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**Exploring the Benefits of Implementing CSR Practices: from a
Supplier Perspective**
-A case study of IKEA and its Vietnamese Suppliers

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Abstract

As a growing number of corporations today show concern to sustainable development and non-financial performance indicators, corporate social responsibility (CSR) is no longer viewed as an upsetting burden or merely a tactic to improve corporate brand image. While studies on various impacts of CSR are prevalent in both academia and the business world, few scholars and practitioners chose to look into this issue from a supplier perspective.

The purpose of this thesis is to learn about the benefits that suppliers receive from implementing CSR policies, and to understand how these benefits are realized. By using a case study and an abductive research approach, the benefits that were found in literature review were tested and analysed against the empirical findings of the thesis.

Although actual impact varied from one supplier to another, findings did show concurrence with the conceptual research model and all extracted benefits were supported. Moreover, additional benefits outside the conceptual model were discovered in relation to human capital and operational efficiency. Findings also stress the benefits to workers, which shall not be omitted due their key position when it comes to implementing CSR policies. The data was primarily collected through in-depth interviews with three of IKEA's offshore suppliers, during a two-week field trip in Vietnam.

Keywords: corporate social responsibility, supply chain, policy implementation, supplier benefits, social and environmental conditions, Vietnam

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Yifan would like to dedicate this paper to his parents. Thank you for always loving, supporting and believing in me!

Johan would like to show gratitude to his parents without whose love and support none of this would have been possible.

Gothenburg, May 2009

Yifan Zhang

Carl Johan Hed

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LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CFO	Chief Financial Officer
CSR	Corporate Social Responsibility
FSC	Forest Stewardship Council
HR	Human Resources
ILO	International Labour Organization
ISO	International Organization for Standardization
IWAY	IKEA Way on Purchasing Home Furniture Products
MNC	Multinational Corporation
NGO	Non-governmental Organization
PPE	Personal Protective Equipment
QWAY	IKEA Quality Standard
TSO	Trading Service Office
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNICEF	United Nations Children's Fund
WTO	World Trade Organization
WWF	World Wide Fund for Nature

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1 Introduction

The chapter will provide a clear guidance to the purpose and problematisation of this thesis. First, the subject will be introduced along with relevant background information. Second, a main research questions is developed and elaborated on followed by a section of why such topic was chosen and how this study can contribute to existing literature. The study is designed to examine the impact of CSR (Corporate Social Responsibility) policies on suppliers, in particular focusing on how this could benefit the business development of MNC's (Multinational Corporation) offshore suppliers. The thesis was carried out through a qualitative case study of the Swedish furniture retailer IKEA, and three of its Vietnamese suppliers.

1.1 Research Problem

1.1.1 Problem Background

CSR is entering a new era in where suppliers from developing countries have significantly increased in importance. One reason for this is the continuous effort of reducing trade barriers in the world which has made it easier for western MNCs to expand business overseas for the use of lower labour costs. At the same time, corporate transparency is much greater today than what it was just ten years ago, and media has revolutionized inside a digital era. (Dicken 2007; Blowfield & Murray 2008; Vogel 2005; Bhandarkar & Alvarez-Rivero 2007) These are all major developments that have added to the public awareness of corporations in the world. The increased use of the Internet, blogs, live TV broadcasts, email, etc. have all resulted in a vast increase of information flow from the inside of corporate operations to the public at large. And without this spread of knowledge that basically feeds the corporate pressure from consumers, NGOs (Non-Governmental Organization), and governments, we all can agree that CSR would not be such a hot topic.

Nowadays more and more business entities are seeking an in-depth understanding of customers and are becoming aware of the connection between suppliers, society and sustainability. As one senior manager¹ at the Swedish roller bearing corporation SKF stated: “*nowadays corporations do not compete, supply chains do*”, suppliers especially those that possess strategic importance to the purchaser are playing an ever-important role in enhancing competitiveness of MNCs. Pressured by buyers, suppliers are therefore often urged to increase productivity while lowering

¹ Bo-Inge Stensson, Senior Vice President, SKF Group Demand Chain and IT division (2008)

costs, and at the same time suppliers are required to comply with a more rigid and compelling CSR policy concerning social and environmental conditions which has become an integral part of many MNCs' global procurement strategy. (Bhushman 2005, ORSE 2003) Evidently, CSR is a subtle concept that can either be viewed as an upsetting burden that hurts business or as a tactic to gain competitive advantage. This unarguably has a profound impact on both corporations and suppliers. Some suppliers find it difficult to meet such terms while others have adapted and ultimately benefited from the practices. (UNESCAP 2005; Jørgensen et al. 2003)

How do suppliers behave under the circumstances? Why do they behave in such way? What are the real benefits that motivate suppliers to implement CSR practices? The authors have become increasingly interested to understand this multi-faceted phenomenon and are curious to find out the answers. This serves as the starting point of the thesis.

1.1.2 Knowledge Gap

Studies on CSR are prevalent in both academia and the business world going hand in hand with the increased attention corporations are paying to long-term sustainability and customer satisfaction. (Blowfield & Murray 2008; Vogel 2005) However, most of scholars and majority of the contemporary publications dedicated to this field are focusing on downstream actors of supply chain, namely MNCs and end-consumers (see Figure 1). The role of suppliers is often neglected and downplayed. (Jørgensen et al. 2003)



Figure 1. *Primary Actors Concerning CSR in Supply Chain*

Source: Authors' own elaboration

When a MNC determines to adopt CSR as a long-term mission and approach, and intends to demonstrate constant commitment and dedication to the improvement of social and environmental conditions, it must implement the CSR principles and practices throughout the entire organization as well as supply chain. For multinational retailers e.g. Wal-Mart and IKEA, who procure a large amount of goods and parts from manufacturers on a contractual basis, imposing CSR standards on suppliers becomes an essential part of the overall realization of the CSR policy. This means suppliers must also be motivated to follow and execute the principles, from the mindsets of top management team down to the ground-floor workers.

The lack of studies from the supplier perspective indicates an existence of knowledge gap which the authors intend to contribute to fill. By studying the behaviours and insights of suppliers, it is hoped that this thesis can stimulate discussions on the supplier side with respect to CSR implementation and benefits.

1.2 Problem Definition

Contemporary literature has argued that implementing CSR practices is an opportunity not a cost (UNESCAP 2005) and that CSR is proven to be a driver for competitive advantage rather than disadvantage for suppliers. Assume this is all true, the problem then centres on How a MNC's active CSR policy will contribute to the business development of its suppliers. In order to provide an understanding and answer to this matter, a main research question has been formulated and elaborated on.

Main Research Question

What are the benefits of implementing CSR policies from a supplier perspective?

To better embrace this research question it was supported by a sub question. The sub question is focused on the formation of benefits. For instance, increased productivity is a benefit that can be formed by many factors: new machines, better organization, improved skills among workers, new materials, etc. So, to be able to put benefits in a CSR context it is necessary to identify how benefits have been realized.

Sub Research Question

How are the benefits realized?

1.3 Purpose

The objective of this thesis is to study what positive impacts an active CSR policy have on local suppliers, especially with the emphasis on suppliers that are situated in developing countries. Furthermore, as discussed in the previous part, attention has been paid to the different kinds of benefits and incentives that took form in, i.e. typology of benefits. Ultimately, this study aims to provide researchers and MNCs with some answers to how MNCs can motivate their suppliers to proactively implement CSR practices. By having an understanding to the above agenda, the authors have made an effort to fill the research gap as identified before. In the concluding

chapter of the thesis, the authors have suggested some future areas of research on this topic for further exploration.

1.4 Delimitations

The thesis focuses solely on MNC's offshore suppliers hence the effect of CSR on home country suppliers is excluded. It should also be made clear that the authors deliberately chose to investigate the benefits of adopting CSR practices for supplier's organization only, leaving out the benefits to MNCs (buyers). Moreover, the thesis is not aimed to give any benchmarking for the industry practice nor is it providing any recommendations in terms of how suppliers should implement CSR practices. Rather the authors have presented a detailed case analysis in order for people to understand this phenomenon from a supplier perspective. Therefore, it is not appropriate to generalize from the empirical findings. However, the findings could be further tested in a quantitative manner.

2 Theoretical Framework

This chapter presents the theories that were used in the thesis. An institutional approach of the stakeholder theory together with the theory on organizational learning comprises the fundamental framework for the entire study. Lastly, a conceptual model that has been used throughout the thesis is presented.

Although there is no unified corporate responsibility theory, a wide range of both economic and social theories on business behaviour frame the role and expectations of a business in today's society. Ethical theories are frequently mentioned for holding a central role in corporate responsibility and some even consider CSR as a sub group of business ethics. (Blowfield & Murray 2008) But likewise, theories of politics, religion, and culture all explain the expectations the society has on a business and thereby form a responsibility. (ibid.) The idea that a business is responsible towards a variety of stakeholder is also frequently referred to, showing how host environments affect corporate behaviour. (Blowfield & Murray 2008; Maon et al. 2005; Vogel 2005; Amaeshi et al. 2007) Interestingly, the stakeholder theory is also widely discussed outside the context of CSR, especially when debating the core purpose of a business. (Dicken 2007)

For this thesis, the stakeholder theory in conjunction with both descriptive and empirical data comprises an instrumental approach (Donaldson & Preston 1995) of the theory which together with the theory on organizational learning has been used as framework that stood ground for the conceptual model presented last in the chapter.

2.1 Definition of Benefit

Researchers that have looked into the emerging benefits from CSR agree that some benefits also are applicable for firms in a supply chain context. However, the amount of research on this topic is limited and an extensive study published by the World Bank describes the business case as rather unproven more than anything else. (Jørgensen et al. 2003, p.27) For this research, and in line with the definition provided by David Vogel on the business case within CSR (Vogel 2005 p.16), benefit here represents the competitive advantage gained from being a better corporate citizen. Resources spent on CSR should preferably be in support with the business since any such correlation would legitimize social and environmental responsibility in the business world, and thereby increase the chances for CSR adoption.

Contemporary literature (Vogel 2005; Blowfield & Murray 2008) devotes whole chapters to the question: is there a business case for virtue? And the aspiration for finding such linkage shows how the business case has become increasingly important as the focus on CSR has shifted from philanthropic practices to a function in core business activities.

*The Business case has become the Holy Grail*²

Unfortunately, like Jørgensen et al. (2003), Vogel (2005) find little support for any direct link between responsibility and profitability. However, although such relation is sought after, it may not be crucial, instead, the scope needs to be narrowed down to the certain circumstances where CSR do make business sense. Existing studies are rarely industry specific which makes it harder to discover consistent correlations (Blowfield & Murray 2008). Interestingly, Vogel puts CSR in strategic perspective and argues that CSR should not be viewed different than any other strategic business tool. Parallels can be drawn to advertising meaning that there most certainly is no direct correlation between expenditures on advertising and corporate profitability, many advertising efforts have little or even negative effect on profitability. Yet, no one would disagree that there is a business case within advertising. (Vogel 2005)

Welford & Frost (2006), in their research focused on CSR in Asian supply chains, identify multiple benefits linked to CSR. One issue with CSR is that related policies are often initiated and developed by NGOs and MNCs but rarely by suppliers on which many such policies are imposed. For that reason, motivational drivers for suppliers to implement CSR have been difficult to identify. Nevertheless, although it was argued that some needed more visible evidence based on real case studies, clear benefits associated with CSR could be identified. (ibid.)

2.2 Definition of CSR

Social responsibility for corporations is quite an ambiguous term and not everything done in the name of CSR should be considered responsible. (Vogel 2005; Dicken 2007) Some firms' prevention of child labour has impacted families' welfare negatively due to their dependence on children's income. Another example is Shell's decision of sinking the Brent Spar oil platform. Greenpeace and consumers opposed arguing this was irresponsible and dangerous, while ultimately, sinking the platform would actually have had less of an environmental impact compared to dismantle the platform on land which at time was considered the responsible action. (Vogel 2005) And the question can get even more complicated. Should companies be considered

² Blowfield and Murray's analogy of how important the search for business case has become. (Blowfield & Murray 2008)

responsible for supplying consumers with low price merchants, or irresponsible for paying low wages to their employees? Are fast food restaurants responsible for always being nearby with cheap food, or irresponsible for their contribution to obesity?

Maybe it is due to this ambiguity that we do not have a unified definition of CSR, despite a substantial amount of literature on the subject. However, what most definitions do agree on is the overall “doing good” for: workers, local society, as well as the environment. Stakeholders are frequently mentioned in definitions of CSR (Blowfield & Murray 2008, p.13), and the authors have chosen to define CSR in line with Maon et al. (2008) as a stakeholder concept:

A stakeholder concept that extends beyond the organization’s boundaries and is driven by an ethical understanding of the organization’s responsibility for the impact of its business activities, thus, seeking in return society’s acceptance of the legitimacy of the organization (Maon et al. 2008)

In academia, stakeholder theory is frequently brought up as a central part of corporate responsibility. (Clarkson 1995; Davenport 2000; Vogel 2005; Maon et al. 2008) Active CSR practice changes the business environment and firms must acknowledge other bodies than merely shareholders and owners in their strategic management. Managers can no longer solely be responsible for their shareholders at the expense of primary stakeholders. Instead it has become increasingly important for firms to nurture their stakeholders.

2.3 Stakeholder Theory

The stakeholder theory was introduced in the book “Strategic Management: A Stakeholder Approach” written by Edward Freeman in 1984, and in many ways changed the perspective on stakeholders within the business context. At the time of development, the approaches used to understand the business environment were not sufficient, and Freeman discovered that a wide range of stakeholders that could affect or were affected by the corporation were not taken into account. Initially, in prior work leading up to the theory, the term stakeholder was coined by Stanford Research Institute as a group which if omitted would cease the existence of the business. (Freeman & Reed 1985)

Freeman later developed the theory and framed the term stakeholder as “groups and individuals who can affect, or are affected by, the achievement of an organization’s mission” (Freeman 1984, cited in Maon et al. 2008). In his work, stakeholders are introduced as something more than groups which companies have duties towards. Managing stakeholders has evolved to an essential section of a corporation and maximizing returns merely to shareholders is no longer

sustainable for business survival. (Blowfield & Murray 2008; Clarkson 1995) A corporation's relation with various stakeholders is therefore crucial, hence the first key dimension of a corporation: Stakeholder relation. In the context of this research, key dimensions (three to be) represent vital functions, or sections, of a corporation. Adding value to any key dimension could therefore affect a firm positively.

Stakeholder theory has gained acceptance over the years and although Freeman is not alone to include stakeholder management for the purpose of wealth creation, he is often the one referred to in the literature. Besides the descriptive use of the theory showing certain stakeholder relations, an instrumental approach of the theory has also been applied for this study. (Donaldson & Preston 1995) Based on Freeman's stakeholder theory, Donaldson and Preston developed a model showing eight fundamental stakeholders to a corporation. In an instrumental approach, the theory in conjunction with other researchers' empirical findings on the subject is used to identify existing positive correlation; in this case between CSR policies and the relation with various stakeholders (see Figure 2).

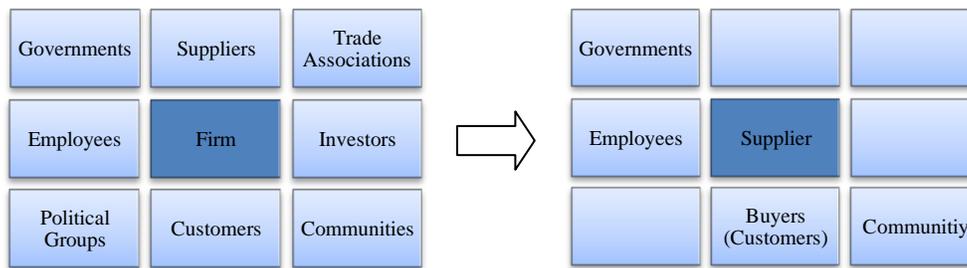


Figure 2. *Stakeholder Model.* Left: Stakeholder Model; Right: Stakeholders showing positive correlation to CSR
Source: Donaldson & Preston (1995); Authors' own elaboration

Both literature and studies do show some positive links (UNESCAP 2005; Welford & Frost 2006; Jørgensen et al. 2003; Undén 2007; Blowfield & Murray 2008; Vogel 2005), however, the links are rarely explicitly from a supplier perspective. This may be due to limited research conducted, or simply lack of correlation; CSR is after all not developed for the core purpose of suppliers' interest. But it may also be due to limited of recognition of suppliers in the studies. Jørgensen et al. (2003) encourage more research on this specific topic from supplier perspective and explicitly express the lack of consensus and understanding regarding whether the business case for CSR in supply chains exists.

