interesting point here is some workers themselves prefer to work without contracts as their interests remain on making the most out of their earnings without having to pay the social insurance fee or binding themselves to one employer for a specific period of time when there is an abundance of work and opportunities in the current market situation, according to the Business Manager.

The first IWAY audit for this supplier was conducted in 2002 and has been IWAY approved in the past. It is however currently categorized as a *Risk Supplier* due to the missing hazardous waste documentation— although it is performing well on all other measures. According to the IKEA Business Developer responsible for this supplier, *“It is a matter of bureaucracy rather than bad social and environmental performance. The supplier did in fact apply for the certification and was approved. But it was not delivered in time for the audit. The supplier will remain as a risk supplier until the next audit and hopefully, all of the documents are in place.”*

The supplier has received training and is certified by IKEA in performing internal and sub-supplier audits. This has increased the proactive action taken by the supplier as it becomes more informed about issues which may require additional attention and/or improvements. By performing internal audits, the supplier is constantly monitoring and evaluating its own operations and product quality without having to wait for buyers’ periodical audits which may take place once every other year.

According to the Business Manager, IWAY is the most demanding code of conduct the company needs to comply with, in terms of quality and systems. The high demand aspect is embraced by the management as strict IWAY requirements are considered to be a competitive feature of the firm. It forces the employees to contribute to improving and maintaining factory conditions and procedures. The supplier believes that its’ leading market position is greatly contributed to the implementation of IWAY because both parties are in agreement of placing tough demands on children’s product and neither one are willing to compromise on safety. This is reflected in the partners’ commitment to allocate resources for strenuous chemical and safety test procedures. (TASEA, Quality Coordinator) It was also pointed out that IWAY requirements minimizes the need for the suppliers to be concerned about what other

buyers may demand in their codes of conduct as in many cases, the “new” requirements have already stipulated in IWAY.

Realized Benefits of IWAY Implementation

The increased dialogue and communication between the workers and management is considered by the management to be the most visible benefits which the workers receive due to the codes of conduct. With the formulation of the internal code of conduct, the communication has improved between the two parties. Workers are more aware of the management reasoning and limitations, while workers’ satisfaction level can be easily detected with regular meetings with their line representatives and managers. The Business Manager acknowledged the fact that in any circumstance, there will always be someone who is unhappy, but if there is at least a dialogue where both parties discuss and explain their points of view, then perhaps a compromise solution can ease the tension. Furthermore, by setting up an internal code of conduct the supplier believes that it creates a perception of transparency among current and potential customers/ buyers as it communicates responsibility on behalf of the firm by clearly stating the workers’ benefits such as the rights to health & social insurance, maternity, annual, and wedding leave, etc.

IKEA’s business team has mainly been able to increase the production efficiency; however, little was mentioned regarding change in the working environment due to IWAY. As previously mentioned, the strict requirements of IWAY force the management and labor force to maintain and continuously improve their systems and processes in order to retain the firm’s competitiveness. Furthermore, as IKEA’s partner, the supplier has a built-in reputation factor attached to its operations and product quality, hence making it more attractive to prospective buyers.

In sum, the interviewed managers were positive about the firm’s co-operative business with IKEA. The implementation and training of IWAY have increased the proactive actions taken by the supplier. The knowledge gained during the conducted audits has proven beneficial as the supplier is determined to continuously improve internal working conditions as well as at the sub-suppliers’ sites. It is believed that the long relationship with IKEA is a signal of strength and sustainability where quality and competitive pricing do co-exist.

4.2.2.3 Ceramic Supplier

Sector Size and Trends

Vietnam has a long history of ceramics making dating back to 100 B.C. Its tradition and crafting skills are preserved in the two temples devoted to the country’s most famous potters (SEA Pots, 2008). The country is endowed with abundance of quality clay and for seven hundred years, Vietnam was Asia’s biggest producer of ceramics. Today, there are larger producers in the region, e.g. China and Thailand. However, this handicraft remains true to its roots as old techniques are preferred over the automated machines. The question is for how much longer before this sector becomes industrialized? The answer is reflected in Figure 4.7 as there has been tremendous growth in this sector with exports increasing from USD 22 million in 1995 to USD 330 million according to the preliminary numbers for 2007. This indicates that the old industry is gaining strength and if the anticipated positive growth continues, automation may be the only answer to the increase in the global demand for ceramic and glass products (Vietnam General Statistics Office, 2009).

The Supplier

The relationship between IKEA and the supplier is newly established in comparison to the chosen Natural Fiber and Plush Toy suppliers. It was in 2006 when the supplier became IWAY Approved supplier with a compliance rate between 90 to 100 percent at Level 2. The ownership structure of this ceramic and earthenware manufacturer is local private proprietorship with an annual sale of USD 7.3 million in 2008. In 2002, the management created a long-term plan for expansions which has resulted in a gradually sales increase from USD 4.5 million in 2004 to USD 5.2 million and USD 7.6 million in 2006 and 2007, respectively. The growth of annual sales turnover has decreased between 2007 and 2008 due to the current financial and economic crisis.

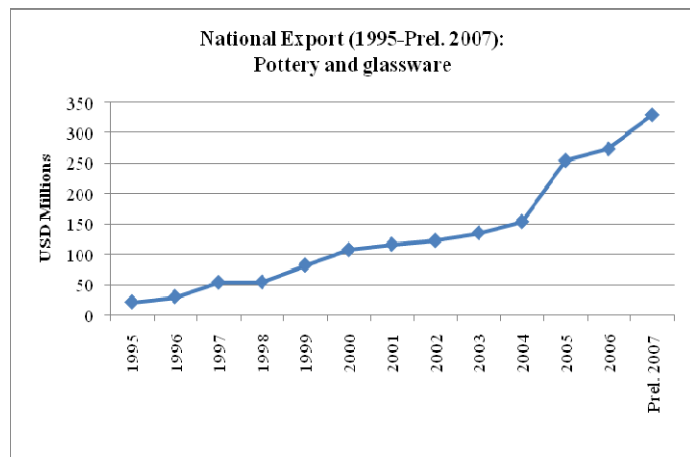


Figure 4.7: National Export- Pottery and glassware
Source: Vietnam General Statistics Office (2009)

Currently, the supplier has four factories located in various parts of Vietnam. However, the visited factory, located on the outskirts of Ho Chi Minh City, is the main factory/HQ of the supplier. Expansion and renovation plans are underway in the main factory, clearing out old workshops to make room for new automated machineries. The reported total workforce is approximately 1,200 office staff and factory workers— 300 are employed in the HQ and the rest are spread out in the other three factories. An estimated 70 percent of the entire labor force comes from distant provinces. The interviewed HQ managers expressed difficulties in retaining workers as competition for experienced workers in the Export Processing Zone is fierce. In 2007, there were approximately 470 workers in the HQ, but in 2008, the number had decreased to 300. In order to keep up with production, workers from other production units/factories are transferred to compensate for the decrease of workers in the main factory.

As of the end of 2008, sales to IKEA is estimated around 42 percent of the total sales— USD 3 million, according to the Facts and Figures Questionnaire. Other major buyers include Wal-Mart, Deroma, Northcote, Hagebau and Edelman. The most recent IWAY audit took place in June 2008 and as noted by the IWAY Auditor in IKEA Audit Report for Ceramic Supplier X (2008), *“There were 3 main points that the supplier should work on to ensure IWAY fulfillment, which are chemicals management, waste water management, and attendance record, payroll management.”*

The key target market for this supplier from 2004 and prior was Australia and the United States, however buyers from Europe account for a large fraction of the total sales today. With different peak seasons¹⁰ for the different markets, the production is at a semi-full capacity year-round. The supplier is less reliant upon one single buyer or seasonal work as the numbers of buyers have increased over the years.

The supplier has an in-house R&D department responsible for designing new products and upgrading old ones. Currently, IKEA purchases 6 product ranges from this supplier, but four are from the in-house collections. Because the knowledge and high competency already exist among local ceramic suppliers, IKEA’s contribution to production is limited. But because the industry is labor intensive, many local

¹⁰ The peak season for the US and the EU is between September and February. While the peak season for the Australian market is between March and July.

suppliers, including this particular one, are opting for automating parts of the production process in order to decrease labor cost and increase the economies of scale. Large financial investments are necessary for expansion, therefore stable commitment on large scale orders and long-term partnerships are essential for development and break-even in the first few years of investment. Therefore in partnering with IKEA, the supplier is able to plan its growth, while attracting new buyers with IKEA's reference.

Management Profile & Approach

The management group consists of Vietnamese managers who are responsible for the running of all four factories. In an informal interview with IKEA personnel in contact with the supplier, it was expressed that in the beginning of the business relationship, the supplier middle managers struggle with the adoption and implementation of IWAY as they did not see the need to change their methods of working or adopt new procedures requested by the buyer. The owner and senior managers on the other hand committed themselves to make changes and reevaluate the corporate standards. In order to mediate the situation, a new Administrative and HR Director was hired in 2007. With prior experience working at another IKEA's supplier site, her primary responsibility of assuring IWAY compliance and labor force development are suitable and effective. During the interview, the General Operation Director praised the new manager for her ability to decrease the resistance from the middle management and change personnel mentality in regards to the implementation of codes of conduct required by many of its buyers. She insists on improving communication flow and constantly explains to the middle managers that in order for the company to stay competitive and attract new buyers, everyone within the organization must consider these requirements as prerequisites for business development. The managers agreed that with change in mentality and management systems, the relationship of the supplier and buyer is now close and transparent.

Codes of Conduct Management

As the business relationship is relatively new between the supplier and IKEA, improvement projects remain on the priority list. One of them is the development of the supplier's own code of conduct. Today, the company simply observes mandated local labor law requirements and industry customs. These regulations are communicated to all employees as part of the introduction process and the printed copies are posted on announcement boards located throughout the factory. It was emphasized during the interview that verbal communication is extremely important as a large part of the workforce is illiterate. Workers are informed on core information by their team leaders/ representatives responsible for circulating news and change in procedures. For the purpose of monitoring and continuous process improvement on the factory floor, the management holds additional meetings with workers to evaluate team leaders and randomly questions workers to check if they understand why changes are being made.

The Administrative and HR Director and a team of staff are responsible for the implementation process of buyers' codes of conduct. All members of the team have received IWAY training from IKEA Business Team for internal auditing procedures. The supplier is said to perform internal audits twice per year, using IWAY standards. However, its sub-suppliers' performances are not measured according to IWAY and only the minimum production requirements are examined during informal audits. When asked if the supplier have difficulties with complying with different social, labor and environmental codes, the management explained that there are obvious differences in the codes' objectives, however they complement each other. From experience, the managers agreed that the two strictest codes are

IWAY and Wal-Mart. Yet the major difference between the codes is Wal-Mart focuses more on the mechanic aspects of production while IWAY emphasizes more on social and environmental aspects.

It must be noted that the management agrees to IKEA's hand-on approach and side-by-side working relationship because as a recent IWAY approved supplier, the demand for greater support system is high. Unlike IKEA, other buyers are not actively participating in the operational development or codes implementation processes— they simply state their demands and rely on audit results to verify codes compliance. Furthermore, managers are grateful for external and unannounced audits as both positive and negative results provide 1) additional drive to maintain and improve management systems and procedures, as well as 2) verification of factory conditions in comparison to its competitors.

When the researchers inquired about the negative effects of codes implementation, the managers openly discussed that factory workers, especially the migrate workers, have very little to do outside the factory walls as they are far from their families and separated from their friends. Their purposes of coming to large cities are predominately in search of work opportunities and earn as much money as they possibly can. By limiting the working hours, excessive drinking and gambling have become problematic and show contradictory result of the objectives of codes of conduct. The management reinforces that the company is willing to do its best in terms of complying with different codes, but must also take into consideration and evaluate the rules against the well-being of workers. There have been no serious disputes or strikes as the supplier follows the local labor law and act swiftly when needed. Almost all of the workers in the factory belong to the labor union.

In the discussion about the possibility that the supplier becomes ISO certified, the management does not consider the certification important or necessary as they believe it gives minimal benefits to the organization. The General Operation Director mentioned that he has witnessed other companies with unsophisticated processes violating ISO terms of agreement and therefore his company is reluctant to spend a large sum of money for the certification international standards that provide no assistance in implementing and maintaining the systems.