2.4 Stakeholder Relations

Welford & Frost (2006) touch upon stakeholder relations and the relation with media specifically which undoubtedly has increased in importance during recent revolution within communication.

Internet has opened up endless of opportunities for electronic communication to travel instantly to and from any destination. It is debatable however how much media relations matters for suppliers despite their great importance for many buyers and firms in direct relation with end consumers. Suppliers do not have the same need for brand image and reputation towards consumers that good relation with media often brings. Moreover, NGOs, as well as the western population, rarely hold suppliers responsible for missteps, instead MNCs are considered responsible for their own supply chain.

2.4.1 Buyers (Customers)

Two other authors that touch upon stakeholder relations are Bhandarkar and Alvarez-Rivero (2007) who argue that supply chains can attract new buyer relations by differentiate themselves through adopting CSR policies. Today, many MNCs require CSR practices down the supply chain and non-compliance could disqualify suppliers from the global supply chain. Or the other way around, compliance with such policies could generate new business relations through an increased market access. Besides market access, compliance has also shown to create new relations in present market. UNESCAP³ (2005) has a study published on benefits from CSR implementation in supply chains showing how suppliers that receive good reputation through ethical and responsible commitments become favoured partners. Moreover, many MNCs base their auditing on risk factors. (ibid.) When the risk for non-compliance is large there will be more audits implemented to raise the standards. Yet audits do not improve conditions or solve issues, more accurately, it only helps pinpointing issues. But CSR Compliance can generate trust between buyer and supplier and thereby reduce the frequency of audits which takes both time and resources to prepare, for both parties. (ibid.)

2.4.2 Government

Apart from being a very important actor for any business (e.g. shaping the regulatory framework, and being a very large single consumer), it is also clear that governments have a special interest in CSR activities within domestic firms. First, the country as a whole would get access to a larger international market if domestic firms qualify for the global supply chain where complying with basic environmental and labour conditions is a must. (Bhandarkar & Alvarez-Rivero 2007) Second, it would contribute to an upward pull of the legal compliance among these suppliers since most CSR practices are in compliance with existing local laws. (ibid.) This could in turn reduce monitoring costs for the government, but also open up opportunity to enforce laws on the non-compliant firms. If the non-compliance group becomes small enough to manage, such

³ United Nations Economic and Social Commission for Asia and the Pacific

enforcement could escalate quickly and thereby benefit firms already operating at a responsible level. In fact, local laws in many emerging markets are often up to international standards, partly for the ability to attract foreign buyers. It is rather the enforcement of law that is challenging. Firms are careful not to intrude into cultural norms and standards, and besides fundamental ILO (International Labour Organization) requirements on social issues such as child labour and working conditions, CSR policies avoid exceeding the local law. (Idowu & Filho 2008)

The government can also put pressure on firm through regulations and is considered the first non-business actor that strongly influences a business's behaviour. (Bhandarkar & Alvarez-Rivero 2007) One example is from the 1970s when the legislation on catalytic converter created a massive market demand for the environmentally friendly product. (Blowfield & Murray 2008)

2.4.3 Local Community

The local community is represented by the nearby society in where a corporation either source their workforce from, or supply products to. There is often a limited amount of skilled workers in a community, and in those areas where labour is scarce, good relation with the society becomes more important when attracting or retaining skilled employees. The social impact such as human rights, working conditions, labour rights, impact on indigenous peoples, impact on local community, etc. has become a significant part of corporate responsibility in recent decades. (Vogel 2005) Prior to this trend, CSR was more philanthropic and focused outside the firm targeting the nearby society. Such efforts were more easily witnessed and increased firms' reputation within the local community. The shift towards a more inward focus of CSR can be explained by the exploitation of workers that occurred when using the new global supply chains in the 1990s. (Blowfield & Murray 2008) Industrial economies already had strong legal protection and workers rights were not seen as an issue like it became in emerging markets.

2.4.4 Employees

Employees differ from the other stakeholders in one vital aspect by being the only internal stakeholder operating within the company. While relation with government, local community and buyers are all important; employees are a key group of its own and represents more than a stakeholder relation. Welford and Frost (2006) argue that CSR add value to the human capital which for this thesis is the second dimension in focus, after stakeholder relation.

2.5 Human Capital

CSR policies often encourage actions that lead to positive impacts on the local society in where the firm is operating as well as on workers inside the firm. Welford and Frost (2006) have listed

examples of such policies like employment practices, bonus schemes, and diversity initiatives while other studies and literature bring up employment safety, reduction of overtime, employment insurance, and training opportunities. (Undén 2007; Vogel 2005) And implementing such policies has showed impact in human capital through both retention and recruitment of the workforce.

2.5.1 Retention

Implementation of CSR policies has shown effect on the retention of workforce. (Welford & Frost 2006; Jørgensen et al. 2003; Hopkins 2006; UNESCAP 2005) Policies in favour for employees raises the moral among workers and thereby the commitment and motivation (reasons for engaging in work). Not only is it time consuming and costly to train up new workers that might leave shortly after due to bad working condition. While in training, workers also have a far lower efficiency level and the time needed to train workers could be crucial for the production flow, especially in line-production where there is high interdependency among workers. High turnover rates also lead to production uncertainty which may impact the ability to meet orders. Consequently, this could have long term effects on the relation with buyer and future orders. Good CSR practices can instead help lowering the turnover rate and therefore also uncertainties in the production. Likewise, Jørgensen et al. (2003) also determine that good working conditions are essential to retain the workforce as well as its productivity, but they also see a positive impact on the recruitment of workers.

2.5.2 Recruitment

In addition to retaining workforce, Jørgensen et al. (2003) argue that CSR practices help the recruitment of skilled workers, especially in areas where there is shortage of workers. A statement that is further supported by Welford and Frost's (2006) findings on increased bargaining power in such situations. Naturally, workers rather work at a firm where the benefits package is high than in firms that are dirty, unsafe, or where they are exposed to uncertain payments.

2.6 Organizational Learning

The term organizational learning was developed in the late 1970s and was first defined as detection and correction of error. (Argyris & Schön 1978) Others have developed the concept further and Carter (2005) describes organizational learning as accumulation of knowledge that is seized by an organization's members and thereafter stored in implicit or explicit rules, procedures, norms, communication patterns, etc. The theory on organizational learning is

particularly interesting in a supply chain context where MNCs (intentionally or not) transfer knowledge down the supply chain. It is likely that such organizational learning has positive impact on suppliers and that it might lead to competitive advantage (Carter 2005). Learning new techniques may for example increase productivity or efficiency within a firm.

Practices improving working condition are argued essential for the productivity among employees. (Jørgensen et al. 2003) Other researcher such as Welford and Frost (2006) have categorized such impact under “product” representing any benefits attributed by value added to the manufactured goods. However, although it may be argued that all benefits should be seen in the end product, several benefits affect the company in a wider perspective. For instance, reduction of overhead costs through more efficient use of electricity and water are benefits more related to production rather than the product directly. For this thesis, the classification operational efficiency is adopted meaning any efficiency improvements in the organization as a whole. Operational efficiency is regarded as the third dimension in focus, next to stakeholder relation and human capital.

2.7 Operational Efficiency

As previously mentioned, the business case plays an important role in motivating suppliers to undertake CSR investments. Benefits that are directly related to a firm’s core business activity are easier to comprehend and associated CSR policies are therefore more likely to be implemented. It is convenient to absorb effects that can be seen in the balance sheet: higher productivity, fewer items returned, decreased cost on materials. (Vogel 2005) In recent time there has been a strong focus on cost reductions linked to green efficiency such as reducing waste and emission of greenhouse gases but operational efficiency from corporate responsibility can also be seen productivity and quality of goods produced. (Blowfield & Murray 2008)

2.7.1 Cost Reduction

Cost saving is one key element of Michael Porter’s (Porter 1980) classic view on achieving competitive advantage. Porter argues that a focus on cost leadership emphasizes efficiency through economy of scale while continuously searching for cost reductions throughout the firm. In relation to corporate responsibility, there are more than 1000 identified examples from CSR that could lead to direct cost reduction, particularly with focus on the environment; inter alia, reduction of energy usage, water consumption, more efficient use of raw materials. (Gege 2004 in UNESCAP 2005)

2.7.2 Productivity

In a manufacturing corporation, productivity is essential to the business in that sense that the higher output rate a firm has, the lower total cost for the product. Salaries aside (since workers are often are paid by pieces produced) a firm has overhead costs such as electricity for lighting, water, air conditioner, etc. that fluctuate little with production pace, hence the lower total cost with increased productivity. Increased productivity can also add to the competitive advantage in line with a low cost focus of Michael Porter’s generic strategies. (Porter 1980)

2.7.3 Quality

Producing high quality products is regarded as one of the most important factors that influence consumers’ opinion about a firm’s responsibility. (Vogel 2005) When providing end customers with products, good quality can increase sales since it enhances the corporate reputation in the community. But it also affect firms in supply chains and decreased return rate on produced goods can lead to new contracts, bigger orders, etc. Responsible actions that also add to the product quality are therefore sought after, but often this effect is in-direct and hard to distinguish beforehand. Still, new machinery or re-organization implemented for safety or environmental reasons may also improve the quality in produced goods and MNCs frequently expect quality development from improved social and environmental situation in suppliers. (ORSE 2003)

2.8 Summary of Theoretical Review

The internal framework in which the thesis is conducted has now been presented. For that we have used an institutional approach of the stakeholder theory and the theory on organizational learning. To conclude, the outcome of the theoretical review is illustrated (see Figure 3). Three dimensions of a corporation benefiting from CSR policies: stakeholder relation, human capital, and operational efficiency. These dimensions have now been incorporated into a conceptual research model that illustrates our own understanding of the theoretical framework of this thesis.



Figure 3. *Dimensions Model.* Three Dimensions of a Corporation Benefiting from CSR Policies

Source: Authors’ own elaboration

2.9 Conceptual Research Model

To help illustrate the connection between theories and the literature just discusses, a conceptual research model has been developed showing the general perception of CSR's impact in suppliers (see Figure 4). The model represents the authors' interpretation of the theoretical review and has the purpose of being the framework for the research. The very inner layer, or box, represents the actual firm in a supply chain. The next layer (exposed benefits) shows findings in the literature review of various positive effects that derive from CSR policies. These benefits derive from three essential dimensions of a corporation represented by: stakeholder relations, human capital, and operational efficiency.

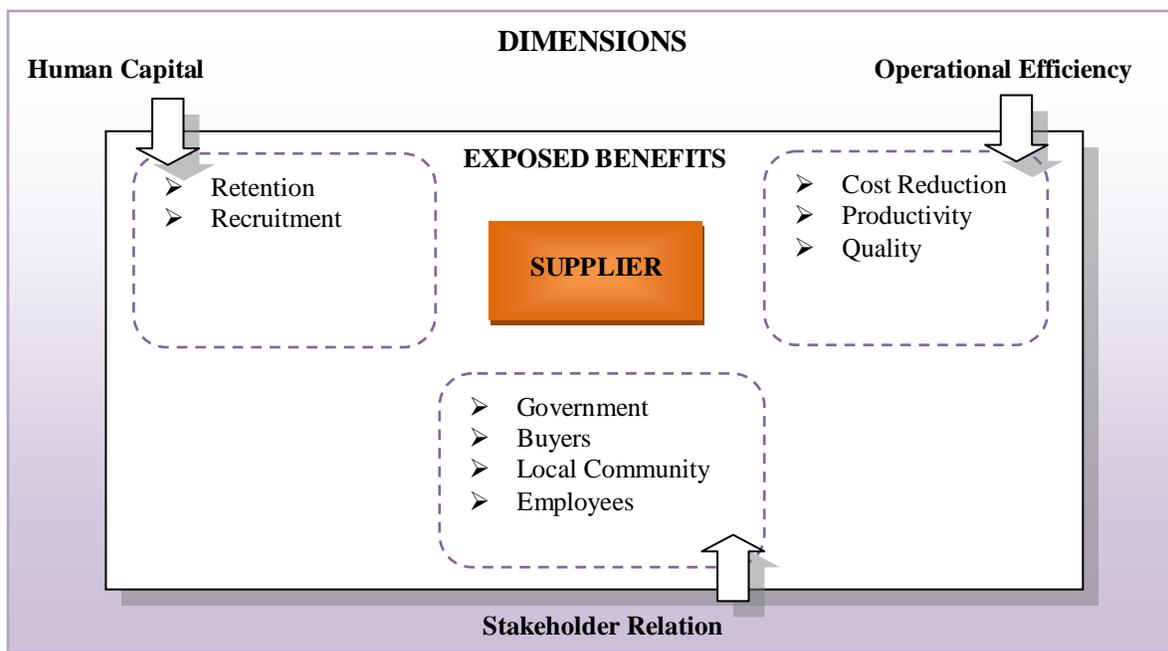


Figure 4. *Conceptual Research Model*

Source: Authors' own elaboration

3 Methodology

The purpose of this chapter is to present and discuss the procedural framework within which this empirical research is conducted. In addition to outlining the research design, there is also a section on methodological delimitations, as well as how the empirical data was analyzed.

3.1 Research Design

Due to the content and design of the research problem, the study was deliberately conducted in an exploratory manner through a qualitative case study in which in-depth interviews played a prominent role when collection data.

3.1.1 Research Strategy

Guided by Remenyi et al. (2005) an appropriate research strategy was developed based on crucial factors. As so often, the research question was the strongest determining factor although both time and cost also carried some weight for this thesis. The study was conducted over a period of 22 weeks whereof two were dedicated to Vietnam for the purpose of collecting primary data through face to face interviews. Supported by experts from the research literature (Remenyi et al. 2005; Marshall & Rossman 1995), the qualitative approach to the research question as well as mentioned key factors determined our ultimate decision of conducting a case study using in-depth interviews for collecting primary data. The approach is also argued suitable for an exploratory study such as this thesis.

3.1.2 Case Study Design

Different areas of empirical research require different research approaches. For this study, the case study approach was chosen as tool to address the research purpose and research question. The choice of pursuing a case study was further motivated by its ability to illustrate relationships in real life context and to establish valid and reliable evidence when identifying detailed interactive processes. (Remenyi et al. 2005) Identifying benefits from CSR policies is highly dependent firms' perception of benefits and the case study approach provides the necessary means for such accomplishment.

3.1.3 Sampling

The sampling was conducted based on two types: judgement sampling and convenience sampling (Remenyi et al. 2005). The single case company, IKEA, was deliberately chosen for its outspoken stance on CSR issues and its belief that it is “*possible to make traditional business objectives and social and environmental responsibility work together for the benefit of the many*” (IKEA 2009c). But IKEA was also chosen for convenient reasons being a case study arranged by Gothenburg University. The initial contact with IKEA was provided by the university as was the financing of the thesis.

Interviews with IKEA suppliers were conducted locally in Vietnam. Per request, the chosen suppliers were considered being top performer in terms of IWAY⁴ compliance. Since the study is focused on benefits, it was presumed that top performers would contribute with most valuable data. In addition to suppliers, regional TSO (Trading Service Office) as well as representatives of IKEA Group were interviewed for the purpose of collecting different perspectives on the subject, as well as for data triangulation.

3.1.4 Scope of the Case Study

To address our research problem, we were given the opportunity to study IKEA and its implementation of CSR policies down the supply chain in Vietnam. Hence the scope of this research is limited to IKEA and its Vietnamese suppliers as well as TSO. Both suppliers and TSO are located in Hanoi.

3.2 Data Collection

Data collection consisted of both primary as well as secondary data. The primary data is crucial for this study and was collected through interviews both in Sweden as well as in Vietnam. Due to the importance of these interviews, an emphasis was put on designing the interviews as well as targeted interviewees in order to receive valid and relevant data. The secondary data was collected through a variety of secondary sources such as academic papers and various IKEA reports.

⁴ IWAY represents IKEA Way on Purchasing Home Furnishing Products. IWAY is a Code of Conduct in relation with suppliers of products for the IKEA specifying minimum requirements for environmental, social & working conditions and wooden merchandise

3.2.1 Primary Data

The primary data was collected through open-ended and semi-structured interviews on three levels of IKEA: Helsingborg office of IKEA Group, regional TSO, as well as suppliers. The IKEA Group was represented by their sustainability manager Thomas Bergmark located in Sweden, while both TSO and suppliers are located in Vietnam. At suppliers, workers were also interviewed. The instrument was chosen for deeply exploring each division's point of view, insight and perception, and the wide scope of interviewees was selected in order to obtain a holistic perspective of the subject (see Figure 5). At TSO and suppliers, a wide range of respondents participated. The broad scope of interviewees was also necessary for validity and confirmability of the study. Data collection occurred throughout spring of 2009.



Figure 5. Targeted Interviewees from Suppliers

Source: Authors' own elaboration

3.2.1.1 Interviews

The interviews were carried out in an approach starting with the sustainability manager followed by TSO, suppliers, workers & villagers (see Figure 6). A total of 32 different people were interviewed, and the interviewees were selected by taking the conceptual model into account covering: human capital, operational efficiency, and stakeholder relations. All 32 interviewees were fully cooperative and all interviews were conducted without any restrictions on crucial elements such as time or privacy. It shall be noted however that interviews with Starbags' workers were conducted under managerial supervision. As were the interviews with villagers at Bamboo & Co, however, this was more coincidental and passive rather than forced.



Figure 6. Targeted Modes in the Supply Chain

Source: Authors' own elaboration

A vast majority of the interviews were conducted in similar manner. Setting was a closed environment, most typically the main meeting room. Persons present were interviewee, interpreter, and interviewers (authors). The exceptions were interviews with workers at one supplier and villagers, as discussed. Interviews with villagers also differed by being conducted in villagers' homes. The interpreter was an IKEA representative from the TSO and always present during the interviews with suppliers and workers/villagers. Interviews with the sustainability manager and TSO were conducted directly in English without the presence of interpreter.

Typically, the interviewers started all interviews with a short introduction of the research purpose. This was followed by having the interviewee introduce himself⁵, his position, and purpose in the company. After introduction, the main interview took place with focus on discussions linked to the research questions. Duration varied around one hour for each interview, except with workers/villagers which were shorter, about 15-20 minutes, and focused solely on benefits for that individual interviewee, not the supplier. A detailed list of interviewees and content covered in the interviews can be seen in Table 1 in the next page.

3.2.2 Secondary Data

The secondary data contributed to a fundamental knowledge of the research subject. This data was obtained mainly through written literature on CSR, academic publications on the topic, web pages, and various reports from suppliers as well as IKEA. The information increased the understanding of the specific research problem as well as highlighted current trends within the CSR field of research.

⁵ Since a vast majority of interviewees were men the authors have chosen to generalize.

Table 1. List of Interviews Conducted. 32 in Total

Interview		Interviewee Position	Content
IKEA Group – Services AB (2)		<ul style="list-style-type: none"> · Sustainability Manager · Social & Environmental Coordinator (email) 	Benefits of CSR from the MNC perspective
IKEA Hanoi TSO (6)		<ul style="list-style-type: none"> · IWAY Developer · Forestry Coordinator · Mixed Material Technician · Deputy Metal Material Area Manager · Deputy Textile Material Area Manager · Natural Fiber Expert 	Background of Suppliers; Benefits of CSR from the local TSO perspective; Verification of findings on suppliers; Implementation issues
Suppliers	Kitchen Pro (7)	<ul style="list-style-type: none"> · Vice General Management · CFO · HR Officer · HR Manager · Polishing Workshop Manager 	Benefits of CSR from the company perspective; Impact on cost; Working conditions; Impact on production
		<ul style="list-style-type: none"> · 1st Polishing Workshop Worker · 2nd Polishing Workshop Worker 	Benefits of CSR from the employee perspective
	Starbags (7)	<ul style="list-style-type: none"> · Deputy Corporate Director · Factory Director · HR Manager · IWAY Coordinator · Sewing Workshop Manager 	Benefits of CSR from the company perspective; Impact on cost; Working conditions; Impact on production
		<ul style="list-style-type: none"> · Webbing & Cutting Worker · Sewing Workshop Worker 	Benefits of CSR from the employee perspective
	Bamboo & Co. (10)	<ul style="list-style-type: none"> · Owner & Manager (interviewed twice) · Production Manager · HR Manager 	Benefits of CSR from the company perspective; Impact on cost; Working conditions; Impact on production
		<ul style="list-style-type: none"> · 1st Finishing Line Worker · 2nd Finishing Line Worker 	Benefits of CSR from the employee perspective
		<ul style="list-style-type: none"> · 1st Villager (Subcontractor) · 2nd Villager (Subcontractor) · 3rd Villager (Subcontractor) · 4th Villager (Subcontractor) 	Awareness of CSR; Working Conditions; Remuneration; Child labour

Source: Authors' own elaboration

3.3 Methodological Delimitation

3.3.1 The IKEA Code of Conduct

The empirical scope of this study is narrowed to deal with two specific facets of corporate responsibility defined by the case company IKEA's codes of conduct on CSR - IWAY: *environmental standards and social conditions in host developing countries*, leaving others out of discussion. The manual "The IKEA Way on Purchasing Home Furnishing Products" (IKEA Group 2009b) is IKEA's Code of Conduct in relation with suppliers of products for the Swedish furniture retailer. It contains minimum requirements on social & working conditions and environment. Due to this delimitation, the term CSR is to a large extent interchangeable with the term IWAY in the context of the empirical findings.

3.3.2 Delimitation of Benefit

Another delimitation of this research is regarding "benefits". Suppliers often receive extended contracts from buyers when demand increases and suppliers have showed good compliance with a wide range of requirements such as: price, quality, on time delivery, etc. Although IKEA has IWAY compliance as one part of this evaluation, any compliance greater than the minimum requirement is not meant to have any impact on business contracts. IWAY compliance is a precondition for the business, not motivator for better contracts. For this reason, any impact on business contracts with IKEA are omitted from the research as it would bring no value to the study. During recent years, all suppliers had experienced steep increase in turnover.

3.4 Analysing Data

In order to gain a deeper understanding of the complex situations concerning people and organizations, responses were categorized and thereafter analysed by identifying patterns and trends. All interviews were recorded on tape and listen to numerous times. Interviews were thereafter transcribed and read before any information was separated. The data collected was continuously analysed for enhancing the study, but also for ensuring validity. In order to extract relevant data, several precautions were taken to ensure both validity and reliability.

3.4.1 Validity and Reliability

Several steps were taken for the purpose of ensuring validity and reliability of the research. The study has a wide span of interviewees including sustainability manager of IKEA Group down to individual workers at suppliers (see Table 1). The access to all interviewees was very generous and there were no restrictions imposed on any interviews other than what has already been

mentioned (see 3.2.1.1 Interviews). Data was continuously analysed and in all cases there were opportunities for data verification. All suppliers were re-visited for data confirmation and follow up interviews. Data was also triangulated through three different levels of IKEA, each with a different perspective and interest of the research topic: IKEA Group, TSO, and suppliers. At supplier level, data was also collected from three layers of participating firms. First, interviews were conducted with top management who presumably knew most about the firm, its structure, and function. Second, interviews was conducted with middle management with greater insights in details, for instances: IWAY specialists, HR (Human Resource) director, CFO (Chief Financial Officer), etc. Also, since much of IWAY concerns social and working conditions, a smaller third group of workers were also interviewed at each supplier. Villagers were also interviewed at Bamboo & Co since they solely represented the manufacturing at this supplier. (see Figure 7)

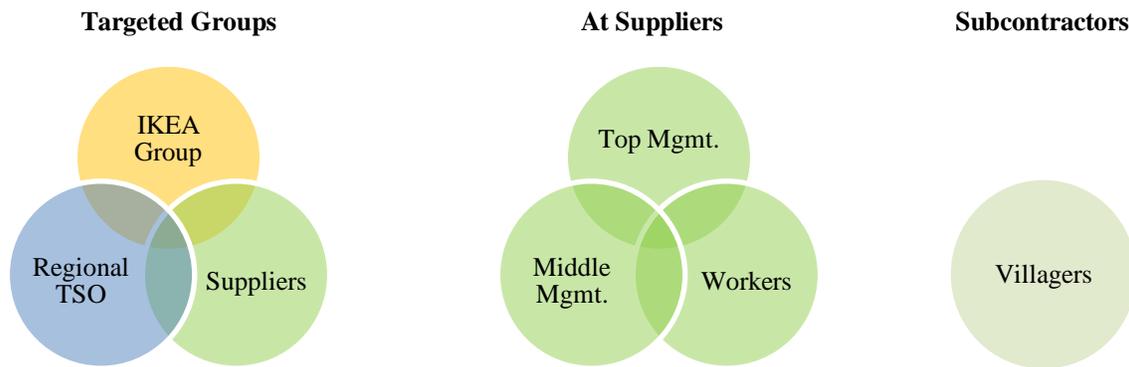


Figure 7. *Data Collection Strategy*

Source: Authors' own elaboration

All data was recorded with a tape recorder. Due to the nature of this research, looking for positive outcomes, the use of a tape recorder did not silence interviewees. However, there were some concerns regarding overstatements which were, to the best of our ability, minimized through data triangulation. In addition, several questions were re-worded and asked multiple times in order to increase the trustworthiness of respondents' answers and to avoid miscommunication or misinterpretation.

4 Case Presentation

This chapter will introduce the case company, IKEA, and the context, Vietnam, in which the research was conducted. IKEA is the largest furniture retailer in the world. Vietnam is a Southeast Asian country that heavily relies on trade. Its recent accession to WTO in January 2007 has freed the country further from trade barriers. Vietnam today is one of the fastest growing nations in the world.

4.1 IKEA

IKEA, founded in Sweden by Ingvar Kamprad in 1943, has become the world's largest furniture retailer employing 128,000 people in 24 different countries worldwide. Funny enough, this success was much due to an unfortunate incident in the 1950's when the Swedish furniture industry, troubled over IKEA's low prices, pressured suppliers to boycott IKEA. Consequently, IKEA started developing its own products in order to take control of the production and Kamprad was more or less forced abroad for sourcing of their products. (IKEA 2009a; Haan & Oldenziel 2003)

Today, IKEA has a total of 253 stores which are easily recognized by their characteristic blue colour and large box shaped design. The stores are crucially dependent on more than 1,300 suppliers, most of them located in Europe (66%) and Asia (30%), producing everything from their core product wood, to garments, kitchen utensils, textiles, etc. (IKEA 2009b) Around the millennium shift IKEA strategically expanded their operation with new entries into major and fast growing markets such as China, Russia, as well as Japan. An expansion of this size does not only have logistical implications, but also stresses the supply chain that has to fulfil a vast increase in demand.

Over recent expansion, IKEA's annual sales have almost quadrupled to EUR 21 billion and new suppliers for this increased production are found in countries with low production costs such as Thailand and Vietnam. The reasoning behind their sourcing strategy can be seen in their vision: *“create a better everyday life for the many people”* and their business idea: *“to offer a wide range of well designed, functional home furnishing products at prices so low that many people as possible will be able to afford them”*. (IKEA 2009b, p.1) Clearly there is an emphasis on price

and cost saving, which Anders Dahlvig⁶ also stresses in regards to current economic downturn saying that “*we roll up our sleeves to become even more cost-effective*”. (ibid., p.2)

4.1.1 CSR for IKEA

IKEA is widely known for being in the forefront of CSR, and an active CSR philosophy can be dated back to the early 90s when IKEA introduced conscious efforts into sustainability programs such as recycling and dangerous waste reduction. The corporation is outspoken about CSR and does not conceal that it is a top priority within the culture of the firm. Today IKEA has active partnerships with WWF (World Wildlife Foundation), the Rainforest Alliance, UNICEF (United Nations Children’s Fund), among others. (IKEA Group 2009a; Retail Merchandiser 2009)

A corporation of IKEA’s magnitude is constantly being observed by western consumers, NGO’s, governments as well as competitors for not exploiting people, nature, or countries in any (from a western point of view) inappropriate manner. Naturally, when sourcing in low cost countries with different cultural standards there will be contradictions and disagreements over what inappropriate is. So, to gain control over their responsibility as a corporation, IKEA developed its own standard, code of conducts, in the year 2000 called IWAY. The code was revised and updated in 2002, a third revision was introduced in 2007, and a fourth was just released April 1st 2009. (IKEA Group 2009a)

*IWAY defines what suppliers can expect from IKEA and what IKEA requires from its suppliers in terms of legal requirements, working conditions, the active prevention of child labour, care of the external environment, and forestry management.*⁷

4.1.2 IWAY

In terms of CSR, IWAY stands for “*the IKEA way on Purchasing Home Furniture Products*” and was constructed and implemented based on the eight core conventions defined in the Fundamental Principles of Rights at Work, ILO declaration June 1998, and the RIO Declaration on Sustainability Development in 1992. IWAY sets minimum responsibility requirement standards for IKEA; including trading offices, suppliers as well as sub-suppliers. But IWAY also insists on higher requirements where local laws so demand. In a larger perspective, IWAY is part of a staircase model which is made up of four levels of compliance in three important areas: outside environment, social & working conditions, and wooden merchandise (see Figure 8). The

⁶ Anders Dahlvig, IKEA’s CEO

⁷ Quotation from IKEA company website. <http://www.ikea.com>

model aims at improving suppliers' overall performance in a sustainable and responsible manner. (IKEA Group 2009b)



Figure 8. *IWAY Staircase Model*

Source: IKEA Group (2009b)

Level 1 represents “IMUST”, a stage with the absolute minimum requirements focused on fundamental human rights practices such as forced labour, child labour, and crucial requirements on the wood and its origin. Although IWAY (level 2) is the minimum required standard, many new suppliers in developing parts of the world do not fulfil these requirements. Instead, such suppliers can be granted contract in exchange for an action plan that will make the supplier achieve IWAY level 2 status within 12 months. IKEA assist with training and guidance and work actively with suppliers to reach and maintain IWAY level 2 standard. The following level 3 is obtained through additional compliance of standards on wood, social & working conditions, and environment and Level 4 is then reached through additional compliance with certain international standards that are recognized by IKEA (see Figure 8). (IKEA Group 2009b; Haan & Oldenziel 2003)

4.1.3 Recent Development

IKEA insists that the “*products must be manufactured under acceptable working conditions by suppliers who take responsibility for people and the environment*” (IKEA 2007) and continuously updates the progress made by its suppliers regarding IWAY compliance. The results show that in all regions (Europe, Americas and Asia) the proportion of IKEA suppliers that is IWAY approved has increased steadily (4-5 percent) over the years, but the absolute number differs a lot depending on the geographical area. The progress is somewhat slower than anticipated in Asia where although positive developments are shown only 17 percent of the

suppliers fulfil all IWAY requirements. In China, IKEA's top sourcing country, only 4 percent of the suppliers fulfil all requirements whereas in Southeast Asia 52 percent of the suppliers are in full compliance. However, it is important to note that most suppliers fulfil the majority of IWAY requirements (approximately 70 percent in China and 85 percent in Southeast Asia) but certain compliance are lacking in many. (ibid.) Correspondence with IKEA revealed that this fulfilment rate has increased during 2008 to figures closer to full compliance⁸. The lacking compliance in Asia are seen in, inter alia, freedom of associating in collective bargaining, wage & overtime, emission, and fire prevention, but these problems are not specific to IKEA's suppliers and the high presence & mobility of migrant workers also complicates the implementation of change. (IKEA 2007)

Nevertheless, IKEA is aware of the great challenges ahead and acknowledges that *"efforts by IKEA are not enough to bring about change. Continuous support from the authorities and improved compliance with existing legislation are needed"*. (IKEA 2007, p18) In addition, MNCs that operate in the same host country try to build relationships amongst themselves, and together address the issues and work jointly to find out solution. (ibid.)

4.2 Vietnam

Vietnam, an ASEAN member state located in east of Indochina peninsula, has a population of 85 million and GDP of USD 71.2 billion and is today one of the fastest-growing nations in the world (WTO 2007). Between 2000 and 2008 this country has recorded an average GDP growth of 7.48% per annum, coupled with a high inflation that reached 8.3% in 2007. The economy is expected to continue to grow despite an anticipated slowdown in the wake of the global financial crisis (IMF 2009).