Realized Benefits of IWAY Implementation

Among the most visible benefits of IWAY implementation is in the lower labor turnover and the increased sales. The management has seen improvements in the working conditions for the workers. As an example, before the implementation of codes of conducts, there was no private clinic onsite with certified nurses and on-call doctor in case of emergency incidents— there is one now. In correlation with the improvement of working conditions, the company has attracted more buyers which consequently, reduced the company's vulnerability for seasonal production and improved employee retention as labor turnover decreased from 20 percent in 2004 to 6 percent in 2008. The positive element of high retention rate is the decrease in financial burden of training new workers and workers' competences are retained within the firm.

Another visible benefit is the improvement of management systems and processes as results of implementing Wal-Mart code of conduct and IWAY. With two retail giants as partners, the company has become more competitive and its business is legitimized by good behaviors and willingness to change. The business attractiveness has increased as new buyers are at ease when initiating business ventures with the supplier, signaling confident in skills and competence in the industry.

Lastly, the supplier is keener on making strategic and operative investments with mental and behavior changes as the company embraces IWAY standards. The managers are more aware of the necessity to



constantly improve in order to retain and satisfy current buyers, at the same time, attract new buyers. Necessary expenses are viewed as investments instead of costs. As an example, IKEA has made a request for an improvement in packaging as products are destroyed in the delivery process to its global retail outlets. The supplier made an investment of redesigning its packaging materials and methods. As the result, the amount of material lost and waste are reduced, while finished products are safely delivered to customers.

4.2.3 Comparative Analysis of Suppliers

The comparative analysis of suppliers is based on the empirical data from the field research. The measures are based on explicit questions aimed at either IKEA TASEA co-workers or the suppliers themselves and observations made by the researchers. The criteria for measuring different intensities, e.g. *Intensity of IWAY integration into Core Operations* and *Management commitment to CSR (+I) initiatives and activities* are based on the researchers' perceptions/judgments (influenced by the researchers' values and cultures) and comparisons between the three suppliers. The guided tours of factories and facilities (on-site health service/emergency equipment, cleanliness of public restrooms, availability of drinking water, sufficient lighting, etc.) provided visual evidences of safe and fair working conditions for workers and visitors, thus fulfilling the commitments of CSR initiatives. As an example, when measuring the *Intensity of IWAY Integration into Core Operations*, the researchers asked the suppliers different questions concerning how they have developed their internal codes of conducts (if applicable) and what point of references/ benchmarked standards were used in the development process. Discussions on the importance and realized benefits of implementing both internal (suppliers' own) and external (buyers') codes of conduct as well as reviews of chronological audit reports allow the researchers to classify and confirm the intensity of integration. Audit reports of the Natural Fiber supplier indicate that long-term relationship and commitment have allowed the supplier to sustain its high compliance level. The management prioritizes IWAY and ISQAP standards as important features of its core business, contributing to the development of the organization and its sub-suppliers.

Although the visited Plush Toy supplier's is a unit of a large multinational corporation, the *Intensity of IWAY integration into Core Operations* is considered High-Medium as its management in Vietnam share a common attitude with IKEA as being a fair and responsible employer. During the interview, the supplier managers emphasize the importance of ensuring good workplace environment because of the linkages between happy employees and the quality and safety of hand sewn children's toys— products which both the supplier and IKEA anticipate zero-defect once deliver to the end customers. Through observations, the supplier takes pride in being part of IKEA's supply chain as they display IKEA certificate, such as Children's School License, in the main conference room and IWAY 91 Criteria (the translated version in Vietnamese) throughout the factory. These documentations are indirect communication from IKEA to other buyers and workers via the supplier managers.

With the short-term relation with IKEA, the Ceramic supplier's *Intensity of IWAY Integration into Core Operations* is not as visible as the other two, therefore the rating is Medium. Currently, the supplier does not have an internal code of conduct nor does it perform audits on sub-suppliers. In combination with immature partnership with IKEA and limited audit results, the researchers conclude time is further needed for both parties to gain more knowledge the other's corporate cultures and future business intentions.

Furthermore, when measuring the *Degree of Business Linkages* the following considerations determined the rating. The Natural Fiber supplier is again rated as High in the analysis. As stated by TASEA

Quality Specialist, IKEA was instrumental in helping them setting up the new factory. The partnership remains critical as they maintain close linkages in product and process development as well as quality management. The linkages for the other two suppliers are rated as Medium. As the Plush Toy supplier is foreign owned it receives assistance from its headquarters and other subsidiaries, decreasing the need for building extensive linkages with IKEA. However, main linkages are in the form of product designs and production efficiency. Due to the extensive local experience and competences within the Ceramic industry, the formation of linkages has been limited. The most visible area of business linkages at the Ceramic supplier is the increased competences of managing the workforce. Their management has greatly improved, as can be seen in lower labor turnover.

Table 4.2: Comparative Analysis of Suppliers

Natural Fiber Supplier	Plush Toy Supplier	Ceramic Supplier
Joint Stock Company	100% Foreign Investment	Private proprietorship
Year turning IKA supplier: 1996	Year turning IKA supplier: 1999	Year turning IKA supplier: 2006
<i>Management commitment to CSR (+I) initiatives and activities</i>		
High: Management commitment to social and environmental change	High-Medium: Management commitment	High-Medium: Management commitment
<i>Management Attitudes towards CSR (+I) initiatives and activities</i>		
Proactive attitude with supportive organizational structure (cross functional coordination)	Collaborative attitude with strategic intent to maintain license to operate	Collaborative attitude with strategic intent to maintain license to operate
<i>Intensity of IWAY integration into core operations</i>		
High: IKEA's culture is embraced = IWAY responsible	High- Medium: IKEA's culture is embraced = IWAY responsible	Medium: IWAY responsible
<i>Intensity of community development involvement</i>		
High: Socially committed (community & capacity building)	Medium- Low: Conditional social commitment	Low: Social commitment—only for meeting local laws and regulations
<i>Degree in business linkages</i>		
High: Open possibilities for skill-sharing, learning and capacity building.	Medium-High: Open possibilities for skill-sharing, learning and capacity building.	Medium: Open possibilities for skill-sharing, learning and capacity building.
<i>Dependency on IKEA</i>		
High: Dependency on IKEA sales (+85% in 2008)	High- Medium: Dependency on IKEA sales (46% in 2008 and projected 2009 sales increase to USD 10 million). Note: Projected sales decrease in 2009 for other buyers.	Medium: Dependency on IKEA (42% in 2008) Although individual sale volume per buyer is decreasing due to the financial crisis, the number of buyers are increasing- an indication of business expansion with new customers.

Source: Researchers' own

The supplier's benefits of Ethical Trading Practices are as gathered from the empirical data. All these benefits were stated by the suppliers themselves, either during the interviews or from completing the Facts and Figures Questionnaires. A more thorough analysis of the suppliers will be in Chapter 5 where the empirical findings are analyzed from the theoretical framework.

Table 4.3: Realized Benefits of Ethical Trading Practices

Realized Benefits of Ethical Trading Practices		
Natural Fiber Supplier	Plush Toy Supplier	Ceramic Supplier
<ul style="list-style-type: none"> • Knowledge transfer in every aspects of the business operations • Increase in sales volume due to the increase in customer base • Reinvestments of profits into the company and the local community • Built-in reputation attached to operations and product quality = more attractive to potential buyers and qualified employees • Low labor turnover 2 % (Long-term employee) & 5% (Short-term/ contract employees) in 2008 • Increase product development and ranges • Protection of the brand 	<ul style="list-style-type: none"> • Increase dialogue and communication between the workers and management • Increase in production efficiency • Built-in reputation attached to operations and product quality = more attractive to potential buyers • Increase R & D capacity and product ranges • Increase in sales volume due to the increase in customer base • Protection of the brand • Knowledge transfer in product design and R& D capabilities 	<ul style="list-style-type: none"> • Significant decrease in labor turnover after IWAY from 22% in 2005 to 6% in 2008 • Built-in reputation attached to operations and product quality = more attractive to potential buyers • No longer dependent on seasonal orders • Improvements of management systems and processes • Knowledge transfer in terms of redesigning packing materials, thus minimizing wastes and material lost • Increase in sales volume due to the increase in customer base

Source: Researcher's own

5. Analysis

This analysis chapter allows the opportunity to further examine different drivers and barriers to effective implementation of CSR (+I) policies through unified, yet flexible communication procedures tailored for different types of suppliers with dissimilar degree developments and corporate cultures. Further, after the field research was conducted, the researchers identified the two most essential concepts in enhancing the management of CSR (+I) initiatives in developing countries: 1) capacity building and 2) creation of business foundation where trust and commitment drive strategic change and support backward linkages. An analysis is done through the application of the theoretical framework to the business activities and development of the sample suppliers. Lastly, the theoretical frameworks provide the research with broad international business management frameworks and once combined with the empirical findings of practical management systems and methods for sustainable ethical trade, the Conceptual Model is developed. The model is then analyzed and limitations are discussed.

5.1. Drivers and Barriers

The degree of CSR (+I) implementation and communication success are primarily determined by the *strengths* of specific driving forces and barriers that are related to 1) the supportive attitudes of managers and their ability to lead, 2) proactive, inquisitive and collaborative organizational environment, and 3) the interaction of organizational and behavioral variables fostering commitment, self-direction, and active participation. However, during the field research study, other drivers and barriers were identified, as presented in Table 5.1: Drivers and Barriers of CSR (+I) Initiatives.

Table 5.1: Drivers and Barriers of CSR (+I) Initiatives.

Drivers	Barriers
<ul style="list-style-type: none"> • Clear labor, social and environmental objectives • Good interpersonal relations and shared ethical believes • Supportive leadership and credibility • Display of growth potential in financial terms • Policy visibility, high priority status • Proper technical directions and advices • Qualified, competent field staff/team • Management involvement and support • Recognition of sense of accomplishment 	<ul style="list-style-type: none"> • Conflict among managers, workers and/or between workers and managers • Lack of communication channels • Different priorities perceived by different partners • Unrealistic expectations • Poor or inexperienced leadership • Insufficient resources • Lack of senior management support, interests and involvement • Lack of commitment and loyalty of partners, workers, and colleagues • Unclear objectives, management systems, and unwillingness to change • Unstable working environment, high labor turnover, and anxieties

Source: Researchers' own

5.2. Comparative Analysis of Theoretical Frameworks and Empirical Findings

5.2.1. Strategic Management and Alliances

The CSR (+I) definition used in this research stresses the need for MNCs to make strategic investments for building capacity and improving the development of its supply chain. In order to upgrade the supply

chain and turn it into a value chain, MNCs need to systematically build strong relationships or alliances with all its first-tier suppliers. The development of core competency in managing international alliances, entails nurturing both the “soft” relational aspects and “hard” resources. Hamal et al. (1998; found in Grant 2008) state that there are three aspects MNCs must master in order to form effective alliances, 1) the strategic intent of the partners, 2) appropriability of the contribution, and 3) receptivity of the company. However, at the base of any alliance, trust and commitment are essential to partnership sustainability.

5.2.1.1. Strategic Intent

According to Whipple & Gentry (2000) there are four motives for creating an alliance namely financial, technological, managerial and strategic. It is apparent that all three participating suppliers have financial motives with IKEA, the buyer. Buyer-supplier long-term contracts specify pricing and annual production forecasts which permit the supplier to anticipate production quantities and secure continual cash flow. The Ceramic supplier’s partial automated production plan will increase its manufacturing capacity, hence securing buyers’ purchasing requirements and the company’s own financial flows—a necessity for growth.

The Natural Fiber and Plush Toy suppliers have technological motives in their alliance with their Swedish partners. IKEA has great influence over the management techniques and system of the Natural Fiber supplier as the companies collaborated in rebuilding and enhancing knowledge capacity through rigorous training. Joint product developments and raw material selections have also reinforced the technological intentions of the partnerships. The Plush Toy supplier has also received technological support in terms of product design and R&D development with a strengthened knowledge for making learning toys. Although no technological motives and assistance were detected at the Ceramic supplier, according to IKEA TASEA Manager of Production and Technique Development, there are new technologies that could boost production process, effectively recycle used-energy and increase safety. The possible knowledge transfer of new technologies could occur once the buyer-supplier relationship matures.

Managerial motives are detected across the visited suppliers as all are dependent upon the sales to IKEA. The obvious interdependency between partners are reflected in close collaborations and long-term commitments made by the partners. According to the Field Research Advisor, IKEA is “[...] restructuring [its supplier base] and building bigger production units to rationalize. That has meant that tail of small suppliers has become less. Its more of a philosophy of having full scale production, but we will need more suppliers. We have not taken down the suppliers in Vietnam. It has been the opposite, its difficult to find good suppliers to expand together with“. IKEA is increasing its reliance on its first tier suppliers, therefore reversing the dependency role to some degree. Moreover, IKEA has the managerial motives in being closely linked to these suppliers as the company can better monitor and assure product qualities—the two important supportive elements in sustaining the MNC’s reputation.

It was also apparent that all three suppliers have strategic motives as IKEA provides access and consultancy services for learning and upgrading new technologies. As knowledge is transferred between different parties, competitive and comparative advantages are built within local sectors and among international suppliers whereby Vietnam maybe the preferred production and sourcing location for other buyers, respectively. As previously mentioned, the suppliers have the potential to become leaders in their own industries with indirect help from IKEA’s reputation and status within the supply chain network.

5.2.1.2. Appropriability of the contribution

Limited absorptive capacity, causal ambiguity of knowledge and strenuous relationship are the most common barriers for effective knowledge transfers (Szulanski, 1996). This holds true as the empirical findings suggest that IKEA expects all of its prospective long-term suppliers to fulfill precondition requirements and reach IWAY level 2, at latest one year after business initiations. The preconditions force the suppliers to reevaluate their operations in a timely manner. The proactive and corrective actions carried out during the limited timeframes signal basic commitment to the relationship.

IKEA further enhances knowledge transfers through the creation of *Supplier Days* where suppliers are invited to participate in training seminars. In addition, the intense involvement of Business Teams on day-to-day operations is important for supplier development. The Natural Fiber supplier demonstrated high levels of absorptive capacities soon after the relocation of its factory by effectively implementing various business systems in a short span of time (4 months). Furthermore, upon suppliers' requests, individual trainings are granted and tailored to the specific needs.

In the case of Ceramic supplier, it was not the absence of absorptive capacity that became a barrier to knowledge transfer—it was, however, the resistance, causal ambiguity of knowledge and strenuous relationship among the middle management group. It was the recruitment of a specific manager who has prior knowledge and experience of working with IKEA that broke down the barriers and recreated a foundation which is more receptive to mental and behavioral change. With the support and collaboration of the Business Team and senior managers, middle managers gradually developed an understanding of the IWAY objectives and how its implementation could increase its competitiveness. By simply providing proper attention and advice, IKEA minimizes hostilities and overcomes challenges in the relationship, thus creating a closer and more collaborative alliance.

Due to the fact that the MNC and its partners commit to long-term relationships, mistakes are viewed as part of the learning and development process. However, repeated violations are intolerable and may jeopardize the business relationship. From the beginning, it is communicated that relationships are built on trust and loyalty, thus the goodwill of allowing mistakes should not be taken for granted and abused.

5.2.1.3. Receptivity of the company

In order to protect its reputation and supply chain, IKEA must ensure that its suppliers are behaving ethically to the degree that they stay within the law and abide strictly with legal and IWAY requirements. The empirical findings suggest that the selected suppliers' key motive in becoming part of the alliance is derived from the financial benefits attached to sales increase and network building with other buyers. However, sale increase and long-term purchasing commitment by *IKEA* are dependent on the level performance of environmental, social and labor related conditions. Therefore, suppliers are obligated to reevaluate the entire business operations and request buyer's support. Once the areas of improvements are identified and individual goals are discussed, then common goals are created based on available information and anticipated results. The emphasis is on open communication and transparency.

According to many of the interviewed IKEA personnel, the Natural Fiber and Ceramic suppliers' production and operating systems, e.g. human resource and overtime management and disposal of both toxic and non-toxic wastes were underdeveloped at the time of business initiations. The willingness of the management to co-operate and actively change their ways of running the business permitted the

license to become IWAY Approved suppliers. Besides the financial gains as IKEA's suppliers, the two suppliers knew that with the buyer's help, they can also improve operations in other business areas. Both suppliers have expressed the effectiveness of IWAY standards as managers are trained on new management systems and consequently, the workers feel the benefit as they are more aware of different procedures and are informed of their employment rights.

IKEA measures the receptivity and performance of suppliers with, but not limited to, their IWAY fulfillment rates base on audit results. However, the incorporation of third-party audits give way to additional assessments and verifications. The two performance indicators are periodically released and the notion of audits as being snap-shots capturing real-time events only provide stakeholders with glimpses of factory conditions. When taking the biasness in audits into consideration, the employment of Business Teams and constant face-to-face interactions become integral parts of maintaining compliance and anticipation of new business ventures. As individual goals change over time, it is important that common goals are continually being discussed and established— creating open environments for future strategic plans.

5.2.1.4. Trust and Commitment

In order to promote credibility trust, IKEA TASEA devotes its Business Teams to ensure that suppliers have the capabilities to fulfill their obligations by meeting, at minimal, IMUST requirements in the initial stage of the business development. As the Quality Specialist pointed out earlier, Vietnamese suppliers are at a disadvantage in comparison to other international competitors with higher degrees of technological savvies and well-defined business strategies. This leads to the challenge of building credibility trust as more resources must be allocated to secure ethical supply chains, e.g. stricter and more frequent monitoring and auditing processes, constant involvement in exchanging dialogues between the buyer and suppliers, etc. With time and visible upgrades in the operations of the suppliers, the buyer should become more secure in the alliance, hence the development of benevolent trust. At this stage, it is important for Business Teams, in particular Business Developers, to maintain this level of trust by ensuring business contracts are honored and constantly developing new business strategies and capacity building approaches so as to further business relations.

IKEA obtains calculative commitments by forming long-term alliance and signing contracts with qualified (IWAY Approved) suppliers, integrating them into its operations via the General Purchasing System and allocating its best field resources, the Business Teams, for supporting and developing stronger bonds. The non-financial benefit of being part of the IKEA network increases the switching cost for suppliers; therefore a sense of loyalty is captured.

Attitudinal commitment is the most difficult to achieve as it implies proactive action taken by all alliance partners. Because the buyer and supplier relationship is complex, the degree of fairness is hard to distinguish depending on each partner's perception. As a buyer, IKEA acknowledges its purchasing power, however the company does not believe in abusing that power, according to TASAE management. The company encourages proactive learning from mistakes both among co-workers and suppliers. This is achieved by maintaining open dialogues among the involved parties in order to maximize constructive conflict resolutions, while minimizing negative impacts. The management of IKEA TASEA, its Business Teams (co-workers), and the three sample suppliers agreed that attitudinal commitment begins with a mental change, candid business evaluation and willingness to take responsibilities.

5.2.2. Business Linkages

The formation of backward linkages is important for suppliers in developing countries to build their competences in order to fulfill the requirements of MNCs. Of the five factors reviewed in backward linkages, the emphasis is on technology transfer and information sharing. As a recognized multinational home furnishing retailer, IKEA's purchasing process does not include attending trade shows, supplier exhibitions, and business dealings with middlemen. Due to the fact that training and financial assistance in strategic alliance have been carefully discussed and analyzed in the previous section, the researchers feel it would be unnecessary to revisit the topic.

In the empirical finding chapter, the presentation of extensive technology transfers from IKEA to its suppliers is evident. During the business initiation stage, preconditions are reviewed as IKEA Business Teams determine what product and process technologies are required for maximum output capacities and/or how suppliers' organizational and managerial can be strengthen with management systems that were not employed in the past. As stated by TASEA Quality Specialist, IKEA's hands-on approach is necessary to develop the suppliers systems due to Vietnam's low level of industrial development. However, IKEA does not want to bear all of the responsibilities of monitoring and securing IWAY compliance and acknowledge its responsibilities to install systems which assist in building strong foundations of supplier knowledge, while pursuing social and environmental objectives. With the ability to internally monitor ethical trade practices and create new methods for prolonging growth, suppliers become the controllers of their own destiny.

The Natural Fibers supplier has received and absorbed extensive technology transfers in comparison to the other two suppliers. This is a result of high vertical integration characteristic of the partnership. With sales allocation to IKEA reaching nearly 85 percent, it is undeniable that buyer's influence on management systems and operational development permit growth and technical knowledge expansion. The fact that IKEA Business and Quality Teams were greatly involved in the implementation processes of various systems, the supplier has gained confidence in applying imported techniques to its sub-suppliers. The transfer of technology and information sharing is now being passed further down the supplier chain, creating greater values and sustainability.

The increase in production efficiency, new product designs, and research and development enhancements are the three elements of technology transfers obtained by the Plush Toy supplier. As a subsidiary to another MNC, the supplier benefits from technology transference in a form of internalized knowledge transfer where the mother company's capabilities and expertise has a spillover effect on its operations. Therefore, the transfer of technological knowledge from buyers like IKEA and Disney is limited, but not completely absent.

With IKEA's managerial knowledge, the Ceramic supplier has improved labor management techniques as reflected in the drastic change in workers' retention rate. The buyer has not been able to influence extreme changes from the technology standpoint because handicraft works are tied to the Vietnamese culture and traditions, hence the local knowledge is already high and changes are harder to implement. The relationship between partners is relatively new in comparison to the other suppliers, however with time and commitment, the likelihood of future collaboration in production techniques and technology transfers are believed to increase.

5.2.3. Conceptual Model Analysis

The Conceptual Model, displayed in Figure 5.1, is constructed as the theoretical frameworks of strategic management and business linkages are too broad for the study of how to effectively demonstrate (proof by process) and communication CSR (+I) initiatives to manufacturing suppliers in developing countries. The theoretical frameworks lack specification of practical management systems and methods. By combining the theoretical concepts and empirical findings, the researchers believe the model is comprehensive and useful for scholars and managers interested in supply chain management and sustainability, international sourcing, CSR (+I) management systems and communications, etc.

The model is based on the presupposition that the MNC is a transferor of knowledge and technology, and the suppliers are the recipients. The outer layer of the Conceptual Model entails different strategic management and alliance concepts where strategic intent, appropriability of partners' contributions, companies' receptivity and trust and commitment encircle and enhance business linkages, with the emphasis on backward linkages or linkages that secure product supply through technology transfer, enhance training, sharing information, and contribute to financial support. The core of the Conceptual Model is composed of five different management systems and methods for sustainable ethical trade or CSR (+I) initiatives. These five management systems and methods need to be applied in a balanced manner, however depending on the supplier, its stage of development, and the intensity of the alliance and business linkages, some elements may require additional allocation of resources and support from the stronger/more influential partner. The critical task is the precondition assessment process of a supplier and identifying which of the five elements need the most attention. Once the assessment has been conducted, there should be a stage where action plan for improvements are developed. As these management systems and methods are not mutually exclusive, a higher resource allocation in one element will always affect the resource allocations of the other. A real world example of this is the current struggle of MNCs operating in developing countries that are devoting more resources to the management systems that include *Internal Monitoring, Report and Disclosure* which affects the allocation of resources for other systems, e.g. *Building Internal Capacity*. (UN GSCP, 2009) However, by minimizing monitoring, reporting and disclosures, MNCs could misidentify *what* is needed for building internal capacity. In the case of IKEA TASEA, the focus is building capacity among its Vietnamese suppliers; however distributions of resources in the four other systems remain relevant.

The Conceptual Model attempts to answer the research question by emphasizing how demonstration and communication are established between the MNC and its suppliers. The demonstration factors in this model is the integration of elements of five different management systems, e.g. Internal Monitoring, Education, Training, Building Internal Capacity, Improvement and Remediation. While communication channels are Dialogue, Interrelation, Integration, Reporting, Disclosure, Education, Training, Building Internal Capacity, and Giving Feedback. Some of the elements are classified as both communication and demonstration factors due to the difficulties to demonstrate without communication. Through these factors, the MNC and its suppliers have the potential to increase individual and common benefits by upgrading their competences and knowledge. Furthermore, when the demonstration and communication factors are combined, both the MNC and its suppliers can easily identify the benefits resulting directly from operational changes due to CSR initiatives. By establishing a causal relationship between the CSR initiatives and related benefits, the MNC can strengthen the sustainability of its Ethical Supply Chain, as suppliers adopt and integrate the CSR policies into their core businesses. With realized benefits from the implementation, suppliers are likely to continue their resource allocations for CSR (+I) practices.