4.2.1 International Trade

Vietnam is a country that heavily relies on trade and its recent accession to WTO in January 2007 has freed the country further from trade restrictions. In fact, the trade to GDP ratio of Vietnam is 156%, more than double the rate of China. When looking upon the major export sector of the country, manufactures account for 53.4% in 2007. The major export commodities are crude oil, marine products, rice, coffee, rubber, tea, textile and footwear (CIA 2009). The main destinations for export commodities are the U.S. 19%, European Union 17.9% and Japan 13.2%. It is noteworthy that Vietnam is experiencing a trade deficit in merchandise trade and such deficit has been rising sharply in the past years. The major import commodities are also

⁸ In China, the suppliers on average fulfilled approximately 90% of all IWAY requirements; and in Southeast Asia approximately 96% (Carlson, pers. comm., 28 May 2009).

manufactures 67.6%. China is the largest country of origin for imports to Vietnam 16.5%. (WTO 2007)

4.2.2 Manufacturing at Glance

Manufacturing is the pillar industry for Vietnam's economy. Not only that the labour-intensive industry has generated much needed jobs for the locals, but also it brings significant export earnings to the country. According to the General Statistics Office of Vietnam (2007), the "light industrial and handicraft goods" is the largest commodity group for export, which accounts for 44.5% of export value in 2007. Within this group, textile, sewing products, apparel and footwear are the main goods for exportation, and have traditionally been the strong sectors in Vietnam. By 2006, textile manufacturing is the country's second largest export earner behind crude oil and provides two million jobs for Vietnamese workers (Johnson 2006).

Comparing to its neighbour country China, Vietnam's manufacturing industry has the advantage of cheaper labour cost. In manufacturing sector, the Vietnamese wage is about two-thirds the wage of China's coastal cities, where similar manufacturing jobs were competed, although the gap is diminishing gradually (Johnson 2006). More significantly, the growing trade imbalance between China on one side and the U.S. and EU on the other has created barriers for further expansion of China's exports, which opens opportunity for goods that are labelled "Made in Vietnam". (Beech 2005) Notable MNCs that have established their manufacturing affiliates⁹ in Vietnam include Ford, Canon, Intel, IKEA and NIKE etc. (Johnson 2006), and the plants are mainly located around Hanoi and Ho Chi Minh City areas.

4.2.3 Labour Issues

As early as in the 90s', labour issues in Vietnam were exposed to the spotlight. NIKE was accused of abusing their factory workers, using harsh punishments when workers cannot meet their quota, e.g. the well-known incident at Pou Chen's Bien Hoa factory (Saporito 1998). Other issues include paying workers at temporary salary rate longer than the law permitted, and not paying annual automatic wage rises as written in the contract. Although the company acknowledged the problems and promised to fix them at once, it denied all allegations laid on it and insisted that the subcontractors pay the workers above subsistence levels. Nevertheless, NIKE subsequently launched a programme called "SHAPE" (safety, health, attitude of management, people and environment), which authorized 1000 labour-practice managers to monitor the policy enforcement. Besides, external auditors and NGOs were also invited for inspections. (Saporito 1998)

⁹ Including production facilities, trade offices, contractors and subcontractors

4.2.4 Challenges

Despite that Vietnam has been undergoing a series of economic reforms to tackle down its problems, several major issues still remain unsolved, along with the new challenges emerged in the current economic downturn. Foreign multinationals are still concerned about state intervention, corruption and infrastructural deficiency. For instance, inadequate electricity supply and absence of deep water port to handle shipping of large containers (Johnson 2006; Overland 2009). Furthermore, at macro-level, high inflation is upsetting lives of many manufacturing workers, resulting more strikes being carried out to call for wage raises in response to skyrocketing grocery prices. The depreciation of Vietnamese currency dong (VND) has made the situation worse, as imports from food to raw materials are becoming more expensive. For manufacturers who are contracted to supply to foreign retailers, price hikes of imported raw materials can directly affect the production cost, thus cutting out the profit margin, and even the overall price competitiveness. (Overland 2008) Undisputedly, The global economic recession has hit hard on Vietnam's manufacturing sector which had helped lifting millions of Vietnamese out from poverty. Due in part to declined orders from abroad, Vietnam's GDP growth in 2009 is estimated to slow down to 5%. (IMF 2009 in Overland 2009)

5 Empirical Findings

This chapter will be divided into three parts: empirical findings on IKEA, on Vietnam suppliers, and on business environment of Vietnam. The findings were gathered after a visit to the case company's home office in Sweden, where the authors interviewed the Sustainability Manager of IKEA, and most importantly after 2 weeks of studies, in total 30 interviews conducted in Hanoi of Vietnam where three targeted suppliers and IKEA's Hanoi TSO are located. Key findings on suppliers are listed by areas of focus that the authors have suggested in the conceptual research model. A short summary of key findings will be provided in the end of the chapter.

5.1 IKEA

In order to examine the research topic from different standpoints, the authors first interviewed manager at IKEA office in Helsingborg, Sweden. , Sweden. This is expected to help the authors understand how a MNC, in this case the buyer, conveys its CSR policies to suppliers. A face-to-face interview was conducted with the company's global Sustainability Manager Mr. Thomas Bergmark, who is in charge of IKEA's CSR efforts and publication of the Social and Environmental Responsibility yearly report. Followed by an email contact after the interview with Mr. Bergmark, he then forwarded the authors' questions to another knowledgeable person in this field: Mr. Karl-Olof Nilsson, Social and Environmental Co-ordinator in IKEA's supply chain organization, from whom the authors received responses via email communication.

During talks with Mr. Bergmark, he generously shared his insight and wide knowledge in the field of CSR, and pointed out the key emphasis is to build a long-term commitment and develop strategic partnership with suppliers, as opposed to a short-term result oriented approach that adopted by some other international buyers (pers. comm., 13 Mar 2009). Mr Bergmark viewed the long-term contract that a supplier could gain from IKEA as the biggest business case for implementing IWAY. At the same time he also acknowledged the authors' suggested non-conditional, potential benefits that a supplier could obtain. Among them, there are attraction of other buyers, increased productivity through better working spirit, and better internal coordination (ibid.). However, no elaboration or concrete examples were offered. Similarly, in line with Mr. Bergmark, Mr. Nilsson supported the condition-based view to be the biggest benefit for suppliers to adopt IWAY. He gave a detailed explanation in the following text:

“To be very straight forward, this is not quite an issue of "selling" the message to our suppliers. IWAY is a pre-condition to making business with IKEA. So a first and, hopefully big enough, benefit for the supplier is to be a supplier to IKEA. With good IWAY results over time and some other criteria, the supplier can be appointed as "Preferred Supplier" giving long term business agreements etc.” (Nilsson, pers. comm., 26 Mar 2009)

The view represents a prevalent attitude among MNCs, towards CSR compliance in supply chain. In that, vendors in order to obtain business contracts are compelled to fulfil all requirements of buyers, including rigorous CSR policies.

5.2 Vietnam Suppliers

In the following section, a brief introduction about each of the suppliers and their current relations with IKEA will first be presented, followed by empirical findings the authors collected on each of them. The data will be used for testing and analysing the conceptual model in chapter 2, as well as reaching to final conclusions.

5.2.1 Background of Suppliers

As of March 2009, IKEA has a total of 42 suppliers in Vietnam, of which a large majority of them have reached level 2 “IWAY status” (Nguyen, pers. comm., 24 Feb 2009). As mentioned in earlier chapter, the main criteria for selection of suppliers is that the companies should be among the best in implementing CSR practices and supportive to make necessary changes in order to fulfil the required standards. As a result, three of IKEA’s suppliers in the greater Hanoi region are identified, namely Kitchen Pro, Starbags, Bamboo & Co.¹⁰, each representing a distinctive product category and industry in which it manufactures (see Table 2). Before going into empirical findings, it is essential to learn the general background and current status of the three suppliers:

¹⁰ Suppliers’ company names are disguised to assure confidentiality

Table 2. Key Information about Three Suppliers

Suppliers:	Kitchen Pro	Starbags	Bamboo & Co
Establishment	2004	1971	1993
Structure	Joint Stock	State Owned	Private
Products Supplied	Stainless pots & pans	PP ¹¹ shopping bags	Woven yarn baskets
No. of Workers	500	1200	100 + 40,000 ¹²
IKEA Starting Year	2007	2002	2004
Production for IKEA	17%	70%	90%
IWAY Level Status	2	2	2

Source: Adapted from GS 2007; Dang 2009; Hoang 2009a; Hoang 2009b

5.2.2 Kitchen Pro

Kitchen Pro belongs to GS, a joint stock company that manufactures two main product categories: kitchenware and carton boxes. With its 11,000-sqm household appliances plant that established in 2004, Kitchen Pro currently has 500 employees and specializes in producing stainless steel kitchenware: pots, pans, hobs and stoves (GS 2007). The company started to do business with IKEA in June 2007, supplying mainly stainless steel pots and pans. In 2008, IKEA purchased EUR 1.6 million worth of goods from Kitchen Pro, accounting for 17% of the company’s total output (Dang 2009). Notably, Kitchen Pro is the only supplier in Hanoi region that achieved IWAY level 2 within one year since the first shipment to IKEA (Nguyen, pers. comm., 2 Mar 2009).



5.2.2.1 Initial Investment for IWAY

When asked of the initial costs for implementing CSR policies, i.e. IWAY of IKEA, the Vice General Manager¹³ of Kitchen Pro pointed out that the single largest investment made was to replace the old ventilation system in the polishing workshop, which cost the company USD 150,000. The change was made on request of IKEA because the old ventilation system was out

¹¹ Polypropylene

¹² “40,000” are individual subcontractors who live in surrounding villages

¹³ Names of interviewees from three suppliers are withheld for confidentiality purpose

of date and insufficient, which was causing workers health problems as the soot and smoke generated from polishing process were not sucked out effectively. (pers. comm., 24 Mar 2009)

Besides, the company also invested in installing a new fire alarm system and purchasing of Personal Protective Equipment (PPE), including dust masks, gloves, and earplugs etc. But these costs, according to the Chief Financial Officer of the company were “minimal compare to the ventilation system” (pers. comm., 24 Mar 2009). The managers of the company also stated that “it costs very little to maintain IWAY once the system is in place”. And this is because after initial investment made was on upgrade of facilities and improvement of factory setup, there is no additional financial allocation needed to sustain the system on a daily basis. “The difficult part really is to ensure workers’ compliance to the new rules”, says the Vice General Manager.

5.2.2.2 Benefits

Stakeholder Relation

In the Theoretical Framework chapter, the authors have discussed the importance and benefits of maintaining a good relation with various stakeholders of a company, the interview results confirmed that compliance of IWAY not only strengthens the relationship between existing buyer (IKEA) and Kitchen Pro, but also contributes to the business relation with potential buyers. For instance, Kitchen Pro recently had a pre-audit conducted by a large American MNC and when it came to inspection of social and environmental conditions of the factory, Kitchen Pro passed all requirements easily. The Vice Deputy Manager attributed this to the existence of IWAY system, which already covered almost all aspects of CSR. In fact, attracting other buyers is not rarely seen among IKEA’s suppliers in Vietnam. Mr. Jan Ahlsen, Natural Fibre Expert of IKEA Hanoi TSO (pers. comm., 2 Apr 2009) exemplifies that other Swedish companies like Biltema and Hemtex approached a few IKEA’s suppliers in Hanoi, knowing that the suppliers’ product quality, social and working conditions of are already up to the standards of their Swedish counterpart.

Moreover, compliance with IWAY has helped suppliers to pass numerous annual checkups by the government, e.g. fire prevention system, fire-fighting facilities, emergency exits, etc., which in turn has improved the relation between the company and local authority. Interestingly, 2 years ago the company changed its way of disposing chemical waste to a more human and environmental friendly manner as per the IWAY policy. It is only until recently the Vietnamese government approved an ordinance, empowering the authority to fine the factories that illegally dump chemicals or industrial wastes, after several cases of industrial contamination were uncovered. Kitchen Pro’s manager admits that the company would have been fined heavily if it

did not comply to the IWAY “waste disposal” standards two years ago. Furthermore, the ease to pass authority’s inspections and virtue of conducting business in a responsible manner has earned the company a good fame in the local community.

Also, through interviews of the factory managers and workers, the connection between an improved company-worker relation and an enhanced corporate performance is clearly seen. The HR Manager of Kitchen Pro (pers. comm., 30 Mar 2009) claimed that in a survey and interviews conducted after IWAY was implemented, the workers have indicated higher level of satisfaction and loyalty towards the company, due to better remuneration and safer working environment, of which, better remuneration is made possible after restructuring worker’s payment scheme to comply with the Vietnamese national law on minimum wages¹⁴, overtime pay rates¹⁵, and on-time salary payment. And since in Vietnam, health insurance and social insurance¹⁶ are paid as a percentage of worker’s salary, meaning the higher the salary of the worker is, the more health and social contributions a worker can receive from employer. In fact, the current average wage of the factory workers’ is about 3 times of the minimum wage required by law. Besides, a new employee during probation period makes USD 80, also 1.5 times higher than the minimum wage.

Safer working environment is achieved through constant improvement on safety features of factory facilities, workshops, and procedures. What’s new is that Kitchen Pro will be buying accident insurance for all employees in the company, as required by the latest version of IWAY, which takes effect in April 2009. Interview with a worker in polishing workshop (1st, pers. comm., 24 Mar 2009) who has been with the company for 5 years, pointed out the most encouraging change in the company-worker relation after IWAY implementation: “I now feel that the company really cares about us (workers), and the working environment has also improved a lot. I intend to stay in the company in a long term”.

Human Capital

Through interviews with Kitchen Pro’s HR Officer (pers. comm., 24 Mar 2009) and HR Manager (pers. comm., 30 Mar 2009), it is made clear that after implementing IWAY, the company is able to retain its skilled workforce much more easily, and so is to attract competent new employees. In the past 2 years, the overall staff turnover in the factory has been lowered, and particularly in the polishing workshop where turnover of staff was historically high. Before IWAY implementation, where 90% of new recruits in the polishing workshop left the company

¹⁴ USD 50 per month

¹⁵ 1.5 times of regular pay during weekdays; 3 times of regular pay during Sunday and public holidays

¹⁶ In Vietnam, health insurance covers medical and healthcare expenses; social insurance is the superannuation a worker can get after retirement

after training period due largely to the poor working conditions: polluted air, heavy smoke and high noise level. This turnover rate has been reduced to 50% after the company installed a new ventilation system and replaced the noisy motors of fans in the workshop.

When it comes to recruitment, the Vice General Manager explains that although labour in general is abundant in Hanoi region, to recruit skilled and experienced workers is not an easy task since the company is located in an industrial zone thereby many competitors' factories are also around. However, as doing business with IKEA has led to positive changes on workers remuneration and working conditions, Kitchen Pro has thus built up its reputation within the industry as an attractive company to work for in the region. As a result, recruitment of skilled labours becomes easier at almost all times for Kitchen Pro.

Another benefit relating to retention of workers is the use of suggestion box to collect comments and opinions from workers. Although exists before, the box was not used to a large extent and "many workers did not even know the purpose of the box" (HR Officer, pers. comm., 24 Mar 2009). In order to comply with CSR rules set by IKEA, and assure workers' opinions are heard, the company started to actively encourage all staff to make use of the suggestion box. According to the HR Officer, one and half years ago they have received a series of workers' complaints against one production manager due to his poor interpersonal relations and management skills. After investigation, the top management decided to move the manager to another department. The outcome was welcomed by the employees, and has finally stopped workers in the department from leaving the company.