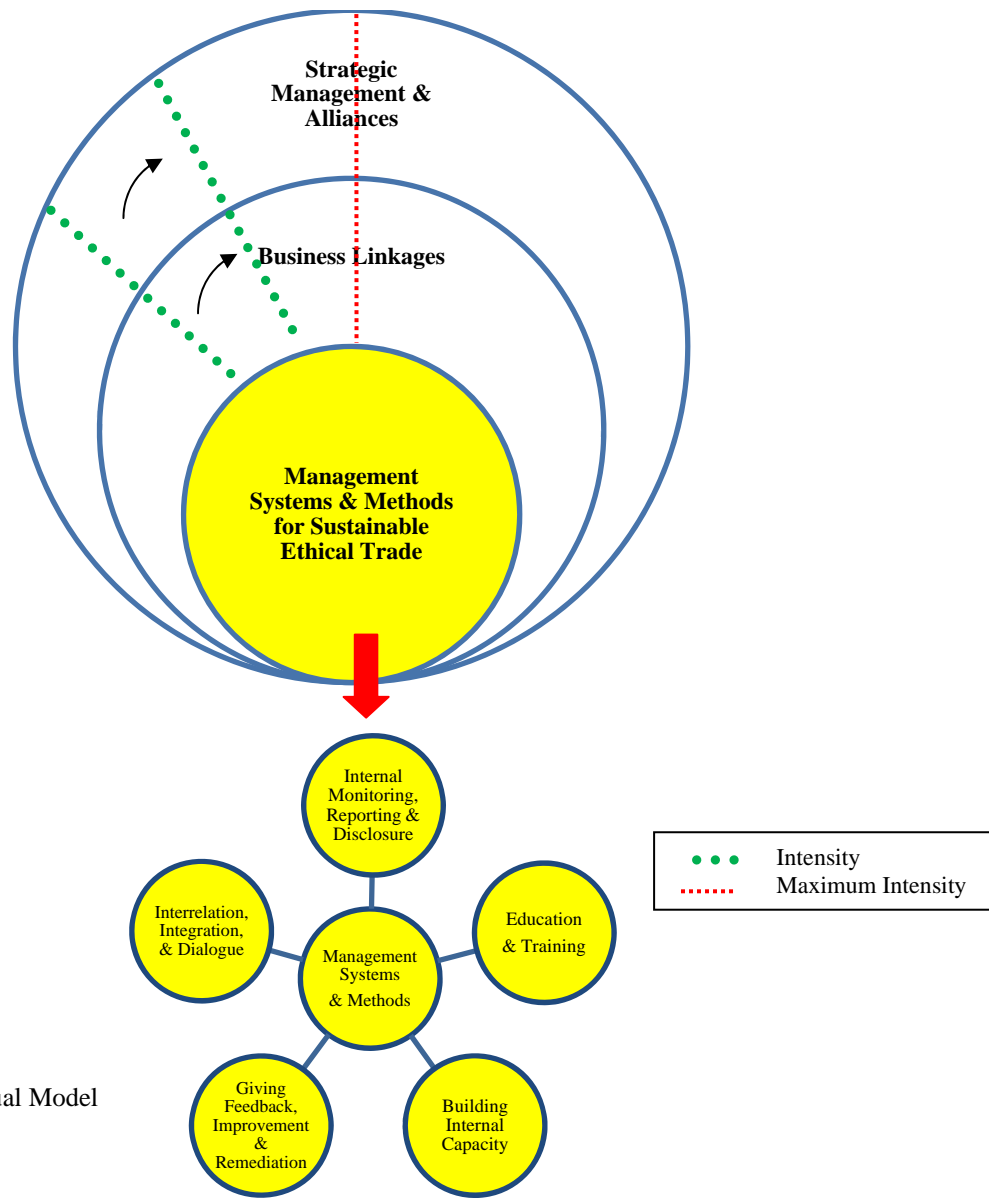


Figure 5.1: Conceptual Model
Source: Researchers' own

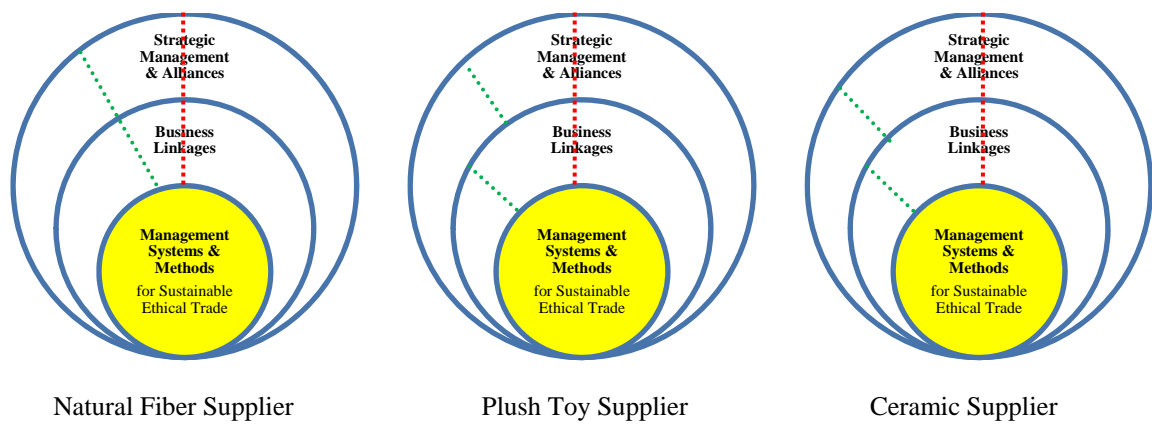


Figure 5.2: Demonstration of Conceptual Model (Application to Selected Suppliers)
Source: Researchers' own

Real-time (present condition) intensities of Alliance and Business Linkages between the MNC and a supplier are represented as dotted lines. The solid lines represent Maximum Intensity of either the Alliance or Business Linkages. The real-time intensity can increase or decrease with time and development stage. Higher Intensity of Business Linkages signals more linkages established between the two actors while higher intensity of Alliance represents closer relationship.

In order to illustrate how the model works, the researchers applied it to the research participants (selected suppliers) in Figure 5.2: Demonstration of Conceptual Model. As illustrated in the Comparative Analysis of Suppliers in Chapter 4, both the intensity of IWAY integration and degree in Business Linkages are high for the Natural Fiber supplier, therefore the lines of intensities are closer to the maximum point. For the Plush Toy supplier, the IWAY integration is high-medium while the degree of Business Linkages is considered at medium. Both intensities are considered medium for the Ceramic supplier. If in the future, IKEA and the Ceramic supplier agree upon increasing the intensity of their Business Linkages, then the firms must reevaluate and shift resource allocations from one or more management systems to support the increase or decrease in resources of another.

5.2.3.1. Strengths of the Model

The Conceptual Model can be used as an analytical tool. By employing the five management systems and methods of compliance, the MNC can assess its relationship with current suppliers. The inclusion of Intensity increases the analytical capability of the model. By analyzing the Intensity of either alliance or linkages, the MNC can detect whether there are sufficient dialogues and/or interactions between it and a specific supplier, providing more information on what methods to employ in order to enhance the business relationship and reach the target production efficiency. An MNC can establish its target intensity by using the Conceptual Model the five management systems of compliance to reach both individual and common goals. The Conceptual model is also a useful tool for MNCs in process of expanding their supply chains, while simultaneously facing the pressure of assuming more responsibilities of its supply chain and ensuring that manufactured products are produced in ethically sustainable manners. The model is also a helpful tool for MNCs that have encountered problems in their supply chain and must reevaluate the current situation and develop action plans to solve the issue. With little modification, the Conceptual Model could be used for when MNCs are changing strategic directions which necessitate new operational methods in the supply chain. Due to the fact that this model is based on the operating methods of a real company with good track record in its CSR (+I) initiatives, it can assist other inspired MNCs to implement new management systems and approaches in order to improve the management of ethical supply chain. There is no one-size-fits-all formula because each supplier is unique in its corporate culture and tradition.

Although the three selected suppliers have different degree in their strategic alliance and business linkages with IKEA, all parties can assess their needs for support of the five management systems. From the empirical findings, all of the suppliers felt that they are receiving sufficient feedbacks through constant dialogues and written assessment reports (audits) from the buyer, but have expressed the desire to build on internal capacities through education and training provided by the buyer. As mentioned earlier, these suppliers welcome constructive implementation of management systems as they believe that over time, their capabilities and competitiveness are enhanced in the global market.

5.2.3.2. Limitations of the Model

Although the model has various strengths it also has weaknesses. The presentation does not take into account external elements such as macro environmental or stakeholder analysis. These analyses should be conducted prior to applying the model, which in fact was done by the researchers for this particular study as relevant political, economic and social environment of Vietnam was earlier examined. The macro environment analysis supports in the understanding of what types of management systems these suppliers require in order to meet the preconditions of IKEA. The empirical findings of these partnerships allow the researchers to verify the intensity of the alliance and business linkages.

The second weakness of the model is the fact that it does not include culture considerations in the methods of communication or communication channels. The preference of written statements over face-to-face confrontations may differ from one culture to the other. It is expected that the business teams or field personnel (sender) adjust the communication methods based on suitability and respect of the suppliers' (recipients) culture, especially where the communication contents are expected to support critical processes or business functions. This further emphasizes the need to allocate experienced and committed resources to support the partnership— a task that is reliant on top management support. Based on the empirical findings (referring to Table 4.1: Methods and Intensity of Communication), the communication methods used by IKEA are mixtures of both written and verbal communication methods of audit reports, various contractual agreements, IKEA Visitor Log-book, Action and Correction plans and reports, weekly supplier visits etc.

The model does not include the earlier presented drivers and barriers that are related to 1) the supportive attitudes of managers and their ability to lead, 2) proactive, inquisitive and collaborative organizational environment, and 3) the interaction of organizational and behavioral variables fostering commitment, self-direction, and active participation. Therefore, prior to employing the model, the identification of drivers and barriers must be fulfilled.

6. Conclusion and Summary

Research on Corporate Social Responsibility and Innovation has increased in recent decades as MNCs have transferred significant parts of their production and sourcing activities to developing countries. Voluntary codes of conduct have been the preferred method for MNCs to regulate the operational and working conditions of their global supply chains. However, the sustainability of CSR (+I) practices has been questioned due to discoveries of poor working conditions and violations of workers' rights in developing countries, despite MNCs' public announcements that claim the opposite. As a result, people are calling for new approaches where codes of conduct form only one part of a comprehensive framework. This research intended to explore the approaches to manage an ethical supply chain and methods to secure its sustainability.

In preparation for the field research, a theoretical framework was constructed based on conventional CSR theories and concepts. However, during the field research, it became apparent that the original framework was incomplete. The most influential aspect of ensuring compliance was long-term collaborative relationships between the MNC and suppliers based on frequent interactions—a concept absent in most CSR theories and concepts. The researchers consider the current stream CSR literature to overstate the importance of audits in securing and sustaining compliance while neglecting the importance of building collaborative relationship. To complete the theoretical framework, concepts from Strategic Management and Business Linkages were included after the field research.

The field research was based on extreme case sampling by analyzing the operations of IKEA Trading Area South East Asia (TASEA) in Ho Chi Minh City, Vietnam and three of its suppliers. Semi-structured interviews and observations were employed for gathering empirical data. From the conducted formal interviews of TASEA co-workers and supplier managements, the researchers realized the importance of Business Teams in securing supplier compliances. By interacting weekly with suppliers, Business Teams are in constant alert for non-compliance activities. The teams are also responsible for ensuring that right management systems and methods are available for conducting sustainable ethical trade. In order to do so, they must have the support from the managements. Company leaders' responsibility is no longer simply running business as usual, the task of champion CSR (+I) in developing countries is now considered a priority. It requires the managements of MNCs make commitment and change the nature of the role of business society. It is about being transparent and building an understanding of how performance in different aspects of CSR (+I) might affect measures of business success.

The triangulation and calibration of audits are performed by IWAY auditors/ Environmental Specialists, Compliance Monitoring Group and external third-parties auditors in order to ensure consistency and maintenance high levels of standards. Auditing/Monitoring is just one management system of five in assuring compliance. The remainders are education and training, building internal capacity, giving feedback, improvement and remediation, and lastly, interrelation, integration and dialogue. The consensus at the moment is the fact that excessive auditing and monitoring activities hinder additional resource allocation for education and training, as well as capacity building. Therefore, IKEA would like to transfer the responsibility of CSR (+I) initiative to the suppliers and minimize its involvement as the monitor. However, before taking the next step, IKEA acknowledged the necessity of upgrading suppliers' capabilities and assisting them in altering the mindsets so that the emphasis of sustaining social and environmental conditions are as equally important as achieving economic growth.

Moreover, drivers and barriers of CSR (+I) implementation and communication were analyzed from the empirical data, followed by a comparative analysis of theoretical framework and empirical findings. In the comparative analysis possible obstacles that could prevent formation of effective alliances and business linkage were detected, as well as IKEA and suppliers methods of solving them. From the theoretical framework and empirical findings a Conceptual Model was developed to answer the research question. The model demonstrates the causal relationship between strategic management and alliance, business linkages and management systems for establishing Sustainable Ethical Trade Practices.

This research contains the following key findings, which are in relations to the research question: *How can a multinational corporation demonstrate (proof by process) and communicate the potential benefits of implementing its code of conduct to its suppliers in developing countries?*

1. The case study has revealed the importance of maintaining regional presence and business teams in gaining and sustaining compliance to a code of conduct.
2. The implementation of Sustainable Ethical Trade is a continuous process where improvements are gradual.
3. If a CSR (+I) initiative is to be successful it has to be incorporated into the whole supply chain. It should not be considered as “add-on” to the company’s operations, but as a strategic decision that will guide the operations and the company’s interactions with stakeholders.
4. Developing country suppliers often lack capabilities and resources to implement their buyers CSR initiatives and they need support and guidance. Preconditions based on the codes requirements are important to establish an operational standard throughout the supply chain. The suppliers need to have the right management systems and methods in place to implement the code. As it is a gradual process, both parties have to show each other patience and tolerance as the development process will require a certain room for errors. However, to prevent opportunistic behavior this room for errors is limited.
5. Through the business teams, assistance can be tailored to the suppliers needs, therefore increasing the supplier’s ability to comply.
6. The responsibility for implementing and maintaining a code needs to be delegated to a team, not one individual. The continuous education of suppliers top and middle management is a key factor in successful CSR implementation as they need to see the benefits and understand how the process works.
7. Monitoring and auditing should be considered only as one part of a larger framework intended to implement sustainable ethical trade.
8. Capacity building through alliances and backward linkages is indispensable in managing ethical supply chain.

This research is valuable for all that are interested in the field of CSR and supply chain management or are working in implementing and sustaining an ethical supply chain. It has examined implementation of an ethical supply chain from a holistic view, by looking into theories and concepts from related disciplines. The researchers hope that by looking at CSR implementation from a wider perspective, they can help firms to assume more responsibility and behave ethically in their supply chains. Global supply chains contain vast amounts of workers and those that are in charge need to use their influences in a moral and ethical manner. In the words of Confucius: “*Do not do unto others what you don’t want to have done to you*”.

MNCs do not assume responsibility of their supply chain by requiring the suppliers to implement codes without providing any assistance or guidance. They assume responsibility by upgrading the supplier's capabilities through backward linkages enabling them to implement and fulfill the codes. When it comes to CSR (+I) there are no right answers, as each situation is unique and context based. The experience and learning gained from one successful implementation cannot be fully transported to manage other suppliers, stressing the need for close customized interactions. MNCs need to adopt and commit to CSR (+I) initiatives wholeheartedly as they are the key players in securing future sustainability of the global community.

7. Future Research and Discussion

CSR (+I) initiatives help improve the governance, social, ethical, labor and environmental conditions of developing countries, therefore the continuation of research in the field are essential to the sustainability of the global community. After carefully examining the research findings, the researchers are able to identify research gaps and opportunities for future research.

7.1. Predetermined Case Study

A case sample of non-compliant suppliers should be considered as it could be beneficial to compare research findings and extend the knowledge of why suppliers experience difficulties in carrying out corporate social responsibility. The challenges to the suggested research are the data collection process and access of relevant information which may include interview with factory workers outside the working environment.

Another approach could be devoting an entire research on a single non-compliant supplier whereby the researcher(s) observe the implementation process. This would allow a unique opportunity to experience the internal changes within the supplier and possible hindrances. The researchers could analyze the relationship building process between the two companies and how CSR initiatives affect it.

7.2. The Global Social Compliance Program- A Standardized Code

During the process of literary reviews, the researchers came across multiple discussions on the need for uniform compliance standards. The topic resurfaced during the interview Thomas Bergmark (2009), IKEA Sustainability Manager. He confirmed that IKEA and other global retailers/brands, e.g. Wal-Mart, Tesco, and Carrefour, have joint the UN Global Social Compliance Programme for the sole purpose of

“[...harmonizing] existing efforts in order to deliver a shared, consistent and global approach for the continuous improvement of working conditions in global supply chains...The number of codes has proliferated and approaches have somewhat diverged. This has led to duplication (with the multiplication of overlapping audits per supplier) and sends a confused message to suppliers and to public authorities as to what is expected in terms of fundamental labour rights”
(UN GSCP, 2009, p.1)

However, when the participated suppliers were asked if they experienced confusion or frustration from multiple codes, the consensus answer was “NO”. This could essentially be because the suppliers are extreme case samples and more involved in owning and stewarding their CSR (+I) activities. They expressed the notion that most codes are essentially the same with emphasis on different elements—human rights, health and safety, work hours, etc., but in most cases, they complement each other. In addition, the subject of audit fatigue was also discussed and two out of three suppliers (excluding the Natural Fiber supplier) admitted that multiple audits are tiresome and consume a lot of time, but agreed that audits are just part of the business and in so many words, they cited the frequently-quoted phrase, “*With success comes responsibility.*”

After examining the specified program’s shared benefits of the GSCP, the question of “true” benefits is raised. How the GSCP differs from the already existed UN Global Compact in terms of its purpose and

foundation? If a number of UNGC partnered-corporations have had very little success in integrating the 10 principles into their core business strategies and operations, why would another *voluntary* code alter the practices of non-complying suppliers? Is the argument that this code is a draft based on existing approaches and identified best practices and the provision that offered greatest protection to workers reasonable— but wasn't that the idea behind the UNGC or IWAY standards? Why are companies who joined GSCP not asked to adopt the Reference Code or guarantee its implementation? Is this simply just another corporate reputation and image enhancer which legitimizes corporations and gives them yet another license to operate?

The lacking in the specification on who will assume the responsibilities in supplier development makes this program unconvincing. Will the buyer who has the highest allocated sales be responsible or will it be a shared responsibility between firms? If responsibilities are divided among members, then the program will be the reflection of the current CSR (+I) initiatives whereby ALL buyers should be responsible for their suppliers.

The questions discussed are unanswered due to the fact that the UN GSCP remains on a drawing board, however participating MNCs are eager to start its implementation. A possible future research could be built around how the program was created and what impact does it have on supplier management and development.

7.3. Sustainability of Vietnam

The concept of sustainability was often discussed in the field research interviews. There have been debates on whether MNCs will abandon their CSR practices when facing an economic recession and focus more on keeping the production cost down. During the field research, there was evidence that substantiated the point of the CSR disbelievers. Exports in Ho Chi Minh City have fallen 11 percent in Q1 compared to the same period in previous year and the economic growth of Vietnam will “only” be 4.75 percent in 2009 compared to the historical average 7.25 percent (The Saigon Time Weekly, 2009). The researchers discussed this with IKEA co-workers and it was confirmed that IKEA do not intends to reduce the allocation of resources for IWAY activities. However, when inquired about the sustainability of CSR (+I) initiatives among suppliers in Vietnam, the responses were pessimistic.

Due to the country's stage of development, local suppliers prioritize financial strengths as the engine for growth. When local regulatory enforcement and workers representation are lacking, the only actor enforcing compliance ethical business behaviors are the MNCs. However, if the MNCs do not commit to long-term supplier development and withdraw its business at first sight of economic recession, a negative message of “*the business of business is business*”- the borrowed phrase by Milton Friedman is communicated. The question is why should the local suppliers continue the CSR quest— an imported concept, especially when MNCs, do not “walk the talk” themselves? Nevertheless, it is unrealistic for the MNCs bear this burden alone and assistance from the local government and labor unions are needed to increase the abilities of the local suppliers to show self-sustaining CSR practices.

It would be interesting to investigate on the affects of a global economic recession on CSR initiatives and activities in developing countries.

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IWAY Auditor/Environmental Specialist (IKEA TASEA) (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 3, 2009. Ho Chi Minh City, Vietnam

IWAY Compliance Manager (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 7, 2009. Ho Chi Minh City, Vietnam.

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Quality Coordinator (IKEA TASEA) (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 3, 2009. Ho Chi Minh City, Vietnam

Quality Specialist (IKEA TASEA) (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 7, 2009. Ho Chi Minh City, Vietnam.

Sales Manager (Natural Fiber Supplier). (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 31, 2009. Undisclosed location, Vietnam

Site Manager HCMC (IKEA TASEA) (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 10, 2009. Ho Chi Minh City, Vietnam.

Sörmon, L. (2009) Interview with N. Bhuthongkum and G.P. Ólafsson on March 30, 2009. Ho Chi Minh City, Vietnam



Interview Guide for Sustainability Manager

1. How does IKEA integrate its social policy and strategy into corporate systems, community relations, employee welfare, etc?
2. How do the organization's policies influence the core business behavior to have a positive impact on society?
3. How have the skills and competencies of the workforce been harnessed to enable the organization to enhance its CSR performance, please give an example of actions taken in training and involving the workforce and all the stakeholders?
4. How is the internal CSR training of IKEA personnel, e.g. is it limited towards CSR personnel or do other departments such as QC and purchasing receive CSR training as well?
 - a. Do the regional personnel receive training in corporate HQ?
5. Does IKEA have its own CSR database and how was implemented worldwide, who has access to it?
6. Does the company have a supplier database which keeps tracks of supplier's problems at certain factories? Who reviews it and give feedback? (fulfillment rates, analysis, sharing stories, improvement suggestions, IWAY levels, etc.)
7. Does IKEA promote cooperation or benchmarking globally between the suppliers in order share best practices and past experiences, whether they are good or bad? If so, how?

Interview Guide for IKEA Trading Office Management, Introductory Interview

1. Can you give us a brief overview of your role and responsibility within the TSO?
2. Can you give us a brief update on the evolution of IKEA CSR practices in Vietnam? How does it look like today and how did it get to that? What forces or events have been most influential in the evolution?
3. In most of the academic literature, they emphasize the need of management support to promote sustainable changes in the host country. What actions do you take to make sure that the actions taken are sustainable and well accepted by the local staff and suppliers?
4. We know that you have been here for quite some time. How was the initial response to IWAY implementation by the management of the suppliers?
5. Does IKEA truly believe that the mindset of the suppliers changed? Or has it become an accepted way of doing business?
6. How do the suppliers share their experiences or express the visible benefits of the implementation of CSR policy with IKEA?
7. South East Asia is projected to become a huge market in the next 15 years. How will IKEA anticipate the demand changes that will appear with that change? Has it started thinking of this demand shift?
8. Tell us some of the best or worst scenario's IKEA has experienced in the region?
9. What is the level of interaction between IKEA and the local stakeholders (governmental, corporate or civil sector) in Vietnam?
10. Are there any programs aimed at strengthening the supplier base in Vietnam?
11. What specific groups has IKEA involved in its management system?
12. What is the role of the South East Asian office in the periodic revision of IWAY?
13. Can the manufacturers/suppliers influence IWAY when it is reviewed periodically?
 - a. If so, to what extent? Is it a two (or multiple) way cooperation?
14. What local/global actors can affect IWAY?
15. How do you foresee IKEA's CSR practices in ten years?
16. Has IKEA implemented, or encouraged, a program to educate employees about trade unions and IWAY?
17. Has IKEA implemented, or encouraged, a program to educate employees about trade unions and IWAY?
18. According to Thomas Bergmark, IKEA is in the process of training its suppliers to monitor their own suppliers. Has this program started in Vietnam?

- a. If so, how has it progressed?
19. Thomas Bergmark said that the production requirements of IKEA (the lead times) can make it difficult for the suppliers to conform to IWAY. In your view is this a problem for the suppliers in Vietnam?