In addition, the Vice General Manager also pointed out one key benefit related to human capital: change of behaviour and attitude among workers. He further elaborated that this is stimulated by IWAY polices to drive workers to comply with written rules and procedures. "Since most of workers are peasants coming from countryside and are relatively low-educated, they are not used to following routines and rules," He says. Doing business with IKEA made it compulsory for suppliers as well as the employees to comply with IWAY standards. This, consequently in one way or another has forced the workers to learn the appropriate behaviour and attitude towards rule compliance and maintenance. The initial training provided by IKEA TSO staff as well as the follow-up sessions ran by the IWAY committee of Kitchen Pro have positively changed the way workers think of rules and policies, more importantly taught them why it is important to follow the rules. "And now, whenever the company launches a new standard or rule, it becomes much easier for workers to follow and maintain it." (Vice General Manager, pers. comm., 24 Mar 2009)

Operation Efficiency

With regard to efficiencies that IWAY has brought into the production of Kitchen Pro, the authors have interviewed the company CFO (pers. comm., 24 Mar 2009) and Production Manager (pers. comm., 30 Mar 2009) respectively. Coincidentally, the CFO also happens to be a member in the company's IWAY committee that is responsible for continuous monitoring and communicating IWAY practices to workers. When asked of cost savings that realised by implementing IWAY, the CFO illustrated a number of examples. Firstly, accident costs have been reduced giving that 2 years ago, a yearly spending on hospital bills and medical expenses for workplace accidents and injuries were about USD 5620¹⁷, and now this is reduced by 40% to USD 3370. He further explained that such cost reduction is contributed by two factors: 1. Improved machinery and operational safety that required by IWAY, which lowered the total number of accidents occurred. 2. Purchase of accident insurance for employees, which largely reduces possible spending on severe accidents.

Another cost saving arose in production is the cutback of sub-material cost like chemicals used in the factory. IWAY stresses reorganization of factory space to meet up to the appropriate standards for safety reason, as a result, proper labelling, storage, and tracking of materials are made possible. The CFO told that before the reorganization, sub-materials were placed everywhere as workers like, usually close to their workstations or left randomly on the floor after use. This not only triggers safety issues but also causes material waste. And now after rules are set on how materials after use should be handled, all sub-materials are stored in a designated area with proper label, which eliminates potential loss of track and waste. The CFO estimated that 10% of sub-material is saved after IWAY compliance, and since sub-material accounts for 10% of total production cost, this change therefore corresponds to 1% of total production cost saved.

On labour productivity and quality of goods sold, IWAY is also proved to have a positive impact, through improved tidiness, optimized workshop setup, as well as better working environment. A concrete example of how IWAY could lead to increased productivity is given by the Production Manager. With the new ventilation system installed, the product defect rate from the polishing workshop reduced from 3% to 0.5%. In the past, the workshop was dusty and sooty, and the air was heavily polluted. For that reason workers' vision was impaired hence could not see the products clearly, and since polishing work involves a manual process, product defect rate remained high. Moreover, he stated that before, motors of polishing machines in the workshop needed to be repaired or replaced weekly, as the ineffective ventilation system could not suck out sufficient amount of sparks and smoke that generated from polishing process, which

¹⁷ No accident insurance was purchased then

causes the motors to malfunction. But now such machinery breakdown occurs only approximately once every three months, “thanks to the change made”, he says (Production Manager, pers. comm., 30 Mar 2009).

Notably, the new ventilation system to a large extent reliefs the discomfort that workers previously had with their eyes, ears and head. Consequently, output has increased. The Production Manager told that for an order that before took 10 hours to complete, now only 8 hours are needed giving the same number of production lines and workers, in spite that IWAY may not be the sole contributor to this productivity boost. Interviews with workers (Polishing Workers, pers. comm., 24 Mar 2009) confirmed that healthier working conditions does have a positive impact on their individual performance, which is evident in higher piece rate¹⁸ and fewer breaks needed during production.

5.2.3 Starbags

Established in 1971, it is a state-owned company that primarily produces polypropylene-related products. The company started doing business with IKEA since 2002, making a range of shopping bags that designed by IKEA. The iconic IKEA blue and yellow plastic bags (both for sale and for customer use inside stores) are largely produced here. Today IKEA purchases 59 million pieces a year or 70% of production output from Starbags and the volume is expected to continue to grow. Starbags currently employs 1200 workers and by size is one of the biggest suppliers in north of Vietnam, which is also the only company in the country that produces shopping bags for IKEA stores. (Hoang 2009a; Nguyen, pers. comm., 2 Mar 2009)



It is worth mentioning that due largely to the nature and structure of company (tightly regulated, disciplined, state-owned enterprise) and the fact that well-established rules and procedures are pre-existed before doing business with IKEA, Starbags is regarded as one of the most stable suppliers in Vietnam. Unlike many of the private, smaller companies that IKEA worked with, IWAY has found its ease to be implemented here (Hoang, Textile Deputy Area Manager, pers. comm., 23 Mar 2009). The pre-set rules and doctrines were rigorously adhered to state standards. The management and employees are already used to following and maintaining a series of rigid

¹⁸ Quantity of pieces produced daily

routine procedures, which had provided a good foundation for IWAY implementation later on.

5.2.3.1 Initial Investment for IWAY

As Starbags operates in light textile industry and the production of which does not involve with heavy chemicals and metals or intensive water treatment system, the initial monetary investment required for reaching IWAY standards were moderate. However, there are some minor investments incurred including purchase of PPE and fire-extinguishing equipment, re-setup of the factory for safety consideration and for leaving space for emergency exits. (Deputy Director, pers. comm., 25 Mar 2009)

5.2.3.2 Benefits

Stakeholder Relation

As a supplier who has been working with IKEA for 7 years, both IKEA and Starbags are committed to explore the business partnership further. With solid maintenance of level 2 status on both IWAY and QWAY, constantly improved product quality and price level, Starbags has been able to grow its annual sales volume with IKEA by 30% in the past four years. On the other side, IKEA also plans to develop Starbags to become a top 5 volume supplier in the bag segment (Hoang 2009a). When looking upon relation with potential buyers, although Starbags at present does not produce for any other foreign firms besides IKEA, when other interested foreign and domestic buyers came for a visit, they generally appreciated the cleanness and remarkable organization of the factory (IWAY Coordinator, pers. comm., 25 Mar 2009). Orders from domestic customers also increased by 10% compare to the year before.

Each year, local authority inspects the factory on standards of lighting, environment, waste disposal, fire-extinguishing equipment, and noise level, etc. And since IWAY requires suppliers to comply with the national regulations with respect to workplace hazards and the workers' health and safety, Starbags is well prepared and therefore passed all checkups conducted by the government. Though the government regulations existed long before IKEA came into business, managers of the factory admitted that those rules were not strictly followed then because of the unwillingness to put extra effort into the compliance process. However, as now Vietnam's economy and market develop, and the legal system gets more mature and complete, law compliance becomes much more rigorous and compelling. Companies who keep a good record of business conduct will maintain a better image and relationship with the government as well as in the local community, whereas those who violate the regulations will be subject to public prosecution. The managers are very proud to claim Starbags as a model company in the area. The

Factory Director, with 28 years of experience within the company, explains the ease of recruiting new employees in the following statement:

“Even the requirements are set high for example candidates must have high school diploma, with relevant work experience and technical skills, we always get a lot more applicants that we needed because we provide a good salary, good working conditions and a stable job.” (pers. comm., 31 Mar 2009)

Indeed, workers in the factory are appreciated with the changes that brought by IWAY. A female worker from webbing and cutting workshop, who has been with the company for 17 years, praised the raised overtime payment, and stated that all workers are now aware of the correct rate they are supposed to be paid (pers. comm., 25 Mar 2009). Another employee from sewing department gave credits to the provision of PPE, improved lighting and air circulation, which according to her, has increased her productivity and thereby total salary because they are paid by quantity of goods produced; and more importantly, a safer and healthier working environment (pers. comm., 25 Mar 2009).

Human Capital

As a state-owned company in Vietnam, to keep the image of a public institution that provides stable job for workers is crucial. The employees also expect to be able to stay in the company for a long term. Statistics shows that the staff turnover is historically low in Starbags, with only few cases in past couple of years. Even for those who did leave, they were mostly for personal reasons like marriage or move to another region. As matter of fact, in the past couple of years, the company hired many new employees, as sales volume has increased significantly. The Factory Director recognizes the importance of retaining experienced workers: “because it takes considerable amount of time and effort to train new employees to reach the proficiency of a skilled worker”. And IWAY has, according to the managers, strengthened the bond between the company and employees, given that the improved working conditions make the workplace more favourable, which reinsures that skills and experience are retained in the factory.

Furthermore, IWAY also helps to change the workers’ attitude to be more safety and responsibility conscious. A mindset transformation is clearly seen, from the beginning where Starbags’ workers felt reluctant to wear PPE and follow other IWAY rules, to today when many of them start to enjoy the cleanness of the factory and even demand more PPE like earplugs and hair nets because they finally realized that it is for their good to wear them. (IWAY Coordinator, pers. comm., 25 Mar 2009) The IWAY training as well as continuous convey of benefits of the policies to the workers has led many to understand the rationale behind why CSR policies must

be followed. More significantly, workers learnt the knowledge about work safety and responsible ways of operation. Such learning outcome adds substantial value to the skills and capital of workers, which can also be leveraged to other work situation and practices.

Operation Efficiency

IWAY has triggers Starbags' thinking on how to achieve better energy efficiency. In the fibre-making workshop, cooling machines are used to keep the production process under a controlled temperature. Originally, each cooling machine consumed 170 litres of water every day. This is reduced to 20 litres per day after Starbags' mechanical workshop remodelled the machines, as a continuous energy and resource saving solution is demanded by IWAY. To date, fewer machines are needed to achieve the same cooling effect, this has saved the cost of goods produced both on water and electricity bills. (IWAY Coordinator, pers. comm., 25 Mar 2009)

Another good example that demonstrates IWAY's profound connection to other areas of operation is the upgrade of cutting machine. One workshop has a large scale cutting machine that alters the size and shape of materials through almost entirely manual work by four workers. When IKEA staff visited the factory, they found the machine too dangerous to work with, hence demanded the factory to upgrade it. Again, the mechanical workshop took the responsibility and redesigned and modified machine, after which, safety features have been added and the cutting machine becomes semi-automatic, which now needs only one person to operate it. This not only reduces the risk of worker injuries, but also increases productivity by freeing three workers to work on other tasks. When asking why this was not done earlier by the factory, the IWAY coordinator of Starbags thinks that it is because the people who work inside the factory have been accustomed to the regular ways of operation, and tend to overlook the things that could potentially be changed for better. To them, IKEA staff represents a fresh eye coming from outside with its distinctive angle, hence can sometimes more easily points out areas that might be neglected by the workers and factory management.

Productivity increase is also seen from re-setup of the factory. Managers of Starbags agree that the organizational skills learnt by workers have made the managers' job much easier, as workers started to rearrange their workstations and production lines. When cleanness and orderliness is achieved, and when parts and materials are kept track of, workers can easily find things and not get stuck when moving objects across the factory. This increases work pace and flow of production. The Deputy Director of the factory particularly appreciated the smoothness of workflow in the factory. "Not messy like the Hanoi traffic anymore" is how he describes the situation now. Furthermore, worker injuries are also reduced. For instance, in the sewing

workshop, a common injury before was caused by the needle of sewing machine when performing the stitching task, and by careless disposal of the broken needles, which could be spotted everywhere. Now, along with a hand protection device added onto the sewing machine, there also comes a detailed and written procedure that entails how to handle broken needles. Owing to this change, the injury hardly occurs anymore. (Sewing Workshop Manager, pers. comm., 31 Mar 2009)

5.2.4 Bamboo & Co.

Started doing business with IKEA in 2004, Bamboo & Co mainly supplies crocheted yarn baskets to the Swedish retailer. With a very unique weaving technique the company has developed, approximately 40,000 villagers across northern Vietnam are sub-contracted to hand make the baskets. The vast number and wide spread of labours also makes implementation of CSR policies a particularly difficult one. In addition to the villagers, the company also has its own factory that employs another 100 workers to finally process and package the goods before delivery. At the moment, the company sells 4.7 million pieces of products or 90% of its total output to IKEA. (Hoang 2009b; Nguyen, pers. comm., 2 Mar 2009) Before doing business with IKEA, between 1993 and 2004 the company mostly produced bamboo and rattan-based products, which were 100% exported to Japanese and Korean market, however, no CSR policies were imposed by the buyers then.



5.2.4.1 Initial Investment for IWAY

It is made clear that since the production is low technology based and involves mainly manual work, no large direct investments were made, apart from minor expenses on PPE, fire-extinguishing equipment, and safety signs, etc. The Owner and Manager of the company instead pointed out that the most expensive resource he invested was his time and effort (pers. comm., 25 Mar 2009). Additionally, The Production Manager identified two monetary investments made after the initial stage. First the company replaced its “noisy” dryer machine with a quieter one, and secondly, changed its workshop floor from paved bricks to concrete surface as this reduces the dust accumulated on the ground (pers. comm., 1 Apr 2009). Other expenses including brighter lighting and re-setup of the factory to achieve orderliness and cleanness, but these,

according to him were small-scale investments.

5.2.4.2 Benefits

Stakeholder Relation

Buyer relation is enhanced through trust and commitment the buyer and supplier have developed with each other in the past 5 years of co-operation. Bamboo & Co.'s annual sales volume to IKEA has grown exponentially by more than 5 folds since the first year. In addition, the owner was confident that his company is attractive to foreign buyers when they find out that it has already fulfilled IWAY. This gives the company an advantage because nearly all large MNCs require their suppliers to have similar CSR standards. Among the foreign MNCs that had shown interest in doing business with Bamboo & Co., there were international retailing giants Wal-mart and Carrefour.

The Owner of Bamboo & Co. spoke about his good relationship with the government and pointed to the authors the award certificates hanging on the wall, which he received from the government for being able to maintain a high social, environmental and working standard for consecutive years. He attributed this to IWAY and IKEA, elaborated that since the first step of implementing IWAY is to fulfil local laws, after the first step is taken, he now has no problems in passing local authority audits. As Vietnamese laws get stricter, non-compliance and severe breach to the laws can result in having the factory's business license suspended. On the other hand, the good reputation the company has built with the local community in recent years has made it much easier to recruit workers for the factory, as well as a large number of villagers to make the product at home. The Owner is proud to tell that the villagers are aware of his good reputation in comparison to other companies".

With respect to the factory employees, the Owner shared with the authors one key thing that he thinks, have to a large extent improved the company-employee relation. Inspired by IKEA's values of respecting and caring for employees, the Owner took a step beyond what IWAY required and started the initiative to actively seek opinions and comments from workers on a regular basis. He said that since 2 years ago he began to host a weekly feedback session with all workers and middle management involved, discussing with them directly about any issues that the employees feel like. In a statement that astonished the authors, he explains his action in the following words (pers. comm., 1 Apr 2009):

"I think, any system that is entirely built on a top-down approach is not sustainable, but through two-way communications, the system can be maintained better. Because

they (workers) are the ones that implement the system, after discussed with them, we can have their opinions heard, and together find out a group solution...”

The outcome has led to strengthened team thinking and increased workers' motivation and incentives. As recorded in his notebook, examples of employees' opinions or suggestions that were adopted including introduction of a new piece rate for workers; rise of salary for office staff; offering employees small gifts on national holidays. Notably, there are workers requested to change the bonus provision from seniority based to performance based. In other words, switching from bonus payment that originally dependent upon the number of years worked in the factory, to the quantity and quality of goods produced. This for sure increases workers incentives to work more productively, and indirectly, also encourages competition and efficiency amongst workers themselves. Additionally, all workers interviewed complimented their boss on giving birthday gifts and offering financial support when employees got sick.

As repeatedly stressed by the Owner of Bamboo & Co., to make workers happy and feel home is important. Satisfaction and comfort of workers will lead to better product quality and higher efficiency, which in turn will provide more business opportunities for the company. Hence, it is “profitable” to make workers happy. While some companies think that to rise worker's satisfaction is a costly practice, he regards workers are important assets and hereby worth investing in. If adequate social benefits, training and education are provided, and workers feel they are being respected, company-employee relation will be significantly improved, which ensures retention of human capital within the firm. (Owner, pers. comm., 1 Apr 2009)

Human Capital

A surprisingly low rate of staff turnover is shown in the company, with only 2 workers left for personal reasons in 2008. The Owner is pleased with the current situation and believed that by retaining skilled and experienced workers, the company has well maintained its human capital, also has ensured enough competent people are stayed to train new workers hired every year. The primary reason for the extremely low staff turnover is that this company is perceived to be one of the best companies in this area to work for, in terms of salary and social benefits. When comparing to other companies in the industry, a worker said that much less overtime work is demanded by Bamboo & Co. With the previous employer, she would have to work 7 days a week to get the same pay as in Bamboo & Co., and that is why she quit from that job.