Interview Guide for Suppliers

1. What are the company benefits of implementing IWAY? What aspects have been most difficult in implementing IWAY?
2. What changes have been most significant for the company with the implementation of IWAY?
3. How does IKEA collaborate with the company in dealing with problems related to IWAY?
4. Has IWAY increased the long term planning and operation of the company?
5. Has the company received any assistance from IKEA (e.g. technical, information, financial)? If yes, were the terms reasonable on behalf of IKEA?
6. How does your company communicate with IKEA regarding CSR? Please give an example?
7. Prior to working with IKEA, did the company have health & safety policy? How was the policy implemented?
8. How does the organization handle lean production in order to meet short lead-time and/or unexpected large orders?
9. We had a interview in Sweden where one of the major points brought up by the staff mentioned shifting audit responsibilities to the suppliers and train them to monitor their own suppliers. What is your opinion on that? Do you feel that your organization is mature enough to do take on this role?
10. How much do you, the supplier, contribute or initiate production methods or design? Do you feel that the opportunity has been given to you to be a large part of IKEA's value chain? Please explain.
11. What is the management attitude towards working conditions in general and what problems does the company face regarding labor issues?
12. How does your company view trade unions?
13. Are the employees unionized? If yes, what kind of representation do they have? What influence does the union have within the company? How many employees are in the union?
14. Do the employees have access to the factory or company handbook? Approximately, when was it last revised? How are the information communicated to the employees, including home-workers?
15. We saw that according to the facts and figures sheet that you said not yet concerning the implementation of ISO. Does that mean that the company is trying to be ISO certified and what benefits do you think will receive from it, as you are one of the leading suppliers for IKEA?
16. How do you deal with your sub-suppliers? Do you perform audits of your sub-suppliers? Are they local or originating elsewhere? If so, where?

Interview Guide for IKEA Quality Specialist/Business Developer/Auditor and Quality Coordinator

1. With our meeting with Auditor we now understand that the Business developer's role in IWAY implementation and sustainability is quite important, can you please describe how you have been trained and what approaches have you taken in order to ensure that your suppliers are fulfilling their commitments?
2. What are some of the key challenges in the implementation of IWAY for the Vietnamese suppliers? What corrective measures do you take in order to solve the issues?
3. What assistance, in general, does IKEA provide to the suppliers (ex. financial and resource commitment)? Please give an example.
4. In your view, are there any potential improvements in the current implementation of IWAY? How do you motivate your suppliers? do you know how your suppliers motivate their sub-suppliers?
5. Are the BD's involved in improving IWAY and QWAY? How do you communicate this with your manager and/or IOS?
6. As you are in constant contact with the suppliers, what in your opinion is their attitude towards IWAY?
7. Have they communicated to you the major benefits they receive from implementing IWAY? If so, what are they?
8. Furthermore, have the suppliers encountered/benefits or drawbacks from implementing IWAY?
9. How confident are you in your suppliers, the sustainability of their businesses?
10. Throughout last week, we have heard that in working with local suppliers, IKEA feels that they have not yet reached the standards, what is your view on this matter?

Interview Guide for IWAY Compliance Manager

1. CSR suffers from a proprioception (different set of views, beliefs concerning an issue) deficits, under which its reality can be skewed by people's enthusiasm, ignorance or perception. how do you as a member of the compliance team minimize these factors? How does IKEA balance the views?
2. Do you think CSR is a fad?
3. How has CSR affected the business performance of IKEA?
4. CSR theories demands greater transparency, however that is difficult to deliver due to social and competitive pressure of the business environment in developing countries. What measures does IKEA take to operate effectively in this kind of environment?
5. What makes a company socially responsible in your view?
6. The company works to increase the suppliers own capability and motivation to implement and maintain the requirements in IKEA code of conduct. Can you please explain how?
7. As stability is an awkward concept in developing world. How does IKEA manage political, economic and social risk? Who do you work with and how close is that relationship(s)?

Interview Guide for IKEA Material Area Manager and Site Manager

1. Can you give us a brief overview of your role and responsibility within the TSO?
2. Can you give us a brief update on the evolution of IKEA CSR practices in Vietnam? How does it look like today and how did it get to that? What forces or events have been most influential in the evolution?
3. In most of the academic literature, they emphasize the need of management support to promote sustainable changes in the host country. What actions do you take to make sure that the actions taken are sustainable and well accepted by the local staff and suppliers?
4. How do the suppliers share their experiences or express the visible benefits of the implementation of CSR policy with IKEA?
5. In your view why were the three suppliers chosen for this particular research?
6. Why did it take two years for the Ceramic Supplier to be IWAY certified?
7. What is the attitude of the manufacturers/supplier towards working conditions of these suppliers and problems do they face regarding labor issues?
8. Who has the responsibility for communicating IWAY to suppliers, their workers and unions?
9. Is there a method for checking communication effectiveness with the various parties for whom the communication was intended?
10. May we have copies or examples for each, documents for communicating to suppliers,, employees of suppliers, corporate employees and the like?
11. We understand that IKEA gives feedback to the suppliers. Can we see some examples of the written communications?
12. To what extent does IKEA examine the supplier's internal regulations and procedures, both before and after the initiation of the partnership?
13. Are there any actions taken if they are inconsistent with IWAY?
14. Do certification systems (ISO 14001, SA 8000) have any effect on the audits of suppliers? That is do they decrease, in frequency or intensity?
15. Does IKEA encourage its suppliers to be certificated?
 - a. Why?
16. What do you consider to be the priority issues in Vietnam and the Priority suppliers?
17. How do you foresee CSR practices in Vietnam in the next 5-10 years?

Interview Guide for IKEA Trading Office Management, Feedback Interview

1. According to IMF the growth in 2009 in Vietnam is expected to be 4.75% in comparison to 6.2% in 2008 and the historical average of 7.25%. Does that have any implications for the Vietnam operations of IKEA, please clarify?
2. FDI has been falling 40% in Q1 2009. Has IKEA been a part of this downfall?
3. Ho Chi Minh exports has fallen 11% in Q1 against earlier period. Has IKEA decreased its exports in that period?
4. You mentioned earlier that the company has been minimizing its number of supplier as part of its long-term sourcing consolidation strategy and streamlining of the supply chain. This has direct effects on the workers (unemployment) and indirect effects on the sustainability of Vietnam's development as a country. Where is the ethic justification in this matter?
5. IKEA is participating in various collaborations with NGO's. Why doesn't IKEA communicate all the good work it has done, to the public (consumers)? Most companies that participate in CSR activities make sure that it gets communicated to the media. So why not IKEA?
6. According to Thomas Bergmark, IKEA is in the transition process to join force with other retailers in the development of the Global Social Compliance Programme-or one global code of conduct. Do you think that that is the correct direction to take, since right now, as many suppliers mentioned, IWAY is the most demanding compared to others? Will this make IKEA less unique as IWAY is setting the standards?



VISITOR IWAY CHECKPOINT

Supplier Name/ Number	Date		
	OK	NOK	COMMENTS
QUESTIONS			
1. <u>Air emission, noise and water pollution</u> - Direct discharge of wastewater, smoke, solvent, dust from source, such as: - Black smoke, dust or solvent smell spread to neighbours? - Couloured/ bad smell wastewater? - Very loud noise to neighbour			
2. <u>Ground contamination</u> - Spillage of oils, chemicals and hazard waste on ground?			
3. <u>Chemical and oils</u> - No labeling of chemical name & hazard symbol on container? - Unavailable of MSDS at storage area or usage area? - Stored in unsafe condition ex. Broken roof. Damaged or no 2nd containments?			
4. <u>Wastes</u> - Stored in unsafe condition ex. Broken roof, damaged/ no 2nd containment? - Mixing of hazardous and non-hazardous wastes? - Disposal of waste by incineration/landfill on site?			
5. <u>Fire safety</u> - Fire fighting equipments (fire extinguisher, fire hose, fire alarm) are not available or not functional? - Obstruction of Fire escape routes, emergency exits and fire fighting equipments?			
6. <u>Machine safety</u> - Not well equipped with necessary safety devices? - Safety instructions/warning sign is not available?			
7. <u>Other occupational/safety hazards</u> - damaged staircases, dangerous electrical wires, big holds in the floor, pressure tubes standing loose on the floor and without collars around the valve or protection against risk of falling, baths with hazardous chemicals which risk of splash to the environment?			
8. <u>Use of proper Personal Protective Equipments (PPE)</u> - PPE signs are not available or worker didn't wear proper PPE?			
9. <u>Availability of first aid equipments</u> - First aid equipments are not available/ maintained?			
10. <u>Internal air quality</u> - Dusty or strong smell of solvent in workplace?			
11. <u>Child Labour</u> - Make use of child labour (below 15 yrs)			
12. Missing of non-complying wood with complying one (for IKEA), both in the warehouse and production, such as: - E1 and half E1 - Non-NAC rubber wood and NAC rubber wood?			
Note: For any findings/ notices related to Chapter 9 (Wages and Benefits) please contact the IWAY auditor for verification			
Supplier's agreed actions:	Corrective active deadline:		
	Follow up result/ signed IKEA:		
Signed Supplier	Signed IKEA		

Telephone Introduction	
Date:	2009-02-20
Duration	15 minutes
Location:	Gothenburg, Sweden & Ho Chi Minh City
Interviewee(s)	Leif Carlson,
Interviewers:	N.Bhuthongkum
Means:	Telephone
Field Reseach Interviews (face to face)	
Date:	2009-03-13
Duration:	1 hour
Location:	Helsingborg, Sweden
Interviewee(s)	Thomas Bergmark, IKEA Sustainable Manager
Interviewers:	N.Bhuthongkum, G.P. Ólafsson, Y. Zhang, J. Hed, R. Küçükcingöz, and K. Kanchanavipu
Means:	Computer
Date:	2009-03-30
Duration:	2 hours
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Leif Carlson, Manager Production & Technique Development and Lena Sörmon, Trading Area Manager
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Notes:	Picked up from the hotel by Assistant Research Advisor to the office. After lunch, headed to the province where the factory and office of the first supplier is located (app. 5 hours drive from HCMC) Total travel time for the day 7 hours (to the office and province where natural supplier is situated, outside HCMC)
Date:	2009-03-31
Duration:	50 minutes
Location:	Natural Fiber Supplier Factory and Office
Interviewee(s)	Sales Manager and Chief of Representative Office
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Accompanied by:	IKEA Personnel: Quality Coordinator, Business Team (Developer, Technician and Planner), and IWAY Auditor/ Environmental Specialist
Means:	Digital Voice Recorder & Camera
Date:	2009-03-31
Duration:	45 minutes
Location:	Natural Fiber Supplier Factory and Office
Interviewee(s)	Chairman of board of director/ General director (main interviewee), Sales Manager and Chief of Representative Office
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder & Camera
Notes:	After the interview, we headed for the factory (on-location) tour. The tour took app. 1 hour and 15 minutes. ** Notice that there were staff not wearing personal protective equipments. AUDIT PROCESS IN-PROGRESS.