However, like many other Vietnamese factories, most of workers in Bamboo & Co. come from villages. To train their behaviour and raise the awareness of workplace safety is very difficult, because they are not used to following rules, or strict compliance of any kind (Production

Manager, pers. comm., 1 Apr 2009). It was clear that in the beginning the workers thought following IWAY is merely HR staff's job and did not understand why the rules must be followed. After years of training and reinforcement, they gradually started to learn that IWAY are launched for their own benefits. Many workers today voluntarily wear PPE without extra reminding. Such mindset changing is also reflected on understanding of environmental issues. A worker from finishing line workshop confessed that although much of the previous goods the company produced were bamboo, wood and rattan based, she never thought these materials are limited natural resources. And now she learnt from IWAY that the materials must come from a tractable source, authorized forest. (pers. comm., 1 Apr 2009) The change of mindset clear stimulates the similar positive thinking on other aspects of work, when it comes to lean production and energy saving.

Operation Efficiency

During interviews with the factory Owner and Production Manager, both individuals acknowledged the improvement of efficiency that has brought by IKEA. With factory re-arrangement, which required in combination of IWAY and QWAY, an upgraded production logistics solution was put in place. The new factory layout enhanced flow of production, and contributed to higher output, which increased by 40% since the Production Manager joined Bamboo & Co. 4 years ago. Such increase has been made possible for four factors identified by the manager: improved worker skills, new factory layout, investment on supporting machinery, and better working conditions, of which some are directly linked with IWAY policies¹⁹, some are indirectly. For labour efficiency, a Finishing Line worker (pers. comm., 1 Apr 2009) claimed that her output has increased by 20%, despite that a large part of the increase is contributed by improved skills over the years and that re-organization of workshop accounted for a lesser share.

5.2.4.3 Subcontractors

As mentioned before in the company background that the production of Bamboo & Co. primarily relies on 40,000 home-working subcontractors who are peasants live in villages scatted out eight provinces of northern Vietnam. Implementing IWAY on them is particularly a concern due to the geographical distance and the gigantic size. A typical subcontractor of Bamboo & Co. possesses a profile similar to this: usually female who stays at home and uses her idle time or during off-farming season to do the weaving and crochet work. Working time and load are flexible depending on the villager's own schedule. Trucks come to the villages regularly to pick up the

¹⁹ Working conditions, re-organization of factory to leave emergency path and exit

semi-finished goods and then deliver to Bamboo & Co.'s factory for final processing. For those subcontractors, IWAY is almost exclusively about child labour issue, which was a common practice in villages of Vietnam. To get a real picture of how IWAY is implemented in these areas, the authors went to one of the villages and interviewed several subcontractors of Bamboo & CO. The findings show that compare to the well-informed workers at the factory, the villagers were less acquainted with the concept of CSR and prohibition of child labour, although none of interviewees' children were working. In fact, no working child was seen during the authors' visit to the village.

In 2008, IKEA collaborated with "Save the Children"²⁰ to conduct a survey study to investigate the issue of child labour in northern Vietnam. The survey results which including interviews with some of Bamboo & Co's subcontractors has shown that no concrete cases of child labour were found, however, it was found that 1% of children worked longer than 2 hours a day, which exceeded the legal child working time²¹. (Owner/Manager of Bamboo & Co., pers. comm., 1 Apr 2009) And this is not accepted by IKEA. In explaining the lagged communication of IWAY to the villagers and the 1% over-the-limit child work, the Owner of Bamboo & Co. admitted there is a gap exists in communication channel. Due to time and distance constraints, he could only train and hold seminars for the middle traders and group leaders in his supply chain, but whether the middlemen have passed the information down further or not remained an issue hard to track. After discussed with IKEA, the Owner has sketched out an action plan to tackle this problem, including combining use of multiple media means: seminars, radio stations and posters, to ensure IWAY is conveyed more effectively to every subcontractor in the villages.

5.3 Business Environment of Vietnam

After several interviews were undertaken, the authors felt the increasing importance of the need to take external factors into consideration when explaining the benefits of implementing CSR policies for suppliers. In other words, the context of CSR in this case study needs to be looked not as an isolated issue but be related to the context of Vietnam. Interviewees, on several occasions referred to the cultures, laws, and customs of Vietnam when responding to the authors' questions. Some of the responses contained valuable information for the authors to understand the rationale behind certain phenomenon. Likewise, in Jansson's Basic Institutional Model, the scholar believes that a MNC is highly subject to both micro (organizational) and macro (societal)

²⁰ An international organization that helps children in need around the world.

²¹ In Vietnam, child labour is defined as child under age of 18, who works full time and not be able to go to school, which is prohibited by the law; Child work is defined as child between age 15 to 18, who is permitted to work with permission or in the company of guardians, but no more than 2 hours a day. (Vu, pers. comm., 23 Mar 2009)

institutions when doing business in an emerging country market (Jansson, 2007). It is these institutions that together explain, organize, shape and routinize human behaviour.

While organizational field directly affects MNC, at macro level, societal sectors are made up of indirect institutional forces such as religion, culture, legal system, business mores, etc., taking account the entire social environment from a larger perspective. By applying the institutional model in the context of CSR in supply chain, the authors expect to identify the key external or societal factors that may impact on the results of the research. The findings will contribute to a better understanding of the business environment of Vietnam, in which IWAY is executed; and how the societal factors could affect the extent to which suppliers can benefit from CSR policy implementation. The focus areas were modified and limited to better suiting the scope of the study as well as ensuring relevance.

5.3.1 Regulations

Vietnam's labour law and ordinances on environmental conservation are rigorous in general, however they were loosely complied by business entities. In recent years, a stricter compliance is enforced coupled with more frequent inspections by the government (Vice General Manager, pers. comm., 24 Mar 2009). Clear violations to the labour law and environmental protocol will cost companies and individuals monetary penalties or suspension of business license, and in severe case, imprisonment. The maximum working time is 6 days, and 60 hours a week including overtime. Overtime payment during normal weekdays is 1.5 times of normal rate per hour and 3 times during public holidays (HR Officer, pers. comm., 24 Mar 2009). The law prohibits Child labour, and the minimum wage in Vietnam is about USD 50 a month. Nonetheless, although most of the rules were established long before IKEA came, weak and improper compliance in the past was the biggest hurdle for some suppliers to pass IWAY audits (Vu, IWAY Developer, pers. comm., 23 Mar 2009).

5.3.2 Country Culture

Being increasingly exposed to foreign media and products, Vietnam is more open to western cultures and speaking of English. All three suppliers the authors interviewed have English-speaking personnel positioned in the firm, and these companies have also demonstrated a degree of openness to embrace foreign MNC's CSR policies. In addition, the country is also considerably influenced by French culture during the French colonial era. To date, many Vietnamese still possess the ability to speak French language. In country, people mostly live in extended family household. A child after school doing some petty work to help out family is considered traditionally and socially acceptable, and commonly seen in villages (STC 2009; Vu,

IWAY Developer, pers. comm., 23 Mar 2009). Some suggest that in Vietnam children sitting together with parents working is regarded as a normal way to strengthen the family bond and exchange mutual communication between the parents and children, also a way for students to kill time after school work is finished, since entertainments like TV are lacking in general (Jan, pers. comm., 2 Apr 2009). Furthermore, migrant workers who come from farms and villages to work in urban areas generally wish to work long hours to earn as much income as possible to remit home (Starbags IWAY Coordinator, pers. comm., 25 Mar 2009). This may, however be conflicting to IWAY's aim to limit maximum working hours, as some workers feel they are worse-off with the policy.

5.3.3 Business Mores

CSR is a relatively new concept that being adopted in company's daily practices in Vietnam. Many Vietnamese citizens lack adequate understanding of the complete meaning and purpose of CSR policies. In manufacturing sector, PPE were rarely worn especially in light manufacturing industries, as this is perceived unnecessary. There were even worker expressed negative opinions towards PPE, as a belief that wearing gloves and dust masks may reduce the proficiency of work (Kitchen Pro HR Officer, pers. comm., 24 Mar 2009; Starbags IWAY Coordinator, pers. comm., 25 Mar 2009). Additionally, since factory workers are primarily of peasant roots, who are relatively low educated and lack of disciplines, this makes following a set of behaviour-changing rules particularly difficult (Bamboo & Co. Owner, pers. comm., 1 Apr 2009). Besides, It is common for a factory to have a penalty system in place to punish those who break company rules (Jan, pers. comm., 2 Apr 2009), although such system is discouraged by IWAY.

Mr. Ahlsen, one of the pioneers that helped to set up the IKEA Hanoi TSO seven years ago, pointed out that short slightness is the biggest weakness of the Vietnamese suppliers in the early stage. As opposed to the European suppliers who value long-term sustainability, many Vietnamese suppliers are short-term oriented and focusing only on having goods sold in the present day. Efforts were made to take the Vietnamese suppliers to visit their European counterparts in Poland and Sweden, where knowledge from production techniques to responsible codes of conduct were learnt. (Ahlsen, IKEA Natural Fibre Expert, pers. comm., 2 Apr 2009)

5.3.4 Professional & Interest Associations

As Vietnam just started to take beginning steps towards CSR, most of related international associations and institutions are also in their early phase of co-operating with local partners and business operators, among them, the active players are UNICEF, WWF and FSC (Le, pers. comm., 23 Mar 2009). Cross-industrial CSR effort is seen but uncommon in Vietnam. Industry

unified codes of conduct have emerged in shoe and electronics industries. However, judged from the interview results, limited collaboration is seen among foreign MNCs that are conducting businesses in Vietnam. Likewise, limited collaboration is found between the government and foreign MNCs, in jointly enforcing social and environmental responsibility on Vietnamese companies.

5.4 Summary of Key Findings

For IKEA, the IWAY standard is used as a pre-condition that must be fulfilled by suppliers in order for them to maintain a business relation with IKEA. For the three suppliers that the authors interviewed: Kitchen Pro, Starbags, and Bamboo & Co., all of which have demonstrated concrete benefits that resulted from implementing IWAY, more specifically, benefits of improved relation with various stakeholders, ease of retaining and developing human capital, and higher operational efficiency achieved. Additionally, the authors have discovered new benefits for suppliers, which were not contained in the conceptual model in chapter 2. These benefits will be elaborated in the next chapter. Last but not the least, the authors identified key societal characteristics with respect to Vietnam's regulations, cultures, and business mores, which may influence the ease of implementing CSR policies in the country and the extent to which the Vietnamese suppliers can benefit from such implementation.

6 Analysis

In the following chapter, the authors will analyse the empirical data against the findings collected from theoretical framework, and attempt to ultimately answer the main research question. The chapter is divided into four parts. Firstly, analysis of empirical findings from managers of IKEA will be presented, followed by a combined analysis of IWAY benefits on the three suppliers interviewed. Thirdly, the conceptual model will be confronted, discussed and criticized, based on results of the analyses. In the end, a revised conceptual model will be developed, incorporating with newly discovered benefits for suppliers, and benefits for workers.

6.1 Managerial Perspective

IKEA sets “to create a better everyday life for the many people” as its long-term vision. In the context of CSR in supply chain, the workers at suppliers are the biggest beneficiary of IWAY policies (Carlson, pers. comm., 28 May 2009). Indeed, as verified by empirical findings, IWAY possesses great benefits for improving lives of many workers.

On the other hand, the utmost direct benefit for supplying companies to implement social and environmental responsibility policies, according to the interviewed managers of IKEA, is the order that a supplier can obtain. Setting IWAY as a pre-condition to gain business contract is no doubt an effective and lucrative instrument to make suppliers comply with MNC’s CSR standards. This pre-condition based view explains why suppliers feel compelled to implement the policies, but on the other hand this might jeopardize IWAY’s true message. Indeed, business contract is perhaps a goal of every supplier to get, and the purchasing volumes from large MNCs are powerful and rewarding enough to justify the investment and changes that a supplier needs to make in order to fulfil CSR standards. Fear is that this powerful drive might have nothing to do with consent and appreciation to CSR, but just to implement them because buyers have told so. The authors believe that CSR per se is already an attractive means for firms to develop internally and to gain competitive advantages. The key is to communicate and educate them about the various benefits of CSR, using a non top-down approach. No system is sustainable without people’s real understanding of it. The same applies here, only after understood the core essence of CSR, can a company truly enjoy compliance to the system and learn to do business in a responsible and thoughtful manner. And only with this way, long-term maintenance can be ensured. This is also the purpose of this thesis: to study closely with suppliers, find out what non-conditional benefits are from implementing CSR codes.

Studies have showed that although vigorous auditing processes and threatening to terminate the contract with non-compliance suppliers may in short term force the suppliers to conform to MNCs' rules and standards, it is only through motivating and supporting the suppliers to understand the potential benefits will make the progress sustainable and independent of MNC's presence. (Hirschland 2006; Jørgensen et al. 2003; Bhandarkar & Alvarez-Rivero 2007) This may also prevent suppliers from backsliding, i.e. go back to poor practices after auditing is completed, cheating and resentment etc. MNCs in general, both proactively and reactively, have taken a series of approaches to monitor suppliers' practices, including announced and unannounced audits by both the staff situated in supplier country office and by staff from overseas headquarters; visits by NGOs & non-profit organization; and third-party auditing done by externally hired service firms like KPMG and PWC in Vietnam. The practices incur great costs for both MNCs and their suppliers. And lengthy and numerous inspections also could affect the productivity and normal operation of suppliers.

6.2 Suppliers Perspective

6.2.1 Initial Investment for IWAY

Studies of three suppliers showed that the initial investment for IWAY varies between companies, depending on nature of product, type of material used, and scale of plant. In general, for light manufacturing industries, IWAY demands less money to be invested at beginning, whereas for industries that involves use of heavy chemical and metal, bigger amount of investments are sometimes required to upgrade water treatment system or ventilation system, which could cost a supplier up to USD 250,000 (Dang, pers. comm., 2 Apr 2009). There are also ongoing but comparatively minor investments for IWAY, for example purchase of PPE and fire extinguishing equipment, and machinery safety. Another factor that determines the cost of initial investment is the company standard prior to becoming an IKEA supplier. In other words, the better prepared and organized the supplier is, generally the less investment is required, and vice versa. Also, all three suppliers have expressed the most difficult part about IWAY is not the investment, but a consistent maintenance on a daily basis.

6.2.2 Benefits

6.2.2.1 Stakeholder Relation

Buyer

By fulfilling and maintaining IWAY requirements in a long run, trust and commitment between IKEA and the three suppliers are being accumulated over time. Findings show that as supplier

got more developed and became more knowledgeable in IWAY, the IKEA Hanoi office staff gradually reduced the number of visits on-site. Furthermore, the three suppliers who maintained the IWAY level 2 status for the past years, have all experienced a rapid growth in sales to IKEA annually, due in part to the improved buyer-supplier relation and increased mutual commitment. On the other hand, if suppliers failed in obtaining or maintaining IWAY level 2, they would lose the opportunity to develop and manufacture new products with IKEA (Dang, pers. comm., 2 Apr 2009). Suppliers like Starbags and Bamboo & Co. have developed themselves to be strategic partners with IKEA, and the management's commitment to fulfil IWAY requirements is the key to achieve this. With respect to potential buyers, all suppliers believed that being IWAY approved could give them an advantage when competing against other manufactures that have not complied with any CSR policies. Immediate results include better impression from both domestic visitors and international buyers. What's more, there were IKEA suppliers, who after fulfilled of IWAY and QWAY, approached by foreign buyers for procurement, among them, there were other Swedish MNCs that followed IKEA to Vietnam.

Government

All three firms have brought up the benefit of the ease of passing local authority audits and annual inspections after fully implemented IWAY. The improved relation with the government not only helped suppliers to maintain a good corporate image in the government profile, but also received considerable amount of media attention. For instance, the Owner of Bamboo & Co. was granted with numerous public awards for being a responsible, successful businessman in the region. This added value and goodwill to the company brand, which could help attract more potential businesses. Furthermore, it is also found that complying with IWAY could eliminate the risk of being fined by the government over issues like illegal disposal of industrial waste and substandard working conditions.

Local Community

All three companies possessed a good reputation in the region where they operate. As better pay and better working conditions are offered, often more-than-demanded residents in the local community wished to join the firm, making them the model companies in their own industry.

Employees

As arguably the single largest beneficiary group of CSR policies, the relation between the companies and employees is greatly enhanced. Interviews with the workers of the three firms indicated that IWAY has to a large extent raised the workers' overall satisfaction towards their

jobs. Substantial improvements are seen in numerous aspects, including better wage, safer working environment, and having their voices been heard. As a result, many employees expressed their deepened gratitude and loyalty to their company and jobs.

6.2.2.2 Human Capital

Retention

The ability to retain human capital is another area to explore in interviews with suppliers. The findings show that all three suppliers had experienced a drop in staff turnover after IWAY was implemented. In an extreme case of Kitchen Pro's polishing workshop, the staff turnover after the initial training period was lowered from 90% to 50%. The historically high turnover rate was directly linked with the poor working conditions in the workshop. After investigation, IKEA recommended the company to replace its old, ineffective ventilation system with a new one. With the dusty and stuffy air gone, more new hires decided to stay in the company after probation period. On the other side, Starbags and Bamboo & Co. have recorded a surprisingly low staff turnover rate, indicating that very few employees left the companies. And even those who left were mostly for personal reasons like marriage and home relocation. Both suppliers attributed this to the change that IWAY has brought into, in which employees feel more pleasant to be working the company, and more favourable working terms are received.

Recruitment

Interview results show that all three suppliers have enjoyed the ease to attract new employees, thanks to the good reputation that they built within the local community. In comparison to other Vietnamese companies in the area, IKEA suppliers in general provide higher salaries for employees, and the working conditions are well above the average level. In fact, since most of the companies are located within industrial zones, competing to attract skilled and experienced production personnel was not always an easy task. However, compliance to IWAY means adherence to various aspects of Vietnamese laws concerning worker rights and remuneration, this gives advantage for IKEA suppliers when seeking critical human resources. Notably, three suppliers have all expanded their size of workforce in the past couple of years, due largely to increased output volume of IKEA products.

6.2.2.3 Operational Efficiency

Cost

There are a number of cases identified where IWAY has led to cost reduction. Sub-materials like

chemicals are organized and restored in a more workers-friendly and easy-to-find manner, which not only eliminates safety concerns but also saves costs on potential repurchase of the materials. The scale of saving, according to the CFO of Kitchen Pro is estimated to be 1% of total production cost. Moreover, as IWAY encourages suppliers to install energy saving initiatives in the factory, all three suppliers reported to have saved expenses on water and electricity bills. Staff of IKEA's Hanoi TSO also confirmed that the savings could reach USD 560 a month, as recorded by one of the Hanoi suppliers after implemented IWAY (Dang, pers. comm., 2 Apr 2009). Other reduction of costs is seen from lowered number of workplace injuries and accident expenses as a result of improved safety standards in the factories.

Productivity

The implementation of IWAY is found to have a considerable positive, yet indirect impact on productivity increase. The degree, to which each of the three suppliers has benefited, varies depending upon the prior conditions of previous practice and nature of the product produced. For Kitchen Pro, the output at polishing workshop has increased by a sharp 25% after the old ventilation system was replaced. In comparison, Starbags and Bamboo & Co. have shown a less striking figure on productivity boost, and there are two reasons for this: 1. The production lines of the two factories were relatively well organized before doing business with IKEA; 2. Unlike Kitchen Pro, the production process of the two suppliers does not generate high levels of air and noise pollutions that could directly affect labour productivity.

Nonetheless, all three suppliers concluded that a better efficiency is gained after re-setup of the factory in accordance with IWAY standards, which brought orderliness, cleanness, and smooth flow to the production. This definitely leads to a higher output from what was originally called "the spaghetti setup" to presently a more organized, better flowing setup (Dang, pers. comm., 2 Apr 2009). Tangible results include leaving clear path for emergency exits, and safely restoring materials, components and tools at designated areas after use. At the same time, productivity is increased as workstations are more organized and workers do not have to run around the factory to find production materials and tools.

Quality

Despite that IKEA has a separate set of rules for quality assurance of products produced by suppliers: QWAY, IWAY is also found to have some indirect effect on better product quality. However, it is worth mentioning that the benefits should not be seen as an isolated effect that contributed solely by IWAY or QWAY, instead the empirical findings suggest that IWAY enhances quality performance of suppliers, especially when working conditions are improved. At

polishing workshop of Kitchen Pro, the product defect rate reduced from 3% to 0.5% after dust and smoke is sufficiently taken away by the new ventilation system, which gives workers a better vision and breathing condition in the manual polishing process. Bamboo & Co. did not experience a single complaint against the product quality for 5 years. And Starbags' sewing workshop manager cited the provision of better lighting in his workshop as a contributor to the improved product quality.

Interestingly, as pointed out by IKEA technician, another positive impact on product quality that triggered by IWAY is the upgrade of machinery and equipment for safety reason. The new machines purchased are not just safer to work with, but are also often built with more advanced functions and features that can result in a higher efficiency and better product quality.

6.3 Revision of Conceptual Model

Until now, the authors have tested and analysed all the benefits that were extracted from the theory chapter. It can be summarised that all the suggested benefits with respect to stakeholder relation, human capital and operational efficiency are found in the empirical case study, despite that the degree to which each supplier actually benefited varies between each other.

In order to test the applicability and accuracy of the conceptual model in chapter 2, the authors used the model as a guide during the data collection process. The result shows that the model does represent a good foundation for determining the areas of focus as a starting point for the authors. The nine areas of benefits that categorized in three dimensions: stakeholder relation, human capital, and operational efficiency are all found highly relevant to what the suppliers have experienced and received, although applicability of each of them did not match exactly the same as how the authors had predicted. More significantly, the authors have found additional benefits that are outside the original conceptual model, yet are still related to operational efficiency and human capital. These additional findings are part of the authors' contributions to the topic, and are listed below.

6.3.1 Additional Benefits

Innovation

While innovation is not a strategic aim for implementing CSR policies, it has been found that IWAY can, indirectly stimulate innovation in factory operations. The step is usually taken by suppliers themselves though sometimes this is subconsciously done. As discussed previously, in Starbags, the company used its own mechanical workshop to develop methods that modified the cooling machines in order to reduce the consumption of water. As a result, water and electricity

expenses were saved, and the upgraded machines could generate better cooling effect. Moreover, the company's mechanical team re-modelled a cutting machine, which was found too dangerous to be operated manually with four people. In the end, not only the machine is built with safety features, but also it needs only one person to operate, releasing the other three. Consultation with IKEA TSO staff also confirmed that such innovation occurs typically when suppliers are required to install energy-saving initiatives and machinery safety features by IKEA. The innovation that triggered by IWAY is proven to have positive impact on operational efficiency, from cost reduction to productivity.

Management Skill

The owner of Bamboo & Co. recognizes management skill as one of the most important knowledge that he learnt from IWAY and IKEA. This continuous learning process takes place in various forms, through both formal and informal communication channels with IKEA people. The enhanced skills of management are seen in long-term strategy development, responsible ways of conducting business, and employee-friendly management style, which the owner of Bamboo & Co. highly values. One common thing on the three suppliers is that they often know which aspect of operation needs to be improved, e.g. re-setup of the factory, material and energy consumption, but they do not know how to realize it. One of advantages of being an IKEA supplier is the accessibility to a wide range of expertise provided. IKEA technicians as well as IWAY Developers can provide managers of suppliers with comprehensive assistance, information and networks on how to take necessary and appropriate action towards IWAY compliance. This includes reorganization of factory, examination of hazardous material, and with whom to contact when certain needs arise etc. The IWAY developer also updates managers of suppliers with newly enacted government regulations on CSR, and recommends the necessary actions. Naturally, in this process, managers are equipped with multidisciplinary knowledge and the skills to react in different situations.

Notably, these skills of management are not only beneficial to senior managers; but also can develop middle managers and employees, should there be opportunities for them to step up. In spite of this, it should be mentioned that such management skill might not be learnt from all buyer-supplier relations, as the learning only occurs when buyer is closely working with suppliers and always present for assistance. Furthermore, buyer must possess sufficient expertise in CSR and is willing to transfer the knowledge to its supply chain, like the case of IKEA.

Mindset & Attitude

As the term "mindset" frequently spoken out from the interviewees, it is to the authors

understanding that right mindset towards CSR practices is the key for a successful policy implementation. Such a positive mindset & attitude has a direct impact on increase of human capital. Firstly, CSR policies educate workers and managers about the responsible and caring behaviours throughout the entire production process. The attitude and understanding towards workplace safety and energy saving are among the new capitals that gained by the Vietnamese workers. Secondly, implementation of CSR policies trains the employees who are not used to following a set of rules and routines, to comply with the policies on a daily basis, which in the end greatly enhances their organizational learning, and helps to establish a foundation for any rule-compliance subsequently. For managers, the change of mindset, among many other things, calls for them to value employees as most important assets of the company thereby developing appropriate strategies to retain and recruit skilled human capital.

6.3.2 Worker Benefits

It is during the empirical data collection process, the authors have felt the necessity to add one more dimension “benefits to workers” to the model. Though this in fact clashes with the authors’ original intention that not to look at the benefits that are reflected only on workers, but to exclusively focus on benefits to supplier company as a whole. However, despite that the original conceptual model does reflect a somewhat true picture of the suppliers, the authors increasingly felt that the model lacks an in-depth explanation of how the relationship between supplier company and its employees, which as one of the most important stakeholder groups, is influenced by CSR policies. Therefore, also lacks an explanation of how suppliers can ultimately benefit from the improved relations with their employees.

Also regarding benefits on human capital, when looking into why after implemented CSR policies suppliers can easily retain and recruit critical human resources, the question of “*how workers’ lives have been improved by CSR?*” needs to be answered. As a result, the authors decided to incorporate “worker benefits” into the model. The major benefits found for workers are revolved around three aspects: wage, working condition, and security.



Figure 9. Expanded Areas of Focus for This Study

Source: Authors’ own elaboration

Wage

The first and most direct benefit to workers is the wage increase. On average, the interviewed production workers of the three suppliers earn something between USD 110 and USD 150 a month, which have all far surpassed the minimum wage of Vietnam USD 50 per month. The overtime salary is also paid in accordance with the legally required rates: 1.5 times of normal pay during weekdays and 3 times during public holidays. It is also found that although the regulations existed before IWAY was implemented, the loose compliance meant that the workers actually did not get paid adequately. Admitted by managers of the three suppliers, in the past workers often did not receive correct overtime payment and their output might also be miscalculated, either unintentionally or purposely. And since wage is based on the quantity produced, workers may receive a pay way below how much they were supposed to get. The situation is changed after a strict compliance to the labour law is required by IWAY, and with better accounting and administrative practices, all workers are guaranteed with a correct piece rate calculation and correct salary sum, as well as paid leave on national holidays.

Working Condition

As highlighted in the IWAY document as one important requirement for suppliers, working conditions of the three factories that the authors visited have indeed seen significant progresses made. Overall, the factories are less populated, cleaner, and more organized. This is also evidenced by comparing the photos of the factories, which were taken before and after implementing IWAY (Appendix). Clearly, the reorganization and layout change of the factories have led to a more workers-friendly working environment. Of the six workers interviewed, all have given compliments to what IWAY has brought into the factories: safer machinery and procedures, lowered noise, cleanness, better air circulation, and more sufficient lighting. The changes, according to the workers, not only made the factory a better place to work in, but also raised their productivity, although the exact impact on which is difficult to assess.

Security

It is mentioned in the empirical findings that in Vietnam, social and medical insurance are paid proportionate to a worker's income, hence higher wage would also mean higher social security. IWAY in two aspects gives workers better security, firstly it emphasizes that suppliers must pay their employees social benefits as required by the law; secondly it makes sure correct wage be payable to workers, which in turn ensures that accurate amount of social and health insurance contributions be paid to workers. One another progress is that suppliers no longer delay the payment of wages and social security contributions, as they sometimes did previously, which

gives workers a better sense of security and stability. Moreover, the workers expressed their warm welcome to the forthcoming accident insurance, which is required by the updated version of IWAY, to be purchased for all employees in the factory.

6.4 Revised Dimension Model

The goal of this study is to explore the benefits of implementing CSR policies for suppliers. In the original model, the benefits were extracted from past literature and grouped into three dimensions: stakeholder relation, human capital, and operational efficiency. The model was tested, analysed, and proved to possess a good representation of the true benefits that are received by the three suppliers we studied. However, during the authors’ data collection, it also becomes clear that the shown benefits are not limited to the ones that are proposed in the original conceptual model. Therefore, a revised conceptual model that takes into account both the theoretical studies and empirical results is constructed, incorporating with a new dimension “worker’s benefit” as well as additional benefits that are associated with human capital and operational efficiency: management skill, mindset & attitude, and innovation.

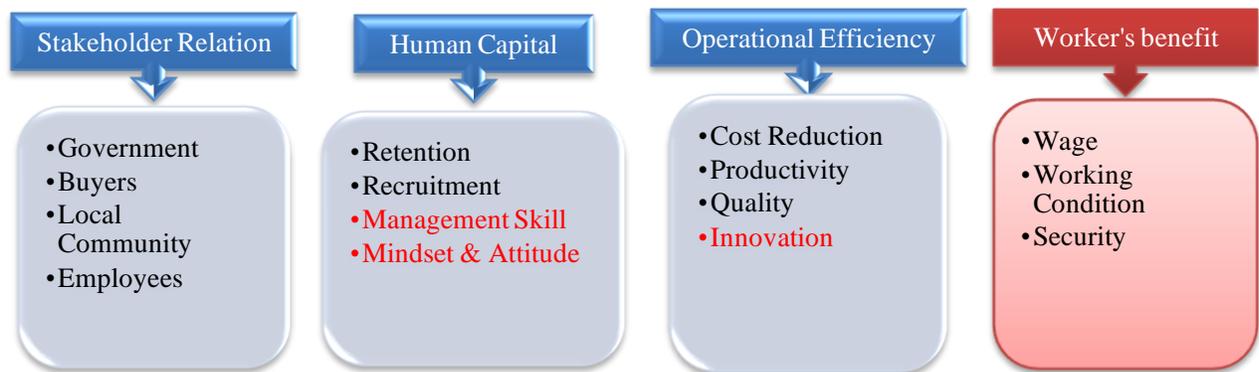


Figure 10. *Revised Dimension Model*

Source: Authors’ own elaboration

This revised model is by no means a static or perfect figure. It needs to be explained and elaborated in its distinctive context, in this case Vietnam and IKEA, in which the empirical research was conducted. The authors acknowledge that there may be more benefits than the ones that are suggested in the model, and that each of the benefits may weigh differently to a supplier. However, the model is only a reflection of the key aspects identified through theory studies and empirical findings in the case study. Therefore, the extent to which suppliers can benefit from each of the areas is outside the scope of the study. The benefits depicted in the model do not appear in a sequence of occurrence or weights, instead, the authors suggest that some benefits are intertwined, hence can impact on each other. Suppliers at different stage of development may experience benefit in one aspect greater than another, depending on a number of variables.

7 Conclusions

This chapter will aim to summarize the main results found throughout the journey of the study, and start with how the original conceptual model was developed for guiding the authors through empirical data collection. The revised model provides a more comprehensive understanding and takes a holistic view to answer the main research question formulated. Moreover, various other implications of the thesis will be discussed.

It all begins with the authors' interests in the field of CSR and how it is implemented in MNC's downstream activities in supply chain. After conducting a literature review at early phase, a clear knowledge gap emerged to the surface. While most studies on CSR take a prevalent focus on MNCs and end-consumers, the benefits of implementing CSR policies for suppliers are often overlooked, both in academia and in business circle. Few researchers have undertaken studies of CSR from a supplier perspective. And even for those who are in the forefront of this topic, the scholars urge for more empirical evidence and investigations to be conducted. In short, the study is an effort that combined personal interests and academic needs.

Subsequently, the main research question “*what are the benefits of implementing CSR policies from a supplier perspective?*” is formulated to look into the concrete benefits that a supplier can receive from implementing CSR policies. And in many cases, such implementation is required by the MNC buyers.

In addition, a sub-question was developed to help guide the authors through to answer the main research question. Besides benefits, the authors also decided to look at factors that could influence the eventual outcome of the benefits, as well as barriers that could limit the benefit realization. The exploration on key factors and barriers are not seen as additional research areas in this study. Rather, the authors regard this as a natural process because we believe that key factors and barriers will emerge spontaneously when exploring what benefits have occurred and in what context.