Field Research Interviews (Count.)	
Date:	2009-03-31
Duration:	50 minutes
Location:	Natural Fiber Supplier Factory and Office
Interviewee(s)	Chairman of board of director/ General director (main interviewee), Sales Manager and Chief of Representative Office
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder & Camera
Notes:	This was a feedback session, which took place after sub-supplier visit in a village located 30 minutes away from the factory. The Sub-supplier visit took app. 1 hour and 30 minutes. Total travel time for the day 7 hours (to the supplier, sub-supplier, and back to HCMC)
Date:	2009-04-02
Duration:	2 hours
Location:	Plush Toy Supplier Factory and Representative Office
Interviewee(s)	Administrative Chief, Business Manager and Administrative Assistant
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder & Camera
Accompanied by:	IKEA Personnel: Quality Coordinator and Business Developer
Notes:	Picked up from the hotel and headed the province where the factory and office of the Plush Toy supplier is located (app. 45 minutes drive from HCMC) Factory tour: 1 hour, Feedback session: 30 minutes and lunch with IKEA staff and supplier managers Total travel time for the day 1 hour and 30 minutes (to the Plush Toy Supplier factory and office)
Date:	2009-04-03
Duration:	40 minutes
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Quality Coordinator
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Date:	2009-04-03
Duration:	1 Hour
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	IWAY Auditor/ Environmental Specialist
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Notes:	Day in the office.
Date:	2009-04-03
Duration:	1 Hour
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Mikael Demitz-Helin, Regional Manager and Leif Carlson, Manager Production & Technique Development
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Paper
Notes:	Discussion on Sustainability of Vietnam and CSR related issues.
Date:	2009-04-06
Duration:	All day
Notes:	National Holiday

Field Research Interviews (Count.)	
Date:	2009-04-07
Duration:	1 hour
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Business Developer
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Date:	2009-04-07
Duration:	50 minutes
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Thomas Ivarsson, IWAY Compliance Manager
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Date:	2009-04-07
Duration:	50 minutes
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Quality Specialist
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Notes:	Day in the office.
Date:	2009-04-08
Duration:	1 hour and 15 minutes
Location:	Ceramic Supplier Factory and Headquarters
Interviewee(s)	General Operation Director and Admin & HR Director
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Accompanied by:	IKEA Personnel: Quality Coordinator and Technician
Means:	Digital Voice Recorder
Notes:	Picked up from the hotel and headed the province where the factory and office of the Ceramic Supplier is located (app. 45 minutes drive from HCMC). Factory tour followed the formal interview which lasted app. 45 hour with a 20 minute feedback session. Total travel time for the day 1 hour and 30 minutes (to the Ceramic Supplier factory and office)
Date:	2009-04-10
Duration:	45 minutes
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Material Area Manager- Textile
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Date:	2009-04-10
Duration:	35 minutes
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Site Manager HCMC
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder
Date:	2009-04-10
Duration:	1 hour and 19 minutes (feedback Session)
Location:	Ho Chi Minh City: IKEA Resident Representative Office
Interviewee(s)	Leif Carlson, Manager Production & Technique Development
Interviewers:	N.Bhuthongkum & G.P. Ólafsson,
Means:	Digital Voice Recorder



VISITOR IWAY CHECKPOINT

<p>1. <u>Air emission, noise and water pollution</u></p> <ul style="list-style-type: none"> - Direct discharge of wastewater, smoke, solvent, dust from source, such as: - Black smoke, dust or solvent smell spread to neighbours? - Couloured/ bad smell wastewater? - Very loud noise to neighbour
<p>2. <u>Ground contamination</u></p> <ul style="list-style-type: none"> - Spillage of oils, chemicals and hazard waste on ground?
<p>3. <u>Chemical and oils</u></p> <ul style="list-style-type: none"> - No labeling of chemical name & hazard symbol on container? - Unavailable of MSDS at storage area or usage area? - Stored in unsafe condition ex. Broken roof. Damaged or no 2nd containments?
<p>4. <u>Wastes</u></p> <ul style="list-style-type: none"> - Stored in unsafe condition ex. Broken roof, damaged/ no 2nd containment? - Mixing of hazardous and non-hazardous wastes? - Disposal of waste by incineration/landfill on site?
<p>5. <u>Fire safety</u></p> <ul style="list-style-type: none"> - Fire fighting equipments (fire extinguisher, fire hose, fire alarm) are not available or not functional? - Obstruction of Fire escape routes, emergency exits and fire fighting equipments?
<p>6. <u>Machine safety</u></p> <ul style="list-style-type: none"> - Not well equipped with necessary safety devices? - Safety instructions/warning sign is not available?
<p>7. <u>Other occupational/safety hazards</u></p> <ul style="list-style-type: none"> - damaged staircases, dangerous electrical wires, big holds in the floor, pressure tubes standing loose on the floor and without collars around the valve or protection against risk of falling, baths with hazardous chemicals which risk of splash to the environment?
<p>8. <u>Use of proper Personal Protective Equipments (PPE)</u></p> <ul style="list-style-type: none"> - PPE signs are not available or worker didn't wear proper PPE?
<p>9. <u>Availability of first aid equipments</u></p> <ul style="list-style-type: none"> - First aid equipments are not available/ maintained?
<p>10. <u>Internal air quality</u></p> <ul style="list-style-type: none"> - Dusty or strong smell of solvent in workplace?
<p>11. <u>Child Labour</u></p> <ul style="list-style-type: none"> - Make use of child labour (below 15 yrs)
<p>12. Missing of non-complying wood with complying one (for IKEA), both in the warehouse and production, such as:</p> <ul style="list-style-type: none"> - E1 and half E1 - Non-NAC rubber wood and NAC rubber wood?

	Natural Fiber	Plush toy	Ceramics
Ownership Structure	Joint stock Co.,	100% Foreign Investment	Private proprietorship
Annual Turnover (Vietnam Operation)			
2008	10.8 USD mil	13 USD mil	7.3 USD Mil
2007	10.4 USD Mil	16.8 USD mil	7.6 USD Mil
2006	5.1 USD Mil	17 USD mil	5.2 USD Mil
2005	5.4 USD Mil	11.7 USD mil	5.0 USD Mil
2004	5.2 USD Mil	11.4 USD mil	4.5 USD Mil
Number of employees (Vietnam Operation)			
2008	~ 500	1556	1215
2007	~ 400	1921	1195
2006	~ 350	1906	1015
2005	~ 350	1800	938
2004	~ 350	1750	752
Labor Turnover (% of Vietnam Operation)			
2008	Less than 5% short-term and 2% long-term contract	22%	6%
2007	Same as above	18%	10%
2006	Same as above	17%	20%
2005	Same as above	19%	22%
2004	Same as above	16%	20%
Background Information			
Year turning IKEA supplier?	1997	1999	2006
Types of products purchased by IKEA	Carpet, basket, box, chest , placemat, decoration, stool.	Stuffed toys	Earthenware (plain, painted & glazed)
Other manufacturing products	Mat, cushion, carseat.	Costumes, slipper	None
Major customers besides IKEA	JP Dentan, William Sonoma, Sai Gon Co.op, Chang Saeng.	Baby "R" Us, Disney	Walmart, Deroma, Northcote, Hagebau, Edelman, etc.
Total production capacity (sales in USD specify the exchange rate)	23.3 USD mil	19.5 USD mil	Report error
IKEA share in total sales (USD-specify the exchange rate)	~ 85% (9.2 USD mil)	~ 46% (6.0 USD mil)	42% (3.0 USD mil)
Does the company participate in joint programs designed by governmental units, local or international development institutions (UN, IMF, IFC) or nongovernmental organizations (SOMO, ETI, Fair Trade)?	No	No	None

	Natural Fiber	Plush toy	Ceramics
Costs Structure (% allocation of annual sales)	90%		
Employee salary and social fees	30%	22.5%	24.50%
Health and safety expenses	4%	0.47%	
Raw material expenses	52%	37%	20%
Equipment maintenance	1%	1%	1%
Property and factory	3%	2%	3%
Certifications and licenses (e.g. ISO, OHSAS)	Not yet	0.1%	None
Specifics on factory workers (Vietnam Operation)			
Average monthly wage per factory worker	~ 84 USD	~ 142 USD (1)	~ 84 USD
What is the hourly rate?	~ 0.44 USD	~ 0.48 USD	USD118.17 (ex rate VND17,000 = USD1.00) = monthly salary / 26 days / 8 hours
What is the overtime rate?	~ 0.66 USD	~ 0.72 USD	Normal day: multiply 1.5 (150%) Sunday: multiply 2.0 (200%)
What is the average overtime per employee?	24h/year	20 hr/month	20hr/month
If applicable, what is the per piece rate?	Not clear.	0.42 USD/ hour	It depends on every item (size & complexity).
What are the benefits offered to the employees (health insurance, pension, maternity leave and training programs)?	100% employees get Social Insurance and 24 hour accident Insurance. Female employees take care their childs under 12 months - only work 7 h/day and get full salary. All employees get annual health check , get training for Labor safe, hygiene policies; fire extinguisher, professional development.	Health & social Insurance, maternity leave, annual leave, wedding leave,	Health and social insurances, pension, maternity leave, allowance for child care.
How many workers come from other provinces?	37	1.270	70% of workers come from other provinces
Does the company provide housing for the workers? If so, how many employees receive this benefit?	No. But the Company has supported 50% cost. 22 employees received this benefit.	No	No, workers rent house outside.

	Natural Fiber	Plush toy	Ceramics
If yes to the previous question, what are the monthly costs?	2,600,00 VND/month	N/A	N/A
Code of Conduct			
Does your company have its own code of conduct? When and how was it developed?	“ Quality – Timeliness – Development “ in Y2000 – supported by IWAY & Ikea Supplier Quality Assurance Program (ISQAP)	Yes, in 8th Oct 2007	Accordingly to the company regulation.
Are workers informed of their rights?	Yes	Yes	Yes, workers were informed all of their rights.
Year of first IWAY audit?	2003	2002	2006
How often has the company been audited (annual frequency)?	Every 2 years	Once per 2 years (by Ikea) Twice per year (Internal Audit)	Before being accepted: quarterly After being accepted: unannounced audit
What is your IWAY fulfillment rate?	Level 2	100%	Passed

IKEA TRADING - IWAY EVALUATION CHECKLIST

Initial IWAY Assessment

Name of supplier:		Supplier number:	
Production unit/address:		Type of products:	
IKEA purchaser:		Number of employees:	
Person resp for the IIA:		Other IKEA participants:	
Date:			

Summary of results

- | | | |
|--|--------------------------|--------------------------|
| | Yes | No |
| 1. The supplier fulfils Start-up Requirements (details to be registered below and in SRDB) | <input type="checkbox"/> | <input type="checkbox"/> |
| 2. The supplier is judged to be able to fulfil IWAY ¹ within maximum 12 months | <input type="checkbox"/> | <input type="checkbox"/> |
| 3. Overall assessment of the need for investments to reach IWAY level ² | | |


Comments

Date


Signature (person responsible for the evaluation)

¹ Excluding defined and agreed exceptions decided by IWAY Council

² Secure involvement of experts in complex situations. If significant investments are needed, e.g. for installing an Effluent Treatment Plant, an agreement need to be made with the supplier. This agreement shall be a part of the Purchase Agreement with the supplier.

1 GENERAL CONDITIONS AND LEGAL COMPLIANCE						
Help symbol	Questions	IWAY Standard	Auditor's comments & notes	OK	NOT OK	NA
	<p>1.1 IWAY compliance commitment</p> <p>Have you acknowledged and accepted the IWAY requirements by signing the IWAY compliance commitment?</p>	<p>1.1</p> <p>The IKEA suppliers shall acknowledge and accept the IWAY requirements by signing the IWAY compliance commitment.</p>	<p><i>It's recommended to ask the supplier to sign the IWAY compliance commitment after the initial evaluation has been done (i.e. the below questions have been assessed).</i></p>			





10 CHILD LABOUR						
Help symbol	Questions	IWAY Standard	Auditor's comments & notes	OK	NOT OK	NA
	<p>10.1 Prevention of Child Labour</p> <p>Do you have a procedure to prevent hiring child labour?</p> <p>Do you maintain a complete labor force register? Have you kept age proof for all employees?</p> <p>What is the age of the youngest worker?</p> <p>Are there any child labor working in the facility?</p>	<p>10.1 Child labour is defined as work performed by children, which interferes with a child's right to healthy growth and development and denies him or her the right to quality education. The IKEA supplier shall not make use of child labour ⁽¹⁵⁾. All measures to avoid child labour shall be implemented taking into account the best interests of the child.</p> <p>The IKEA supplier must abide by the United Nations Convention on the Rights of the Child (1989), and comply with all relevant national and international laws, regulations and provisions applicable in their country of production.</p> <p>The IKEA supplier shall take the appropriate measures to ensure that no child labour occurs at their own place of production or at sub-suppliers place(s) of production ⁽¹⁶⁾.</p> <p>The IKEA supplier shall maintain a Labour force register including date of birth for all the workers.</p> <p><i>Note 15: According to ILO Minimum Age Convention no. 138 (1973), a child is defined as any person less than fifteen years of age, unless local minimum age law stipulates a higher age for work or mandatory schooling, in which case the higher age would apply. If the local minimum working age is set at fourteen years of age in accordance with exceptions for developing countries, the lower age will apply.</i></p> <p><i>National laws or regulations may permit the employment or work of persons 13 to 15 years of age or 12 to 14 years of age on light work which is:</i></p> <p><i>a) Not likely to be harmful to their health or development; and</i></p> <p><i>b) Not such as to prejudice their attendance at school, their participation in vocational orientation or training programmes approved by the competent authority or their capacity to benefit from the instruction received."</i></p> <p><i>Note 16: If child labour is found in any place of production, IKEA will require the supplier to establish a corrective action plan. The action plan shall take the child's best interests into consideration, i.e. family and social situation and level of education. Care shall be taken not merely to move child labour from one supplier's workplace to another, but to enable more viable and sustainable alternatives for the children.</i></p>	<p><i>Check records and by asking the manager how they can be sure of the age of the worker when they are hiring them.</i></p> <p><i>There must be age records, birth certificate or similar for all workers.</i></p> <p><i>Check the age of the youngest worker. Verify with help of age proof and interviews.</i></p>			




11 FORCED AND BONDED LABOUR						
Help symbol	Questions	IWAY Standard	Auditor's comments & notes	OK	NOT OK	NA
Q	<p>11.1 Forced and bonded labour</p> <p>Do you make use of forced, prison, bonded or indentured labour?</p> <p>Are employees working in the facility voluntarily and are they free to leave the factory premises when their work shifts ends?</p> <p>Do you require any deposits from workers?</p>	<p>11.1</p> <p>The IKEA supplier shall not make use of forced ⁽¹⁷⁾, prison ⁽¹⁸⁾, bonded ⁽¹⁹⁾, indentured or involuntary labour ⁽²⁰⁾.</p> <p>The IKEA supplier shall allow its employees to freely leave the factory premises when their work shifts ends.</p> <p>The IKEA supplier shall not withhold ID cards, passports or require deposits (e.g. for working clothes or uniforms).</p> <p>If employment contracts are terminated according to agreed notice time, the IKEA supplier shall not make any salary deductions for workers who leave.</p> <p><i>Note 17: Forced labour is understood as all work or service that a person is compelled to carry out under any threat of punishment or confiscation of any personal belongings, such as ID card, passport etc., and for which work the said person has not offered him/herself voluntarily.</i></p> <p><i>Note 18: Use of state or military prisoners at the supplier or at sub supplier is prohibited</i></p> <p><i>Note 19: Bonded labour is understood as labour not only physically bonded, but also bonded by financial debts, loans or deposits.</i></p> <p><i>Note 20: If guest workers or temporary labour are employed on a contractual basis, such workers shall never be required to remain employed against their own will, for any period beyond the agreed time of the contract. The supplier shall pay all commissions and other fees to the recruitment agency in connection with their employment.</i></p>	<p><i>Regarding loans IKEA's general rule is that factory workers should not borrow more than an amount equally to three month's salary from the supplier. Exceptions from this could only be given by the TA Manager (information to be sent to the IWAY council working committee).</i></p> <p><i>Forced and bonded labour requirements are a part of the IWAY compliance commitment, asked for in Question 1.1.</i></p>			

16 ROUTINES FOR PROCUREMENT OF WOOD, BAMBOO & RATTAN

Help symbol	Questions	IWAY Standard	Auditors comments & notes	OK	NOT OK	NA
	<p>16.3 Known origin and records of sources</p> <p>Do you have routines in place to make sure the origin of all wood, bamboo and rattan is known to region of country when new sub-suppliers are introduced?</p>	<p>16.3 The IKEA supplier shall maintain records of the origin of all wood, bamboo and rattan sources. This must be defined to at least the specific region within the country.</p> <p>The IKEA supplier must – upon request from IKEA or by a 3rd party appointed by IKEA - be able to report the origin of the wood within 48 hours.</p>	<p><i>Supplier should be able to describe how they collect data about wood, bamboo and rattan origin from all new sub-suppliers before business start up.</i></p>			
	<p>16.4 Forest tracing system (FTS)</p> <p>Please provide a list of all wood, bamboo and rattan sources that are likely to be used in IKEA articles. The list shall include information about origin, species and expected annual volume.</p>	<p>16.4 The Forest Tracing (FTS) must be completed yearly according to IKEA requirements. New suppliers must complete FTS before first delivery.</p>	<p><i>The suppliers shall provide information about current or planned wood, bamboo and rattan sources that are likely to be used in IKEA articles within the foreseeable future.</i></p> <p><i>An ordinary FTS can not be requested since the supplier has not yet delivered anything to IKEA.</i></p>			



17 FULFILMENT OF IKEA AND LEGAL FORESTRY DEMANDS						
Help symbol	Questions	IWAY Standard	Auditors comments & notes	OK	NOT OK	NA
	<p>17.2 Wood from Intact Natural Forests or High Conservation Value Forests</p> <p>Do you have a routine in place to secure that wood that will be used in IKEA articles does not come from Intact Natural Forests or nationally/regionally recognised and geographically identified High Conservation Value Forests?</p> <p>If such wood will be used, how can you prove that the wood is certified according to FSC or other IKEA-recognised level 4 forestry standard?</p>	<p>17.2 The IKEA supplier shall not utilise wood from Intact Natural Forests ⁽²²⁾ or nationally/regionally recognised and geographically identified High Conservation Value Forests ⁽²³⁾ unless the forest area is certified according to a standard recognised by IKEA.</p> <p>In the event that maps of Intact Natural Forests have been distributed by IKEA to the IKEA supplier, the IKEA supplier shall use these maps to secure that the wood does not come from such forests.</p> <p><i>Note 22: Intact Natural Forests that are intact, i.e. unfragmented with a minimum block size of 50 000 ha, where no systematic forest management has been carried out within the area and where access to the area is restricted, i.e. no roads, mines, pipelines etc.</i></p> <p><i>Note 23. High Conservation Value Forests: Forests that possess one or more of the following attributes:</i></p> <p>a) Forest areas containing globally, regionally or nationally significant concentrations of bio diversity values (e.g. endangered species); and/or large landscape level forests, contained within, or containing the management unit, where viable populations of most if not all naturally occurring species exist in natural patterns of distribution and abundance</p> <p>b) Forest areas that are in or contain rare, threatened or endangered ecosystems.</p> <p>c) Forest areas that provide basic services of nature in critical situations (e.g. watershed protection, erosion control).</p> <p>d) Forest areas fundamental to meeting basic needs of local communities (e.g. subsistence, health) and/or critical to local communities' traditional cultural identity (areas of cultural, ecological, economic or religious significance identified in co-operation with such local communities).</p>	<p><i>The supplier should be able to describe the routine, and if applicable, detail how they are using Intact Natural Forest (INF) maps to guide their raw material sourcing.</i></p> <p><i>Consult TA forestry responsible if wood from INF is being used.</i></p> <p><i>Always consider region-specific IKEA forestry guidelines, if such are available.</i></p>			





IKEA Trading
Edition 6

13th Apr. 2004

1(1)

Issued by: Mark K. Astley/Trading 4WD

Approved by: Sven-Olof Kulldorf

SUPPLIER EVALUATION STAIR

	Level 1	Level 2	Level 3	Level 4
	Supplier entry level and action plan to achieve Level 2 (IWAY Review to be conducted within 3 months of first delivery to IKEA)	Compliance with the IKEA Way on Purchasing Home Furnishing Products and Supplier Quality Assurance	IKEA standard	Official standard
Quality Assurance	Qmust Test Review and Preshipment Inspection	QWAY Minimum demands quality standard	4 SIP Supplier Inspection Programme	ISO 9000 or equivalent
Outside Environment	Action plan to achieve level 2	Compliance with national/international laws and conventions. Hazardous waste and emissions are handled correctly.	4 SEA Supplier Environmental Assurance	ISO 14000 or equivalent
Social and Working Conditions	No forced/bonded child labour	Compliance with national/international laws and conventions. Healthy and safe working environment, respecting social conditions	4 SWC Social and Working Conditions	SA 8000 or equivalent
Wood Merchandise	Know origin, region within country. No solid wood from intact natural forest or high conservation value forests unless certified according to the level 4 standard recognized by IKEA	Accountable solid wood sources - Compliance with forest legislation - Not from protected areas - Not from plantations established after Nov. 1994 by replacing intact natural forest	4wood Forest management in transition towards step 4 approved according to IKEA forest standard "4wood"	Well managed forests verified with official standard recognized by IKEA



IKEA Standards		
<input type="checkbox"/> Entry level	<input type="checkbox"/> QMUST	<input type="checkbox"/> Other
<input type="checkbox"/> IWAY	<input type="checkbox"/> QWAY	
	<input type="checkbox"/> 4SIP	

Supplier name: XXXX	Supplier number: XXXX
Auditor: IWAY Auditor	Audit date: XX-XX-2009
Participants supplier: IWAY team	Participants IKEA: XXX
Limitations:	

Audit Result	
<input type="checkbox"/> Requirements are approved <input type="checkbox"/> Requirements are not approved, and Corrective action plan will be sent to IKEA latest by: XX-XX- 2009	
Corrective Action Deadline:	XX-XX- 2009

<p>General Comments:</p> <p>The supplier has done very good job to maintain Iway:</p> <ul style="list-style-type: none"> - Fire fighting facilities are very well maintained; and are made very clear, good availability. - Good training system regarding fire fighting, waste & chemical management, and health & safety - Good system to analyse Personal Protection Equipment (PPE) required in every working section, to ensure PPE is available and distributed to workers - Clean and well-organized layout <p>The Iway team showed good cooperation and support during the audit. There are 7 pending points. The compliance rate is 90%. Please refer to the report for more details</p>

Question in checklist	Non-conformance	Actions	Responsible	Deadline
2.3	<p>Ikea's requirement: The IKEA supplier shall ensure that its suppliers have signed a document where they acknowledge and accept the requirements</p> <p>The supplier has created a document for its sub-suppliers to sign. On that document, there were several instances which were not correct according to the Ikea requirement:</p> <p>- <i>“Do not hire workers who are under 18 years old”</i></p> <p>The supplier to correct this point. Ikea shall always encourage working opportunities given to young workers, as long as proper working conditions are applied to them</p> <p>- <i>“Iway standard for sub-suppliers”</i>.</p> <p>There is only one Iway standard. The supplier to use the exact name of the Iway standard is used</p>			
3.6	<p>Ikea's requirement: The IKEA supplier shall measure and record energy consumption for all buildings and processes. Targets for reductions shall be set annually</p>			

	<p>It was noted that:</p> <ul style="list-style-type: none"> - The supplier is monitoring electricity consumption, but has not set targets for 2009 - The supplier has not monitored, and set targets for other types of energy consumption 			
4.1	<p>Law code: 136/2004/QD-BCN, date 19 NOV 2004: List of chemical to register to authority</p> <p>“Sulphur”, which is in the above law code, is being used in production at XXXX; however, has not been registered to authority</p>			
4.2	<p>Law code: 68/2005/ND-CP, date 20 MAY 2005, article 8: necessary information on a MSDS</p> <p>According to the above law code, there shall be 16 items of information in a MSDS.</p> <p>It was noted that MSDSs of XX sub-supplier, providing chemicals to XXXX, did not have enough information required by the above law</p>			
7.7	<p>Ikea’s requirement: The IKEA supplier shall ensure the Personal Protective Equipment (PPE) is available, maintained and <u>used</u></p> <p>It was noted that 2 workers at welding section did not use welding goggles while welding</p>			

<p>7.16</p>	<p>Law code: 41/2005/QD-BYT, date 08 DEC 2005, article 9.4: canteen/kitchen shall be equipped with dust/insect prevention equipment</p> <p>XXX has not equipped necessary equipment for the kitchen as required by the above law</p> <p>This point was raised up in the inspection report by authority in NOV 2008</p> <p>This point was also raised up by workers in health and safety meeting report in MAR 2009</p> <p>The supplier to ensure the requirements of this standard are met</p>			
<p>9.8</p>	<p>Law code: Lists of heavy/hazardous work:</p> <p>1269/LDTBXH-QD, date 26 DEC 1996: 1453/ LDTBXH-QD, date 13 OCT 1995 915/LDTBXH-QD, date 30 JUL 1996 190/1999/QD-BLDTBXH, date 03 MAR 1999 1580/ 2000/ QD-BLDTBXH, date 26 DEC 2000 1152/2003/QD-BLDTBXH, date 18 SEP 2003</p> <p>Law code: Labour Law, article 74: workers, working as heavy/hazardous work, shall have 14 vacation days per year</p>			

	<p>There are some types of job at XXXX, classified as heavy/hazardous work according to the above law codes, ex: workers working at sewing machines. However, vacation days for workers working as heavy/hazardous work were not applied as per Labour Law. Right now, those workers only have 12 vacation days</p> <p>The supplier to ensure the requirements of this standard are met</p>			
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<p>Auditor: IWAY Auditor</p>	<p>Purchasing Team: Business Developer</p>	<p>Supplier Representative:</p>
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The Factory of Natural Fiber Supplier



Natural Fiber Sub-supplier/ home workers



The Factory of Plush Toy Supplier



The Factory of Plush Toy Supplier



The Factory of Ceramic Supplier



The Factory of Ceramic Supplier



The Factory of Ceramic Supplier