The authors then went on to conduct theory studies on previous and current literature. The “model benefits” were extracted and compiled into three categories: stakeholder relation, human capital, and operation efficiency. It is believed that the benefits of implementing CSR codes of conduct will take forms in the three categories, and they will all contribute to the business development of supplier firm. The areas to be looked into are: government relation, buyer relation, local community relation, employee relation, retention and recruitment of human

capital, cost reduction, productivity, and product quality. Thereafter the first conceptual model was constructed, and semi-structured interview questions were then designed, based on the nine areas, in order to test and prove the applicability of the model.

The empirical data was collected through in-depth interviews with the case company IKEA, and more importantly with three of its suppliers in Vietnam: Kitchen Pro, Starbags, and Bamboo & Co. In addition, interviews with staff in IKEA's Hanoi TSO were aimed to provide authors with more insights and a different standpoint on this topic, and in some cases confirmation of findings on the suppliers.

In focusing on the benefits of implementing CSR policies, i.e. IWAY, it became clear to the authors that compliance to CSR standards does bring about concrete business cases for suppliers, through both direct and indirect forms. The nine benefit areas extracted from theoretical framework were tested and triangulated. All were shown positive and applicable on all the three suppliers, though the actual impact varied from one supplier to another, depending upon the product, industry, production methods, technical aspects, and prior CSR standards of each company.

Stakeholder relation seems to be largely enhanced after compliance to CSR policies. All three suppliers, after the policy implementation, have experienced the ease to pass local authority's audits and inspections. In the meantime, when supplier demonstrates its commitment to adhere to CSR codes of conduct, the business relation with buyer is facilitated, and mutual trust is being developed. Besides, evidence has shown that the suppliers who have all CSR standards passed tend to attract other MNC buyers, or at least leave a good impression on visitors and potential buyers. Also, the company-employee relation has been greatly improved. All interviewed workers have expressed a higher satisfaction level and loyalty towards their company and jobs.

Successful retention and recruitment of *human capital* are particularly evident on the three suppliers interviewed, as demonstrated by low staff turnover rates and the ease to hire skilled new workers. Besides, it is also discovered that management skills such as long-term strategy planning, responsible ways of conducting business, and employee-friendly management style are learnt by suppliers in the process of implementing CSR codes, although these may happen unconsciously. Another benefit that was identified and highlighted during the interviews was change of mindset & attitude of people. The change, brought by CSR codes of conduct, enhances people's organizational learning and develops employee's right attitude towards rule compliance. These two newly discovered beneficial areas are believed to have a positive effect on the increase of human capital in a long run.

Operational efficiency is also proved to have benefited from CSR compliance. More specifically, positive results were found on cost reduction, productivity and quality. The operational efficiency of the three suppliers has all been increased, despite that one of the suppliers (Kitchen Pro) showed more impressive and direct results than the other two. The reason been that the supplier was considerably lagging behind in terms of its working conditions prior to working with IKEA, hence the impact of the positive changes that brought by IWAY, to this supplier's efficiency, is so great and immediate after the implementation. Furthermore, the authors have found that in addition to the benefits suggested in the conceptual model, innovation could also be triggered by CSR policies and add to a higher operational efficiency, although outcome as such may not be the intended one in the first place.

Worker's Benefit was in fact deliberately left out of the research in the beginning because the authors wished to explore the benefits that are exclusive to supplier as a company. However, it was during the empirical data collection, the authors felt the increasing need to incorporate the benefits of workers into the picture. This added dimension serves as a bridge to link with the other three dimensions. The authors realized that since much of the IWAY policies are related to employees, exploring how individual workers became better off after CSR codes are implemented, would help to explain how stakeholder relation, human capital, and operational efficiency are respectively increased and improved, in connection to the influence of employees. It is also summarized that after the implementation, the workers can receive a better wage, better working conditions, and higher social security.

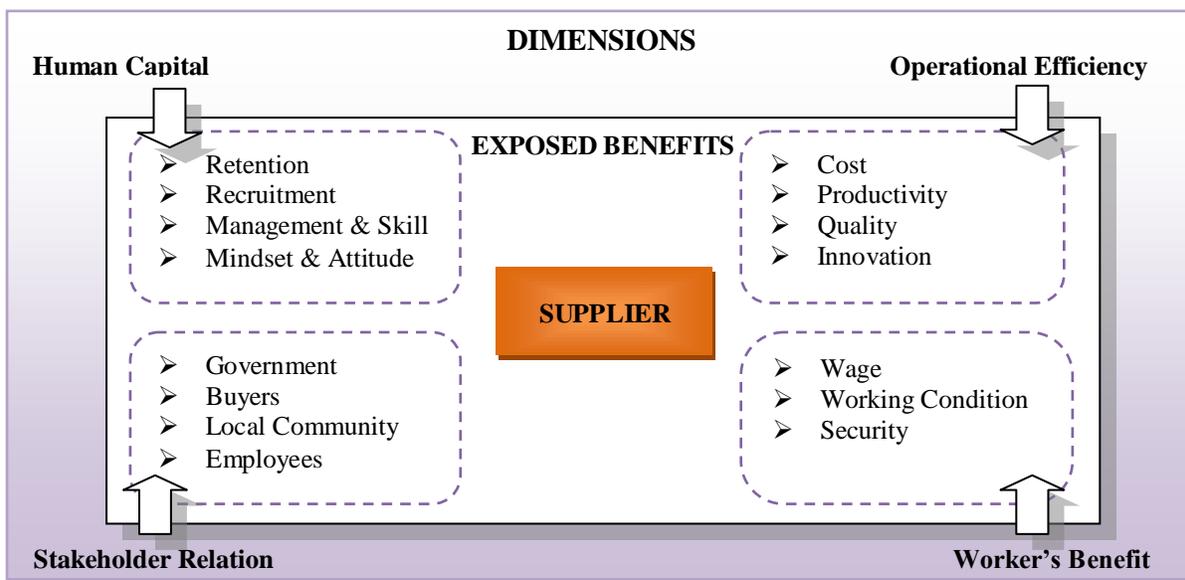


Figure 11. *New Conceptual Model*

Source: Authors' own elaboration

This new model contains four boxes within which 15 beneficial areas combined together, and are illustrated in Figure 11. It is clearly proved that improvement on those, could transform into concrete business cases for suppliers. These areas, which have been detailed and analysed in the study, provide an answer to our main research question “*What are the benefits of implementing CSR policies from a supplier perspective*”.

In answering to the sub research question “*How are the benefits realized*”, the authors argue that a supplier during and after implementing CSR codes of conduct can benefit through various forms, from better management of human capital, improved relations with various stakeholders, increased operational efficiency, and from more satisfied workers. Furthermore, the benefits are realized mainly through a process of organizational learning from buyer, in which knowledge transfer and behavioural change take place. And sometimes, such learning could trigger even more benefits that are initiated by supplier itself.

It is worth mentioning that while for some of the benefits, the three suppliers that we studied have shown surprisingly similar results, for some others, the degree to which the suppliers received varied greatly due to a number of variables identified in this thesis. This needs to be analysed on a case-by-case basis. Nonetheless, it is our understanding that the benefits are inter-related, and could stimulate each other when just enough effort is pushed for responsible manufacturing practices, and when people are educated to have the right mindset towards CSR. Neither participants in supply chain nor members of MNC should be treated as isolated actors in the implementation process. Instead, a holistic approach must be taken, incorporating with views of MNC, supplier, and employees. For those suppliers who successfully implement and maintain CSR codes of conduct, not only do they enjoy a better corporate image, but also they can gain substantial competitive advantages in a long run.

Barriers and Drivers

Through the theory and empirical studies, it was made clear to the authors that many issues stem from a top-down approach where CSR policies are imposed on suppliers. The ineffectiveness and inefficiency from this approach is large, which causes high levels of both financial and human resources through monitoring (Jørgensen et al. 2003; Bhandarkar & Alvarez-Rivero 2007). Both buyers and suppliers accept the initial importance of the top-down approach, but at the same time recognize issues and the non-sustainable future. Instead, a bottom-up approach where extended engagement from the suppliers is therefore seen as vital part of a possible solution. Suppliers would then be more involved in constructing the policies and would generate a sense of shared ownership and involvement by the suppliers. This would push more

responsibility on suppliers since the suppliers would be more involved in forming the policies. However, to achieve this, it must show to suppliers that they are clear benefits to implement CSR codes of conduct, in addition to being awarded business contracts.

There are general concerns about the assumption that suppliers would not freely take such CSR initiatives in industries, characterized by short-term and shifting relationships with buyers. In this study, the case company IKEA uses a long term strategy to approach and develop its suppliers. By staying close and providing necessary conceptual and technical assistance, IKEA has built a sustainable and trusty relationship with its suppliers, which in turn, ensures that suppliers will be fully committed to reaching the CSR standards.

Besides, the valuable knowledge and management skills that learnt from IKEA when implementing and CSR policies, is no doubt a solid benefit to the suppliers. As suggested earlier, this takes place in a natural knowledge transfer process through organizational learning from one company to another and from employees to other employees. Furthermore, it is found that a reward system is generally adopted by suppliers, in which the companies relate individual's fulfilment of CSR standards to a monthly bonus payment. This is proved to have well stimulated the workers' as well as middle managers' incentives to maintain the current system and routine procedures in place. More significantly, the right mindset, i.e. the openness and readiness to take appropriate action and make necessary investments in becoming a responsible corporate citizen, is stressed by both MNC and suppliers. This could be the decisive factor to determine whether or not CSR standards can be successfully implemented and whether the above suggested benefits can be realized.

8 Contributions and Future Research

The results of the empirical investigation and final conceptual model have a number of implications for practical decision-making and for further theoretical development within the field of CSR. In this chapter, the authors will discuss how the thesis could contribute to the existing knowledge on the subject, and identify possible areas for future research.

8.1 Academic Contributions

The study from a supplier perspective provides scholars with an empirical understanding of what the business cases are for companies to implement CSR policies. The focus on suppliers rather than MNCs (buyers), is of great importance, yet has been largely neglected in research on CSR, to the best of the authors' knowledge. Even for the publications that did incorporate with a supplier viewpoint, they seem to lag empirical evidence.

The first contribution of the thesis, also the objective of the study was to provide empirical evidence on the outcome of implementing CSR codes of conduct for suppliers, hereby contributed to fill the knowledge gap mentioned above.

Secondly, the thesis took an abductive research approach, with which the authors compared and confronted the theoretical results against the empirical findings, and subsequently revised and modified the initial conceptual model. As a result, the final conceptual model is both theoretically grounded and practically proven, and possesses a high validity.

Additionally, the study systematically categorized the "benefits" of implementing CSR policies into four aspects, after combining scholars' suggestions and the empirical results. The model that developed in the thesis could be used as a framework or starting point for the similar studies in the future, or be re-evaluated and add more benefits to it.

One another important component of this study has been the "additional benefits" that were discovered and reflected on the three suppliers visited. They are innovation, management skill, and mindset & attitude, which are the thesis's direct contributions to existing literature. Moreover, the study suggested that researches should combine the benefits for employees together with benefits for supplier, since employees are an integral part of supplier company, and much of CSR standards are concerned with employees. Doing so may avoid isolating important

actors, who in fact are direct executers of CSR policies, from the research focus, and ensures that studies take a complete, holistic view.

8.2 Managerial Implications

For managers of MNCs (buyers), there are two primary contributions from this study. Corporate supply chain managers may use the empirical findings of this study and the final conceptual model to communicate, encourage, and motivate suppliers to implement CSR policies, since it has been proved in this study that there are concrete, substantial business cases in doing so.

Lucrative contracts with buyers can be effective in motivating suppliers, however, this motivation may stagnate once the contract is signed and suppliers' effort of cutting costs continues. Also, this top-down approach creates very little incentive from inside the suppliers, and frequent monitoring is required to make sure suppliers are in compliance with contractual terms. Therefore, the study suggests that instead of setting CSR as a pre-condition, MNCs should educate suppliers with the profound benefits of having a CSR standard in place, and ultimately, create a demand for it.

Secondly, the study identified a number of key factors, barriers, and drivers that could affect the extent to which suppliers can benefit from implementing CSR policies. Those factors, which were discussed in detail in earlier chapters, include social context, host country regulations, culture, closeness to suppliers, availability of expertise, and supplier's mindset, etc. They will determine how smoothly and successfully the implementation process will take place and thereby the implementation outcome. Managers of MNCs are encouraged to investigate into these influential forces before making a decision.

For managers of suppliers, the findings on benefits are an internal drive for them to spontaneously implement CSR, where business benefits are acknowledged both directly and indirectly from the policy implementation. Since the ultimate challenge for sustainable action is to see a business case within CSR activities, and suppliers are often sceptical about any direct links between CSR performance and business benefits, the study contributed to clear the doubts among many managers of suppliers and provided them with empirical evidence. It is also possible to compare and contrast with the data and figures presented in this study, and benchmark against supplier's own CSR performance, although the applicability as such needs to be analysed on a case by case basis.

8.3 Future Research

There are indeed many routes that could be followed when it comes to future research on CSR in general and outcome of implementing CSR policies in supply chain in particular. First of all, the results of the thesis are summarized in a conceptual model, and it is suggested to use the items of the model for further statistical testing to see if the same results are reflected on a larger sample size. Another research direction could be to use the model to conduct similar studies on companies of different sizes, different industries or companies in different geographical locations. After doing so, a comparative analysis against the findings of this thesis may be made to see how the results could differ from one context to another.

As the thesis aimed to explore the width of benefits, it is logical to take the next step to explore the depth. With the numerous beneficial areas that the authors found and categorized in the study, future research can focus on measuring to what extent has supplier benefited from the dimensions, for example, improved stakeholder relation, operational efficiency, and increased human capital etc, and identifying the major and minor benefits.

Moreover, the thesis could be complemented by some more thorough follow-up studies, where it would be possible to focus on one specific aspect of CSR policies, for instance, on working condition or workplace safety. This would allow a more detailed examination on each of the key CSR components, and move into specific issues that are most concerned with in each case.

Finally, it may also be of interest to investigate further upstream of supply chain, on sub-suppliers (subcontractors). This would help to answer how CSR programme is carried out at this level, and for sub-suppliers what the benefits of implementing CSR policies are in relation to suppliers'. Although the issue with sub-suppliers was briefly touched upon in the thesis, it was not of a major focus. Also notably, during the thesis study, it was revealed that the empirical research within the field of sub-suppliers is even more lagged.

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Kitchen Pro

- Vice General Manager; 24 March 2009
- Chief Financial Officer; 24 March 2009
- Human Resource Officer; 24 March 2009
- Polishing Workshop Worker A; 24 March 2009
- Polishing Workshop Worker B; 24 March 2009
- Human Resource Manager; 30 March 2009
- Production Manager of Polishing Workshop; 30 March 2009

Starbags

- Deputy Corporate Director; 25 March 2009
- Human Resource Manager; 25 March 2009
- IWAY Coordinator; 25 March 2009
- Webbing & Cutting Workshop Worker; 25 March 2009
- Sewing Workshop Worker; 25 March 2009
- Sewing Workshop Manager; 31 March 2009
- Factory Director; 31 March 2009



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Finishing Line Worker A; 1 April 2009

Finishing Line Worker B; 1 April 2009

Owner & Manager, 2nd interview; 26 March 2009



Appendix

Kitchen Pro - Before and After Implemented CSR Policies

Source: IKEA Hanoi TSO (2008)



Appendix



Before: Very messy & unsafe

Now: Clean & safe



Before: Very messy in the workshops



Now: Workshops more tidy & clean



Before: Exit ways blocked by good in many places



Now: Exit ways clear.

Appendix



Before: Very messy in the whole factory.



Now: More organize.



Before: Drinking water not in control



Now: Better organize for drinking water



Before: Drinking water not in control



Now: Better organize for drinking water



Appendix



Before: No chemical storage area. Chemicals stored outside, ground contamination.



Now: Chemicals in storage room. No more ground contamination.



Before: Very messy in the workshops



Now: Workshops more tidy & clean



Before: Not safe



Now: Safer.

Appendix

	
<p>Before: PPE???</p>	<p>Now: Good PPE using</p>
	
<p>Before: Lift with no control, very dangerous.</p>	<p>Now: Lift in good control, safe.</p>